ESAF FINANCIAL HOLDINGS

COMPLIANCE POLICY

Approver	Board of Directors
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Policy Owner	Secretariat of the Company
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1. BACKGROUND AND SIGNIFICANCE

ESAF Financial Holdings Private Limited (EFHPL) (hereinafter referred to as the "Company") is a Systemically Important, Non- Deposit taking, Core Investment Company registered with the Reserve Bank of India (RBI) with effect from 26th February, 2020. As per the RBI's Scale-Based Regulatory Framework for NBFCs, the company, being a Core Investment Company (CIC) is classified under the "Middle layer".

The Company is a private company governed by the Companies Act, 2013, in addition to the oversight of the Department of Supervision of Reserve Bank of India.

The Company is required to comply with all statutory provisions contained in various legislations such as Reserve Bank of India Act, Companies Act, Prevention of Money Laundering Act etc. as well as observe other regulatory guidelines issued from time to time; standards and codes prescribed by industry associations/self-regulatory organizations/ stock exchanges and also internal policies and Fair Practices Code of the Company.

The Basel Committee on Banking Supervision paper on Compliance and the circular defines Compliance risk as "the risk of legal or regulatory sanctions, material financial loss, or loss of reputation an NBFC may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its business activities".

Reserve Bank of India (RBI) vide its Circular "Compliance Function and Role of Chief Compliance Officer (CCO) – NBFCs" dated April 11, 2022 (hereinafter referred to as the "Circular") requires NBFC- Middle Layer to put in place Board approved Compliance Policy as per the framework given in the said Circular and to introduce certain principles, standards and procedures for Compliance Function keeping in view the principles of proportionality.

The Compliance Policy sets forth the framework for effective and efficient management of Compliance risk at the Company. The contents of the policy are applicable to all employees of the company and are aimed at making them familiar with the policy/ processes/ procedures directly relating to compliance risk management.

2. OBJECTIVES

The objectives of this Policy are to:

- Lay down the compliance philosophy
- Put in place governing principles and processes for managing compliance risk.

3. COMPLIANCE PHILOSOPHY

The Compliance Policy among others sets out basic principles to be followed by the staff of the Company for ensuring an effective and efficient compliance environment.

Compliance is most effective in the Company that emphasizes standards of honesty and integrity. It concerns everyone in the organization and should be viewed as an integral part of the business. The Company should hold itself to high standards when carrying on business and, at all times, strive to observe the spirit as well as the letter of the applicable law.

4. SCOPE AND COVERAGE OF COMPLIANCE FUNCTION

The Compliance Function is an integral part of effective governance, along with the internal control and risk management processes. Compliance function shall ensure strict observance of all statutory and regulatory requirements for the NBFC, including standards of market conduct, managing conflict of interest, treating customers fairly and ensuring proper compliance with directions from all applicable statutory regulators.

5. COMPLIANCE MANAGEMENT

Effective compliance management is an important component in the Company's business environment. Compliance is the responsibility of every individual in the Company. This implies demonstration of a strong commitment to compliance, good corporate governance, and responsible corporate behaviour. To fulfil this responsibility, it is required of all stakeholders to possess a good understanding of the relevant compliance requirements applicable to the discharge of their duties and to ensure adherence to the applicable compliance laws, rules, and standards.

Cordial regulatory relationships with all regulators are one of the key elements of the compliance management and the Company would like to achieve and maintain the same. This shall be done by engaging proactively with the regulators. All queries / clarifications sought by the regulators shall be promptly replied / clarified by the Company. The regulatory relationship management shall be the responsibility of the Compliance Function and the Chief Compliance Officer (CCO) and shall be the focal point between the Company and regulators.

All correspondence received from the regulator requiring actions from the Company shall be sent to the relevant business/functional heads by Compliance Function and the response would be submitted within given time to the regulators.

The Chief Compliance Officer will act as nodal point for coordination of the inspection by regulators having jurisdiction over the Company. All the requirements of the regulatory inspection will be provided by Compliance Function with the help of concerned Business / Support functions.

The Compliance Function shall, with the help of other business/support functions ensure timely and accurate submission of responses to the regulatory inspection observations including Risk Mitigation Plan (RMP) / Monitorable Action Plan (MAP) points.

Any change in the regulatory environment, e.g. introduction of new/revised guidelines or regulations by the regulator or change in the Company's internal codes/guidelines etc, should be tracked by Compliance Function. It should then communicate the change and the actions to be taken to the concerned business and support functions.

The Compliance Function shall serve as a reference and facilitation point for the employees and staff of the Company in matters relating to regulatory compliance, governance standards and implementation of applicable policies/procedures.

