

INTERNAL GUIDELINES ON CORPORATE GOVERNANCE

Version 5.0

Approved by:

Board on May 9, 2018

Latest Approved by:

Board on February 7, 2025

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INTRODUCTION

Aye Finance Limited (*Formerly known as Aye Finance Private Limited*) (“the Company”) non-banking financial company – middle layer (“NBFC-ML”) focused on providing loans to micro scale micro, small and medium enterprises (“MSMEs”) across India. It is the Company’s endeavor to excel through better Corporate Governance and fair and transparent practices.

Corporate Governance means the system of rules, practices and processes by which a company is administered and controlled. It involves balancing the interests of the various stakeholders of the company including shareholders, employees, customers and the community within which it operates.

GUIDELINES ON CORPORATE GOVERNANCE

The Company is a non-banking financial company – middle layer (“NBFC ML”) registered with Reserve Bank of India focused on providing loans to micro scale MSMEs across India for their working capital and business expansion needs. .

In compliance with RBI Scale Based Regulations, 2023, the Company has framed Internal Guidelines on Corporate Governance.

DEFINITIONS:

1. **“Applicable Laws”** means the Companies Act, 2013, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended (“SEBI Listing Regulations”) and RBI Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (“RBI Scale Based Regulations”) and the rules/regulations issued thereunder, as amended from time to time, dealing with the constitution, meeting frequency, roles, responsibilities and functions of the Board and various Committees of the Company constituted by the Board as well as the roles, responsibilities and functions entrusted to the Senior Management Personnel as per the Applicable Laws.
2. **“Board”** means Board of Directors of the Company.
3. **“Committee”** means the committee duly constituted by the Board, either as per Applicable Laws or otherwise, to:
 - a. performs the functions and responsibilities as per Applicable Laws,
 - b. perform the functions and responsibilities delegated by the Board for effective management and control of business operations of the Company from time to time,
 - c. to advise and/ or make recommendations to the Board or key stakeholders.
4. **“Key Managerial Personnel”** means-
 - (i) the Managing Director;
 - (ii) the Company Secretary and/or Compliance Officer;
 - (iii) the Chief Financial Officer;
 - (v) such other officer, not more than one level below the Directors who is in whole-time employment, designated as key managerial personnel by the Board; and
 - (vi) such other officer as may be prescribed from time to time;
5. **“Senior Management Personnel or SMP”** means such persons identified by the Nomination & Remuneration Committee and the Board of the Company from time to time.
6. **“RBI”** means Reserve Bank of India

GOVERNANCE STRUCTURE

A. BOARD OF DIRECTORS

The Board of Directors along with its various Committees shall provide leadership and strategic guidance to the Company's management. The Company's management shall act in accordance with the supervision, control and direction by the Board of Directors of the Company.

The Board has a vital role to play in the matters relating to policy formulation, implementation and strategic issues which are crucial for the long-term development of the Company.

Composition: The Board shall have an optimum combination of executive, non-executive and independent directors in line with Applicable Laws and Articles of Association of the Company, as amended from time to time.

B. COMMITTEES OF THE BOARD

To focus effectively on the issues and ensure expedient resolution of diverse matters, the Board shall constitute a set of Committees with specific terms of reference/scope.

The Committees shall operate as per the terms of reference approved by the Board from time to time. The minutes of the meetings of all Committees of the Board shall be placed before the Board for noting in subsequent meeting.

i. Audit Committee:

The Audit Committee shall consist of not less than two-third members as Independent Directors with Chairman also being an Independent Director. The Committee shall meet at least four times a year, with a maximum time gap of not more than one hundred and twenty days between any two meetings. The quorum for a meeting of the Audit Committee shall either be two members or one-third of the members of the Audit Committee, whichever is greater, with at least two independent directors present. The Committee may invite such other executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings. The Committee shall have the authority to investigate into any matter in relation to the items specified under the terms of reference or such other matter as may be referred to it by the Board and for this purpose shall have full access to information contained in the records of the Company and shall have power to seek information from any employee, obtain external professional advice, and secure attendance of outsiders with relevant expertise if necessary.

ii. Nomination and Remuneration Committee:

The Nomination and Remuneration Committee shall consist of at least three non-executive directors with not less than two-third being Independent Directors including the Chairperson. The Committee shall meet at least once in a year or meet at such shorter intervals as it may deem fit. The quorum for a meeting of the Nomination and Remuneration Committee shall either be two members or one-third of the members of the Nomination and Remuneration Committee, whichever is greater, with at least one independent director present. The Chairperson of the Nomination and Remuneration Committee may be present at Annual General Meeting of the Company to answer the shareholders' queries, however, it shall be up to the Chairperson to decide who shall answer the queries.

