



**FINCARE**

Banking on More

# **Fincare Small Finance Bank**

**Policy on**

**Environmental, Social and Governance**

**(Version- 1.0, Public Disclosure)**

---

## ***Contents***

I. BACKGROUND.....	3
II. PURPOSE OF THE DOCUMENT.....	3
III. ESG POLICY STATEMENT.....	4
IV. APPLICABLE ESG STANDARDS .....	5
V. POLICY OWNERSHIP AND APPLICABILITY .....	5
VI. ENVIRONMENT, SOCIAL AND GOVERNANCE MANAGEMENT SYSTEM .....	5
VII. ESG RISK AND IMPACT IN OWN OPERATIONS .....	7
VIII. ESG RISK AND IMPACT IN LENDING OPERATIONS.....	8
IX. ESGMS GOVERNANCE STRUCTURE, ROLES AND RESPONSIBILITIES .....	9
X. PERIODIC MONITORING AND REPORTING OF ESG PERFORMANCE .....	10
XI. EXTERNAL COMMUNICATION AND GRIEVANCE MECHANISM .....	11

## **I. BACKGROUND**

Fincare Small Finance Bank (“Fincare SFB or “The Bank”) commenced operation in July 2017, with a vision to be first of its kind “Rurban” Bank, and to enable the financial inclusion of the unbanked and underbanked base of the pyramid, mass retail, and micro and small enterprise segments. Since then, the Bank has grown steadily in scale and scope, offering a more comprehensive suite of financial products and services for customers in rural and semi-urban markets on one side and those in metro and urban markets on the other. Serving the banking needs across such diverse segments, today, the Bank caters to over 25 Lakh customers in 19 states/UT of India and is expanding.

Traditionally, a significant portion of the Indian population still lacks access to credit from the formal sector and consequently borrows from informal channels like moneylenders or relatives, indicating the vast scope for microlending in achieving financial inclusion and overall economic growth. Similarly, small business operators in India have faced challenges in procuring finance, due to their size, capacity, and limited ability to cater to collateral requirements. Despite these constraints, the sector contributes a major share in India’s GDP, while generating employment for millions of people.

Fincare SFB recognizes the potential of this sector. By providing access to capital for the base of the pyramid, small business operators, and individuals with limited access to finance, Fincare SFB drives a huge impetus to the unorganized and small industry sectors, driving businesses, creating jobs and transforming the lives of millions of beneficiaries. As consumer demand has evolved, there has been a transition towards customer-centric products bolstered by robust customer profiling based on lifestyle, personality, occupation, and behaviors, which are indicators for higher adoption of such products. This development has been attained through technology enablement, which has reduced overall turnaround times, the operational cost for lenders, and credit access cost for the borrowers.

At the same time, Fincare SFB acknowledges that environmental, social, and ethical governance (ESG) is a prime driver for the creation of long-term value for all stakeholders. Therefore, the company is focused on minimizing the ESG impacts arising out of its own operations whilst simultaneously offering products and services in a responsible manner.

To this extent, Fincare SFB has developed an ESG Policy to articulate its commitment towards Environment. Social and ethical governance practices to serve as a guide for their implementation.

## **II. PURPOSE OF THE DOCUMENT**

The primary objective of this ESG policy is to drive the Fincare SFB’s ESG strategy and integrate it with the core business strategy. This ESG Policy also serves as a medium to define and convey Fincare SFB’s ESG commitments, position statements and to act as an engagement mechanism with different stakeholders.

The Bank has also adopted an Environmental and Social Management System (ESGMS) to guide the implementation of principles and commitments described in this policy. The E&S policy and corresponding ESGMS is primarily developed to cater to the requirements of IFC Performance Standards.

### III. ESG POLICY STATEMENT

Fincare SFB is supported by a diverse, multi-state workforce across India, serving a fairly large customer base and growing. The Bank is conscious of its responsibilities towards customers, employees as well as all other stakeholders.