6. CHIEF COMPLIANCE OFFICER (CCO)

The Company shall appoint a Chief Compliance Officer (CCO) to manage the compliance risk of the Company. The Company shall adhere to the extant RBI guidelines regarding the appointment and tenure of CCO.

- Tenure: The CCO shall be appointed for a minimum fixed tenure of not less than 3 years.
- Removal: The CCO shall be transferred / removed before completion of the tenure only in exceptional circumstances, with the explicit prior approval of the Board / Board Committee, after following a well-defined and transparent internal administrative procedure.
- Rank: The CCO shall be a senior executive of the NBFC with a position not below two levels from the CEO.
- Skills: The CCO shall have a good understanding of the industry and risk management practices, knowledge of regulations, legal requirements, and have sensitivity to Supervisory expectations;
- Stature: The CCO shall have the ability to exercise judgment independently. She / He shall have the freedom and authority to interact with regulators / supervisors directly and ensure compliance;
- Conduct: CCO shall have a clean track record and unquestionable integrity;
- Selection Process: Selection of the candidate for the post of the CCO shall be made based on a well-defined selection process. The Board / Board Committee shall take final decision in the appointment of CCO.
- Reporting Requirements: A prior intimation to the Senior Supervisory Manager, Department of Supervision, Reserve Bank of India, shall be provided before appointment, premature transfer, resignation, early retirement or removal of the CCO. Such information shall be supported by a detailed profile of the candidate along with the 'Fit and Proper' certification by the MD & CEO of the NBFC, confirming that the person meets the prescribed supervisory requirements and rationale for changes, if any.
- Reporting Line: The CCO shall have direct reporting lines to the MD & CEO and / or Board / Board Committee. In case the CCO reports to the MD & CEO, the Board / Board Committee shall meet the CCO at quarterly intervals on a one-to-one basis, without the presence of the senior management, including MD & CEO. The CCO shall not have any reporting relationship with the business verticals. Further, the performance appraisal of the CCO shall be reviewed by the Board / Board Committee.
- Dual-hatting: There shall not be any 'dual hatting,' i.e., the CCO shall not be given any responsibility which brings elements of conflict of interest, especially any role relating to business. The CCO shall generally not be a member of any committee which conflicts her / his role as CCO with responsibility as a member of the committee, including any committee dealing with purchases / sanctions. In case the CCO is a member of any such committee, that would only be an advisory role.
- Authority: The CCO and Compliance Function shall have the authority to communicate with any staff member and have access to all records or files that are necessary to carry out entrusted responsibilities in respect of Compliance issues.

7. ROLES AND RESPONSIBILITIES:

Compliance is the responsibility of every individual in the Company and therefore each one has a role to play to ensure effective management of compliance risk. The roles and responsibilities for management of Compliance risk are detailed below.

- **Audit Committee of the Board (ACB)**

The key compliance related responsibilities of ACB include:

- Ensuring that an appropriate Compliance Policy is in place in the Company to manage compliance risk and also overseeing its implementation.
- Ensuring that compliance issues are resolved effectively by Senior Management with the assistance of Chief Compliance Officer
- Reviewing the reports received from the Chief Compliance Officer on compliance risk management activities and prescribing the periodicity for review of compliance risk.
- Reviewing the Compliance Policy annually.

- **Senior Management**

Senior Management, with the assistance of the Chief Compliance Officer, should:

- Carry out an exercise at least once a year to identify and assess the main compliance risks facing the Company and manage them.
- Report promptly to the Board/ACB on any material compliance failure (e.g. failure that may attract a significant risk of legal or regulatory sanctions, material financial loss, or loss to reputation)
- Ensure that appropriate remedial or disciplinary action has been/is being taken if material
  breaches are identified.
- Review the mitigation plans on various compliance risks identified, monitor the timely resolution of compliance issues arising out of various internal and external inspections, audits and compliance breaches, and assist in creating a compliance conscious culture.

- **Chief Compliance Officer/ Compliance Function**

The key compliance related responsibilities of the Chief Compliance Officer/ Compliance Function include:

- Acting as a nodal point of contact between the Company and the regulators and ensuring compliance of regulatory/ supervisory directions given by RBI in a time-bound and sustainable manner
- Monitoring adherence of all applicable regulations and compliance of the Company's internal policies and fair practices code
- Disseminating regulatory guidelines/ instructions to Business teams and Support functions
- Arranging for response/ clarifications to the queries/information requests by the regulators and coordinating regulatory inspection
- Playing central role in identifying, assessing and documenting the compliance risks with regard to the business activities and issuing instructions for mitigating the same

