

RELATED PARTY TRANSACTION POLICY

1. PREAMBLE

The Board of Directors recognizes the importance of managing related party transactions (RPTs) with transparency, fairness, and proper governance. This policy is formulated in compliance with:

- Section 188 and 189 of Companies Act, 2013
- Companies (Meetings of Board and its Powers) Rules, 2014
- RBI Master Direction – Directions on Housing Finance Companies (Reserve Bank) Directions, 2021

2. OBJECTIVE

The objectives of this Policy are to:

- a. Identify and monitor related party relationships and transactions;
- b. Ensure transparency and fair dealing in all related party transactions;
- c. Maintain arm's length pricing and commercial reasonableness;
- d. Ensure proper governance and approvals for RPTs;
- e. Prevent conflicts of interest and self-dealing;
- f. Ensure compliance with regulatory requirements;
- g. Protect shareholder interests and Company's interests;
- h. Provide adequate disclosures in financial statements and annual reports.

3. DEFINITION OF RELATED PARTY

A Related Party includes:

3.1 Directors and Key Managerial Personnel (KMP)

- All directors (executive, non-executive, independent)
- Managing Director/CEO
- Chief Financial Officer (CFO)

- Company Secretary (CS)
- Chief Internal Auditor (if appointed)

3.2 Relatives of Directors and KMP

- Spouse
- Children (including adopted)
- Parent (including adoptive)
- Sibling
- In-laws (spouse's parents, siblings)
- Any other person related by blood or marriage and residing with director/KMP

3.3 Entities in Which Related Parties Have Interest

- Any company, firm, or entity in which a director/KMP is:
 - A director, manager, or partner
 - A shareholder holding 20% or more of voting power
 - An authorized signatory or decision-maker
 - A trustee (including family trusts)

3.4 Subsidiaries and Associates

- Any subsidiary company of the Company
- Any associate company in which Company holds significant influence
- Any joint venture in which Company participates

3.5 Key Management Personnel of Related Entities

- KMP of entities in which the Company/director has significant interest or control

4. DEFINITION OF RELATED PARTY TRANSACTION

A Related Party Transaction includes any transaction or arrangement between the Company and a related party, including:

4.1 Financial Transactions

- Loans, advances, or credit facilities provided or received
- Guarantees, pledges, or collateral arrangements
- Deposits or investment holdings
- Lease or rental agreements
- Dividend or profit distribution

4.2 Commercial Transactions

- Purchase or sale of goods or services
- Supply of raw materials or components
- Provision of technical or professional services
- Software, licenses, or intellectual property usage
- Marketing or distribution agreements

4.3 Other Transactions

- Employment or appointment as director/officer/consultant
- Retirement benefits or severance arrangements
- Acquisition or disposal of assets
- Merger, amalgamation, or demerger proposals
- Settlement of disputes or claims
- Assignment of contracts or liabilities

4.4 Single and Aggregate Transactions

A transaction shall be deemed RPT if:

- It is a single transaction with a related party, **OR**
- It is a series of related transactions which when aggregated in a financial year exceed the threshold

5. IDENTIFICATION OF RELATED PARTIES

5.1 Disclosure Requirements

All directors and KMPs shall:

- Disclose related party relationships on prescribed form annually;
- Update disclosure whenever circumstances change;
- Disclose all entities in which they have interest;
- Provide contact details and nature of interest;
- Sign declaration confirming accuracy and completeness.

5.2 Verification Process

The Company shall:

- Verify disclosed information through independent sources;
- Cross-check Board resolutions and statutory filings;
- Review regulatory disclosures and public records;
- Maintain updated related party register;
- Communicate list of related parties to all departments;
- Instruct operational teams to flag potential RPTs.

5.3 Related Party Register

The Company shall maintain:

- Comprehensive register of all identified related parties;
- Nature and extent of relationship;
- Details of director/KMP connections;
- Updated status and contact information;
- Certificates of confirmation from directors/KMPs;
- Review and sign-off by NRC/Board annually.

6. THRESHOLDS FOR RELATED PARTY TRANSACTIONS

RPTs shall be categorized based on value and nature:

6.1 Approval Thresholds

Type of Transaction	Approval Threshold	Approving Authority
Loans/Advances	₹50 lakhs	Audit Committee
Loans/Advances	₹1 crore+	Board + Shareholder (if applicable)
Guarantees/Pledges	Any amount	Audit Committee
Services/Transactions	₹1 crore+	Audit Committee
Related Party Transactions	₹10 crore+	Board + Shareholder
RPT with Promoter/Director	Any amount	Audit Committee + Board
RPT - Salary/Remuneration	Within approved policy	No separate approval

Note: Thresholds subject to regulatory changes and amendments.

