

**ENVIRONMENTAL AND SOCIAL POLICY**

*(Approved by the Board at its Meeting held on 15.12.2008)*

**Introduction:**

International Asset Reconstruction Company (Pvt) Limited (IARC) has enhanced its Net-owned Fund from Rs. 15.98 crores to Rs. 105.98 crores, with Rs. 90 crores raised through issue of equity and preference shares subscribed to by HDFC Bank, Tata Capital, ICICI Bank, Standard Bank, FMO, Netherlands and other individual shareholders.

In accordance with the Share Subscription and Shareholders Agreement dated November 3, 2008 that has been entered into by IARC and the shareholders (the Agreement), the Board of IARC will approve an Environmental and Social Policy, for the Company to follow. The same is as below:-

**ENVIRONMENTAL AND SOCIAL DEFINITIONS, REPRESENTATIONS AND COVENANTS**

**1) DEFINITIONS**

**"Basic Terms and Conditions of Employment"** means the requirements on wage, working hours, labour contracts and occupational health & safety issues, stemming from ILO conventions 26 and 131 (on Remuneration), 1 (on Working Hours) and 155 (on Health & Safety).

**"Core Labour Standards"** means the requirements on child and forced labour, discrimination and freedom of association and collective bargaining, stemming from the ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998 and covering: (i) freedom of association and the right to collective bargaining; (ii) the elimination of forced and compulsory labour; (iii) the abolition of child labour and (iv) the elimination of discrimination in the workplace.

**"Schedule 5 Effective Date"** means 1 January 2009.

**"Environmental and Social Action Plan"** means an environmental and social action plan, agreed upon between the Company and the relevant Investee Company, defining actions, responsibilities, budgets and a timeframe for the measures required to remedy the known non-compliances in the business activities of the Investee Company with the Environmental and Social Requirements and for any other measure agreed upon.

**"Environmental and Social Claim"** means any claim, proceeding or investigation in respect of an Environmental Law or a Social Law.

**"Environmental and Social Coordinator"** means the operational officer of the Company, responsible for the practical and day-to-day development, implementation and operation of the Environmental and Social Management System.

**"Environmental and Social Management Course"** means an environmental and social training course for financial institutions, either sponsored or approved by FMO.

**“Environmental and Social Management System”** means the part of the overall management system of the Company with respect to the trusts under management dedicated to the systematic and structured improvement of environmental and social performance, targeted to identify and manage environmental and social risks and opportunities in the Investee Companies and investment appraisal and management processes, integrated in the Company’s organizational structure, planning activities, responsibilities, practices, procedures, processes and resources, satisfactory to FMO. With regard to single loans to investee Companies, acquired by the Company, the Environmental and Social Management System shall on the best effort basis and to the extent practicable ensure that the Company is structurally:

- a) assuring compliance with the provision in Annex II to this Schedule on excluded activities;
- b) assessing the environmental, social, labor, occupational health and safety risks associated with each Investee Company;
- c) verifying that each Investee Company complies with the Environmental and Social Requirements;
- d) undertaking reasonable efforts to strive for compliance by each Investee Companies with IFC Performance Standards;
- e) agreeing on timelines and standards for the Environmental and Social Action Plan with each Investee Company as applicable; and
- f) monitoring, evaluating and reporting on the compliance of all Investee Companies with the Environmental and Social Requirements and the Environmental and Social Action Plan as applicable.
- g) With regard to loans that are acquired as part of a portfolio of non-performing loans, the Environmental and Social Management shall on best effort basis and to the extent practicable ensure that Company is structurally:
- h) assuring compliance with the provision in Annex II to this Schedule on excluded activities;
- i) assessing the environmental, social, labor, occupational health and safety risks associated with each Investee Company;
- j) verifying that each portfolio to be acquired does only contain Investee Companies that are not involved in activities that constitute high environmental or social risks;
- k) verifying that each Investee Company complies with the Environmental and Social Requirements;
- l) undertaking reasonable efforts to agree on an Environmental and Social Action Plan with each Investee Company as applicable; and
- m) monitoring, evaluating and reporting on the compliance of all Investee Companies with the Environmental and Social Requirements and the Environmental and Social Action Plan as applicable.

**“Environmental and Social Manager”** means the senior officer of the Company having management responsibility, among other things, for ensuring proper operation and maintenance of the Environmental and Social Management System with respect to the Company.

