

Second-Party Opinion

IIFL HFL Sustainable Finance Framework



Evaluation Summary

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



USE OF PROCEEDS The eligible categories for the use of proceeds – Green Buildings, Affordable Housing, and Small, Medium and Micro Enterprises Lending – 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 5, 9 and 11.



PROJECT EVALUATION / SELECTION IIFL Home Finance Limited will form a Sustainable Finance Working Group (SFWG) that will be responsible for projects selection and evaluation. The SFWG will consist of senior representatives from the compliance, ESG, risk and technical departments. The Issuer has internal screening and due diligence processes to identify and manage environmental and social risks associated with assets financed, which are applicable to all allocation decisions made under the Framework. Sustainalytics considers the risk management processes to be adequate and the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS IIFL Home Finance Limited will create a Sustainable Project Portfolio to manage the proceeds using a portfolio approach. IIFL Home Finance Limited's treasury team will be responsible for managing the allocation of proceeds. An internal e-register will track the use of proceeds. Unallocated proceeds will be invested in line with IIFL Home Finance Limited's internal policy of liquidity management. This is in line with market practice.



REPORTING IIFL Home Finance Limited intends to publicly report on the allocation and impact on its sustainability report on an annual basis until full allocation. Allocation reporting will include the eligible projects included in the portfolio, the balance of unallocated balance and the proportion of financing versus refinancing. In addition, IIFL Home Finance Limited is committed to reporting on relevant impact metrics. Sustainalytics views IIFL Home Finance Limited's allocation and impact reporting as aligned with market practice.

Evaluation Date September 23, 2022

Issuer Location Mumbai, India

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Introduction

IIFL Home Finance Limited (“IIFL HFL” or the “Issuer”), a subsidiary of IIFL Finance Limited, is a private housing finance company headquartered in Gurugram, India. It was incorporated in 2006 and registered in 2009 with the National Housing Bank (NHB). IIFL HFL provides housing loans, preferably home loans to individuals and real estate developers. The Issuer employs 2,627 people with 225 branches in India as of March 2022.

IIFL HFL has developed the IIFL HFL Sustainable Finance Framework (the “Framework”) under which it intends to issue green, social or sustainability bonds, loans and other debt instruments to finance or refinance, in whole or in part, existing or future projects that facilitate the transition to a low-carbon economy and advance socio-economic development in India. Sustainalytics notes that it is market expectation to define all types of instruments the other issuer intends to issue under the framework and encourages IIFL HFL to define the same in their framework.

The Framework defines eligibility criteria in following areas:

1. Green Buildings – Affordable Housing Construction Finance
2. Affordable Housing – Retail Green and Retail Affordable
3. Small, Medium and Micro Enterprises (MSMEs) - Priority Sector Lending

IIFL HFL engaged Sustainalytics to review the IIFL HFL Sustainable Finance Framework, dated September 2022, 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)¹, Green Loan Principles 2021 (GLP), and Social Loan Principles 2021 (SLP)². The Framework has been published in a separate document.³

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁴ opinion on the alignment of the reviewed Framework with 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 2021 and Social Loan Principles 2021, as administered by LMA, APLMA and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- 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 1.11.3, 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 IIFL HFL’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. IIFL HFL representatives have confirmed (1) they understand it is the sole responsibility of IIFL HFL to ensure that the information provided is complete, accurate or 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.

¹ 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/>.

² 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/>.

³ The IIFL HFL Sustainable Finance Framework is available on IIFL Home Finance Limited’s website at: <https://www.iiflhomeloans.com/>

⁴ 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.

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

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, IIFL Home Finance Limited is encouraged to update the Framework, if necessary, and seek an update to the Second Party Opinion to ensure on-going 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 realised allocation of the bond and loan proceeds towards eligible activities.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the IIFL Sustainable Finance Framework

Sustainalytics is of the opinion that the IIFL HFL 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 IIFL HFL's Sustainability Finance Framework:

