

Sustainable Procurement Guidelines



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1. INTRODUCTION

AU Small Finance Bank is committed to building a responsible, ethical, and sustainable supply chain. This Sustainable Procurement Guideline outlines our expectations for suppliers to help achieve our environmental, social, and governance objectives while meeting global industry standards.

This guideline applies to all vendors, suppliers, contractors, and service providers engaged with AU Small Finance Bank, including their workers and employees (permanent, temporary, contract, and migrant personnel). Through this guideline, we aim to create a sustainable ecosystem that prioritizes environmental stewardship, social responsibility, and ethical business practices.

2. GUIDING PRINCIPLES

2.1 Environmental Stewardship

We are committed to environmental excellence throughout our operations and supply chain. Our suppliers must demonstrate leadership in environmental management through the following commitments:

- i. **Governance and Compliance:** Environmental protection must be overseen by top management with formal policies that exceed minimum legal requirements. A robust Environmental Management System (ISO 14001 or

equivalent) can be implemented, with clear certification paths for those not yet certified.

- ii. **Carbon and Energy Management:** Suppliers must adopt energy-efficient technologies and low-carbon alternatives, implementing renewable energy solutions where feasible. Regular measurement of environmental footprint, setting of reduction targets, and documentation of progress are required.
- iii. **Resource Conservation:** Suppliers will actively reduce water consumption through recycling, reuse, and rainwater harvesting. Waste minimization strategies must include elimination of single-use plastics where possible and adherence to proper waste management hierarchies.
- iv. **Sustainable Materials and Practices:** Materials must be sourced responsibly, prioritizing recyclable, biodegradable, or reusable options. Suppliers should implement circular economy practices and proper hazardous materials management with clear labelling and documentation.
- v. **Transportation and Logistics:** Distribution networks must be optimized to reduce environmental impact through route efficiency, vehicle improvements, and alternative fuel consideration.
- vi. **Innovation and Life Cycle Approach:** Suppliers will implement initiatives to reduce environmental impact throughout product lifecycles and contribute to biodiversity preservation.

2.2 Social Responsibility

We are committed to upholding the highest social standards in our operations and expect suppliers to demonstrate similar dedication. Our suppliers must adhere to the following principles:

- i. **Human Rights and Non-discrimination:** Suppliers must prohibit discrimination based on race, ethnicity, religion, gender, age, or other protected characteristics. Comprehensive diversity, equity, and inclusion policies must be implemented and their impact measured, ensuring fair opportunities for all employees.
- ii. **Workplace Dignity:** Suppliers must maintain harassment-free workplaces with clear reporting procedures for complaints. All employees must be treated with respect and dignity.
- iii. **Ethical Labor Practices:** Child labor and forced labor are strictly prohibited throughout all operations and extended supply chains. Regular monitoring and documentation are required to verify compliance. All work must be voluntary with freedom to terminate employment within regulations.
- iv. **Fair Compensation:** Suppliers must comply with minimum wage laws, provide legally mandated benefits, and clearly communicate compensation details to employees. Wages should support a decent standard of living.
- v. **Working Conditions:** Suppliers must ensure compliance with working hours regulations and maintain comprehensive occupational health and safety

standards. This includes integrating safety in all activities, providing appropriate training, and empowering employees to ensure workplace safety.

- vi. **Employee Well-being:** Suppliers should implement initiatives that promote employee health, financial literacy, and professional development, with documented evidence of these programs.
- vii. **Corporate Social Responsibility:** Suppliers are encouraged to actively engage in voluntary community development initiatives aligned with their business values.

2.3 Ethical Business Conduct

A sound governance framework provides essential oversight, builds trust, and ensures long-term sustainability. We expect suppliers to maintain robust governance practices in their regulated environments, protecting both themselves and their customers from harm.

- i. **Financial Integrity:** Suppliers must prevent financial fraud by ensuring all fund flows occur through identified channels with proper due diligence, complying with anti-money laundering laws. No funding for illegal purposes is permitted within the supplier's operations or supply chain.
- ii. **Ethical Standards:** Suppliers should develop and implement a Code of Conduct like AU SFB's own published code.

- iii. **Regulatory Compliance:** Suppliers must comply with all applicable laws and regulations across operating regions, establishing verification mechanisms including confidential compliance hotlines.
- iv. **Information Security:** Suppliers must protect AU SFB's confidential information, sharing it only on a need-to-know basis with appropriate safeguards. Suppliers remain liable for breaches by their affiliates and must actively monitor intellectual property infringement.
- v. **Anti-Corruption:** Suppliers must comply with all anti-bribery and anti-corruption laws, avoid improper political contributions, and refrain from exchanging inappropriate gifts or entertainment. Any misconduct by AU SFB employees must be reported promptly.
- vi. **Fair Competition:** Suppliers must respect fair business practices and comply with all applicable antitrust legislation, avoiding anti-competitive behavior.
- vii. **Responsible Sourcing:** Suppliers must extend ESG standards throughout their entire supply chain, implementing formal sustainable procurement policies with verification mechanisms. They should document ethical sourcing practices, support diverse businesses, and maintain records for assessment purposes.

3. PREFERENTIAL PROCUREMENT POLICY

To support inclusivity and equitable economic development, we have a preferential procurement approach, towards the following categories:

1. Micro, Small & Medium Enterprises (MSMEs)
2. Women-led businesses
3. Enterprises owned by persons with disabilities
4. Social enterprises focused on environmental sustainability
5. Businesses from economically disadvantaged and rural communities

Suppliers meeting the preferential procurement criteria must demonstrate their eligibility through third-party certifications, impact reports, or other verifiable documentation. Annual renewal of this documentation is required to maintain preferential status.

4. IMPLEMENTATION AND COMPLIANCE FRAMEWORK

4.1 Onboarding

Suppliers must complete a comprehensive Sustainability Evaluation Questionnaire during the onboarding process. This questionnaire assesses their current sustainability practices and future commitments. Responses must be thorough and supported by evidence.

AU Small Finance Bank assesses supplier sustainability credentials through a formal scoring system that evaluates ESG performance across multiple dimensions.

4.2 Capacity Building

AU Small Finance Bank may provide access to training resources and development programs to help suppliers align with emerging sustainability trends and regulatory changes. Participation in these programs is encouraged for suppliers seeking to enhance their sustainability performance.

Suppliers are expected to demonstrate continuous improvement in their sustainability practices through measurable outcomes and progressive target-setting.

Industry-leading suppliers may be invited to share best practices and innovations with other suppliers in AU Small Finance Bank's network, fostering a collaborative approach to sustainability advancement across the supply chain.

5. COMPLIANCE EXPECTATIONS

AU Small Finance Bank is committed to integrating sustainability, ethics, and responsible business practices into its procurement strategy. Suppliers play a critical role in this journey, and compliance with these guidelines is essential for all business relationships.

Suppliers who consistently demonstrate leadership in sustainability practices may be recognized through AU Small Finance Bank's **Sustainable Supplier Excellence Program**, which highlights exceptional performance and innovation in sustainable business operations.

The guidelines outlined in this document will be periodically reviewed and updated to reflect evolving global standards, regulatory requirements, and best practices in sustainable procurement. Suppliers will be notified of significant changes and expected to adapt accordingly.

For further guidance or feedback regarding these Sustainable Procurement Guidelines, suppliers may contact: sustainability@aubank.in