

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE POLICY

(“ESG POLICY”)

Approved by:- Board of Directors

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Preamble

This policy (hereinafter referred to as the “**Policy**”) shall be called "ESG Policy” of Usha Financial Services Limited (hereinafter referred to as “**UFSL**” or “**the Company**”).

Environmental, Social, and Governance (ESG) has gained increasing attention over the past few years, with many institutional investors investing only in those companies that provide ESG an important goal for organizations. Customers and market demands are placing increased performance reporting. Meeting Environmental, Social and Governance (ESG) criteria has become pressure on corporations to engage in more sustainable business practice, and investors are increasingly using ESG criteria to evaluate the companies in which they might want to invest or do business with. Environmental, social, and governance (ESG) criteria create a framework for helping investors who want to incorporate personal values into their investment approach. The ESG screening process identifies companies that have built sound environmental practices, strong social responsibility tenets, and ethical governance initiatives into their corporate policies and everyday operations. ESG processes and procedures focus on non-financial performance indicators that address a company’s approach towards responsible investment, sustainability, its impact on society and the environment, as well as other ethical and corporate governance considerations.

Objective

The objective of this Policy is to incorporate environmental, social and governance (ESG) considerations into operations and business, mitigate material impacts and risks thereof and serve as a guiding document for the ESG initiatives and activities undertaken by the Company. The approach towards ESG integration includes development of a robust governance mechanism, implementation framework, systems for risk management and controls, incorporation of environmental and social considerations into the standard operating procedures of the Company’s operations as well as communication and disclosure of ESG performance.

ESG Vision

To be an environmentally and socially responsible financial institution built on the foundation of ‘Assurance’, focused on generating sustainable long-term value for all our stakeholders.

ESG Goals

- Profitability with ethical, environmental and social responsibility.
- Mainstream ESG practices into business, operations and value chain
- Achieve best in class ESG ratings

Policy Statement

Usha Financial Service Limited (UFSL) recognizes that its employees, customers, partners and the vendors that it deals with through its operations can have an impact on the environment and community, and therefore comprehends and endorses the need for adherence to environmental, social, and governance policies consistent with the values of UFSL by all parties associated with it.

It has therefore laid out a strong Environmental, Social and Governance Policy Statement which combined with its Fair Practices Code will provide it with the necessary impetus to achieve its desired growth in a responsible, inclusive and sustainable manner.

ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG) POLICY STATEMENT OF UFSL

The ESG Policy of UFSL is driven by its mission to finance the underserved Missing Middle (Micro and Small enterprise segment) in India by partnering and providing the necessary financial & allied support to these businesses.

The UFSL ESG Framework (ESGF) is founded on the concept of overall sustainable development and thereby recognizes Environmental and Social (E&S) considerations in its own business operations and in the activities carried out by the people and institutions associated with it.

UFSL constantly strives to bring a positive transformation to the society through its business operations and sincerely endeavors to conserve natural resources, protect the environment and contribute to welfare of the community at large. This policy applies to all the activities and stakeholders of UFSL including its employees, stakeholders, customers, partners, vendors and all other parties associated with it.

UFSL is committed to comply with its ESG policy, applicable laws of the land and to be responsive to existing and emerging E&S concerns on a proactive basis.

Scope of the Policy

This policy applies to all employees, customers, partners, vendors, stakeholders and parties associated to UFSL. The policy aims at covering the following aspects to ensure that UFSL's ESG Mechanism operates efficiently.

- i) Define ESG Risks
- ii) Identify ESG risks
- iii) Make ESG an integral part of UFSL's Loan Agreement
- iv) Ensure End Use Verification of ESG
- v) ESG Risk Categorization of Customers and Vendors of UFSL

- vi) ESG Checks by Customers & Vendors of UFSL
- vii) ESG Monitoring & Mitigation by UFSL
- viii) ESG Mechanism Review, Improvement & Training
- ix) Engagement of External ESG Consultants by UFSL

Exclusion List

The exclusion list (annexed) lists out the types of sectors, businesses or processes that UFSL does not lend

Policy Principles

The principles forming the foundation to the policy are:

Environmental Matters

UFSL shall conduct its business and operations in compliance with local and national environmental and occupational health and safety regulations. Customers and vendors of UFSL shall also adhere to these regulations in letter and spirit.

