

VADODARA MUNICIPAL CORPORATION (VMC) GREEN FINANCE FRAMEWORK

DNV VERIFICATION OPINION

Scope and Objectives

Vadodara Municipal Corporation (also known as “VMC”) city municipal body of the city of Vadodara is third largest city after Ahmedabad and Surat in the Indian State of Gujarat. Vadodara currently covers approximately area of 220.33 sq. km. with a population of 24,85,412 (For 2021 As per Certificate Submitted for Amrut 2.0). It lies at 35.5 meters above sea level. The City of Vadodara is governed by the Vadodara Municipal Corporation (VMC) which was founded in 1951. VMC plays a pivotal role as a facilitator and service provider for a better and healthy life to its citizens. After selection of the city under the Smart Cities Mission. VMC is close to accomplishing its mission to provide a clean, hygienic and aesthetically pleasing environment for the citizens by achieving the best civic standards in the country while preserving the historical character of the city. With almost 70 years’ experience, VMC is one of the most environmentally conscious civic body. VMC seeks to generate sustainable long-term returns through investing in mature, stable infrastructure development. VMC has long understood that managing green infrastructure development opportunities are essential to protecting and enhancing long-term value. Fundamentally, VMC believes that excellent environmental management is a prerequisite to good investments: best-in-class health and safety culture, prudent management of environmental risks is good for the city, its stakeholders and the environment. It reduces risk and improves long-term investment returns.

VMC have developed a Green Financing Framework (“Framework”) to outline the governing framework will execute and manage green bonds on an ongoing basis based on Climate Bond Standards (“CBS”) v4.0 and water infrastructure sector criteria v3.2 of the projects based on Use of Proceeds (UoPs) such as Water and Waste certification criteria of Climate bond Initiative and Green Municipal bond applicable guidelines.

The Framework describes the process of using green bonds issued under a Green Bond Facility or a Green Tranche of a Bond Facility (collectively referred to as “Green Bonds”) to finance or refinance projects, assets or activities with environmental benefits. The Framework will apply to any Green Bonds issued by VMC and will be applied as long as any such instrument is outstanding.

DNV notes the nominated assets to meet the eligibility criteria set forth by the CBS, satisfying the water infrastructure Eligible Green Projects definitions as listed below:

- Water Supply & Treatment

DNV Business Assurance India Pvt. Ltd. (“DNV”) has been commissioned by VMC to review the Framework and provide a Second Party Opinion on the Framework in relation to alignment with the Climate Bond

Standard (CBS) V4 published in April 2023 and the Water Infrastructure Criteria V3.2 published in August 2022.

No assurance is provided regarding the financial performance of instruments issued via the Framework, the value of any investments, or the long-term environmental benefits of the transaction. DNV's objective has been to provide an assessment that the Framework has met the criteria established on the basis set out below.

Responsibilities of the Management of VMC and DNV

The management of VMC has provided the information and data used by DNV during the delivery of this review. Our statement represents an independent opinion and is intended to inform VMC management and other interested stakeholders in the Framework as to whether the Framework is aligned with the CBS. In our work we have relied on the information and the facts presented to us by VMC. DNV is not responsible for any aspect of the nominated assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by VMC's management and used as a basis for this assessment were not correct or complete.

DNV is not responsible for any aspect of the nominated assets referred to in this Schedule 1 of this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by VMC's management and used as a basis for this assessment were not correct or complete.

Basis of DNV's opinion

DNV has conducted the verification against the CBS v4.0 and associated Sector Technical Criteria through the creation and execution of a verification protocol addressing each requirement of the CBS v4.0 and the relevant technical criteria (Water). The detail of areas covered in the DNV verification is summarised in Schedule 2 below.

DNV has conducted the verification against the relevant project criteria in parallel to the CBS v4.0 Pre-Issuance Verification. A summary of compliance with the CBS is included in Schedule 3 below.

Work Undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by VMC in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation and execution of a Climate Bonds Standard Protocol, adapted to include the relevant Sector Technical Criteria for the green bond' nominated projects and assets, as described above and in Schedule 2 to this Opinion;
- Verification of compliance with the CBS as described above and in Schedule 3 to this Opinion;
- Assessment of documentary evidence provided by VMC on the bonds and supplemented by a high-level desktop research,
- Documentation of findings against each element of the criteria. Our opinion as detailed below is a summary of these findings.