**“Environmental and Social Monitoring Report”** means the monitoring report in the form set out in Annex I to this Schedule (*Form of Environmental and Social Monitoring Report*).

**“Environmental and Social Requirements”** means, with respect to each Investee Company with the exception of small and non-operating units, all applicable Environmental Law and Social Law .

**“Environmental Law”** means any law, rule or regulation (including international treaty obligations) applicable in any jurisdiction concerning environmental matters and natural resource management.

**“IFC”** means the International Finance Corporation, an international organization established in Washington DC by articles of agreement among its member countries.

**“IFC Performance Standards”** means the IFC’s Performance Standards on Social and Environmental Sustainability published in 2006 (including the technical reference documents known as the IFC Environmental, Health, and Safety Guidelines).

**“ILO”** means the International Labour Organization, the tripartite United Nations agency that brings together governments, employers and workers of its member states in common action to promote decent work throughout the world.

**“Investee Company”** means each operational company to which IARC or a trust managed by IARC, holds an investment in. Companies which do not longer conduct any operating activities are excluded.

**“Social Law”** means any law, rule or regulation (including international treaty obligations) applicable in the Country any jurisdiction concerning (i) labour, (ii) social security, (iii) the regulation of industrial relations (between government, employers and employees), (iv) the protection of occupational as well as public health and safety, (v) the regulation of public participation, (vi) the protection and regulation of ownership of land rights (both formal and traditional), immovable goods and intellectual and cultural property rights, (vii) the protection and empowerment of indigenous peoples or ethnic groups, (viii) the protection, restoration and promotion of cultural heritage, (ix) all other laws, rules and regulations providing for the protection of employees and citizens.

## 2) REPRESENTATIONS

### Environmental and Social Claims

The Company makes the following representations and warranties to the Subscribers on the date of this Agreement: No Environmental and Social Claim has been commenced or (to the best of its knowledge and belief) is threatened against the Company or any

Investee Company where that claim would be reasonably likely, if determined against it or against the Investee Company to have a Material Adverse Change.

**Compliance with laws**

The Company has not violated nor breached any law to which it may be subject (including but not limited to Environmental Law and Social Law), which has resulted in, or could reasonably be expected to have, a Material Adverse Change.

**3) COVENANTS**

The undertakings in this Clause 3 (*Covenants*) remain in force from the date of this Agreement for so long as any amount is outstanding under this Agreement.

**3.1 INFORMATION UNDERTAKINGS**

**Environmental and Social Information**

The Company shall:

- (a) on the Schedule 5 Effective Date, provide a notification to the Subscribers certifying that arrangements, satisfactory to the Subscribers, have been made by the Company with respect to the appointment of an Environmental and Social Coordinator and/ or an Environmental and Social Manager, and stating the names, positions and full contact details of those assigned;
- (b) as soon as it is available, but in any event no later than the date on which the Company has to deliver the audited annual financial statements on the Company, deliver to the Subscribers an Environmental and Social Monitoring Report;
- (c) promptly notify the Subscribers when the Environmental and Social Coordinator or the Environmental and Social Manager is replaced, and provide the Subscribers with a copy of a training programme, in form and substance satisfactory to the Subscribers, to be followed by any replacement Environmental and Social Manager or Environmental and Social Coordinator to ensure proper operation and maintenance of the Environmental and Social Management System;
- (d) furnish to the Subscriber, within three months from the effective date, a description of the Environmental and Social Management System and a certificate that this Environmental and Social Management System is in place and functioning; and
- (e) inform the Subscribers in writing as soon as reasonably practicable upon becoming aware of any Environmental and Social Claim being commenced against the Company and/or an Investee Company and of any facts or circumstances which will or are reasonably likely to result in any Environmental and Social Claim being commenced or threatened against the Company and/or an Investee Company.

### **3.2 POSITIVE UNDERTAKINGS**

#### **Compliance with Environmental Law and Social Law**

The Company shall procure that it shall comply in all material respects with all Environmental Law and Social Law and take all reasonable steps in anticipation of known or expected future changes to or obligations under the same. Furthermore, in excess to the above mentioned, the Company will exercise best effort to act in accordance with the Core Labour Standards and the Basic Terms and Conditions of Employment, insofar these exceed Social Law.