- Use of Proceeds:
 - The eligible categories - Green Buildings, Affordable Housing and MSMEs - are aligned with those recognized by the GBP, SBP, GLP and SLP. Sustainalytics considers that IIFL HFL's investments in the eligible categories may contribute to facilitate the transition to a low-carbon economy and advance socio-economic development in India.
 - The Framework has defined a look-back period of three years for the refinancing of expenditures, which Sustainalytics considers to be in line with market practice.
 - Under the Green Building category, the Issuer may finance or refinance construction of residential buildings that meet credible third-party green building certification levels, such as LEED (Gold or above)⁵, Green Rating for Integrated Habitat Assessment (4 star and above)⁶, Indian Green Building Council (Gold and above)⁷, IFC Edge⁸ and other equivalent ratings. Sustainalytics views the above mentioned certifications as credible and the levels selected as impactful and in line with market practice.
 - Under the Affordable Housing Category, the expenditure includes provision of retail loans to consumers to finance or refinance construction, purchase, development or renovation of existing or new housing. General affordable housing projects will target eligible beneficiaries from the economically weaker sections (EWS) and low-income groups (LIG).⁹ Further, IIFL HFL shall extend the target population to include middle income groups (MIG I)¹⁰, incorporating first-time home buyers and women borrowers and co-borrowers, as defined by the Indian Ministry of Housing and Urban Affairs in the Pradhan Mantri Awas Yojana (PMAY) - Urban housing scheme¹¹ exclusively for green affordable housing projects, which Sustainalytics considers acceptable on account of their environmental benefits
 - IIFL HFL has confirmed that the affordable green buildings financed under this category will comply with the green building criteria mentioned in the Framework.

⁵ US Green Building Council, LEED rating system, at: <https://www.usgbc.org/leed>

⁶ GRIHA rating, at: <https://www.grihaindia.org/griha-rating>

⁷ Indian Green building Council, IGBC Rating system, at: <https://igbc.in/igbc/>

⁸ IFC EDGE, at: <https://www.edgebuildings.com/about/about-edge/>

⁹ The EWS and LIG population are households having annual income up to INR 300,000 (USD 3750) and INR 600,000 (USD 7500) respectively, at: https://pmaymis.gov.in/PDF/HFA_Guidelines/hfa_Guidelines.pdf

¹⁰ The Government of India's definition for MIG-I population, defined under the PMAY scheme, is families with annual income level of up to INR 1,200,000 (USD 14,800). IIFL has communicated to Sustainalytics that they intend to finance lower end of MIG I with annual income up to INR 900,000 (USD 11,100).

¹¹ Government of India, Ministry of Housing and Urban Affairs, Pradhan Mantri Awas Yojana-Urban, at: <https://pmay-urban.gov.in/clss>

- IIFL HFL has responsible lending policies to avoid predatory lending, which Sustainalytics views as a key component of sustainable consumer lending. Please refer to section 2 for additional details.
- In India, the low-income population have traditionally been served by the informal sector, providing financing with high interest rates and short loan tenures, and hence putting the recipients at risk of not repaying and losing resources. Mainstream finance has historically been denied to this segment of the population owing to their credit risk. Sustainalytics recognizes the expected benefits for many low-income individuals and first-time home buyers through IIFL's proposed home loan schemes given the lack of access to affordable homes in developing countries like India, and access to finance in the formal sector for the target population. Nevertheless, Sustainalytics notes that while the issuer has defined the target group based on government definition of low-income, the absence of affordability measures or financial advantage on the proposed loans represent a deviation from what Sustainalytics considers good practice for social finance.
- Under the MSME category, the Issuer may finance loans to Indian MSMEs defined as per the RBI PSL.¹² The Issuer has confirmed to Sustainalytics that MSMEs engaging child labour and maintaining poor working conditions will be excluded. Sustainalytics considers this to be aligned with market practice.
- Sustainalytics notes that the Framework excludes the financing of projects and activities associated with fossil fuel-based activities, hard-to-abate sectors, radioactive materials, defence-related activities (e.g., arms and ammunition), alcohol, tobacco, gambling and adult entertainment. Sustainalytics is of the opinion that the presence of these exclusionary criteria is in line with market practice.
- Project Evaluation and Selection:
 - IIFL HFL will form a Sustainable Finance Working Committee (SFWC) which will be responsible for project evaluation and selection process in accordance with eligibility criteria under the Framework. The SFWC will consist of senior representatives from the compliance, ESG, risk and technical functions. The projects screening process involves due diligence and compliance checks which is part of their E&S risk mitigation measures.
 - Sustainalytics considers the risk management process to be adequate and the project selection process in line with market practice. For additional details, see Section 2.
- Management of Proceeds:
 - The Issuer's treasury team will manage the proceeds using a portfolio approach and maintain an internal e-register to track the allocation of net proceeds in its Sustainable Finance Project Portfolio. The Issuer intends to maintain an escrow account or directly allocate proceeds to refinance existing projects or both. The proceeds may further be credited to a sub-account which will be tracked and documented.
 - IIFL HFL is committed to fully allocating net proceeds to eligible projects within 24 months of the date of issuance. Pending full allocation, unallocated proceeds will be invested according to issuer's internal policy of liquidity management, subject to the exclusion list of the Framework.
 - Based on the use of an internal tracking system and the disclosure of temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - IIFL HFL intends to report on allocation and impact of proceeds until full allocation on an annual basis through a separate sustainability report or its integrated report.
 - Allocation reporting will include details of eligible projects, a list of green, social and sustainability bonds issued and their outstanding amounts, the share of new financing and refinancing, and a balance of unallocated proceeds at the reporting end period. Sustainalytics notes positively that IIFL intends to verify the allocation of proceeds using a third party on an annual basis.
 - IIFL HFL will also report on relevant impact indicators where possible, such as total loan amounts disbursed to affordable housing, number of loans disbursed to MSMEs, annual GHG emissions reduced, and number of certified green buildings financed. For further information, refer to Appendix 1.