In order to demonstrate the approach and commitment to ESG principles, Fincare SFB commits to:

- Comply with all relevant and applicable ESG statutory rules and regulations
- Drive efforts to reduce the direct and indirect impact of our operations on the environment as well as indirect impact on banking clients and customers
- Maintain a high level of social and ethical conduct within own operations and communicate our ethical standards to the customers, third parties, investors and general public
- Demonstrate accountability to ESG related concerns of all stakeholders
- Measure and monitor ESG performance in the same spirit as financial performance and periodically communicate performance with staff, customers and other key stakeholders
- Embrace key international ESG standards and guidelines, relevant to our business and jurisdiction, and strive to adopt best practices
- Allocate resources towards training workforce on ESG policy and commitments. Instill an organization wide culture aligned to our ESG policy
- Regularly review ESG and associated policies considering new and emerging risks as well as stakeholder concerns

***Principles for environmental sustainability:***

- Strive to reduce consumption of energy, paper and water as part of the approach towards natural resource conservation
- Minimize the waste footprint of own operations, by recycling and reusing materials where practicable
- Strive to mitigate environmental risks and impacts associated with the lending operations

***Principles for social sustainability and occupational health and safety:***

- Promote and encourage, safe and healthy working culture by engaging our workforce, customers and other stakeholders in a periodic manner
- Respect human rights of all staff(permanent hires as well as those hired through third parties), offer equal employment opportunity to all staff and to not tolerate discrimination or harassment in any form.
- Avoid human rights violations through business relationships with clients and through direct business relationships with vendors.
- Establish and maintain effective grievance channels for all stakeholders (including own and third-party staff)
- Prevent child labor and forced labor in any form, within in own operations
- Strive to identify and mitigate the risks related to child Labor / forced labor within lending portfolio, through putting in place adequate risk assessment procedures and raising awareness among customer and vendors about child Labor / forced labor
- Avoid lending to sectors which are known to involve child labor / forced labor
- Strive to mitigate social and severe health and safety risks and impacts associated with lending operations

- Promote equality of opportunity and women’s socio-economic empowerment within own operations and within lending operations, particularly with respect to access to finance and services.

***Principles for good governance:***

- Develop and implement a robust and effective corporate governance framework, adhering to applicable national regulatory requirements, and in line with leading global guidance on good corporate governance
- Establish robust internal controls, compliance with policies and practices
- Ensure transparency and objectivity in dealing with our stakeholders

## **IV. APPLICABLE ESG STANDARDS**

Fincare SFB is committed to responsible business. While it is our duty to be compliant with the applicable National regulations, we are also aligned with the following international ESG standards and guidelines:

- IFC Performance Standards, 2012 and IFC’s Exclusion List
- IFC’s Corporate Governance Development Framework, 2017
- The ILO Fundamental Conventions
- CDC Excluded Activities (list)
- UN Sustainable Development Goals (SDGs)
- Smart Campaign Client Protection Principles
- National Guidelines on Responsible Business Conduct (NGRBC)

Fincare SFB recognizes that there can be certain specific ESG conditions that may be requested by its investors, the Bank shall remain committed to assessing the feasibility of its integration into ESG policy and ESG MS framework from time to time.

## **V. POLICY OWNERSHIP AND APPLICABILITY**

This policy is approved by the Bank’s Board of Directors and applies to the Bank and all its subsidiaries, branches, representatives’ offices and legal entities that are under its control.

This policy applies to and is communicated to all staff (both permanent and third-party) at all levels and all functions of the organisation. The Bank shall allocate the appropriate resources and conduct in-house training in order to ensure the effective implementation of the Sustainability policy and corresponding ESG.

The policy shall be communicated to vendors and customers of the Bank. Disclosure of this policy shall be maintained on the Bank’s website for general viewing.

## **VI. ENVIRONMENT, SOCIAL AND GOVERNANCE MANAGEMENT SYSTEM**

The purpose behind developing and implementing an ESG MS is to ensure that Environmental, Social, and Governance aspects can be integrated as a core component of the overall business strategy of the Bank. The Bank recognizes the importance of social and environmental risk and impacts management and is committed to addressing all short, medium, and long-term E&S risks and impacts associated with its activities, through sound management practices. The E&S

risks and impacts arising due to own operations and due to lending operations can be mitigated adhering to the guidelines prescribed within the ESGMS.