The following major policies relating to environment in India shall be complied with, as and when applicable:

- x) The National Forest Policy
- xi) Policy Statement for Abatement of Pollution
- xii) National Conservation Strategy and Policy Statement on Environment and Development

Furthermore, UFSL shall refrain from dealing with institutions that are covered by the exclusion list included in the Annexure to this policy statement.

Social Matters

UFSL recognizes that occupational safety, health and good working environment are a fundamental

human right. UFSL also acknowledges that safety and health of workers has a positive impact on productivity and economic & social development.

UFSL is committed to conduct its business and operations in compliance with local and national social policies. UFSL also urges its customers and vendors to adhere to these regulations in good faith to ensure that there are no adverse consequences from the funded projects on the community members around the project, the enterprises covered by the project and groups of people who are vulnerable either due to inadequate social protection or otherwise.

UFSL shall refrain from dealing with customers, vendors and associates who are known not to comply with all applicable local and national regulations. The major social policy of the Ministry of Labour and Employment “National Policy on Safety, Health and Environment at Work Place” should be complied with in addition to any other allied policies issued by the Government of India.

Governance Matters

UFSL is committed to the principle of transparency and good governance with the following aspects:

i) have adequate number of independent directors; ii) Provide for adequate transparency about the company’s operations, and a governance structure that demonstrates appropriate accountabilities, iii) take actions to ensure that its officers are not involved in corrupt practices, iv) uphold high standards of business integrity and honesty; and v) deal with regulators in an open and co-operative manner

Policy Implementation

UFSL plans to achieve successful implementation of its Environment, Social & Labor Policy within and outside the organization by establishing the following safeguards:

Loan Proposals

The Loan Advisors (LA), Gatherers, Branch Managers (BM) and Credit Officers (CO) are well appraised about UFSL’s ES&L Policy and will diligently scrutinize every loan proposal/service agreement to identify any environment, social or labor risk that may emerge by dealing with a particular customer or vendor.

All loan proposals would be subjected to a preliminary screening at the file login stage and in case any applicant is found to be grossly non-compliant with national or local environmental, social or labor laws, then the loan application will be rejected and will not be passed on to the credit appraisal stage.

ESG Risk Categorization of Customers and Vendors

UFSL has in place a robust risk categorization matrix and will assign risk category for each of its customers and borrowers at the loan approval stage and post disbursement based on the identification and assessment of the ESG risks by its Credit Managers/Credit Committee. The risk categories are as follows:

- i) **Low Risk:** Customer with minimal or no adverse environmental, social or labor impact.
- ii) **Medium Risk:** Customer with potential limited adverse environmental, social or labor impacts those are few in number, largely reversible and readily addressable through mitigation measures. In such a case UFSL will notify the specific risks/non-compliances to the applicant and call upon them to take the necessary corrective steps within a specified time frame defined by UFSL based on the seriousness of the issue. Subsequently if the applicant fails to address these issues and continues to remain non-compliant, UFSL would classify the non-compliance as an event of default and thereafter be entitled to recall the entire outstanding of the credit facility, as its remedy.
- iii) **High Risk:** Customer with existing significant adverse environmental, social or labor impacts those are irreversible or unprecedented. In such a case, if identified at the loan approval stage, UFSL will reject such applications. If identified subsequently, UFSL would classify such a customer a High Risk customer and if the applicant fails to address these issues and continues to remain non-compliant, UFSL would classify the non-compliance as an event of default and thereafter be entitled to recall the entire outstanding of the credit facility, as its remedy.

Loan / Service Agreements

UFSL's Loan Agreements specifically enumerate a clause on compliance with all applicable local and national environment, social and labor laws. This functions as a precondition for any of UFSL's dealing with its customers and vendors and any known deviation in this compliance adversely impacts its final decision. We will modify our loan agreement template to specifically include this clause and ensure that it appears in the printed version of our next batch of agreements.

End use of Funds Verification

As a part of the internal UFSL policy, Loan Utilization Checks (LUC) are conducted after the loan disbursement. Along with other checks, special emphasis will be given by the Loan Advisors conducting LUC to observe any non-compliance w.r.t. social and environmental regulations as applicable and reasonably ascertainable during the visit. The Loan Advisor shall use any notice received by any government or semi government authority as the basis of ascertaining the non-compliance by the customer, if any. Any non-compliance observed shall be reported to the senior management who will in turn take a call on the further action which may include notifying customer with risks associated with non-compliances and call upon them to take necessary corrective actions or classify the non-compliance as an event of default and recall the entire outstanding of the credit

facility.