7. APPROVAL PROCESS FOR RPT

7.1 Identification Stage

When any transaction involving a related party is proposed:

- Department initiates transaction proposal with related party declaration;
- Compliance/Finance team identifies related party status;
- Raises flag if related party involvement confirmed.

7.2 Approval by Audit Committee

For RPTs below shareholder approval threshold:

- **Documentation:** Submit transaction details, commercial terms, justification;
- **Related Party Recusal:** Related party director recuses from meeting;
- **Independent Assessment:**

- Evaluate commercial reasonableness
- Verify arm's length pricing
- Assess company's interest and benefit
- Review comparable market transactions
- **Approval:** Committee approves, approves with conditions, or rejects;
- **Minutes:** Record detailed discussion and decision;
- **Documentation:** Maintain approval records and certificates.

7.3 Approval by Board

For RPTs exceeding shareholder approval threshold or if required by regulations:

- **Audit Committee Recommendation:** Audit Committee recommends transaction;
- **Board Review:** Board reviews AC recommendation and transaction merits;
- **Related Party Director Recusal:** Related party director does not participate;
- **Board Approval:** Board approves transaction with terms and conditions;
- **Minutes:** Record Board discussion and approval reasons;
- **Shareholder Notice:** Prepare shareholder approval notice if required.

7.4 Shareholder Approval

If required by law or policy:

- **NCLT Approval:** If required for large RPTs (Section 188);
- **Shareholder Resolution:** Obtain ordinary/special resolution as applicable;
- **Independent Director Recommendation:** Independent directors' views documented;
- **Disclosure:** Provide full transaction details in notice and report;
- **Recording:** Post-approval, obtain shareholder approval certificate.

7.5 Contract and Documentation

After approval:

- **Formal Contract:** Execute contract embodying transaction terms;
- **Terms and Conditions:** Include pricing, payment terms, performance obligations;
- **Certifications:** Obtain director/KMP certification on accuracy and completeness;
- **Records Maintenance:** Maintain in transaction/contract file;
- **Regular Monitoring:** Track transaction execution and compliance.

8. ARM'S LENGTH PRICING

The Company shall ensure:

8.1 Pricing Principles

- **Market Rates:** Price comparable to similar transactions with unrelated parties;
- **Competitive Conditions:** Terms and conditions no more favorable than unrelated transactions;
- **Independent Valuation:** For significant transactions, obtain independent valuation;
- **Benchmarking:** Compare pricing with market benchmarks and industry standards;
- **Documentation:** Maintain evidential support for pricing justification.

8.2 Valuation Methods

For complex transactions:

- **Comparable Uncontrolled Price (CUP):** Compare with similar transactions;
- **Cost Plus Method:** Apply appropriate markup on costs;
- **Resale Price Method:** Apply appropriate deduction from retail price;
- **Independent Appraisal:** Use third-party professional valuers;
- **Market Analysis:** Reference market studies and research.

8.3 Pricing Review

- Annually review pricing of ongoing RPTs;
- Adjust if market conditions change significantly;
- Document review and any adjustments;
- Obtain Audit Committee approval for significant changes.

9. DISCLOSURE IN FINANCIAL STATEMENTS

9.1 Schedule of Related Party Transactions

The Notes to Accounts shall include:

- Schedule disclosing all material RPTs;
- Name and relationship of related party;
- Nature and value of transaction;
- Terms and conditions;
- Amount outstanding at year-end;
- Maximum amount during the year.

9.2 Related Party Transaction Details

Specific disclosures for:

- **Loans and Advances:** Principal, interest, terms, security, default status;
- **Guarantees and Pledges:** Nature, amount, terms, recourse;
- **Sales and Purchases:** Volume, price basis, outstanding receivables/payables;
- **Services:** Type, cost, recipient, amount;
- **Key Managerial Personnel Remuneration:** Salary, benefits, and compensation breakup;
- **Directors' Interest:** Shareholding, properties, liabilities.

