

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

As a responsible Corporate Citizen, the Sustainability Vision of the National Development Bank PLC (NDB) is to create shared value for all its stakeholders. Therefore, the Bank's mandate and that of the subsidiary companies held through NDB Capital Holdings Limited (NCAP, a fully owned subsidiary of NDB Bank), is to ensure that the Group's business practices are sustainable, delivering economic growth whilst protecting and adding value to the environment and society.

Sri Lanka's rate of depletion of natural resources has increased over the years and presently faces issues such as land, water & air pollution, land degradation, deforestation, water stress, over-exploitation of biodiversity resources and frequent occurrence of natural disasters such as floods and droughts, as a result of climate change.

Social issues include labour issues in factories and industries, resettlement of indigenous populations in the event of land acquisition and dislocation of local communities due to industrial activities. In the modern world, society has raised its expectations for businesses to deliver sustainable solutions for planet earth, and the Bank and the Group companies /subsidiaries see opportunities to offer responsible financing solutions that can help meet said expectations.

Therefore, the role of Environmental and Social (E&S) Risk Management is aimed at strategic debt, equity financing, investment in businesses that are financially, socially, and environmentally sustainable, and will guarantee the sustainability of the Bank's and NCAP Group Companies' own business model. E&S risks could be mitigated through compliance with E&S Governance regulations and international E&S Governance standards.

The Environmental and Social Risk Management Policy (ESRM Policy) of NDB describes the E&S strategy and commitments of NDB Bank and NCAP Group Companies under 'Responsible Financing' when they provide financial services/ products and how it commits the borrowers/ investees to responsible business practices. Environmental & Social ("E&S") risks assessment pertaining to responsible lending, equity and other investments incorporated into credit and investment evaluation and decision-making processes via Environmental and Social Risk Management Manual (ESRM Manual), Credit Policy, DLA Policy, and Integrated Risk Management Framework of the Bank / NCAP Group Companies.

The process and the mechanism of the Environmental and Social Management System (ESMS) are discussed in detail in the ESRM Manual of NDB which is an integral part of the ESRM Policy of NDB.