

Environmental, Social and Governance (ESG) Policy

Version 3.0

Approved by:

Board of Directors of the Company

Date of Approval:

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Preamble

The system for integrating Environmental, Social, and Governance aspects into Aye Finance Limited's business operations is structured into two key components:

- *Part I: Environmental, Social and Governance (ESG) Policy*
- *Part II: Environmental, Social and Governance Management System (ESGMS)*

The ESG Policy document outlines Aye Finance Limited's commitments and guiding principles related to environmental, social, and governance issues. It reflects the Company's intention to operate in a manner that promotes sustainability, social responsibility, and ethical governance across its business. This document serves as a public statement of Aye Finance Limited's stance on ESG matters and can be shared with all their stakeholders.

The ESGMS, detailed in Part II in form of an ESGMS Manual, provides the framework for the implementation of the ESG Policy and Principles. The ESGMS Manual defines the procedures, processes, and responsibilities that Aye Finance Limited will follow to ensure that ESG considerations are embedded into every transaction and operational decision. The ESGMS manual will be regularly updated to reflect evolving best practices. It will guide the Company's day-to-day actions to align with its long-term ESG objectives. The ESGMS Manual is an operational level document, which will remain internal to the Company.

Abbreviations

AYE	Aye Finance Limited (<i>formerly known as Aye Finance Private Limited</i>)
BII	British International Investment
EHS	Environmental Health and Safety
ESG	Environmental, Social & Governance
ESGMS	Environmental, Social and Governance Management System
GIIP	Good International Industry Practices
HL	Hypothecation Loan
ILO	International Labour Organization
IPO	Initial Public Offering
ML	Mortgage Loan
MSE	Micro and Small Enterprises
OECD	Organisation for Economic Co-operation and Development
QML	Quasi-Mortgage Loan
UNSDGs	United Nations Sustainable Development Goals
WB	World Bank

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1. Introduction

1.1. About Aye Finance Limited

Aye Finance Limited (hereafter referred to as “AYE” or “the Company”) is a non-deposit-taking Non-Banking Financial Company (NBFC) established in 2006, with a primary focus on supporting micro and small enterprises (MSEs) in India. Headquartered in Gurugram, Haryana, as of July 31, 2024, AYE has successfully provided loans to over 935,000+ businesses across India. The Company operates through a vast network of 478+ branches established across 21 states and union territories. The Company employed over 7240+ permanent employees across its branches, regional office, and head office.

The primary objective of AYE is to offer innovative and customer-focused financial services to micro and small businesses through a knowledgeable team, effective technology, and strong processes to support their growth in modern India. AYE utilizes a cluster-based lending strategy focused on manufacturing and service clusters in rural and semi-urban areas of India. By assessing the unique characteristics of each cluster, the Company establishes tailored underwriting guidelines and investment criteria. AYE offers the following products:

1. Hypothecation Loan (HL) - Unsecured
2. Quasi-Mortgage Loan (QML) - Secured
3. Mortgage Loan (ML) – Secured

AYE recognizes that the micro-enterprises within this sector face the greatest challenges in accessing formal credit. The Company understands that India’s growth depends on the advancement of this segment. AYE provides capital and is a dedicated partner, encouraging financial literacy and aiding sustainable growth.

Aye Finance's sourcing process includes both the "Feet on the Street" model and the digital sourcing model.

1.2. Statement of Purpose

Many Micro and Small Enterprises (MSEs) in India operate within unorganized sectors, often without access to formal credit. While MSEs tend to focus on their business operations and continuity, Environmental, Social, and Governance (ESG) considerations may not always take precedence. AYE acknowledges that the activities of its customers, including MSEs, as well as those of its employees, partners, and vendors, can generate both positive and negative ESG impacts.

In response, AYE offers financial solutions that not only promote business growth but also proactively address and manage ESG risks. This approach enhances AYE’s long-term credibility, strengthens customer loyalty, and optimizes overall portfolio performance. AYE also recognizes the importance of adherence to ESG policies aligned with AYE's values by all other associated parties. Rooted in the principle of sustainable development, the policy also incorporates ESG considerations into AYE's own operations, as well as those of the individuals and institutions it engages with.

