



## RELATED PARTY TRANSACTION POLICY

Approver	Board of Directors
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Policy Owner	Company Secretary
Review frequency	Annual

### Revision History and Approvals

Revision No.	Issue Date	Amendment Description

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**(1) Background**

The Companies Act, 2013 ('Companies Act' or 'the Act') has introduced sections 177 and 188, which contain provisions regarding related party transactions. These sections, along with the relevant Rules framed under the Companies Act, have introduced certain compliance and approval requirements regarding the related party transactions. This Policy applies to transactions between the Company and one or more of its Related Parties in order to ensure transparency and fairness to such transaction. It provides a framework for governance and reporting of Related Party Transactions including material transactions.

Accordingly, the Board of Directors (the Board) of ESAF Small Finance Bank Limited (the Bank) has adopted the following policy with regard to related party transactions. The Audit Committee of the Bank will review this policy from time to time and propose any modifications to the Board for approval.

**(2) Objectives**

The objective of this Policy is to set out (a) is to ensure that transactions between the Bank and its related parties are based on principles of transparency and arm's length pricing (b) preventing and providing guidance in situations of potential conflict of interests in the implementation of transactions involving such related parties (c) the manner of dealing with the transactions between the Company and its related parties based on the Companies Act, 2013 and any other laws and regulations as may be applicable to the Company (d) to determine the disclosures to be made.

**(3) Definitions**

- (i) "Audit Committee" the committee as defined under section 177 of the Companies Act, 2013 constituted by the Board
- (ii) "Turnover" has been defined as the aggregate value of the realisation of amount made from sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year. Accordingly, for the Bank, the 'turnover' is considered as the 'Total Income', i.e., total of interest income and other income.
- (iii) "Subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company:
  - (i) controls the composition of the Board of Directors; or
  - (ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies.

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation. For the purposes of this clause:

- (a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company.

- (b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;
- (c) the expression "company" includes any body corporate;
- (d) "layer" in relation to a holding company means its subsidiary or subsidiaries;
- (v) "Associate company" in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.
- (vi) "Significant influence" means control of at least twenty per cent of total share capital, or of business decisions under an agreement.
- (vii) "Joint venture" means a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.
- (viii) "Total share capital" means the aggregate of the paid-up equity share capital and convertible preference share capital.
- (ix) "Related party" with reference to the Bank means:
  - (a) a director or his relative;
  - (b) a key managerial personnel (KMP) or his relative;
  - (c) a firm, in which a director, manager or his relative is a partner;
  - (d) a private company in which a director or manager or his relative is a member or director;
  - (e) a public company in which a director or manager is a director and holds along with his relatives, more than two per cent of its paid-up share capital;
  - (f) any body corporate whose board of directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;
  - (g) any person on whose advice, directions or instructions a director or manager is accustomed to act:

Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

  - (a) any company which is a holding, subsidiary or an associate company of such company; or a subsidiary of a holding company to which it is also a subsidiary;
  - (b) a director other than an independent director or key managerial personnel of the holding company or his relative with reference to a company (as per Companies (Meetings of Board and its Powers) Rules, 2014);
- (x) "Ordinary Course of Business" includes but not limited to a term for activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions. The ordinary course of business covers the usual transactions, customs and practices related to the business.

The following factors are indicative of a transaction being in the ordinary course of business:

- i. The transaction is normal or otherwise unremarkable for the business.
- ii. The transaction is frequent/regular
- iii. The transaction is a source of income for the business
- iv. Transactions that are part of the standard industry practice, even though the Bank may not have done it in the past.

#### **(4) Applicability for the Bank**

This policy is applicable for the transactions with the following

- (a) Directors,
- (b) KMPs
- (c) Relatives of Directors and KMPs
- (d) Other Related Parties.

This policy covers the following transactions with related parties

A. Related Party transactions with respect to the following as provided in Section 188 of the 2013 Act:

- Sale, purchase or supply of any goods or materials
- Selling or otherwise disposing of, or buying, property of any kind
- Leasing of property of any kind
- Availing or rendering of any services
- Appointment of any agent for purchase or sale of goods, materials, services or property
- Related party's appointment to any office or place of profit in the company, its subsidiary company or associate company, and
- Underwriting the subscription of any securities or derivatives thereof, of the company

B. Related party transaction as defined in SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 defines" as - a transfer of resources, services or obligations between a listed entity and a related party, regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract:

#### **(5) Arm's length Transaction:**

In terms of the Companies Act, the expression 'arm's length transaction' means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

A transaction with a related party will be considered to be on arm's length basis if the key terms, including pricing of the transaction, taken as a whole, are comparable with those of similar transactions if they would have been undertaken with unrelated parties.