Findings and DNV's opinion

DNV has performed the Pre-Issuance Verification of the Green Bond. It is DNV's responsibility to provide an independent verification statement on the compliance of the Bond with the **Climate Bonds Standard V4.0**

and the **Water Infrastructure Criteria of Climate Bond Initiative** collectively referred to as the Principles & Standards.

DNV conducted the verification in accordance with the Principles & Standards and with International Standard on Assurance Engagements *3000 Assurance Engagements other than Audits or Reviews of Historical Information*. The verification included i) checking whether the provisions of the Principles & Standards were consistently and appropriately applied and ii) the collection of evidence supporting the verification.

DNV's verification approach draws on an understanding of the risks associated with conforming with the Principles & Standards and the controls in place to mitigate these. DNV planned and performed the verification by obtaining evidence and other information and explanations that DNV considers necessary to give limited assurance that the Framework, and other associated documentation, meet the requirements of the Principles & Standards.

Based on the limited assurance procedures conducted, nothing has come to our attention that causes us to believe that the Green Bond is not, in all material respects, in accordance with the Pre-Issuance requirements of the CBS, and the Water Infrastructure sector criteria.

For DNV Business Assurance India Pvt. Ltd.

Mumbai, India / 4 January 2024



Anirban Chatterjee
Team Leader



Thomas Leonard
Technical Reviewer

About DNV

Driven by our purpose of safeguarding life, property and the environment, DNV enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight. With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

SCHEDULE 1: DESCRIPTION OF NOMINATED ASSETS

Nos	Name of the Project	Capital Cost (Rs. in Cr)	O&M Cost (Rs. In Cr)
1	Construction of 100 MLD Sewage Treatment Plant at Sherkhi	171.15	29.10
2	Construction of 21 MLD Sewage Treatment Plant and MPS at Undera	68.38	13.18
3	Construction of new Auxiliary Pumping Station, Pressure line and Drainage network in newly added Bil area of Vadodara city	74.78	3.07
	Total Cost	314.91	45.35

SCHEDULE 2: CLIMATE BONDS STANDARD VERIFICATION CRITERIA

Summary criteria for assertions of compliance with the Climate Bonds Standard v4.0

A full verification is provided in the associated Verification protocol.

The criteria against which VMC and its nominated projects & assets have been reviewed prior to inclusion in the bond are grouped under the requirements as detailed within the CBS including:

Part A: Pre-Issuance Requirements

Area	Requirement
Use of Proceeds	Nominated projects & assets which are proposed to be associated with the Bonds and which have been assessed as eligible activities under the CBS related Sector Criteria
Project Selection	Establish, document and maintain a decision-making process which it uses to determine the eligibility of the Nominated Projects & Assets.
Management of Proceeds	The systems, policies and processes to be used for management of the Net Proceeds shall be documented by the Issuer.
Reporting Prior to Issuance	The Borrower prepared a Green Financing Framework and make it available prior to Issuance or at the time of issuance to lenders
Reporting	Reporting on use of proceeds and nominated projects and assets

Part B: Post-Issuance Requirements

Use of Proceeds	Nominated Projects & Assets which are proposed to be associated with the Bonds and which have been assessed as likely to be Eligible Projects & Assets
Project Selection	Establish, document and maintain a decision-making process which it uses to determine the eligibility of the Nominated Projects & Assets

Management of Proceeds	The systems, policies and processes to be used for management of the Net Proceeds shall be documented by the Issuer
Reporting	Reporting on use of proceeds and nominated projects and assets

Part C: Eligible projects and physical assets

Nominated projects and assets include amounts drawn under Green Bonds issued under VMC’s Framework, to be used solely for the purpose of financing acquisitions of, credit support for (including lender-issued letters of credit), or other equity investments into, assets that meet the eligibility criteria as outlined in Schedule 1.

Eligible Green Project Categories	Eligible Criteria and Description	CBI Criteria
Water Infrastructure	Investments in potable water monitoring, efficiency, treatment and water recycling measures: <ul style="list-style-type: none"> • Water management and efficiency; • Water treatment and recycling; • Water treatment (including wastewater treatment) for recycling and reuse. 	Refer to CBI Water Infrastructure Criteria (August, 2022) – Water treatment, including but not limited to Water recycling systems, Wastewater treatment facilities, Manure/slurry treatment facilities.