- Assisting the Senior Management in identifying and assessing main compliance risks faced by the Company and formulating plans to manage them.
- Overseeing the compliance activities of all regulated subsidiaries of the Company
- Submitting to the Board of Directors the quarterly Compliance Report including material compliance failure if any and annual review of Compliance policy
- Ensuring strict compliance of the Anti-Money Laundering regulations in order to prevent / detect money laundering and illegal funding activities.
- Ensuring proper compliance with directions from regulators such as RBI, MCA, FIU, SEBI, etc. With respect to compliance with directions from Income Tax Department, Labour Dept. etc. the Designated Officers for the concerned function shall be responsible for carrying out the compliance of their domain and shall report the non-compliance, if any to the Chief Compliance Officer.
- The Compliance Function will have oversight to ensure that the company adheres to all applicable statutory and regulatory requirements applicable for the Company.
- To monitor and test Compliance - Compliance Function will conduct representative Compliance Testing to evaluate the efficacy of the compliance by the business segments/operations units for various regulatory obligations. Compliance Function may seek the help of Internal Audit to test the compliance obligations. The results of such Compliance testing shall be reported to the Senior Management/ACB.

➢ **Employees**

The key responsibilities of every employee include:

- To adhere to the requirements of all compliance laws, rules and standards, internal policies and fair practices codes.
- The Designated Officers for the concerned function shall ensure proper compliance with directions from concerned regulators and shall be responsible for carrying out the compliance of their domain.
- Report compliance findings or non-compliances, if any to the Compliance Function and share information that may be required to carry out their responsibilities.
- Employees should attend training and awareness programmes organised on compliance matters and keep abreast of statutory and regulatory compliance requirements related to their respective areas of operation.

8. COMPLIANCE BREACH MANAGEMENT

This Compliance breaches are incidents that may lead to legal or regulatory sanctions, financial loss or damage to reputation or impairment of integrity, as a result of a failure to comply with applicable laws, regulations and standards. Based on the level of business activities of the company, the possible events of breaches include internal/ external crime or fraud, regulatory sanctions and incidents resulting in reputational damage.

The identified compliance breaches should be analysed and resolved in an appropriate manner. The objective of the analysis is to identify areas of weakness which may lead to non-compliances and take necessary actions prevent recurrence of such breaches in the future.

Analysis and resolution of breaches shall consist of following considerations:

- Analyzing whether the breach is on account of ignorance of regulatory/internal requirements or wrong interpretation of these requirements.
- Resolving the breach by fulfilling the regulatory/internal requirement
- Taking steps to ensure that such breaches do not recur by putting in place appropriate policy/process and procedure depending on the nature of the breach.

9. COMPLIANCE BREACH REPORTING

Instance of compliance breach observed by any employee of the Company should be immediately reported to the Compliance Function. Timely reporting of breaches or potential breaches will help the Company to:

- Identify compliance situations quickly and efficiently.
- Respond quickly to minimize damage and resolve the issues.
- Share lessons learnt within the Company to prevent recurrences.
- Improve the compliance culture based on the lessons learnt.
- Report instances of all material compliance failures which may attract significant risk of legal or regulatory sanctions, financial loss or loss of reputation to the Senior Management/ACB along with actions taken including staff accountability.

10. COMPLIANCE RISK ASSESSMENT

The Company shall carry out an annual Compliance risk assessment in order to identify and assess major Compliance risks faced by the Company and prepare a plan to manage the risks.

The Annual review should broadly cover the following aspects:

- Compliance failures, if any, during the preceding year and consequential losses and regulatory action, as also steps taken to avoid recurrence of the same
- Listing of all major regulatory guidelines issued during the preceding year and steps taken to ensure compliance
- Compliance with fair practices codes and adherence to standards set by self-regulatory bodies and accounting standards; and
- Progress in the rectification of significant deficiencies and implementation of recommendations pointed out in various audits and RBI inspection reports.

11. TRAINING AND EDUCATION

Training and education build awareness and understanding of compliance risk management policies, procedures and issues. The Compliance Team should be up-to-date with developments in the areas of regulatory guidelines, rules and standards.

An on-boarding confirmation shall be obtained from the employee that he/she has read and understood the Company's Employee Code of Conduct, Fair Practices Code and all the internal policies of the Company.

The Management of the Company shall organise training and awareness programmes for the employees and staff on compliance matters to ensure that the employees are kept abreast of statutory and regulatory compliance requirements related to their respective areas of operation.

12. POLICY REVIEW

This policy shall be reviewed once in a year or at increased frequencies for incorporating changes, based on revised and modified instructions issued under the RBI Master Directions/ Circulars, Companies Act, 2013, or any relevant Act/ provisions as envisaged by the Government of India/other competent authorities from time to time. In any case, regulatory and statutory norms and directions as issued and modified from time to time will prevail over the provisions of this Policy and the Policy shall be treated as amended to such effect, pending formalisation through revision of this document.

Company's Secretariat shall be the custodian of the Policy responsible for periodic review and modification with the approval of ACB/ Board of Directors.