**(6) Identification of Related Party Transactions**

Each director and KMP of the Bank is responsible for providing notice to the Board of any potential related party transactions involving him/her including any additional information about the transaction as the Board may desire. They shall also inform any changes in the above relationships, directorships, holdings, interests and / or controls immediately on him / her becoming aware of such changes. The Directors shall provide notice in advance to the Board on related party transactions. The Secretarial Department needs to inform any change in the Related Party List to Functional teams of the Bank to identify the Related Party Transactions.

The Company Secretary and/or Secretarial Department shall prepare and maintain the database of Related Parties on the basis of aforesaid information/ declaration including any revisions therein. All functional departments shall obtain prior permission of the Secretarial Department before entering into any transaction with related parties.

**(7) Approval of related party transactions**

Heads of functional departments shall submit a note with the details of proposed transactions with related parties to the Company Secretary and Chief Financial Officer with adequate details and copies of draft agreement/terms sheet etc., Company Secretary shall so the needful for taking the proposal to the Audit Committee for prior approval.

**A. Audit Committee**

All the transactions which are identified as related party transactions should be pre-approved by the Audit Committee before entering into such transaction. The Audit Committee shall consider all relevant factors while deliberating the related party transactions for its approval.

Any member of the Committee who has a potential interest in any related party transaction will recuse himself and abstain from discussion and voting on the approval of the related party transaction. A related party transaction which is (i) not in the ordinary course of business, or (ii) not at arm's length price, would require approval of the Board of Directors or of shareholders as discussed subsequently.

The Audit Committee may grant omnibus approval for related party transactions which are repetitive in nature and subject to certain criteria/conditions as required under Regulation 23 and Companies Rules, 2014 and such other conditions as it may consider necessary in line with this policy and in the interest of the Bank. Such omnibus approval shall be valid for one financial year.

The Audit Committee shall, after obtaining approval of the Board of Directors, specify the criteria for making the omnibus approval which shall include the following, namely:-

- (a) maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year;
- (b) the maximum value per transaction which can be allowed;

- (c) extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval;
- (d) review, at such intervals as the Audit Committee may deem fit, related party transaction entered into by the company pursuant to each of the omnibus approval made;
- (e) transactions which cannot be subject to the omnibus approval by the Audit Committee.

The Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval, namely: -

- (a) repetitiveness of the transactions (in past or in future);
- (b) justification for the need of omnibus approval.

The Audit Committee shall satisfy itself on the need for omnibus approval for transactions of repetitive nature and that such approval is in the interest of the company. The omnibus approval shall contain or indicate the following: -

- (a) name of the related parties;
- (b) nature and duration of the transaction;
- (c) maximum amount of transaction that can be entered into;
- (d) the indicative base price or current contracted price and the formula for variation in the price, if any;
- (e) Any other relevant information

Omnibus approval shall be valid for a period not exceeding one financial year and shall require fresh approval after the expiry of such financial year. Audit Committee shall review, on a quarterly basis, the details of related party transactions entered into by the Bank pursuant to the omnibus approval. In connection with any review of a related party transaction, the Committee has authority to modify or waive any procedural requirements of this policy.

## **B. Board of Directors**

In case any related party transactions are referred by the Bank to the Board for its approval due to the transaction being (i) not in the ordinary course of business, or (ii) not at an arm's length price, the Board will consider such factors as, nature of the transaction, material terms, the manner of determining the pricing and the business rationale for entering into such transaction. On such consideration, the Board may approve the transaction or may require such modifications to transaction terms as it deems appropriate under the circumstances. Any member of the Board who has any interest in any related transaction will rescue himself and abstain from discussion and voting on the approval of the related party transaction.

While circulating any agenda on related party transactions, the secretarial and legal department shall ensure that the agenda covers the following detailed information.

