

Environmental & Social Risk Management (ESRM)

For REC Limited, managing Environmental and Social (E&S) risks is central to maintaining a high-quality loan book and ensuring long-term value for stakeholders. Our approach transitions ESG from a compliance requirement to a strategic risk management tool.

1. ESG Policy Framework

Board-approved ESG Policy (Revised May 2024) serves as the guiding document to integrate ESG across REC. It mandates the integration of E&S factors into the lending side also.

- *Oversight:* The Risk Management Committee of the Board provides top-level oversight, while a dedicated ESG Committee (comprising various department heads) ensures ground-level implementation.
- *Standards:* We align our processes with national laws and international benchmarks, including the IFC Performance Standards and the United Nations Sustainable Development Goals (SDGs).

2. The ESG Due Diligence

REC has integrated ESG assessment into its appraisal process of private sector projects to identify material risks before capital is committed. This systematic process ensures that every project is evaluated through a sustainability lens:

- *Comprehensive Checklists:* Assessment for climate change risks, waste management, water conservation, and biodiversity impact.
- *Social Safeguards:* Rigorous review of labour practices, occupational health and safety and community engagement.
- *Physical Due Diligence:* The appraisal process includes site visits and a meticulous review of all statutory environmental and social clearances.

3. Proactive Risk Mitigation & Monitoring

We don't just assess risk at the start; we manage it throughout the loan tenure.

- *ESMS Compliance:* Borrowers are contractually obligated to adhere to Environmental and Social Compliances. Non-compliance can trigger corrective action plans.
- *Litigation & Governance Screening:* We perform deep-dive analyses into ongoing litigations involving borrowers and promoters, ensuring the leadership has the expertise and integrity to manage E&S responsibilities.
- *Borrower ESG Rating:* REC is pioneering a framework to rate borrowers based on ESG performance, with plans to incentivize highly compliant partners through preferential terms.
- *Derisking Portfolio:* REC has committed to achieve 30% RE loan book by 2030, effectively addressing long-term transition risks

4. Responsible Internal Operations

REC leads by example, ensuring our own corporate operations mirror the standards we expect from our borrowers:

- *Resource Efficiency:* 100% wastewater treatment at central office via in-house STPs and a transition to a 100% Electric Vehicle (EV/Hybrid) across REC Offices.
- *Zero Waste Ambition:* Elimination of single-use plastics across all pan-India offices and responsible e-waste disposal through CPCB-registered recyclers.

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- *Human Rights*: A strict Zero Tolerance policy toward human rights violations, supported by robust POSH (Prevention of Sexual Harassment) and grievance redressal mechanisms.

5. Climate Resilience & Transparency

With a "Low Risk" ESG rating from Sustainalytics (15.9), REC is committed to climate transparency:

- *GHG Baselineing*: We have completed the assessment of GHG emissions across all REC offices to target Net Zero for Scope 1 & 2 emissions.
- *Public Disclosure*: REC reporting follows the GRI (Global Reporting Initiative) and BRSR (Business Responsibility and Sustainability Reporting) frameworks, ensuring stakeholders have a transparent view of our ESG journey.

By embedding these E&S safeguards into our core financing model, REC Limited ensures that India's infrastructure growth is not only rapid but also resilient and responsible.