AYE’s ESG Policy is built upon its core values of innovation, trustworthiness, being the best, customer-commitment and social good with the goal of making a meaningful and lasting contribution to the

communities it serves. The policy is fully aligned with national and local regulations, as well as relevant Good International Industry Practices (GIIP), ensuring a robust commitment to ESG standards across all activities.

This policy is designed to systematically identify, assess, manage, and monitor the ESG risks and opportunities inherent in AYE's operations. Through this ESG Policy, along with its Fair Practices Code, AYE reaffirms its commitment to responsible business conduct by integrating ESG considerations into all aspects of its operations.

1.3. Scope of ESG Policy

AYE is committed to driving positive societal transformation through its business operations, while actively conserving natural resources, protecting the environment, and contributing to the welfare of the broader community.

AYE's ESG Policy applies to all its financial products and services, with a specific focus on the potential ESG impacts associated with its operations and those of its stakeholders. This policy encompasses all activities, employees, customers, partners, vendors, stakeholders, and any other parties affiliated with AYE.

Each financial product and service will be classified according to its size and type. Based on this classification, the corresponding procedures outlined in the ESGMS Manual will be applied through the applicability matrix provided. In alignment with this framework, AYE will implement the appropriate measures for each transaction, as specified in the ESGMS Manual.

1.4. Reference Framework

AYE remains committed to operating its business and benchmarking its future expansion to the following frameworks:

- Applicable national and local environmental and social (including Occupational, Health, and Safety) related laws and regulations
- Good International Industry Practice (GIIP) requirements as applicable:
 - International Finance Corporation's Performance Standards, 2012
 - The World Bank (WB) Environmental Health and Safety (EHS) Guidelines: The General EHS Guidelines, April 2007 and sector-specific EHS Guidelines to the extent applicable.
 - United Nations Guiding Principles on Business and Human Rights, 2011
 - The United Nations Sustainable Development Goals (UN SDGs), 2015
 - BII's Policy of Responsible Investing, 2022 and associated policies including BII's Fossil Fuel Policy, 2020
 - BII Good Practice Note on Managing Risks Associated with Modern Slavery and on GBVH
 - Cerise+SPTF Client Protection Principles (relevant clauses for sector)
 - Data Protection Related Frameworks
 - Relevant ILO conventions
 - OECD Guidelines for Multinational Enterprises
 - UN-backed Principles for Responsible Investment

Based on the considerations of the aforementioned frameworks, AYE has developed its ESG Policy in alignment with these guidelines. The ESG Policy will incorporate an Exclusion List, as outlined in **Annex 1**, which is consistent with the reference frameworks mentioned above.

For all products and services provided by AYE, the ESGMS will be implemented in accordance with Indian regulations. However, in cases where international safeguards, as outlined in section 1.4 of this document, are applicable, and there is a variance between Indian regulations and international ESG standards, the more stringent requirement will be adhered to.

The Environmental and Social (E&S) aspects relevant to AYE’s key focus areas, as covered in the listed reference frameworks, are illustrated in **Figure 1**.



Figure 1: Key aspects derived from the Reference Framework for AYE’s ESG Policy

These key aspects derived from the Reference Framework for AYE's ESG Policy also form the basis of AYE’s ESG operational principles as described in subsequent sections.

2. ESG Policy & Principles

2.1. ESG Policy Statement

Aye Finance’s Environmental, Social and Governance Policy

Aye Finance Limited (hereafter referred to as “AYE” or “the Company”) is established to provide innovative and customer-centric financial services to micro and small enterprises (MSEs) through a knowledgeable team, effective technology, and robust processes, facilitating their growth in the emerging landscape of new-age India.

AYE's Environmental, Social, and Governance (ESG) Policy exemplifies its commitment to sustainable development, social inclusion, and transparent business practices. The Company will systematically integrate ESG considerations into its operations and transactions, ensuring that these factors are embedded in its business and decision-making processes. This approach is designed to effectively manage ESG risks while promoting positive outcomes.