ESG Monitoring and Mitigation Mechanism

UFSL has in place a comprehensive ES&L monitoring and mitigation mechanism. Executive Director (ED) is the designated senior level officer in-charge of the effective functioning of the ESG Mechanism in UFSL. ED shall periodically reviews all the ESG related reports, analyze the information and present any irregularities to the company.

In case of any observed non-compliance w.r.t. the customers of UFSL, the same shall be notified customer with risks associated with non-compliances and call upon them to take necessary corrective actions or classify the non-compliance as an event of default and recall the entire outstanding of the credit facility.

ESG Compliance Checks by Customers and Vendors

UFSL strives in letter and spirit, to ensure that sustainable development is achieved in effect till the last mile, it constantly creates awareness on the ESG front amongst its customers and vendors and urges them to further carry forward the ESG attitude down the line suppliers, buyers, vendors and other parties that they are in turn associated with. UFSL also advises all its customers and vendors to perform compliance checks and take necessary action while dealing with parties down the line.

ESG Mechanism Review, Improvement & Training

The management team and the employees concerned with the ESG mechanism implementation constantly keep themselves abreast with the latest developments in the area. UFSL promotes continuous learning and knowledge sharing by encouraging participation in cross-company programs.

Grievance Redressal

In order to address effectively any operational, social, environmental, labor and other general concerns, UFSL has in place a structured grievance redressal framework supported by a review mechanism. This redressal mechanism can be used not just by its customers, but also by its employees, vendors and the community at large.

This grievance redressal policy is a part of UFSL's Fair Practice code which is published in its website and accessible through www.ushafinancial.com

Prohibited Activities List

UFSL will not deal with any borrowers or vendors who are engaged in the business or trade of any product or activity deemed to be illegal under the laws or regulations in force in India. A detailed list of prohibited activities is provided as an annexure to this policy.

Annexure 1: List of Prohibited Activities

UFSL will not support any of the following activities:

1. Conversion or degradation of critical forest areas or forest-related critical natural habitats.
2. Leasing or financing of logging equipment, unless an environmental and social impact assessment indicates that;
 - a) all timber harvesting operations involved will be conducted in an environmentally sound manner which minimizes forest destruction; and
 - b) the timber harvesting operations will produce positive economic benefits and sustainable forest management systems.
3. Construction of dams that significantly and irreversibly: (a) disrupt natural ecosystems upstream or downstream of the dam; or (b) alter natural hydrology; or (c) inundate large land areas; or (d) impact biodiversity; or (e) displace large numbers of inhabitants (5,000 persons or more); or (f) impact local inhabitants' ability to earn a livelihood.
4. Production or trade in any product or activity deemed illegal under the laws or regulations of India or international conventions and agreements or subject to international phase outs or bans such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls and other hazardous substances, wildlife or wildlife products regulated under the Convention on International Trade and Endangered Species of Wild Fauna and Flora and trans-boundary trade in waste or waste products.
5. Resettlement of 5,000 or more persons.
6. Extraction or infrastructure in or impacting: protected area Categories I, II, III, and IV (Strict Nature Reserve/Wilderness Areas and National Parks, Natural Monuments and Habitat/ Species Management Areas), as defined by the International Union for the Conservation of Nature (IUCN). Projects in IUCN Categories V (Protected Landscape/Seascape) and VI (Managed Resource Protected Area) must be consistent with IUCN management objectives http://www.iucn.org/about/work/programmes/gpap_home/ unless it can be demonstrated through an environmental assessment (i) there is no degradation of the protected area and (ii) there are positive environmental and social benefits.
7. Production of or trade in nuclear reactors and components thereof.
8. Production of, trade in or use of un-bonded asbestos fibers.
9. Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to biodiversity and habitats.
10. Projects or companies identified by the Government to be in violation of local applicable law related to environment, health, safety, labor, and public disclosure
11. Projects or companies where the primary business activities are in the following prohibited sectors: gambling; media communications of an adult or political nature; military equipment production;

alcoholic beverages (if contrary to local religious or cultural norms).

12. Companies found by a court or administrative body of competent jurisdiction engaging in unlawful practices.
13. Projects or companies that provide significant, direct support to a government that engages in a consistent pattern of gross violations of internationally recognized human rights, as determined by the Government of India.