The ESGMS is a set of the dynamic and continuous process initiated and supported by the Bank’s management and involves engagement between all onsite and offsite (ground team) staff, contractual staff, and its customers. The core components of ESGMS for Fincare SFB are illustrated and described in brief, as in the figure below. They are described in detail in the ESGMS manual.

This ESGMS is primarily developed to meet the requirements of IFC Performance Standard 1 (PS1) and is intended to cover several topics across other applicable performance standards also, including the practice of management of natural resources, fair and respectful treatment of human resources, ensuring a healthy workplace and embracing ethical lending practices.

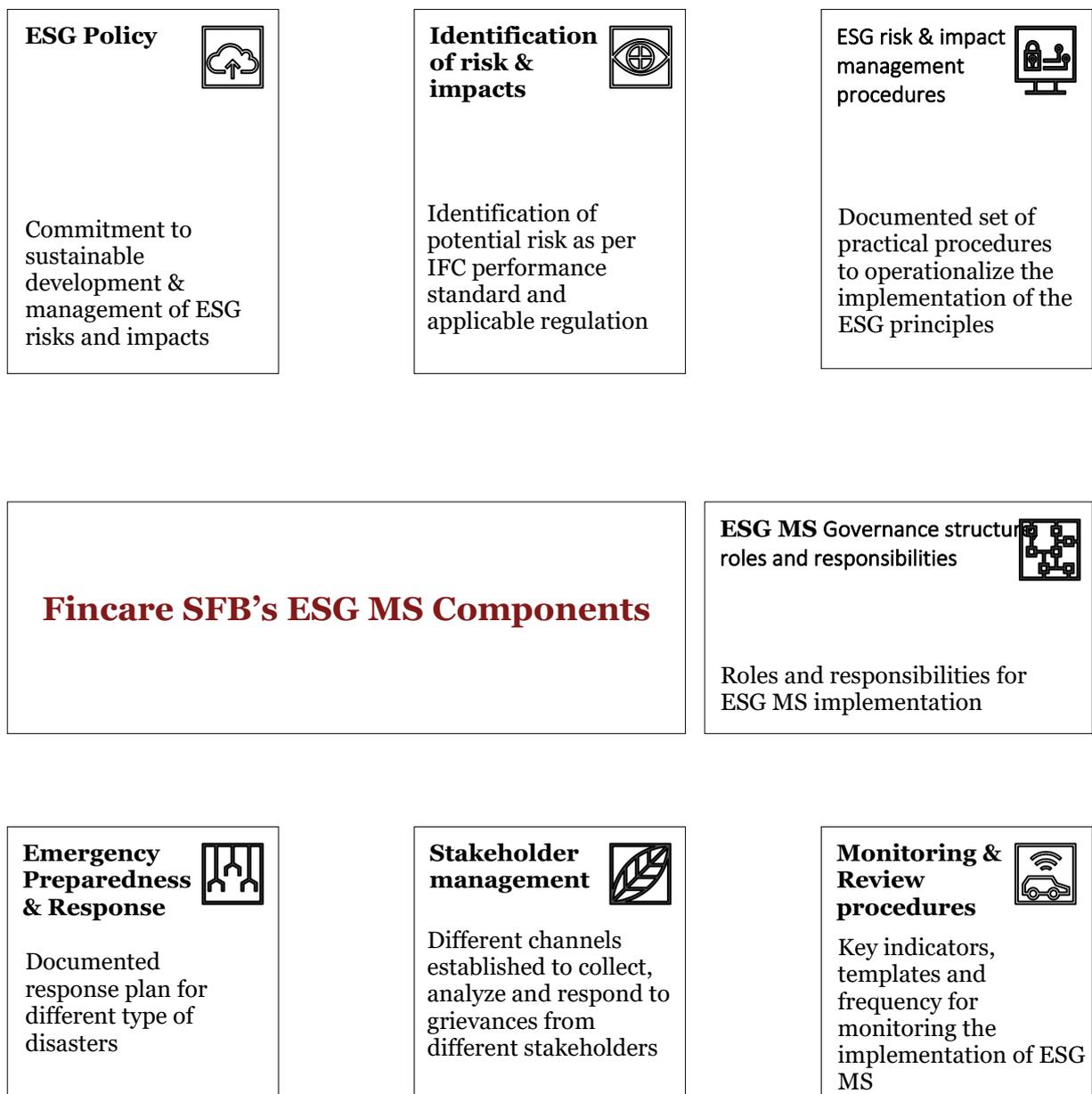


Figure 1: Core Components of ESG MS - Fincare SFB

## VII. ESG RISK AND IMPACT IN OWN OPERATIONS

The Bank aims to balance its business and ESG sustainability performance through interventions on the following core environmental, social, and governance risk areas. Detailed management guidelines are provided in the ESGMS document.

### **a) Ensuring Regulatory Compliance**

- Adherence to all relevant E&S laws and regulations applicable to business operation is a must requirement
- Compliance with applicable waste management regulations (such as those corresponding to e-waste, battery and hazardous waste management), multiple HR-related regulations and their corresponding legal submissions

### **b) Waste Management**

- Application of universal principles of waste management (Reduction, Reuse, Recovery, and appropriate disposal), to ensure that waste is dealt with in a way to create the least impact
- Handling and disposal of E-waste, battery waste hazardous waste and paper waste

### **c) Conservation of Natural Resources (energy, fuel, and water)**

- Avoid or minimize adverse impacts on the natural environment by promoting sustainable use of resources such as energy and water
- Minimize the impacts generated from the operations, following measures shall be implemented by the organization:
  - Record and monitor the energy and fuel consumption on a monthly basis across all locations