Part D: Certification under the Climate Bonds Standard

Area	Requirement
Pre-Issuance Certification	The Borrower of a Climate Bonds Standard Certification has satisfied the Pre-Issuance Certification requirements including the completion of all forms, Pre-Issuance Verification by an approved verifier and provision of relevant information

Post-Issuance Certification	The Borrower of a Climate Bonds Standard Certification must satisfy the Post-Issuance Certification requirements including the completion of all forms, Post-Issuance Verification by an approved verifier and provision of relevant information
Maintaining Certification	The Borrower shall provide annual reporting to the CBI and comply with non-conformance correction as required

SCHEDULE 3: CLIMATE BOND STANDARD (CBS) ELIGIBILITY ASSESSMENT PROTOCOL

1. Use of Proceeds

Ref.	Criteria	Requirements	DNV Findings
1a	Type of Financial Instrument	<p>The Bond must fall in one of the following categories, as defined by the CBS V4 :</p> <ul style="list-style-type: none"> Green Use of Proceeds Bond 	<p>The VMC Green Financing Framework clearly describes the intention for the Use of Proceeds to be borrowed under the terms of the Framework.</p> <p>Amounts drawn under Green Bonds issued under the Framework will be used solely for the purpose of financing acquisitions of, credit support for (including lender-issued letters of credit), or other equity investments into, assets that meet the Water Infrastructure eligibility criteria as outlined in Schedule 1 of this Report, above.</p> <p>DNV notes that VMC Green Financing Framework has been prepared and structured to facilitate the inclusion of:</p> <ul style="list-style-type: none"> - Renewable Energy Generation - Energy Efficiency (Solar batteries) - Clean Transportation - Waste Management <p>The reviewed evidence confirms that the Use of Proceeds fall in the category: Green Use of Proceeds Bonds. DNV confirms these to be in line with the Climate Bond Standard</p>
1b	Green Project Categories	<p>The cornerstones of a Green Bond are the utilization of the proceeds of the Bond to Eligible Green Categories which should be appropriately described in the legal documentation for the Bond.</p>	<p>Eligible project categories presented in the Framework by VMC are as follows:</p> <ul style="list-style-type: none"> • Water Supply – Water treatment <p>DNV notes that these categories are considered Eligible Project Categories / Assets under the CBS.</p> <p>DNV reviewed the evidence presented in the Framework and can confirm that the Use of Proceeds are in line with the stated criteria of the CBS.</p>

			<ul style="list-style-type: none"> - Mitigation Component: As the Sewage Treatment Plants are equipped with on-site solar panels, no net GHG emissions impact is expected. - Adaptation&Resilience Component: The Vulnerability Assessment & Adaptation Plan Scorecard has been evaluated.
1c	Environmental benefits	All designated Green Project categories should provide clear environmentally sustainable benefits, which, where feasible, will be quantified or assessed by the Issuer.	<p>The Framework indicates VMC’s commitment to environmentally beneficial projects, through their three Climate Action targets. As long-term infrastructure investors, VMC manages the risks and opportunities presented by climate change and the energy transition, and as such, climate and decarbonisation are a key focus for VMC.</p> <p>The Framework also indicates VMC’s focus on actions to engage with stakeholders with the aim of setting additional methane avoidance targets and action plans beyond the proposed projects developed by VMC’s Infrastructure team as part of sustainable city initiative. VMC aims to focus on ensuring that key standards are understood and adhered to, in order to improve performance post-acquisition to increase long-term value and have positive “real-world” environmental as well as social impacts.</p>
1d	Refinancing Share	In the event that a proportion of the proceeds may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced.	<p>VMC has indicated in the VMC Green Financing Framework the list of all eligible projects that are to be financed / refinanced. VMC will also ensure that the estimated proportion of financing proceeds used for refinancing vs. financing will be explicitly documented in relevant publicly available company reports such as the annual report, sustainability report and annual impact report, whichever is relevant. Look-back period is maximum 6 months.</p> <p>VMC states under the Allocation Reporting, that it will communicate to investors / lenders an indicative amount of the proceeds used for refinancing vs financing of the listed eligible green assets.</p>