- a) the name of the related party and nature of relationship;
- b) the nature, duration of the contract and particulars of the contract or arrangement;
- c) the material terms of the contract or arrangement including the value, if any;
- d) any advance paid or received for the contract or arrangement, if any;
- e) the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
- f) whether all factors relevant to the contract have been considered, if not, the details of factors not considered with the rationale for not considering those factors; and
- g) any other information relevant or important for the Board to take a decision on the proposed transaction.

### C. Shareholders

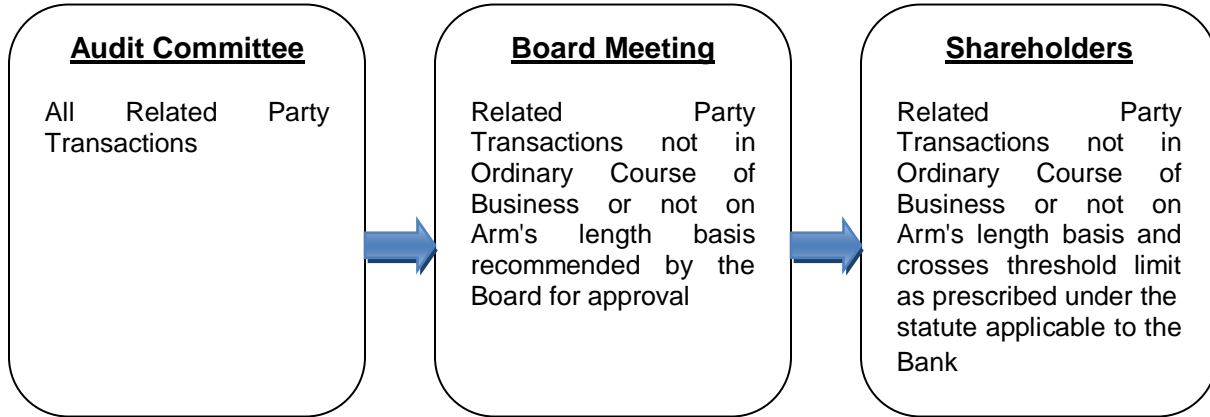
If a related party transaction is not in the ordinary course of business, or not at arm's length price and exceeds the thresholds as given below prescribed under the Companies Act, 2013, it shall require shareholders' approval by a resolution. In such a case, any member who is a related party having interest in the transaction for which resolution being proposed, shall not vote on such resolution passed for approving related party transaction.

#### **Threshold Limit for Shareholders Approval**

SI No	Type of Transaction	Limit
1	Sale, purchase or supply of any goods or materials directly or through appointment of agents (or)	Exceeding 10% if Turnover of Company or Rupees 100 Crore Whichever is Lower
2	Selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agents (or)	Exceeding 10% of Net worth or Rupees 100 Crore Whichever is Lower
3	Leasing of property of any kind (or)	Exceeding 10% of the Net worth of company or 10% of Turnover of Company of Rupees 100 Crore, Whichever is lower
4	Availing or rendering of any services directly or through appointment of agents (or)	Exceeding 10 % of Turnover of company or Rupees 50 Crore, Whichever is lower.
5	Appointment to any office or place of profit in the company, its subsidiary company or associate company (or)	Monthly Remuneration Exceeding Rs. 2.5 lakhs
6	Remuneration for underwriting the subscription of any securities or derivative	Exceeding 1% of Net worth

However, the shareholders' approval is not required for the transactions entered into between the Bank and its wholly owned subsidiaries whose accounts are consolidated with the Bank and placed before the shareholders at the general meeting.





**(8) Director’s duty to Disclose Interest**

The Companies Act, 2013, imposes duty on every director to disclose to the company, the contracts or arrangements with the company, whether existing or proposed or acquired subsequently, in which he, directly or indirectly, has any interest or concern. All the directors shall in the first Board meeting to be held in every year and whenever there is change shall intimate the same to the Board in Form MBP1.

**(9) Reporting of Related Party Transactions**

Every contract or arrangement, which is required to be approved by the Board/shareholders under this Policy, shall be referred to in the Board’s report to the shareholders along with the justification for entering into such contract or arrangement.

**(10) Register & Records**

The company should maintain a register, in which all transactions above a prescribed threshold value in respect of contracts/arrangements, in which directors are interested, should be entered. The register should be kept at registered office of the company and should be open to inspection to all members. Apart from this, all the documents related to the transactions with related parties shall be maintained for 8 years from the date of transactions

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