¹² IIFL uses the MSME definition of the Government of India at: <https://rbidocs.rbi.org.in/rdocs/content/pdfs/IndianGazette02072020.pdf>.

- Based on the commitment to both 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 IIFL HFL 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 Performance of IIFL HFL

Contribution of Framework to IIFL Home Finance Limited's sustainability strategy

Sustainalytics is of the opinion that IIFL HFL demonstrates its commitment to sustainability through its goal of financial inclusion. IIFL HFL works to enhance lending to the following three sectors: (i) green building: affordable housing construction finance, (ii) affordable housing: retail green and retail affordable, (iii) MSMEs: priority sector lending. The Issuer focuses on providing affordable loans to economically weaker and underserved sections of Indian society and prioritizes sector lending to MSMEs.

In promoting green affordable housing, IIFL HFL initiated the Kutumb programme in line with the Indian government's Housing for All by 2022 ambition. The programme focuses on using technology and environmentally friendly initiatives to promote sustainable and energy-efficient development in the affordable housing sector.¹³ The Issuer's PURPOSE platform supports the development of an ecosystem for green affordable housing in India by collaborating with multiple stakeholders, including the government.¹⁴ IIFL HFL has collaborated with Asian Development Bank to foster green affordable housing in India for LIG and EWS categories.¹⁵ As of 2022, IIFL HFL has facilitated the financing of almost 190,000 affordable housing units to marginalized sectors, such as the EWS and LIG and approximately 55,700 first-time home buyers under the Credit-Linked Subsidy Scheme, PMAY in 2022.¹⁶ These numbers have been achieved under the Issuer's Secured Business loan¹⁷ for MSMEs and housing loan programmes, which provide loans to affordable housing projects that go through a technical assessment that includes looking into their ESG indicators.¹⁸

Sustainalytics recognizes the sustainability-focused efforts of IIFL HFL but encourages the Issuer to set and communicate time-bound quantitative targets for future sustainable financing.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the use of proceeds from 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. By offering lending and financial services, but as a non-banking financial company (NBFC), the Issuer plays a limited role in the development of projects financed under the Framework but is exposed to risks associated with those projects. Some key social and environmental risks possibly associated with the eligible projects may include issues involving predatory lending, community-related issues, land use change and biodiversity concerns associated with construction and infrastructure projects. Social assets, in particular, are subject to risks of increasing inequality if not targeted well at the relevant population group.

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

- IIFL HFL has established an enterprise level ESG policy to identify and manage environmental and social risks and opportunities while integrating sustainability into its lending portfolio. This policy provides a guideline to assess sustainability of the project financed by considering various ESG indicators toward a score which aids in the project's technical assessment. This process also involves a monitoring and auditing mechanism to ensure that financed projects achieve their intended outcomes.¹⁹

¹³ IIFL HFL Website, accessed on 5 May 2022, at: <https://www.iiflhomeloans.com/kutumb>

¹⁴ Ibid.

¹⁵ Business Presentation shared by IIFL HFL with Sustainalytics

¹⁶ IIFL HFL Sustainability Report (2021), at: <https://storage.googleapis.com/iifl-hfc-storage/files/2021-10/IIFL%20Home%20Loans%20Sustainability%20Report%20FY%202020-21.pdf>

¹⁷ Ibid.