#### **Environmental and Social Management Course and Environmental and Social Management System**

The Company shall:

- (a) maintain and further improve the Environmental and Social Management System;
- (b) at all times conduct its business in accordance with the Environmental and Social Management System, and
- (c) ensure that the Environmental and Social Manager and the Environmental and Social Coordinator attend, and successfully complete, the Environmental and Social Management Course within one year after the date of this Agreement.

### **3.3 NEGATIVE UNDERTAKINGS**

#### **Excluded activities**

The Company shall not select, propose or otherwise cause the trusts under management to finance any Investee Company performing any of the excluded activities as listed in Annex I to this Schedule (*Excluded activities*).

### **3.4 COSTS AND EXPENSES**

#### **Costs related to participation in an Environmental and Social Management Course organized by the relevant Subscriber.**

The Company shall within 5 Business Days on demand pay the relevant Subscriber the amount of the course fee as invoiced by the relevant Subscriber after participation in an Environmental and Social Management Course organized by the relevant Subscriber. Further costs and expenses (including any travel and lodging expenses incurred by the Company) associated with such course will be borne by the Company.

**Annex. II - Excluded Activities**

1. Production or activities involving forced labour<sup>1</sup> or child labour<sup>2</sup>
2. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
3. Production or trade in<sup>3</sup>
  - a. weapons and munitions
  - b. tobacco
  - c. hard liquor
4. Gambling, casinos and equivalent enterprises<sup>4</sup>
5. Any business relating to pornography or prostitution.
6. Trade in wildlife or wildlife products regulated under CITES<sup>5</sup>
7. Production or use of or trade in hazardous materials such as radioactive materials<sup>6</sup>, unbounded asbestos fibres and products containing PCBs<sup>7</sup>.
8. Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations.
9. Drift net fishing in the marine environment using nets in excess of 2.5 km in length
10. Production, use of or trade in pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances<sup>8</sup> and other hazardous substances subject to international phase-outs or bans.
11. Significant<sup>9</sup> conversion or degradation of Critical Habitat<sup>10</sup>

---

1. Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions to the extent ratified by India.

2. Employees may only be taken if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

3. This applies when these activities are a substantial part of a project sponsor's primary operations.

4. This applies when these activities are a substantial part of a project sponsor's primary operations.

5. CITES: Convention on International Trade in Endangered Species or Wild Fauna and Flora.

6. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any other equipment where EFP considers the radioactive source to be trivial and/or adequately shielded. Additionally, IARC will invest in the mining and enrichment of uranium ores for nuclear energy and other non-military use, but will not invest in the production of high enrichment (weapons grade) uranium in countries that have signed and ratified and are honouring the Treaty on the Non-Proliferation of Nuclear Weapons.

7. PCBs: Polychlorinated biphenyls, a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

8. Ozone Depleting Substances: Chemical compounds, which react with and delete stratospheric ozone, resulting in "holes in the ozone layer". The Montreal Protocol lists ODs and their target reduction and phase-out dates.

9. Significant conversion or degradation means the (1) elimination or severe diminution of the integrity of a habitat caused by a major, long-term change in land or

12. Production and distribution of racist and anti-democratic media.
13. Significant alteration, damage, or removal of any critical cultural heritage<sup>11</sup>.
14. Relocation of Indigenous Peoples<sup>12</sup> from traditional or customary lands.

For the aforesaid activities, the various Legislations that are in force in India, shall be, to the extent ratified by India, be complied with, in accordance with the ILO Convention.

---

water use; or (2) modification of a habitat that substantially reduces the habitat's ability to maintain viable population of its native species.

10. Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitat required for the survival of critically endangered or endangered species as defined by the IUCN Red List of Threatened Species or as defined in any national legislation; areas having special significance for endemic or restricted-range species; sites that are critical for the survival of migratory species; areas supporting globally significant concentrations or numbers of individuals of congregatory species; areas with unique assemblages of species or which are associated with key evolutionary processes or provide key ecosystem services; and areas having biodiversity of significant social, economic or cultural importance to local communities. Primary Forest or forests of High Conservation Value shall be considered Critical Habitats.

11. Critical cultural heritage consists of (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; and (ii) legally protected cultural heritage areas, including those proposed by host governments for such designation.

12. the term "Indigenous Peoples" is used in a generic sense to refer to a distinct social and cultural group possessing the following characteristics in varying degrees:

Self-identification as members of a distinct indigenous cultural group and recognition of this identity by others

Collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories

Customary cultural, economic, social, or political institutions that are separate from those of the dominant society or culture

An indigenous language, often different from the official language of the country or region