  - Annual review of records to analyze year on year consumption and utilization
  - Define reduction target related to energy and fuel conservation
  - Raise awareness about the environmental responsibilities among the staff and contractors on the guidelines

### **d) Occupational Health & Safety Management**

- Provide all workers with a safe and healthy place to work and work practices that do not compromise the health or safety of others, including contractors, vendors, or visitors.
- Undertake reasonably practicable steps to ensure:
  - Maintain Compliance with health and safety laws and regulations and provide safe and healthy working environment and equipment.
  - Identify and reduce the health and safety issues at our work locations to an acceptable level
- Adopt measures such as attending to first aid needs of our staff, implementing emergency response and preparedness procedures across the Bank and monitoring and recording of accidents/ incidents through the implementation of accident-incident protocols

***e) Managing employee relationship and ethical working conditions***

- The Bank recognizes that its people are the driving force for growth and success.
- The Human Resources (HR) policies of the Bank are developed in line with the principles of equal opportunity, fairness, and ethics.
- The HR policies cover the entire employment cycle starting from recruitment procedures, to working condition, leaves, benefits, and termination, are communicated regularly and always accessible to all staff through the HR portal.
- There are other guiding policies on aspects such as non-discrimination and equal opportunity
- The Bank is proactive in ensuring that grievances are heard and resolved at the earliest. In this regard, the “Staff Grievance Policy” is implemented.
- Additionally, the Bank has developed and implemented a PoSH Policy for Prevention, Prohibition, and Redressal of Sexual Harassment at the Workplace. There is an active Internal Complaints Committee to handle such grievances.
- The HR department is overall responsible for communication, training, and implementing the HR policies and ensuring the statutory labor compliances applicable to the Bank.