¹⁸ IIFL HFL Sustainability Report (2021), at: <https://storage.googleapis.com/iifl-hfc-storage/files/2021-10/IIFL%20Home%20Loans%20Sustainability%20Report%20FY%202020-21.pdf>

¹⁹ IIFL HFL's ESG Policy shared confidentially with Sustainalytics.

- To manage or mitigate risks related to predatory lending, IIFL HFL complies with the Reserve Bank of India's Fair Practice Code and Co-Lending by NBFCs to Priority Sector in its lending process.^{20 21} These guidelines encourage the Issuer to adequately disclose the terms and conditions of a loan, promote the adoption of a non-coercive loan recovery method, improve the flow of credit to the unserved and underserved sector, make available funds to the ultimate beneficiary at an affordable rate and set a standard for fair practices in lending business. Under its Vigilance Policy, IIFL HFL has established a mechanism to report concerns regarding unethical behaviour, fraud or violation of the Issuer's code of conduct or ethics policy for its stakeholders.²²
- The Issuer has established a stakeholder engagement policy to promote collaboration with all its stakeholders. Through such guidelines, the Issuer undertakes engagement programmes to understand its stakeholders' needs and expectations while addressing their concerns that may impact its business and community through its grievance redress mechanism.²³
- Under India's Environment Impact Assessment notification process, building and construction projects larger than 20,000 m² must conduct pre-feasibility studies to seek environmental clearance before initiating construction, expansion or refurbishment activities.²⁴ The assessment includes information related to land use, protection of forest, wildlife, water bodies, and soil classification.²⁵

Based on these policies, standards and assessments, Sustainalytics is of the opinion that IIFL HFL 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 three use of proceeds categories are aligned with those recognized by GBP, SBP, GLP or SLP. Sustainalytics focuses below on two categories whose impact is specifically relevant in the local context.

Importance of affordable housing to drive sustainable growth in India

In the last few decades, economic growth, rapid urbanization and increasing urban migration have aggravated inequality and housing issues in India. Increasing land prices and oversupply of high-end housing have led to misallocation of housing capital stock which pushed housing prices beyond GDP per capita growth, undermining housing affordability, in particular for low-income households.²⁶ The increase in the house price-to-income ratio from 56.1 in 2015 to 61.5 in 2019 has worsened affordability for a large section of India's urban population.²⁷ The affordable housing gap in India is estimated at 35 million units, with an approximate demand of 20 million homes from households in the EWS category and 14 million in LIG. In total, India's housing gap is equivalent to 11% of the world's housing deficit, which highlights the considerable supply gap for urban and affordable housing in the country.^{28,29} According to the World Bank, 35.2% of India's urban population lived in slums as of 2018.³⁰

In 2015, the Government of India launched the Pradhan Mantri Awas Yojana (PMAY) programme to address part of the housing shortage and accelerate housing development for middle and low-income households, having facilitated 11.4 million houses as of January 2022.^{31,32} For women, the lack of access to finance

²⁰ IIFL HFL, "Fair Practice Code", at: <https://www.iiflhomeloans.com/fair-practice-code>

²¹ IIFL HFL, "Co-Lending Mechanism", at: <https://www.iiflhomeloans.com/co-lending-mechanism>

²² IIFL HFL, "Vigilance Policy", at: <https://www.iiflhomeloans.com/vigilance-policy>

²³ IIFL HFL, "Annual Report", (2021) at: [IIFL Home Finance - Annual Report 2020-21.pdf \(storage.googleapis.com\)](https://www.iifl.com/annual-report-2020-21.pdf)

²⁴ Ministry of Environment and Forests, Government of India, "Environment Impact Assessment notification 2006", at: <http://www.environmentwb.gov.in/pdf/EIA%20Notification,%202006.pdf>

²⁵ Government of India, Ministry of Environment and Forests, "Guidelines for preparation of prefeasibility report for obtaining prior environmental clearance in terms of provisions for EIA notification, 2006", at: http://www.cidcoindia.com/EC/Docs/prefeasibility_report.pdf

²⁶ 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](https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP(2020)20&docLanguage=En)

²⁷ RBI, "Residential Asset Price Monitoring Survey", (2019), at: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=47578

²⁸ KPMG, "Bridging the Urban Housing Shortage in India", accessed on 21 April, 2022, at: <http://www.naredco.in/notification/pdfs/Urban-housing-shortage-in-India.pdf>

