



VREEDHI FINANCIAL SERVICES PRIVATE LIMITED

Environment, Social and Governance (ESG) Policy

Version 2.2. December,2021

Vreedhi is committed to protect the environment, promote human rights and good governance.

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1. Policy Statement

Vreedhi Financial Services Private Limited (“VREEDHI”) 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 VREEDHI 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 VREEDHI

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

The VREEDHI 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.

VREEDHI 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 VREEDHI including its employees, stakeholders, customers, partners, vendors and all other parties associated with it.

VREEDHI 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.

2. Objective & Scope of the Policy

a) Purpose of Policy

VREEDHI places significant emphasis on the identification, assessment and management of Environment, Social and Governance (ESG) risks. This policy therefore serves as a memorandum for VREEDHI’s employees, customers, partners, vendors and associated parties, for them to imbibe the sustainability culture that VREEDHI is trying to build. The policy affirms the commitment of these parties toward healthy ESG practices and serves as a reference point for

them to be able to effectively implement the policy within their operational and legal boundaries.

b) Scope of the Policy

This policy applies to all employees, customers, partners, vendors, stakeholders and parties associated to VREEDHI.

The policy aims at covering the following aspects to ensure that VREEDHI's ESG Mechanism operates efficiently:

- i. Define ESG Risks
- ii. Identify ESG risks
- iii. Make ESG an integral part of VREEDHI's Loan Agreement
- iv. Ensure End Use Verification of ESG
- v. ESG Risk Categorization of Customers and Vendors of VREEDHI
- vi. ESG Checks by Customers & Vendors of VREEDHI
- vii. ESG Monitoring & Mitigation by VREEDHI
- viii. ESG Mechanism Review, Improvement & Training
- ix. Engagement of External ESG Consultants by VREEDHI

C) Exclusion List

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

3. Policy Principles

The principles forming the foundation to the policy are:

a) Environmental Matters

VREEDHI shall conduct its business and operations in compliance with local and national environmental and occupational health and safety regulations. Customers and vendors of VREEDHI 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:

- i) The National Forest Policy
 - ii) Policy Statement for Abatement of Pollution
 - iii) National Conservation Strategy and Policy Statement on Environment and Development
- Furthermore, VREEDHI shall refrain from dealing with institutions that are covered by the exclusion list included in the Annexure to this policy statement.

b) Social Matters

VREEDHI recognizes that occupational safety, health and good working environment is a fundamental human right. VREEDHI also acknowledges that safety and health of workers has a positive impact on productivity and economic & social development.

VREEDHI is committed to conduct its business and operations in compliance with local and national social policies. VREEDHI 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.

VREEDHI 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.

c) Governance Matters

VREEDHI 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.

4. Policy Implementation

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

Loan Proposals

The Cluster Leads (CL), Territory Credit Managers (TCM) and Territory Managers (TM) are well appraised about VREEDHI’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

VREEDHI 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 VREEDHI 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 VREEDHI based on the seriousness of the issue. Subsequently if the applicant fails to address these issues and continues to remain non-compliant, VREEDHI 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, VREEDHI will reject such applications. If identified subsequently, VREEDHI would classify such a customer a High Risk customer and if the applicant fails to address these issues and continues to remain non-compliant, VREEDHI 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

VREEDHI'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 VREEDHI'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 VREEDHI policy, Loan utilization checks (LUC) are conducted after the loan disbursement. Along with other checks, special emphasis will be given by the Cluster Lead conducting LUC to observe any non-compliance w.r.t. social and environmental regulations as applicable and reasonably ascertainable during the visit. The Cluster Lead 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 noncompliance 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

VREEDHI 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 VREEDHI. ED shall periodically review 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 VREEDHI, 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

VREEDHI 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. VREEDHI 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. VREEDHI promotes continuous learning and knowledge sharing by encouraging participation in cross-company programs

5. Grievance Redressal

In order to address effectively any operational, social, environmental, labor and other general concerns, VREEDHI 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 VREEDHI's Fair Practice code which is published in its website and accessible through www.vreedhi.com

6. Prohibited Activities List

VREEDHI 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

VREEDHI 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.

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