

Date: 6 March 2024

Punjab National Bank,
Head Office,
Plot No.-4, Sector-10, Dwarka,
New Delhi – 110075, INDIA

Sub: Second-Party Opinion / External Review on the “Financing Framework for Green, Social and Sustainability Linked Activity / Projects”

[A] Introduction:

CARE Analytics and Advisory Pvt. Ltd. (hereinafter mentioned as 'CareEdge Advisory') has undertaken to perform a Second-party Opinion of the “**Financing Framework for Green, Social and Sustainability Linked Activity / Projects**” (hereinafter mentioned as 'the Framework') of the **Punjab National Bank** (hereinafter mentioned as 'PNB' or 'the Bank').

The Bank has prepared the Framework in accordance with multiple Indian and international standards, provided in **Annexure 1**.
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[B] CareEdge Advisory's Scope of Work:

CareEdge Advisory's Scope of Work is defined above enumerated in Purchase Order no. IRMD/Climate Risk Management Cell/2023-24/PO/01 dated 12 February 2024, issued by the Bank.

[C] Management's Responsibilities

The Bank's Management is responsible for: (i) identification and development of the Framework in line with national and international guidelines, (ii) review and approval of the Framework from the top-management, (iii) engagement with internal stakeholders and create awareness, (iii) Define Use of Proceeds as per criteria defined in the standards, (iv) define Exclusion Criteria (if any), (v) Define process of Management of Proceeds, (vi) Report to Management/third-party, and (vii) Conduct external review / audit, as and where required.

This responsibility includes design, implementation and maintenance of internal controls relevant to the preparation of the Framework, which are free from material misstatement, whether due to fraud or error.

[D] CareEdge Advisory's Responsibility

CareEdge Advisory's responsibility is to provide Second-party opinion on the Bank's Financing Framework for Green, Social and Sustainability Linked Activity / Projects based on procedure described below.

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[E] Procedures:

CareEdge Advisory has performed the procedures listed below:

Modality of providing Second-party Opinion: (i) review of the Framework and Operational Guidelines prepared by the Bank, (ii) discussion with key stakeholder to understand their near and mid-term plan(s) and perspective(s), (iii) analysis of industry best practice(s) in Green, Social and Sustainability-linked Deposit / Bonds / Loans / related products as listed in **Annexure 1**.

The procedure has encompassed the review of the following aspects included in the Framework:

- Processes for defining use of proceeds as per eligible green, social and sustainability-linked standards / industry best practices as presented in **Annexure 1**;
- Process of defining project selection criteria within the eligible categories;
- Process of management of proceeds and internal controls of Green, Social and Sustainability-linked Deposit / Bonds / Loans / related products
- Process of Reporting to Board / other Authorities;
- Process of impact assessment and external review, as and when required;
- Process of management of Green / Social / Sustainability-linked asset-liability mismatches.

[F] Exclusions:

The Second-party Opinion on Bank's Framework should be construed as a point-in-time opinion expressed basis the information made available by the Bank and not surveilled from time-to-time.

The scope of vetting the Framework excluded the following and therefore CareEdge Advisory does not express a conclusion on the same:

- Testing the operationalization of the Framework at project level and providing opinion on same;
- Review of financial data of the Bank including its operations, financial performance, usage, and allocation of the funds and end-use of funds by the borrower;
- Credit rating or testament of underlying credit quality of either Bank or its Borrower(s);
- Defining micro level activities eligible for Green / Social / Sustainable-linked activities development of sector-specific Key Performance Indicators (KPIs) and/or Sustainable Performance Targets (SPTs),
- Preparation of Impact Assessment framework and defining timelines for same,
- Review / provide opinion on PNB's Environmental & Social Policies & related issues;
- Aspects not included in CareEdge Advisory's scope of engagement;
- The statements (if any) in the Green Deposit Policy that describe the expression of opinion, belief, aspiration, expectation, aim or future intentions provided by the Bank, any forward- looking assertion/; and/or data.