²⁹ Business Standard, "Affordable housing segment offers Rs 45-trn investment opportunity: Report", (2021), at: https://www.business-standard.com/article/economy-policy/affordable-housing-segment-offers-rs-45-trn-investment-opportunity-report-121112200809_1.html

³⁰ World Bank, "Population living in slums (% of urban population) – India", accessed on 21 April 2022, at:

<https://data.worldbank.org/indicator/EN.POP.SLUM.UR.ZS?locations=IN>

³¹ Government of India, Ministry of Housing and Urban Affairs, "Pradhan Mantri Awas Yojana – Urban" at: <https://pmay-urban.gov.in/about>

³² Government of India, Ministry of Housing and Urban Affairs, "PMAY (U) Achievement (provisional)", (2022), at: https://pmay-urban.gov.in/uploads/progress-pdfs/61dbf7b293d9c-National_1.pdf

creates an additional barrier to patriarchal customs that constrain women’s access to property ownership in India.³³ In this context, the government introduced a provision in the PMAY which mandates the female head of the family to be the owner or co-owner of a house in the case of EWS and LIG applicants.³⁴

Considering the above, Sustainalytics is of the opinion that IIFL HFL’s investment in affordable housing is expected to contribute to improving access to finance for housing in India for women, as well as middle- and low-income populations in India, aligning it with India’s public policies for the housing sector.

Role of green buildings in decarbonizing the Indian economy

In 2020, buildings accounted for 30% of global energy consumption and 30% of CO₂ emissions from heating, cooling and lighting.³⁵ In 2020, buildings were responsible for more than 40% of India’s energy consumption and their energy use is increasing by approximately 8% annually.³⁶ The real estate industry in India is expected to contribute 13% to India’s GDP by 2030³⁷ and account for nearly 35% of India’s total electricity consumption. Continued use of conventional inefficient building practices in India may lead buildings to account for more than 70% of the country’s emissions by 2050 and hinder India’s meeting its commitments under the Paris Agreement.³⁸

During COP26, the Indian government announced a target to reach net zero carbon emissions by 2070, including by undertaking initiatives such as the Green Rating for Integrated Habitat Assessment and Eco-Niwas Samhita to promote green buildings and sustainable housing.^{39,40} According to the World Green Building Council, the green building sector can realize energy savings of 50% or more by 2050, helping to limit global warming to 2°C above pre-industrial levels.⁴¹ The Indian government introduced an energy efficiency building code⁴² in 2007 and updated it in 2017 to enhance green building projects in India.⁴³ Additionally, National Housing Bank launched the SUNREF Green Housing India programme in 2017, in partnership with the French Development Agency and with the support of the EU, aiming to scale up green affordable housing projects in India for low and middle income groups.⁴⁴

Considering the above, Sustainalytics is of the opinion that IIFL HFL’s investment in green buildings is expected to contribute to reducing energy intensity in India’s building sector while helping the country achieve its decarbonization goals.

Alignment with/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 the year 2030. The bonds issued under the IIFL HFL Sustainable Finance Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
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

³³ Habitat for Humanity, “Gender discrimination: Women’s rights & lives in slums today”, at: <https://www.habitatforhumanity.org.uk/blog/2018/09/gender-discrimination-slums/>

^{34,34} Ibid

³⁵ International Energy Agency, “World Energy Output Special Report: Buildings”, (2020), at: https://iea.blob.core.windows.net/assets/c3de5e13-26e8-4e52-8a67-b97aba17f0a2/Sustainable_Recovery.pdf

³⁶ Ahuja, M. (2021), “The case for green buildings in India”, ORF, at: <https://www.orfonline.org/expert-speak/case-green-buildings-india/>

³⁷ Invest India, “Construction Industry Scenario”, accessed on 19 May, 2022, at: <https://www.investindia.gov.in/sector/construction>

³⁸ Ahuja, M. & Soi, U. (2020), The case for green buildings in India, Observer Research Foundation, at: <https://www.orfonline.org/expert-speak/case-green-buildings-india/>

³⁹ Ibid.