2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	DNV Findings
2a	Investment -decision process	<p>The Issuer of a Green Bond should outline the decision-making process it follows to determine the eligibility of projects using Green Bond proceeds. This includes, without limitation:</p> <ul style="list-style-type: none"> • The environmental objectives of the eligible Green Projects; • The process by which the issuer determines how the projects fit within the eligible Green Projects categories; and • Complementary information on processes by which the issuer identifies and manages perceived environmental and social risks associated with the relevant project(s). 	<p>The Framework describes the eligibility qualification and process for evaluating and selecting projects. The Framework also indicates a process to ensure the drawdown proceeds from a Green Bond will only be allocated to the listed Eligible Assets.</p> <p>From the Framework</p> <p><i>AMRUT 2.0 Scheme is a Central Sponsored Scheme, cost of project approved under this scheme has to be borne by Central, State and ULB in proportion of 25%, 40% and 35% as their Share. Central and State Government provides their shares in form of grants through Public Finance Management System (PFMS) equipped Single Nodal Agency Account of State Government for the Scheme. Whereas ULB has to contribute its shares plus tender premium or price escalation from own sources or borrowing. Against its total share, VMC has decided to mobilize Rs.100 Crore from debt capital market by floating a Green Municipal Bond. General Board of VMC has given all the powers to the Municipal Commissioner for all necessary ancillary actions in this regard, to do agreements, appoint necessary agencies, form committees, make payments, etc. till the completion of this work. The Accounts Department of VMC along with Trustee will keep a track of proceeds within the existing guidelines regarding debt management and monitor the allocation of funds towards eligible green expenditures. Unallocated proceeds, if any, will be carried forward to successive years for investment in eligible green projects.</i></p> <p>DNV confirms that the process for evaluation and selection described in the Framework ensures that the net proceeds of the Green Bonds drawn under the Framework are well aligned with the criteria listed in the CBS.</p>
2b	Issuer / borrower's	Issuers are also encouraged to:	VMC is guided by their sustainability commitments, to ensure the drawdown proceeds from a Green Bond will only be allocated to Eligible Assets. The ISTM in consultation with the

<p>environmental and governance framework</p>	<ul style="list-style-type: none"> • Position the relevant information within the context of the issuer’s overarching objectives, strategy, policy and/or processes relating to environmental sustainability. • Provide information, if relevant, on the alignment of projects with official or market-based taxonomies, related eligibility criteria • Have a process in place to identify mitigants to known material risks of negative environmental and/or social impacts from the relevant project(s). 	<p>investment team and ESG specialists will manage the evaluation and selection process for assets to qualify as Eligible Assets, taking into account the following requirements:</p> <ul style="list-style-type: none"> • Conformance with VMC’s sustainability objectives; • Conformance with the CBS and alignment to the Eligibility Criteria; • Where CBI certification is sought, alignment with the current Climate Bonds Standard will be verified by an independent third party; • Conformance with any other relevant market guidelines, principles or standards that may be developed domestically or globally from time to time; • Identification and management of perceived, actual or potential environmental and social risks associated with the relevant asset(s); and • Applying the professional judgement of the ISTM in consultation with investment team and ESG specialists, discretion and sustainability knowledge. <p>DNV confirms that these organisational principles and governance procedures are well aligned with the criteria listed in the CBS.</p>
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3. Management of Proceeds

Ref.	Criteria	Requirements	DNV Findings
3a	Tracking procedure	<ul style="list-style-type: none"> • (Bond) The proceeds of Green Bonds should be credited to a dedicated account or otherwise tracked by the borrower in an appropriate manner, so as to maintain transparency and promote the integrity of the product. Where a green Bond takes the form of one or more tranches of a Bond facility, each green tranche(s) must be clearly 	<p>The Framework states that VMC will only use the proceeds from Green Bonds to finance or refinance Eligible Assets.</p> <p>VMC will track the receipt and use of amounts drawn under Green Bond facilities via its internal reporting systems, ensuring Eligible Assets financed or re-financed by Green Bonds are appropriately identified. Management of the proceeds will in all other respects be consistent with the VMC Green Financing Framework, where tracking of the proceeds will include key information such as issuer entity, transaction date, principal amount of proceeds, maturity date, etc.</p>