iii. Stakeholders Relationship Committee:

The Company shall constitute a Stakeholders Relationship Committee to look into various aspects of interest of shareholders, debenture holders and other security holders. The Committee shall consist of 3 members one of whom shall be Independent Director. The Committee shall meet at least once in a year. The quorum shall be at least two members.

iv. Risk Management Committee:

The Committee shall have a minimum of three members with majority of them being Independent Directors. The Chairperson of the Committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee. The Committee shall meet at least twice in a year, provided that the meetings of the Risk Management Committee shall be conducted in such a manner that on a continuous basis not more than two hundred and ten days shall elapse between any two consecutive meetings. The quorum for a meeting of the Risk Management Committee shall be either two members or one-third of the members of the Risk Management Committee, whichever is higher, with at least one member of the board of directors present. The Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

v. Asset Liability Management Committee (ALCO):

The ALCO shall consist of the Company's top management and the Committee shall be responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the Asset & Liability Management Policy of the Company. The Managing Director shall be Chairperson of the Committee. Committee meetings shall be held at least four times a year and the quorum for the meeting shall be minimum of three members of the Committee. The Chiefs of Investment, Credit, Resource Management or Planning, Funds Management/ Treasury (forex and domestic), Economic Research, if any in the Company may be appointed as members of the Committee.

vi. Corporate Social Responsibility Committee:

The Committee shall consist of minimum 3 (three) or more Director, out of which at least one director shall be an Independent Director. The Chairperson of the Committee shall be an Independent Director. Committee meetings shall be held as and when required and the quorum for the meeting shall be either two members or one third of the members of the Committee whichever is higher. The Committee shall formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the Company.

vii. IT Strategy Committee:

The Committee shall consist of minimum of three directors as members who should be technically competent. The Chairperson of the ITSC shall be an Independent Director and have substantial IT expertise in managing/ guiding information technology initiatives. The Committee shall meet at least on a quarterly basis. The quorum for the meeting shall be Chief Technology Officer (CTO) or his substitute appointee and any three of other committee members.

viii. Customer Service Committee:

The Committee shall consist of Managing Director, Deputy CEO, Chief Operating Officer, Chief Risk Officer, Head of Internal Audit & Vigilance and Head of Customer Service or such members as may be decided by the Board from time to time. However, it shall always include Managing Director of the Company. The Chairperson of the Committee shall be Managing Director of the Company. The Committee shall meet as and when required and the quorum shall be at least two members. Primary goal of the Committee is to establish the structure of the emoluments, facilities, and benefits granted to the Internal Ombudsman/Deputy Internal Ombudsman, while considering the position and stature of the internal Ombudsman/Deputy Internal Ombudsman and to oversee functioning of grievance redressal mechanism and effectiveness or resolving grievances fairly and expeditiously

ix. Product Approval Committee:

The Committee shall consist of Managing Director, Deputy CEO, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Chief Compliance Officer, Head of Product and Head of Credit or such members as may be decided by the Board from time to time. The Chairperson of the Committee shall be Managing Director of the Company. The PAC meeting may be convened as and when required by the Head of Product in consultation with the Chairperson of the Committee. The quorum shall be three members, and the presence of Managing Director and Head of Product is required at all times. The responsibility of this committee is to framework is to manage the risks that get introduced along with the introduction of new products / services of the Company.

x. Special Committee of the Board for Monitoring and Follow-up of cases of Frauds (“SCBMF”):

The Company being a Middle Layer NBFC has constituted a Committee of the Executives (CoE) with a minimum of three members, at least one of whom shall be a Managing Director of the Company for the purpose of performing the roles and responsibilities of SCBMF as required under the RBI Master Direction on Fraud Risk Management in Non-Banking Financial Companies (NBFCs) (including Housing Finance Companies) dated July 15, 2024. The Chairperson of the Committee shall be Managing Director of the Company. The Committee shall at meet as and when required. The quorum for a meeting of the Committee shall be at least three members. The Committee is required to oversee the effectiveness of fraud risk management in the Company.

xi. Other Committees:

In addition to the aforesaid Committees, the Company has also constituted the following internal Committees:

1. Environmental Social and Governance Committee
2. Securities Allotment Committee
3. Information Technology Steering Committee
4. Information and Security Committee
5. Working Committee of Asset & Liabilities Committee (“WALCO”)
6. Internal Complaints Committee (“POSH Committee”)
7. IPO Committee

DISCLOSURE AND TRANSPARENCY

In order to practice the policy of disclosure and transparency, the following information shall be put to the Board of Directors at regular intervals in this regard:

- i. The progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the Company;
- ii. Conformity with Corporate Governance standards viz., in composition of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.;
- iii. Disclosures in the Annual Financial Statements information-
- iv. registration/ licence/ authorisation, by whatever name called, obtained from other financial sector regulators;
- v. ratings assigned by credit rating agencies and migration of ratings during the year;
- vi. penalties, if any, levied by any regulator;
- vii. information namely, area, country of operation and joint venture partners regarding joint ventures and overseas subsidiaries and

- viii. Asset-Liability profile, extent of financing of parent company products, NPAs and movement of NPAs, details of all off-balance sheet exposures, structured products issued by them as also securitization/ assignment transactions and other disclosures

CHIEF RISK OFFICER (“CRO”)

The Company is required to appoint Chief Risk Officer (“CRO”) with clearly specified role and responsibilities as the Company has reached asset size of more than INR 5,000 crores.

The Company shall ensure that:

- i. The CRO is required to function independently to ensure highest standards of risk management.
- ii. The CRO shall be a senior official in the hierarchy of the Company and shall possess adequate professional qualification/experience in the area of risk management.
- iii. The CRO shall be appointed for a fixed tenure with the approval of the Board.
- iv. The CRO can be transferred/removed from his/her post before completion of the tenure only with the approval of the Board and such premature transfer/removal shall be reported to the Department of Supervision of the Regional Office of the RBI under whose jurisdiction the Company is registered.
- v. In the Company is listed, any change in incumbency of the CRO shall also be reported to the stock exchanges.
- vi. The Board shall put in place policies to safeguard the independence of the CRO. In this regard, the CRO shall have direct reporting lines to the Managing Director/Risk Management Committee (RMC) of the Board.
- vii. In case the CRO reports to the Managing Director, the RMC/Board shall meet the CRO without the presence of the Managing Director, at least on a quarterly basis.
- viii. The CRO shall not have any reporting relationship with the business verticals of the Company and shall not be given any business targets. Further, there shall not be any ‘dual hatting’ i.e., the CRO shall not be given any other responsibility.
- ix. The CRO shall be involved in the process of identification, measurement and mitigation of risks. All credit products (retail or wholesale) shall be vetted by the CRO from the angle of inherent and control risks. The CRO’s role in deciding credit proposals shall be limited to being an advisor.

FIT AND PROPER CRITERIA

The Company shall follow its Policy for ascertaining the ‘Fit and Proper’ criteria for Directors as recommended by the Nomination & Remuneration Committee and approved by the Board from time to time.

KEY MANAGERIAL PERSONNEL(“KMP”)

Except for directorship in a subsidiary, Key Managerial Personnel shall not hold any office (including directorships) in any other NBFC-Middle Layer (“NBFC-ML”) or NBFC-Upper layer (“NBFC-UL”).

INDEPENDENT DIRECTOR

Within the permissible limits in terms of the Applicable laws, an Independent Director shall not be on the Board of more than three NBFC-ML or NBFC-UL at the same time.

GUIDELINES ON COMPENSATION OF KEY MANAGERIAL PERSONNEL AND SENIOR MANAGEMENT PERSONNEL

The Company is required to put in place a Board approved compensation policy to align the compensation packages of Key Managerial Personnel and Senior Management Personnel of the Company.

The policy shall include principles for fixed/variable pay structures and malus/clawback provisions.

ROTATION OF STATUTORY AUDITORS/AUDIT PARTNER(S)

The Company shall appoint Statutory Auditors to conduct the statutory audit of the financial statements as per the Applicable Laws. The Company shall adopt policy on appointment of Statutory Auditors to provide sufficient framework for the appointment of Statutory Auditors of the Company by prescribing the parameters and brief procedure to be followed by the Company for the appointment of Statutory Auditor confirming to all relevant applicable statutory/regulatory requirements.

The Company shall appoint Statutory Auditor for maximum period of three (3) continuous years upon Statutory Auditor satisfying the eligibility norms every year. The Audit Firm would not be eligible for reappointment in the same entity for six years after completion of full or part of one term of the audit tenure.

The appointment of the Statutory Auditors shall be approved by the members in the Annual General Meeting of the Company on the basis of the recommendations of the Board and Audit Committee. The Company may remove Statutory Auditor before completion of three (3) years. The concerned office of RBI shall be informed about such termination along with reasons for the same, within a month of such a decision being taken.

The Company shall follow Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) issued by RBI on April 27, 2021 as amended from time to time.

ANNUAL REVIEW

This policy must be reviewed at least annually and shall be placed before the board for approval.

SCOPE & LIMITATION

In the event of any conflict between the provisions of this Policy and the RBI Regulations/Act or any other statutory enactments, rules, the provisions of such RBI Regulations/Act or statutory enactments, rules shall prevail over this Policy.