⁴⁰ World Economic Forum, “Mission 2070, A Green New Deal for a Net Zero India”, at: https://www3.weforum.org/docs/WEF_Mission_2070_A_Green_New_Deal_for_a_Net_Zero_India_2021.pdf

⁴¹ World Green Building Council, “About Green Building - The benefits of green buildings”, at: <https://www.worldgbc.org/benefits-green-buildings>

⁴² Ministry of Power, India, at: <https://powermin.gov.in/en/content/energy-efficiency>

⁴³ Energy Conservation Building Code, (2017), at: <https://beeindia.gov.in/sites/default/files/ECBC%20Session%201.pdf>

⁴⁴ NHB, “Affordable Green Housing”, (2020), at: <https://nhb.org.in/wp-content/uploads/2020/07/SUNREF-India-Brochure.pdf>

Affordable Housing	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
Small, Medium and Micro Enterprises Lending	5. Gender Equality	5.5 Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.
Small, Medium and Micro Enterprises 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

Conclusion

IIFL HFL has developed the IIFL HFL Sustainable Finance Framework under which it may issue green, social and sustainability bonds and loans and use the proceeds to finance projects in the following categories: green building: affordable housing construction finance, affordable housing: retail green and retail affordable and MSMEs: priority sector lending. Sustainalytics considers that the projects funded by the bond proceeds are expected to facilitate the transition to a low-carbon economy and advance socio-economic development in India.

The IIFL HFL Sustainable Finance Framework outlines a process for tracking, allocating and managing proceeds, and makes commitments for IIFL HFL to report on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the IIFL HFL Sustainable Finance Framework is aligned with the overall sustainability strategy of the Issuer and that the use of proceeds categories are expected to contribute to advancing the UN Sustainable Development Goals 5, 9 and 11. Additionally, Sustainalytics is of the opinion that IIFL HFL has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that IIFL HFL is well positioned to issue green, social and sustainability bonds and that that IIFL HFL Sustainable Finance Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles (2021), Social Bond Principles (2021), Green Loan Principles (2021) and Social Loan Principles (2021).

Appendices

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

Section 1. Basic Information

Issuer name:	IIFL Home Finance Limited
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	IIFL HFL Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	September 23, 2022

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.
The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds – Green Buildings, Affordable Housing, and Small, Medium and Micro Enterprises Lending – 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 5, 9 and 11.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|--|
| <input type="checkbox"/> Affordable basic infrastructure | <input type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

IIFL Home Finance Limited will form a Sustainable Finance Working Group (SFWG) that will be responsible for projects selection and evaluation. The SFWG will consist of senior representatives from the compliance, ESG, risk and technical departments. The Issuer has internal screening and due diligence processes to identify and manage environmental and social risks associated with assets financed, which are applicable to all allocation

decisions made under the Framework. Sustainalytics considers the risk management processes to be adequate and the project selection process in line with market practice.

Evaluation and selection

- | | |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

IIFL Home Finance Limited will create a Sustainable Project Portfolio to manage the proceeds using a portfolio approach. The Issuer's treasury team will be responsible for managing the allocation of proceeds. An internal e-register will track the use of proceeds. Unallocated proceeds will be invested in line with IIFL Home Finance Limited's internal policy of liquidity management. This is in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|--|--|
| <input type="checkbox"/> Allocations to future investments only | <input type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section (if applicable):

IIFL Home Finance Limited intends to publicly report on the allocation and impact on its sustainability report on an annual basis until full allocation. Allocation reporting will include the eligible projects included in the portfolio, the balance of unallocated balance and the proportion of financing versus refinancing. In addition, IIFL Home Finance Limited is committed to reporting on relevant impact metrics. Sustainalytics views IIFL Home Finance Limited's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (please specify):

Information reported:

- Allocated amounts Sustainability Bond financed share of total investment
- Other (please specify): Share of new financing and refinancing, Eligible Projects included in the portfolio, List of GSS Bonds issued with outstanding amount balance of unallocated proceeds

Frequency:

- Annual Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings Energy Savings
- Decrease in water use Number of beneficiaries
- Target populations Other ESG indicators (please specify): Number of LEED, IGBC, EDGE and GRIHA certified buildings, Green exposure, Number of dwellings, Number of individuals/ families benefiting from subsidy, Amount of housing loans disbursed to qualifying borrowers, Home loans to green certified homes for EWS/LIG/MIG categories, Number of women beneficiaries, Number of MSME PSL beneficiaries, Number of first-time buyers, Number of loans to EWS/LIG/MIG buyers.

Frequency:

- Annual Semi-annual
 Other (please specify):

Means of Disclosure

- Information published in financial report Information published in sustainability report
 Information published in ad hoc documents Other (please specify): report issued in public domain
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion) Certification
 Verification / Audit Rating
 Other (please specify):

Review provider(s):

Date of publication:

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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For more information, visit www.sustainalytics.com

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