		<p>designated, with proceeds of the green tranche(s) credited to a separate account or tracked by the borrower in an appropriate manner.</p>	<p>From the Framework <i>The Accounts Department of VMC along with Trustee will keep a track of proceeds within the existing guidelines regarding debt management and monitor the allocation of funds towards eligible green expenditures. Unallocated proceeds, if any, will be carried forward to successive years for investment in eligible green projects.</i></p> <p>DNV has reviewed the evidence presented and can confirm that the proceeds arising from the Green Bonds will be appropriately managed and are aligned with the criteria listed in the CBS.</p>
<p>3b</p>	<p>Tracking procedure</p>	<p>So long as the Green Bond is outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible green investments or Bond disbursements made during that period.</p>	<p>VMC commits to precisely monitoring the balance of the tracked proceeds drawn under the Framework. VMC aims to present the following information with regards to the tracking procedure:</p> <p>From the Framework</p> <ul style="list-style-type: none"> <i>The bond proceeds will be deposited to the Consolidated Green Bond Account (GBA) in line with the VMC's regular treasury policy, and then funds from the GBA will be made available for eligible green projects. In order to ensure that the allocation and accounting of proceeds is transparent, clear and accurate, a separate account will be created and maintained by the Accounts Department of VMC.</i> <i>The Accounts Department of VMC will keep a track of proceeds within the existing guidelines regarding debt management and monitor the allocation of funds towards eligible green expenditures. Unallocated proceeds, if any, will be carried forward to successive years for investment in eligible green projects</i> <p>DNV confirms that the tracking procedure committed to by VMC is well aligned with the relevant criteria of the CBS and meets the standards for managing net proceeds drawn under the Green Financing Framework.</p>

3c	Temporary holdings	Pending such investments or disbursements to eligible Green Projects, the Issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	<p>VMC confirms that net proceeds drawn from Green Bonds under this Framework will be allocated fully to the list of Eligible Assets and does not intend to have any unallocated proceeds.</p> <p>The amount of contribution payable under AMRUT Scheme is Rs. 200.00 crores from the municipal bonds given by the earlier approval of the first phase of Rs. 100 crores to be allowed to be raised and for contribution eligible under Amrut/other schemes, additional Rs. 200 crores green/municipal bonds and all the powers to take all necessary ancillary actions in this regard, to make agreements, to appoint necessary agencies to form committees to make payments, are given to the Municipal Commissioner.</p> <p>DNV confirms that this procedure for the tracking and management of net proceeds, as well as any cases of unallocated proceeds, is well aligned with the criteria listed in the CBS.</p>
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4. Reporting

Ref.	Criteria	Requirements	DNV Findings
4a	Periodical reporting	<ul style="list-style-type: none"> • Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and on a timely basis in case of material developments. • The annual report should include a list of the projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects, the amounts allocated, and their expected impact. 	<p>VMC commits to being transparent and reporting on the balances of the Green Bonds drawn under the Framework. VMC will report to relevant stakeholders on the Framework and each executed Green Bond; reporting on the Framework and Green Bonds may be included in the fund’s typical annual ESG reporting and will be a summary of activity in the relevant reporting period.</p> <p>VMC ensures to make the following information available to its lenders/investors:</p> <ul style="list-style-type: none"> • Assurance Statements • CBI Certification pre- and post-issuance reports <ul style="list-style-type: none"> ○ Where certified, pre-issuance will be provided at the time the certified Green Bond is executed and post-issuance will be provided within 24 months of the Bond being executed. • Allocation Reporting <ul style="list-style-type: none"> ○ Eligible Green Assets earmarked to be funded by the proceeds;

		<ul style="list-style-type: none"> • Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the CBS recommend that information is presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories). 	<ul style="list-style-type: none"> ○ Amount or proceeds allocated to the various Eligible Green Assets at the reporting date; ○ Description of Eligible Green Assets; ○ Aggregate amount of proceeds of Green Bonds allocated to Eligible Green Assets; ○ Amount of the proceeds used for refinancing vs financing of Eligible Green Assets; and ○ Remaining balance of unallocated proceeds (if any). • Impact Reporting <ul style="list-style-type: none"> ○ For Eligible Assets supported by a Green Bond, VMC will report annually on impact metrics where possible and relevant. <p>DNV confirms that the stated reporting procedure is consistent with the criteria set out in the CBS.</p>
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