



CORPORATE SOCIAL RESPONSIBILITY POLICY

Approver	Board of Directors
Approved on	10.12.2024
Policy Owner	Secretariat of the Company
Review frequency	Annual

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1. INTRODUCTION

1.1 Background

ESAF Financial Holdings Private Limited (Formerly Known as ESAF Microfinance and Investments Private Limited) ("the Company) is the promoting institution for 'ESAF Small Finance Bank'.

The company was registered as a non-deposit accepting Non-Banking Financial Company (NBFC-ND) with the Reserve Bank of India ('RBI') vide Certificate of Registration number B.07.00652 dated 22 August, 2007 and got classified as a Non-Banking Financial Company - Micro Finance Institution ('NBFC-MFI') with effect from 7 January 2014. The Company was primarily engaged in providing Microfinance services to the weaker sections of society, and mainly women who are organized in Joint Liability Groups.

On 18th November, 2016, the company received approval from Reserve Bank of India ('RBI') to set up a Small Finance Bank, pursuant to the same, the company executed an agreement to transfer its business undertaking to its wholly owned subsidiary ESAF Small Finance Bank Limited ('The Bank'). The Bank Commenced operations w.e.f 10 March, 2017, on which date the company ceased to operate as a Microfinance Company.

Based on the Licensing guidelines of RBI applicable to the Bank and pursuant to above changes, the company applied for registration as Core Investment Company ('CIC') on 18th March, 2019. The Company surrendered its NBFC-MFI license and received the approval of the Reserve Bank of India ('RBI') on 26th February 2020, as NBFC-CIC-ND-SI (Core Investment Company - Non-Deposit taking - Systemically Important) entity.

The concept of Corporate Social Responsibility (CSR) is governed by Clause 135 of the Companies Act, 2013. The CSR provisions within the Act are applicable to companies with an (a) annual turnover of INR 1,000 crore and more, or (b) net worth of INR 500 crore and more, or (c) net profit of INR 5 crore and more, during the immediately preceding financial year. The Act encourages companies to spend at least 2% of their average net profit registered in the previous three years on CSR activities.

1.2 Purpose and Scope

The CSR policy aims to lay down norms to enable the Company to create a social impact by constantly giving back to the community through development activities of marginalized / under privileged / poor in rural areas.

This policy shall apply to all projects, programmes, donations and activities undertaken by the Company in fulfilment of its corporate social responsibility and shall be reviewed and updated from time to time with changes in the CSR rules and applicable laws and regulations as and when required.

2. KEY FOCUS AREAS AND IMPLEMENTATION

2.1 Eligible CSR Activities

The Key Focus Areas for each financial year will be recommended to the Board by the CSR Committee and may include one or more of the below mentioned activities mentioned under the Schedule VII of the Companies Act, 2013, or any relevant Act/ provisions as envisaged by the Government of India from time to time:

- (i) Eradicating hunger, poverty and malnutrition, promoting health care including preventive health care and sanitation (including contribution to the Swachh Bharat Kosh set-up by the Central Government for the promotion of sanitation) and making available safe drinking water;
- (ii) promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects;
- (iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;
- (iv) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga;
- (v) protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional art and handicrafts;
- (vi) measures for the benefit of armed forces veterans, war widows and their dependents, Central Armed Police Forces (CAPF) and Central Para Military Forces (CPMF) veterans, and their dependents including widows;
- (vii) training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports;
- (viii) contribution to the Prime Minister's National Relief Fund or Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund) or any other fund set up by the central govt. for socio economic development and relief and welfare of the schedule caste, tribes, other backward classes, minorities and women;
- (ix) (a) Contribution to incubators or research and development projects in the field of science, technology, engineering and medicine, funded by the Central Government or State Government or Public Sector Undertaking or any agency of the Central Government or State Government; and

(b) Contributions to public funded Universities; Indian Institute of Technology (IITs); National Laboratories and autonomous bodies established under Department of Atomic Energy (DAE); Department of Biotechnology (DBT); Department of Science and Technology (DST); Department of Pharmaceuticals; Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH); Ministry of Electronics and Information Technology and other bodies, namely Defense Research and Development

Organisation (DRDO); Indian Council of Agricultural Research (ICAR); Indian Council of Medical Research (ICMR) and Council of Scientific and Industrial Research (CSIR), engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs);

- (x) rural development projects;
- (xi) slum area development;
- (xii) disaster management, including relief, rehabilitation and reconstruction activities.

2.2 Ineligible CSR Activities

The CSR activities to be undertaken by the company in any given year, shall not include the following, namely:-

- (i) Activities undertaken in pursuance of normal course of business of the Company;
- (ii) Any activity is undertaken by the company outside India except for training of Indian sports personnel representing any State at a national level or India at the International level;
- (iii) Contribution of any amount directly or indirectly to any political party under section 182 of the Act;
- (iv) Activities benefitting employees of the company as defined in clause (k) of section 2 of the Code on Wages, 2019 (29 of 2019);
- (v) The activities supported by the companies on sponsorship basis for deriving marketing benefits for its products or services;
- (vi) The activities carried out for the fulfilment of any other statutory obligations under any law in force in India

2.3 CSR Implementation Agencies

The CSR activities shall be undertaken by the company itself or through –

- a) A company established under section 8 of the Act, or a registered public trust or a registered society, registered under section 12A and 80 G of the Income Tax Act, 1961, established by the company, either singly or along with any other company, or;
- b) a company established under section 8 of the Act or a registered trust or a registered society, established by the Central Government or State Government; or
- c) any entity established under an Act of Parliament or a State legislature; or
- d) a company established under section 8 of the Act, or a registered public trust or a registered society, registered under section 12A and 80G of the Income Tax Act, 1961, and having an established track record of at least three years in undertaking similar activities.