AYE through their transactions will thus:

- Comply with all relevant local and national ESG legal requirements and confirm with international safeguards.
- Refrain from extending services to activities on AYE’s Exclusion List or those prohibited by applicable national and international laws.
- Implement measures for responsible resource use, energy optimization, pollution reduction, and climate change mitigation.
- Embed relevant ESG considerations in decision-making processes across business operations and loan transactions to enhance positive impacts across business.
- Promote compliance with national environmental and social laws and encourage adoption of international best practices among customers.
- Foster a diverse workplace by upholding ethical employment practices, ensuring equal opportunities, promoting robust Occupational Health and Safety (OHS) standards, and respecting human rights.
- Uphold high ethical standards in all dealings, ensuring compliance with anti-corruption, anti-money laundering, and fraud prevention policies while prioritizing transparency and accountability in governance.
- Prioritize customer data security and confidentiality through strong cybersecurity measures and compliance with data protection regulations.

By adhering to these principles, AYE remains committed to improving credit access for underserved and unserved segments, while advancing sustainability, social inclusion, and responsible business practices.

[Signature]

Name and Designation:

Date:

2.2. ESG Operational Principles

The ESG Policy for AYE and the accompanying ESG Operational Principles have been created to align with the reference framework outlined in Section 1.4. This policy will govern AYE’s ESG performance through seven (7) core Operational Principles, which apply to all its transactions and business operations. A summary of these principles is presented in **Figure 1**.

The ESG Operational Principles of AYE are presented below:

Excluded Activities

- AYE will not provide loans for activities listed in the Exclusion List in **Annex 1**.

ESG Compliance

- AYE will adhere to all relevant Indian ESG policies and legislative requirements, including environmental management, labour welfare, occupational health and safety, and community health and safety and encourage its customers to comply with local and national E&S regulations.
- AYE will align with applicable international ESG standards, safeguards, and Good International Industry Practices.
- AYE will comply with the International Labour Organization's core labour standards and basic terms and conditions of employment.

Pollution Prevention and Resource Efficiency

- AYE will establish relevant controls, processes, and procedures to manage pollution from air emissions, wastewater, and solid waste due to its operations in an environmentally sound manner.
- AYE will encourage efficient resource usage across its operations and Identify opportunities for reusing, recycling, and recovering resources from waste and emissions, while aiming to reduce greenhouse gas emissions.

Human Resources Welfare and Safe Working Conditions

- AYE is committed to treating all workers¹ with respect and fairness in recruitment, remuneration, and career progression, regardless of gender, race, color, language, disability, political opinion, age, religion, or national/social origin. The Company will foster an inclusive and diverse workplace that promotes equal opportunities, fair treatment, and gender equality, while upholding ethical employment practices.
- AYE will implement policies and procedures to prevent sexual harassment and gender-based violence in all forms, particularly towards women, and will ensure appropriate training and communication are provided to promote good working conditions.
- AYE will take active measures to prevent the employment of forced or child labor, ensuring ethical labor practices throughout its operations.
- AYE will prioritize the health, safety, and well-being of its workers and communities by enforcing robust occupational health and safety standards and Human Resources Policies, creating a secure working environment, and minimizing the risk of accidents.

Stakeholder Engagement and Grievance Resolution

¹ Workers means workers directly engaged as well as contracted workers engaged through third parties.

- AYE will communicate the ESG Policy and relevant procedures to all its stakeholders through appropriate channels. The Company is committed to engaging in meaningful dialogue with stakeholders, particularly focusing on the needs of disadvantaged and vulnerable groups throughout business operations.
- AYE will ensure fair, transparent, and timely resolution of external grievances reported in both written and verbal formats by all its stakeholders.