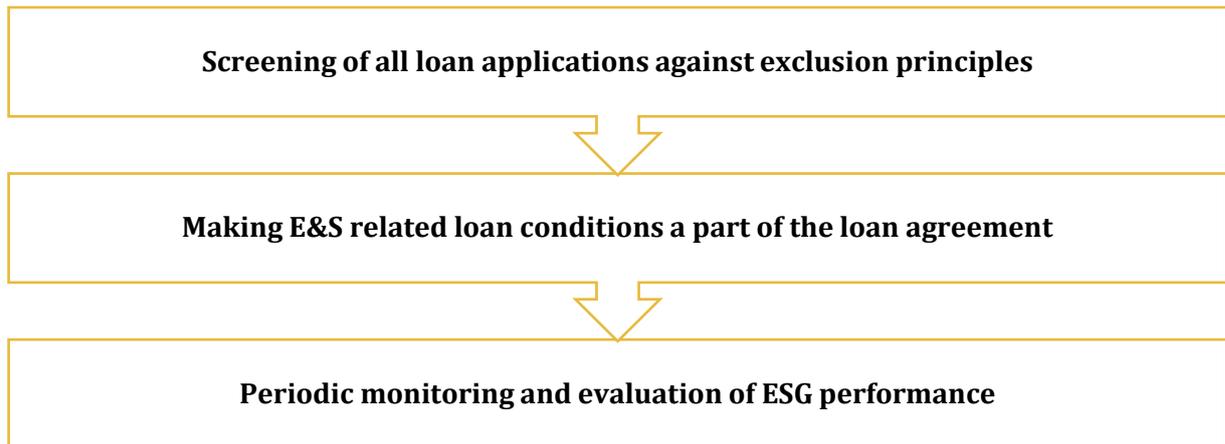
***f) Extending key HR policies and grievance mechanism to Third-party staff***

- The Bank does not discriminate between its own staff and those on Third-party payroll
- The bank shall maintain equal access and provision of workplace facilities and encourages the use of the grievance mechanisms equally for own as well as third party staff.
- The Bank shall ensure that third party staff is treated equally and with respect, just as its own staff.
- In this regard, the following steps shall be undertaken:
  - As part of the vendor agreement, the Bank shall seek conformance from the contractors to the applicable statutory labour compliances.
  - The Bank shall ensure that the employment relationship and terms of employment (nature of work, leaves, remuneration, social benefits, etc.) are clearly outlined in the contractual agreement with third parties

## **VIII. ESG RISK AND IMPACT IN LENDING OPERATIONS**

The Bank is committed to reducing its ESG risk and the impact to the extent possible by implementing a robust risk management process for lending operations. One of the key aspects of the approach for ESG risk and impact management is adherence to exclusion principles, called as Exclusion List. This list is based on IFC and CDC Exclusion List principles and no activities falling as part of this list shall be financed by the Bank. The Bank shall ensure that the steps which are necessary for identification and mitigation of such risk are integrated into core business operations.

The approach for E&S risk management within lending operations includes the following core steps:

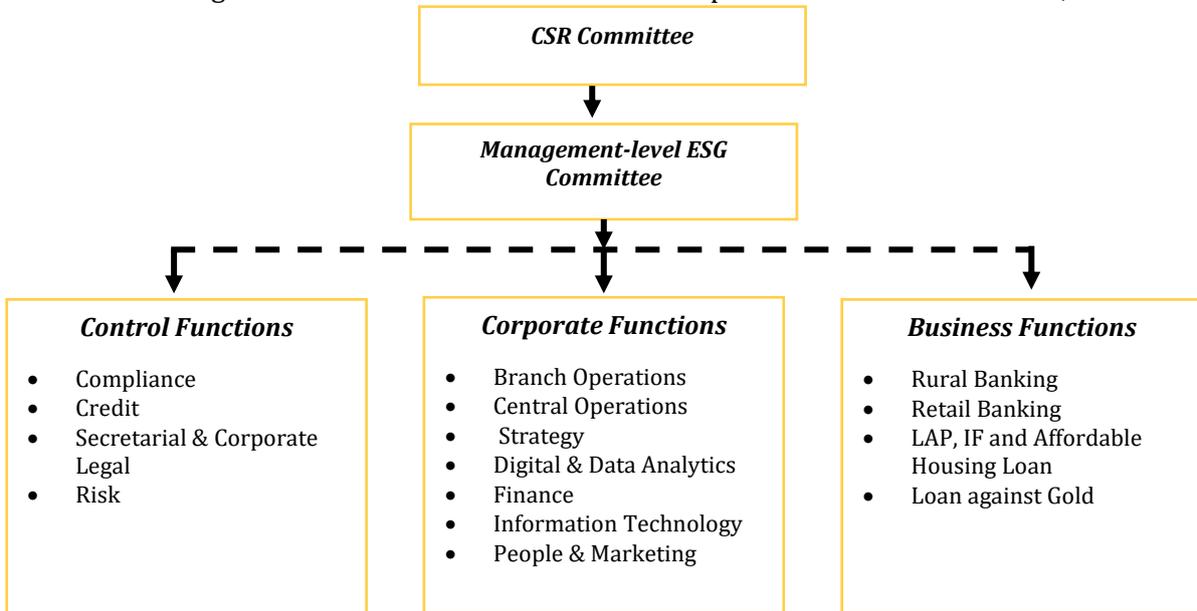


*Figure 2: Approach for ESG risk management in lending operations*

## **IX. ESGMS GOVERNANCE STRUCTURE, ROLES AND RESPONSIBILITIES**

1. The Bank shall develop an effective governance structure with a clear set of roles and responsibilities in order to implement the ESG MS principles.
2. This is in line with IFC PS requirements and general best practice for implementing an ESG MS.
3. The governance structure and corresponding roles and responsibilities are described in detail within the ESGMS document.
4. The approach for developing an ESG governance structure is based on a holistic approach to sustainability, with a joined-up structure that operates across the Bank. Integration is thus required across business teams dealing with different customer segments, geographies, business functions, product, and revenue models. The ESG MS governance structure and corresponding roles and responsibilities are developed in a way to gradually develop a cross-functional team of people trained and calibrated on ESG aspects.
5. The ESG MS governance structure for the Bank represents all the relevant internal business and operations areas, led by a member of the Leadership Team. The performance related to various ESG aspects is reviewed at the Leadership.
6. The following ESG governance structure is adopted for ESG management as part of core business functions:

The Bank understands the importance of a clear and robust ESG governance structure, which is an essential component for long-term success. In this regard, the Bank shall establish a dedicated Management ESG Committee which shall report to the CSR Committee, to drive



communication and oversee the implementation of the ESG policy and commitments.

The day to day implementation of the ESG Management System shall be a company-wide activity involving coordination of the Management ESG Committee with all the Credit, Corporate, and Business Functions shown in the diagram above.

## **X. PERIODIC MONITORING AND REPORTING OF ESG PERFORMANCE**

The Bank shall adopt a robust set of procedures to ensure that the business activities are in line with ESG MS requirements, and there is a process of undertaking continual assessment and improvement to the ESG MS procedures.

The ESG Leader shall evaluate the adherence to ESG MS principles and procedures on quarterly and on an annual basis through an annual performance monitoring process.

These include:

- Quarterly monitoring procedures to track the progress made towards ESG MS integration in both Own Operations and Lending Operations
- Half-yearly reporting to the ESG management committee by the ESG Leader
- Annual review and monitoring procedures which includes annual performance assessment, implementation of upgrades to the ESG MS, including an update to the training programs

## XI. EXTERNAL COMMUNICATION AND GRIEVANCE MECHANISM

The Bank aspires to create long term value for its stakeholders through ESG integration.

The vision for value creation is described below:

	<p><b>Clients and customers</b></p>	<ul style="list-style-type: none"> <li>• We aim to deliver fair outcomes for clients by designing products and delivering services that meet their needs and are appropriate to their circumstances</li> <li>• We are transparent in communication and receptive to their grievances and strive to create satisfaction</li> <li>• We are committed to enhancing awareness about growing environmental and social concerns with our client base and contribute to sustainable development</li> </ul>
	<p><b>Government and regulators</b></p>	<ul style="list-style-type: none"> <li>• We are committed to complying with all ESG legislation, rules, and other regulatory requirements applicable to our businesses and operations in the jurisdictions within which we operate.</li> </ul>
	<p><b>Investors</b></p>	<ul style="list-style-type: none"> <li>• We shall deliver long term sustainable returns to our investors and create confidence in the vision and mission of the Bank</li> </ul>
	<p><b>Staff and Employees</b></p>	<ul style="list-style-type: none"> <li>• We aspire to create a safe, inclusive, non-discriminatory, and motivated workplace.</li> <li>• We aspire to leverage the diverse and unique potential of our entire workforce (permanent, contractual or third party) to add value to the Fincare ESG growth story</li> </ul>
	<p><b>Wider Community</b></p>	<ul style="list-style-type: none"> <li>• We aspire to contribute to our nation's sustainable economic growth and shall always seek platforms to engage and collaborate on ESG aspects for the benefit of the wider community</li> </ul>
	<p><b>Contributing to positive development aligned with UN SDG</b></p>	<ul style="list-style-type: none"> <li>• We strive to capture and enhance the positive development impacts through our Business operations</li> <li>• We strive to align our business strategy with UN SDG goal 8 – Decent Work and economic growth, more specifically 8.10 - Expand access to banking, insurance, and financial services for all.</li> </ul>