The criteria for selection of eligible entities for grant of funds by the company for undertaking CSR activities are as follows:

- 1) The entity must have unique CSR Registration Number issued by the Central Government by filing the form CSR-1 electronically with the Registrar, with effect from

01 April 2021.

- 2) The entity nor any member of the governing body must not have been convicted under any illegal activity by a competent court;
- 3) The entity nor any member of the governing body should not have faced bankruptcy/ insolvency in the past;

3. GOVERNANCE STRUCTURE

A Robust and transparent governance structure has been constituted to oversee the implementation of the CSR Policy, in compliance with the requirements of Section 135 of the Companies Act, 2013. The Board will constitute a Board level CSR Committee for the CSR functions of the company.

3.1 Board of Directors

The roles and responsibilities of the Board of Directors shall be as follows:

- a) Approval and review of the CSR Policy of the Company;
- b) Constitution of CSR Committee and review of activities of the CSR Committee;
- c) Oversee the implementation of CSR activities as per the approved CSR Policy.

3.2 CSR Committee of the Board

In accordance with the Companies (Corporate Social Responsibility Policy) Rules, 2014 the CSR Committee shall consist of at least 3 board members, including at least one independent director.

The roles and responsibilities of the CSR Committee of the Board shall be as follows:

- a) Formulation and review of the CSR Policy for approval by the Board from time to time;
- b) Formulate and recommend to the Board an annual action plan indicating the following:
 - the list of CSR projects or programmes approved to be undertaken in areas or subjects as per Schedule VII of the Act;
 - manner of execution of such projects or programmes;
 - modalities of utilisations of funds and implementation schedules for the projects or programmes;
 - monitoring and reporting mechanism;
 - details of need and impact assessment for the projects undertaken by the Company, if any.
- c) Identification of eligible institutions/ activities and ensuring implementation of the annual CSR action plan;
- d) Monitoring the implementation of CSR Activities;
- e) Recommending the amount of expenditure to be incurred on activities indicated in the CSR Policy;
- f) Ensure periodic reporting to the Board on the progress of CSR Activities.
- g) Ensure the CSR activities are undertaken by the Company itself or through eligible entities;
- h) Ensure publication of due disclosures in the annual statements and Composition of CSR committee, CSR Policy and CSR projects on the website of the company.

4. MONITORING MECHANISM

The CSR Committee of the Board shall monitor the implementation of the CSR projects undertaken by the Company directly or indirectly, to confirm that the funds so disbursed have been utilised for the right purposes within the stipulated timeline, in the manner approved by the Board.

As part of the Monitoring mechanism, the following matters shall be ensured:

- a) The Company shall obtain progress reports on periodic basis, till the time the project is implemented. Half-yearly Reports on the progress of various projects shall be placed to the CSR Committee of Board for review.
- b) An annual report on implementation shall be submitted to the Board by the CSR Committee containing the details of the amount spent/ utilized for CSR activities.
- c) The Company shall ensure that the beneficiary exhibits the Company's name/logo on the premises or assets assisted under the scheme/project assisted by way of Company's CSR grants.

5. CSR SPENDING AND TREATMENT OF SURPLUS

The Company shall spend, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years towards CSR Activities out of which administrative overheads shall not exceed five percent of the total CSR expenditure of the company for the financial year.

5.1 CSR Spending above the requirements of Section 135 of the Companies Act

Where Company spends an amount in excess of requirement provided under sub-section (5) of section 135, such excess amount may be set off against the requirement to spend under sub-section (5) of section 135 for such number of succeeding financial years and in such manner, as may be prescribed by the Ministry of Corporate Affairs.

5.2 CSR Spending below the requirements of Section 135 of the Companies Act

In case the Company is unable to spend the envisaged amount on CSR activities during the relevant financial year, the Board shall specify the reasons thereof in its Annual Report and unless the unspent amount relates to any ongoing project, transfer such unspent amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year.

5.3 Special Unspent CSR Account

A special bank account, called an Unspent CSR Account be opened by the company in any scheduled bank for any amount remaining unspent pursuant to any ongoing project, undertaken by a company in pursuance of its CSR Policy. The transfer of unspent CSR Amount may be made within a period of thirty days from the end of the financial year.

The amount transferred to the unspent CSR account shall be spent by the company in pursuance of its obligation towards the CSR Policy within a period of three financial years from the date of such transfer.

In case, the company fails to spend the amount within a period of three financial years, it shall

transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.

5.4 Surplus arising out of CSR Activities

Any surplus arising out of the CSR activities shall not form part of the business profit of a company and shall be ploughed back into the same project or shall be transferred to the Unspent CSR Account and spent in pursuance of CSR policy and annual action plan of the company or transfer such surplus amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year.

6. CSR REPORTING AND DISCLOSURE

The Company shall report the details of CSR programme or projects undertaken under its CSR Policy to the CSR Committee of the Board and thereafter for disseminating the same to the shareholders of the Company together with the Annual Report in the format prescribed in the Companies (CSR) Amendment Rules, 2021.

The progress under CSR will be placed annually before the Board of Directors. Every year, the Chief Financial Officer of the company shall certify to the Board that the funds disbursed by the company for CSR activities have been utilized for the right purposes, in the manner approved by it.

The Company shall mandatorily disclose the composition of the CSR Committee, and CSR Policy and Projects approved by the Board on its website for public access.

7. 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 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 Board of Directors.