SK Finance Limited

Environment and Social Governance Policy

April 2022

Preamble

The system for integrating environmental and social (E&S) aspects in SK Finance Limited's business operations has been developed in two parts:

- *Part I: Environmental & Social Policy*
- *Part II: Environmental & Social Management System*

The E&S Policy document as Part I of the documentation presents the E&S Policy Statement of SK Finance Limited and the Operational Principles that guide in translation of the Policy for implementation action. The Policy states SK Finance Limited's intentions on environmental and social aspects of the business. This Policy document will be made available to stakeholder's of SK Finance Limited.

The Environmental & Social Management System (ESMS) presented in Part II of the documentation has been developed to enable implementation of the E&S Policy and Principles. The ESMS describes the Company's approach to assessing and managing E&S risks associated with lending.

SUMMARY OF POLICY

Policy Name	Environment and Social Governance Policy
Review Cycle	Annually or in the event of any regulatory changes
Approver	Board of Directors of SK Finance Limited (Formerly known as Ess Kay Fincorp Limited)
Latest Approval/Review Date	April 2022
Version	1.0

Contents

1 Introduction

1.1 About SK Finance Limited

SK Finance Limited ("SK" "Company") is a leading Non-Banking Finance Company (NBFC) headquartered in Jaipur, India. Established in the year 1994, SK has a consistent track record of 25+ years in the business as a leading financial provider offering accessible, customizable & technology enabled financial assistance to the underserved 'RURBAN customers' which includes first-time borrowers, entrepreneurs, and those with limited banking history. SK's product offerings primarily revolve around providing asset-backed financing for income generating activities and include loans for commercial vehicles, agriculture equipment, four-wheelers, two-wheelers and Micro Small and Medium Enterprises (MSME).

With a view to becoming a differentiated NBFC and promoting cleaner technologies, SK aims to diversify its portfolio to include specialised loan products for Compressed Natural Gas (CNG) and electric vehicles (EVs). The foray into these products also allows the Company to align its business operations to the United Nations Sustainable Development Goals (SDGs) thereby amplifying SK's effort to facilitate sustainable socioeconomic development.

1.2 Background to E&S Policy

SK recognizes that activities of their borrowers have potential to cause both, adverse and beneficial environmental and social (E&S) impacts. These adverse impacts could arise due to noncompliance to E&S legal requirements and resultant environmental and health damage. Poor labour management practices, and other risks related to hazards in workplace may lead to damage and loss of assets. These adverse impacts, if left unaddressed, could translate to credit risks and/or reputation risks for SK. SK therefore recognizes the need to address these E&S risks and impacts at an early stage, in a structured manner and take appropriate measures at various stages of its business operations on a pro-active basis.

SK also believes that such engagements with the borrowers can result into value creation for the Company in terms of improved portfolio performance, and increased loyalty amongst customers leading to brand differentiation.

Recognizing this need, SK has developed an E&S Policy that states its commitment to integrating E&S considerations in its business operations. This E&S Policy has been developed in alignment with the national E&S laws and regulations and relevant international E&S safeguards to identify, assess, manage, and monitor the E&S risks and in addition explore opportunities for value add in the transactions.

1.3 Reference Frameworks

The E&S Policy has been developed with reference to the following frameworks:

a) Applicable Indian E&S laws and regulations

b) International Finance Corporation's E&S Performance Standards, 2012

c) The World Bank Group General and Sector (as relevant) specific Environmental, Health and Safety (EHS) Guidelines

d) ILO Conventions

e) The Client Protection Certification Standards of the Smart Campaign (May 2016)

f) The United Nations Sustainable Development Goals

The E&S Policy of SK is responsive to all the reference works cited above as appropriate to its business.

2 Environmental and Social Policy & Principle

2.1 E&S Operational Principles

The E&S Policy of SK is supported by the following Operational Principles. These Operational Principles will apply to all transactions of SK. Refer **Figure 1**.

Figure 1: E&S Operational Principles

a. Excluded Activities

- SK does not extend loans to any activity that features in the E&S Exclusion List presented in **Annex 1**. These excluded activities have been drawn from the reference frameworks cited in **section 1.3**.

b. Promoting Compliance to E&S safeguards

SK shall make aware and influence its borrowers to comply with:

- All relevant Indian E&S (including labour, health, and safety) policy and legislative requirements
- International E&S standards, safeguards, and good practices relevant to SK's business
- International Labour Organization's core labour standards and basic terms and conditions of employment

c. Ensuring Continual Improvement in E&S Performance

- SK has established, implements, and maintains systems to manage E&S risks and opportunities and has developed procedures for periodic monitoring and reporting of E&S performance. All major updates in national environmental and social governance will be reflected as appropriate in such systems and loan agreements.

d. Encouraging Good Working Conditions

Influence borrowers to comply with applicable labour regulations and establish procedures to:

- Provide safe and healthy workplaces and mitigating adverse health impacts related to the work.
- Prevent sexual harassment in all forms especially of women and establish policy and procedures for the same.
- Treat all workers fairly in terms of recruitment, remuneration and progression irrespective of gender, race, colour, language, disability, political opinion, age, religion, or national/social origin
- Prevent employment of forced or child labour.
- Provide training, communication, and tools to workers, as appropriate, to ensure good working conditions.