The above vision shall enable us to develop actional plans and programs to benefit all key stakeholder groups using ESG as a tool for value creation.

Internal and external stakeholders are a source of valuable feedback and information. Such information can be in the form of suggestions on financial product improvement, feedback on customer interaction with the Bank's staff, or a myriad of other opinions, comments, or contributions from regulators, non-governmental organizations, communities, or individuals regarding the environmental and social standards.

Fincare SFB, as a thought leader, has already established robust external communication and grievance procedures for addressing stakeholder concerns and inquiries. The same channels and platforms are proposed to be used to address environmental and social concerns as well.

By having clear procedures for the handling of ESG grievances or complaints, the Bank can deal with issues or concerns in a consistent and appropriate way, without the need for urgent damage control.

Principles for grievance management are:

- The Bank shall work in good faith and without prejudice to the interests of its ESG policy and its responsibility towards its stakeholders
- ESG-related information request, concerns or complaints raised by stakeholders shall always be dealt with courtesy and on time
- The Bank shall ensure that all stakeholders are fully informed of avenues to escalate their complaints/ grievances and their rights to alternative remedy if they are not fully satisfied with the response of the Bank
- The various grievance redress channels shall follow a transparent process that is gender-responsive, culturally appropriate, and readily accessible to all segments of the stakeholders at no costs and without retribution

For the management of staff grievances, the Bank has in place a Staff Grievance Policy, which provides an efficient and transparent grievance redressal process. This policy explains how staff can raise their complaints in an effective manner.

The Bank has developed separate email communication channels for its customers, about which the Bank sends regular communication. The loan customers are provided with a welcome call within 30 days of the start of the banking relationship, in order to inform them about the product and to collect feedback, if any. Other than this, the borrowers may contact any of the customer touchpoints for sales and service-related queries. The same channels shall be extended to cover ESG aspects.

These channels are described in the below table:

S. No	Type of Grievance	Email ID
1	Customer queries	www.fincarebank.com >> Support >> Grievances Form 1800 313 313
2	General queries	1800 313 313

External stakeholders (such as regulators, local community, NGOs, or any other stakeholder who is affected by the Bank’s business operations), may use the below-mentioned email IDs for raising concerns on ESG aspects.

S. No	Type of Grievance	Email ID
1	Investor queries	<a href="mailto:sfbcompsec@fincarebank.com">sfbcompsec@fincarebank.com</a>
2	Press queries	<a href="mailto:corporate.communication@fincarebank.com">corporate.communication@fincarebank.com</a>
3	General queries	<a href="mailto:customerservice@fincarebank.com">customerservice@fincarebank.com</a>

For the Bank the feedback/ query/complaints on ESG aspects received from various stakeholders is a valuable input for reviewing its products and services, and strengthening ESG MS procedures. In this regard, the Bank understands the importance of sensitizing staff to handle customer transactions/ requests with courtesy, empathy and promptness.

The record of all ESG queries/ concerns or complaints shall be maintained for a minimum period of three years from the date of their resolution. Backup copies of the software shall be made as per the latest data security procedures adopted by the Bank.

Policy Owner: CEO Office

Effective date: 10 July 2020

Revision history:

Sl. No.	Author	Date	Revision
1	Fincare Management	25 May 2020	

2

This document has been reviewed by

Version	Reviewer	Date reviewed
1	Pankaj Gulati	01 July 2020

2

This document has been approved by

Version	Name	Signature	Date reviewed
1	Management level ESG Committee		10 July 2020

2