Client Protection

- AYE will design financial products that are affordable, flexible, and aligned with customer interests, ensuring sustainable pricing while excluding any waiver of customer rights under Indian law.
- AYE will prevent over-indebtedness by conducting thorough due diligence on customers' repayment capacities and establishing appropriate loan repayment schedules. Clear communication of product information and terms will be provided to customers in an understandable manner.
- AYE will implement a customer feedback mechanism to analyze inputs and enhance service delivery, while treating customers fairly and respectfully, in accordance with a code of ethics that promotes good client relations.
- AYE will respect customer data in compliance with Indian law, maintaining confidentiality and implementing mechanisms that provide value to clients in a responsible manner.

Corporate Governance and Business Integrity

- AYE will implement transparent and accountable governance practices, establishing comprehensive structures that meet applicable legal and regulatory requirements.

2.3. Supporting Policies

AYE has developed and implemented a range of policies to guide its operations, ensuring effective and responsible decision-making, oversight, and accountability. These policies demonstrate the organization's commitment to good corporate governance in all its business activities. Below is a list of these policies, presented in alphabetical order:

- Code of conduct for directors, key managerial personnels and senior management persons
- Code of Practices and Procedures for Fair Disclosure of Unpublished Price Sensitive Information
- Co-Lending Model Policy
- Corporate Social Responsibility Policy
- Equal Opportunity Policy
- ESG Policy
- Fair Practice Code
- Grievance Redressal Policy
- Interest Rate Policy
- KYC and AML Policy
- Moratorium Policy
- Nomination & Remuneration Policy
- Policy for Dealing Unclaimed Amounts on Listed Non-convertible Securities
- Policy for Determining Material Subsidiary
- Policy on Appointment of Statutory Auditors

- POSH policy
- Related Party Transaction Policy and Policy on Determining Materiality of Transactions
- Rescheduling Policy
- SwitchPe Privacy Policy
- Whistle Blower Policy

Many of these policies are available on AYE's website that describes practices to be followed by the Company. Please note that certain documents are classified as internal and confidential. Access to these documents will be granted on a case-by-case basis and may require the execution of a Non-Disclosure Agreement (NDA).

3. ESG Policy Implementation

3.1. Implementation Process

AYE's ESG Policy and Operational Principles will be implemented by adopting the following process:

- The Board of Directors (BoD) of the Company shall approve the ESG Policy, which includes the ESG Policy Statement and the Operational Principles, based on the recommendations of the MD & CEO. The BoD assumes overall accountability for adherence to the ESG Policy.
- To support the MD & CEO in their review and recommendations, an executive-level ESG Committee will be constituted with adequate authority and clearly defined responsibilities.
- The ESG Committee will oversee the implementation of the ESG Policy and will also be responsible for ensuring the operationalization of the ESGMS Manual developed to support the ESG Policy.

3.2. Implementation Arrangements

3.2.1. Approval

The ESG Policy AND Operational Principles of AYE will be reviewed by the ESG Committee and subsequently recommended by the MD & CEO for formal approval and adoption by the Board of Directors (BoD) of the Company. This ESG Policy will apply to all transactions of AYE as well as its internal operations, effective from the date of approval.

3.2.2. Communication

The ESG Policy and Operational Principles will be communicated to all employees through relevant training programs. It will also be shared with key stakeholders, including investors and customers, as appropriate. Additionally, the ESG Policy may be made publicly available by hosting it on AYE'S website.

3.2.3. Implementation

The ESG Policy will be supported by an Environmental, Social, and Governance Management System (ESGMS) Manual to achieve its objectives. Once formally adopted by top management, the ESGMS will be implemented across all Company operations and transactions from the date of approval.

The ESGMS Manual includes procedures and tools for identifying, managing, and monitoring E&S risks and opportunities. The ESGMS Manual also establishes the organizational structure to define the roles and responsibilities of various departments in its implementation.

The policies referenced in this document in section 2.3 Supporting Policies shall be implemented to support the ESGMS.

3.2.4. Training

Training will be provided to ensure that adequate institutional capacity is established for the effective implementation and monitoring of the ESG Policy and the supporting ESGMS Manual.

3.2.5. Review and Update

The ESG Policy will be reviewed and updated every three years or as needed to ensure its adequacy, effectiveness, and alignment with evolving ESG regulations that have significant implications for AYE's operations, investor requirements, or broader national regulations and commitments.