Note: Workers includes workers directly engaged as well as contracted workers engaged through third parties

e. Preventing Pollution & Improving Resources Efficiency

Encourage borrowers to:

- Adopt appropriate controls (where relevant), including processes and procedures to manage pollution generated in the form of air emissions; wastewater generation; and solid waste generation through treatment, destruction, or disposal in an environmentally sound manner.

- Reduce material and energy inputs, avoid use of hazardous materials, improve process efficiencies and safety, and minimizing waste generation.
- Identify opportunities to reuse, recycle and recover resources from the wastes/emissions generated to reduce risks and impacts

f. Stakeholder Engagement

- Engage with relevant stakeholders at appropriate stages of business operations with due consideration to the disadvantaged and the vulnerable stakeholders
- Communicate the E&S Policy and underlying procedures (as relevant) to all stakeholders through the company website and other appropriate mechanisms.
- Provide fair, transparent, and timely redress of grievance (internal and external) reported in written or verbal format by all stakeholders.
- Establish borrower feedback mechanisms and utilize feedback mechanisms for service improvement.

g. Ensuring Borrower Protection:

In order to ensure protection of borrower, SK will:

- Design financial products that are affordable, flexible, and customized for borrower interests, excluding waiver of borrower rights under host country law.
- Communicate necessary information about the product clearly, timely and in vernacular language that is understood by the borrower.
- Prevent over-indebtedness by performing adequate due diligence on the borrower's repayment capacity and designing appropriate loan repayment schedules and using collaterals and guarantees judiciously.
- Price the product affordable to borrowers while allowing the financial institution to be sustainable.
- Treat borrowers fairly and respectfully, free of discrimination through code of ethics for staff, incentivizing good client relations and responsible use of agents.
- Respect individual client data in accordance with host country law and regulations and implementing appropriate mechanisms to maintain client confidentiality on personal data. By ensuring the borrower protection, SK will ensure that mechanism for complaint resolution, transparency, fair and respectful treatment of clients are achieved and reflected so in the stakeholder engagement.

3 Approval, Communication, Implementation & Update of E&S Policy

3.1 Approval of E&S Policy

The E&S Policy and Principles are formally adopted by SK's Board of Directors and will be applicable to all loans extended by the Company from the date of approval.

3.2 Communication of E&S Policy

The E&S Policy and Principles will be communicated to all employees through suitable training programs and also communicated to other external stakeholders, such as partners, investors, borrowers, as relevant. The E&S Policy and Principles will also be disclosed through SK's website.

3.3 Implementation

This E&S Policy is implemented through the Company's Environmental & Social Management System (ESMS) to achieve the policy objectives. The ESMS is to be formally adopted by the top management and will be implemented in all loan transactions of the Company from the date of approval.

Under the ESMS, procedures and templates for E&S risk identification; management and monitoring are developed and integrated with the business processes across the loan cycle. The institutional structure defining roles and responsibilities of various departments of the organization towards implementation has been prepared and a senior staff member has been nominated as responsible for E&S matter and to coordinate ESMS implementation. Accordingly, training is imparted to ensure that adequate institutional capacity is created for implementation of the ESMS.

3.4 Policy Severable

This policy read with RBI Master Direction constitutes the entire document in relation to its subject matter. In the event that any term, condition or provision of this policy being held to be a violation of any applicable law, statute or regulation, the same shall be severable from the rest of this policy and shall be of no force and effect, and this policy shall remain in full force and effect as if such term, condition or provision had not originally been contained in this Policy.

3.5 Amendment

Any change in the policy shall be approved by the Board of Directors of the Company. Any amendment in the regulatory guidelines shall prevail and necessary amendment shall be carried out at a subsequent date in the policy. The Board of Directors of the Company shall have the right to withdraw and / or amend any part of this policy or the entire policy, at any time, as it deems fit, or from time to time, subject to applicable law in force.

Annex 1: SK Finance Limited's E&S Exclusion List

SK Finance Limited shall not finance the items listed below:

1. Production or trade in any product or activity deemed illegal under Indian laws or international conventions and agreements to which India is a signatory, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife, or products regulated under CITES.
2. Production or trade in weapons and munitions.[1]

[1] This does not apply to borrowers who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a borrower's primary operations.

3. Production or trade in alcoholic beverages (excluding beer and wine).[1]
4. Production or trade in tobacco.[1]
5. Gambling, casinos, and equivalent enterprises.
6. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where the IM considers the radioactive source to be trivial and/or adequately shielded.
7. Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
8. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
9. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
10. Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
11. Activities that involve unmitigated economic displacement, or any involuntary physical displacement of people.
12. Production or activities involving harmful or exploitative forms of forced labour[1] /harmful child labour[2].
13. Commercial logging operations for use in primary tropical moist forest.
14. Production or trade in wood or other forestry products other than from sustainably managed forests.
15. Extraction, production, and/or processing of coal or fossil fuels, or any related activity.
16. Construction, operation and maintenance of coal-fired or fossil fuel-fired power-plants.
17. Any Category A Project as described below:

Category A	As per IFC Performance Standards
Category description	Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented

[1] Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

[2] Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development

Illustration of Category A businesses	− Business activities that have a negative impact on critical habitats such as National Parks and Wildlife Sanctuaries − Business activities involving involuntary physical resettlement or unmanaged economic displacement − Business activities that might have impacts on indigenous people or that are located in areas historically claimed by indigenous peoples − Business activities with continuous and multiple sources of pollution, which if left unmanaged can severely impact the environment.