[G] Conclusion:

The Second-Party Opinion was carried out by a group of professionals with multiple-years of experience in areas like ESG, Banking and Finance.

CareEdge Advisory believes it has received sufficient information in the form of: (i) the Framework, (ii) Operational process flow, and (iii) Clarification received from key Stakeholder(s) to provide a basis of our conclusion.

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Based on the Procedures performed and the evidenced obtained, nothing has come to CareEdge Advisory's attention that causes us to believe that the Bank's Framework is not aligned, in all material respects, with the national / international Green, Social, and/or Sustainability-related standards listed in **Annexure 1**.

The said Framework is attached herewith as **Annexure 2**.

[H] Restriction of Use

CareEdge Advisory's report including the conclusion has been prepared and addressed to the Bank's Management at the request of the Bank solely to assist the Bank in reviewing its Framework.

Accordingly, CareEdge Advisory accepts no liability to anyone, other than the Bank. CareEdge Advisory's report(s) should not be used for any other purpose, other than those specified in the CareEdge Advisory's scope of work defined by the Bank.

CareEdge Advisory neither accepts nor assumes any duty of care or liability arising from any form of damage(s) arising from any third party.

Regards.

For **CARE Analytics and Advisory Pvt. Ltd.**



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Director, ESG – Advisory

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ANNEXURE 1

The Bank has developed their **Framework** in line with the following **national** and **international standards**.

CareEdge Advisory is of the opinion that these standards (as mentioned below) are (i) internationally acceptable, (ii) fully or partially aligned with each other, and; (iii) are applicable to the sector selected.

Application of these standards for defining the Use of Proceed (at macro level) and Selection of projects (at micro level) may be construed as best practice.

[A] Green Financing:

- RBI Green Deposit Framework dated 11 April 2023¹ and RBI's Frequently Asked Questions² dated 29 December 2023
- Green Bond Principle June 2021 (with June 2022 Appendix) by International Capital Market Association³
- Green Loan Principles⁴ issued by Loan Market Association *et. al.* dated February 2023

[B] Social Financing:

- Social Bond Principles⁵ by International Capital Market Association dated June 2023
- Social Loan Principles⁶ by Loan Market Association *et. al.* dated February 2023

[C] Sustainability-Linked Financing:

- Sustainability-Linked Loan Principles⁷ by Loan Market Association *et. al.* dated February 2023
- International Financial Services Centre Authority (IFSCA) Notification on Guidance Framework⁸ on Guidance framework on Sustainable and Sustainability linked lending by financial institutions

¹ Please see RBI Green Deposit Framework (<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12487&Mode=0#F6>)

² Please see RBI's FAQ dt. 29 December 2023 (<https://rbi.org.in/Scripts/FAQView.aspx?Id=161>)

³ Please see ICMA Green Bond Principle (GBP) Standard (<https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles-June-2022-060623.pdf>) June 2021 with June 2022 Appendix.

⁴ Please see Green Loan Principles issued by Loan Market Association *et. al.*
(https://www.lma.eu.com/application/files/8916/9755/2443/Green_Loan_Principles_23_February_2023.pdf)

⁵ Please see International Capital Market Association (ICMA) Social Bond framework
(<https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Social-Bond-Principles-SBP-June-2023-220623.pdf>)

⁶ Please see Social Loan Principles by Loan Market Association *et al.*
(https://www.lma.eu.com/application/files/9416/9755/3230/Social_Loan_Principles_23_February_2023.pdf)

⁷ Please see Sustainability-linked Loan Principles developed by Loan Market Association and others
(https://www.lma.eu.com/application/files/9216/9755/2878/Sustainability_Linked_Loan_Principles_23_February_2023_v.2.pdf)

⁸ Please see IFSCA Circular No. F. No 584/ IFSCA/Sustainable Finance- LF/2022-23/001 dated 26 April 2022
(<https://ifsc.gov.in/Document/Legal/sustainable-lending-framework-26-04-202226042022065717.pdf>)

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