Should a need for revision in the ESG Policy arise in the future, the revised policy document must be approved by the Board of Directors (BoD) prior to implementation. If no changes are required, the existing policy will be reissued by the MD & CEO.

The ESGMS Manual will be reviewed and recommended for approval by the ESG Committee and subsequently approved by the MD & CEO. Ongoing reviews will be conducted by the ESG Committee, with changes made as necessary, and the ESGMS Manual will be reissued by the Committee. Additionally, the ESGMS Manual will be reviewed and updated every three years or as often as necessary, particularly following any updates to the ESG Policy to reflect the changes made.

3.2.6. ESGMS Performance Management

AYE is committed to evaluating the effectiveness of its ESG Policy and ESGMS Manual implementation to ensure continuous improvement. Internal ESGMS Implementation Audits will be conducted regularly to provide multiple levels of assurance regarding the seamless integration of the ESG Policy and Procedures throughout the company.

Annex 1: AYE's ESG Exclusion List & Prohibited Activities List

Aye Finance will not invest in any project, Company, or activity that involves the following:

1. Production of, or trade in, any product or activity deemed illegal under applicable local or national laws or regulations or subject to internationally agreed phase-outs or bans as defined in global conventions and agreements such as certain:
 - ozone depleting substances, PCB's (Polychlorinated Biphenyls) and other specific, hazardous pharmaceuticals, pesticides/herbicides, or chemicals;
 - wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES); or
 - Unsustainable fishing methods (e.g., blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km in length).
2. Production or trade in alcoholic beverages (excluding beer and wine).
3. Production or trade in tobacco².
4. Gambling, gaming, casinos, and equivalent enterprises.
5. Production of, or trade in, radioactive materials³.
6. Prostitution.
7. Pornography.
8. Production of, use of, or trade in, unbonded asbestos fibers.
9. Production or activities involving harmful or exploitative forms of forced labor⁴/harmful child labor⁵.
10. Commercial logging operations for use in primary tropical moist forest.
11. Production or trade in wood or other forestry products other than from sustainably managed forests.
12. 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.
13. Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations.
14. Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
15. Conversion or degradation of critical forest areas or forest-related critical natural habitats.
16. Leasing or financing of logging equipment, unless an environmental and social impact assessment indicates that:
 - All timber harvesting operations involved will be conducted in an environmentally sound manner which minimizes forest destruction; and
 - The timber harvesting operations will produce positive economic benefits and sustainable forest management systems.

² Except, in the case of tobacco production only, with an appropriate timeframe for phase-out.

³ This does not apply to the purchase of medical equipment, quality control (measurement) equipment, civilian power generation and any equipment in which the radioactive source could reasonably be considered to be trivial or adequately shielded.

⁴ Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.

⁵ Persons may only be employed if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

17. Construction of dams that significantly and irreversibly:
 - Disrupt natural ecosystems upstream or downstream of the dam;
 - Alter natural hydrology;
 - Inundate large land areas;
 - Impact biodiversity;
 - Displace large numbers of inhabitants (5,000 persons or more); or
 - Impact local inhabitants' ability to earn a livelihood.
18. 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 unless it can be demonstrated through an environmental assessment:
 - There is no degradation of the protected area, and
 - There are positive environmental and social benefits.
19. Production or trade in nuclear reactors and components thereof.
20. 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 through by-catch, destruction of habitats, or illegal fishing.
21. Projects or companies identified by the Government to be in violation of local applicable laws related to environment, health, safety, labor, and public disclosure.
22. Companies found by a court or administrative body of competent jurisdiction engaging in unlawful practices.
23. 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.
24. Racist and/or anti-democratic media.

However, the mentioned thresholds to our ESG policy in selected businesses are considered -

- Not more than 10% of turnover of the customer from production, storage or trade in alcoholic beverages
- Not more than 10% of turnover of the customer from production or trade in dangerous tobacco products
- Not more than 10% of turnover of the customer from 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.