9.3 Audit Committee Declaration

The Audit Committee shall:

- Certify that all RPT approvals were properly obtained;
- Confirm transactions were conducted at arm's length;
- Declare no material non-compliance with this policy;
- Sign audit committee report with RPT certification.

10. CONFLICT OF INTEREST MANAGEMENT

10.1 Disclosure of Interest

- Directors/KMPs shall disclose interest in transactions and contracts;
- Disclosure shall be made before Board discussion and approval;
- Director/KMP shall recuse from discussion and voting;
- Abstention recorded in Board minutes;
- Related party director does not receive transaction information (if restricted).

10.2 Recusal from Proceedings

- Related party director shall not be present during discussion;
- Discussion shall not be shared with interested party;
- Board may seek independent advice if required;
- Formal recusal certificate shall be obtained if needed.

10.3 Confidentiality

- Transaction details kept confidential from related party director if required;
- Information provided only on need-to-know basis;
- Compliance with information barriers and restricted information handling;
- Protection against misuse of confidential information.

11. MONITORING AND REVIEW

11.1 Ongoing Monitoring

- Finance team monitors RPT execution and compliance;
- Quarterly report on pending and ongoing RPTs;
- Flag any deviations from approved terms;
- Review payment receipts and settlement patterns;
- Verify transaction documentation completeness.

11.2 Audit Committee Review

- Quarterly review of all RPTs;
- Assessment of compliance with approval terms;
- Review of arm's length pricing maintenance;
- Investigation of any irregularities or deviations;
- Assessment of Company's interest protection.

11.3 Annual Certification

The CFO and CEO shall:

- Annually certify that all RPTs were approved as per policy;
- Confirm transactions were conducted at arm's length;
- Declare no prohibited transactions occurred;
- Identify any improvements needed in RPT process;
- Sign certification and file with Board.

12. PROHIBITED TRANSACTIONS

The Company shall NOT enter into:

- a. **Credit transactions** with directors/officers above specified thresholds without board approval;
- b. **Loans for share acquisition** to directors or employees for purchasing Company shares;
- c. **Guarantees or pledges** for third-party liabilities on behalf of related parties;
- d. **Dividend or advance** to related parties without proper approval;
- e. **Related party transactions** for insider trading or market manipulation;
- f. **Transactions** designed to circumvent this policy or regulatory requirements;
- g. **Self-dealing transactions** where director has undisclosed interest;
- h. **Preferential transactions** that disadvantage the Company or other shareholders;
- i. **Transactions** with persons disqualified or under regulatory action.

13. EXCEPTIONS AND WAIVERS

13.1 Standard Transactions

Transactions not requiring specific RPT approval:

- Salary and allowances paid under Board-approved remuneration policy;
- Retirement and post-retirement benefits under policy;
- Employment as director/officer on Board-approved terms;
- Transactions in ordinary course of business at standard terms (e.g., bank accounts, deposit boxes);
- Transaction amounts below ₹5 lakhs in a financial year.

13.2 Waiver Process

- Audit Committee may grant waiver for procedural compliance;
- Waivers granted only in exceptional circumstances;
- Conditions imposed for substantive compliance;
- Documented and reported to Board immediately;
- No waiver for material non-compliance or regulatory breach.

14. REPORTING AND DISCLOSURE

14.1 Stock Exchange Disclosures

- Submit Form PCS (in case of material RPT) to stock exchange;
- Make announcement on stock exchange within required timeframe;
- Upload transaction details on exchange website;
- Respond to exchange queries promptly.

14.2 Annual Report Disclosures

- Related Party Transaction Policy summary and URL;
- List of identified related parties;
- Summary of material RPTs and approvals;
- Related party transaction schedule in Notes to Accounts;
- Audit Committee's certification on RPT compliance;
- Statement of Board approval and shareholder approval.

14.3 Regulatory Filings

- Submit related party transaction details to RBI as required;
- Compliance report to regulatory authorities;
- Response to regulatory queries and inspections;
- Updated disclosures if policies or transactions change.

15. VIOLATIONS AND CORRECTIVE ACTION

15.1 Identification of Violations

- Audit Committee investigates any suspected RPT violations;
- Internal audit flags non-compliant transactions;
- Whistleblower mechanism reports concerns;
- External auditor raises findings.

15.2 Consequences

- Related party director may face removal from Board;
- Remuneration or contract may be forfeited;
- Company may pursue recovery of amounts;
- Regulatory report filed with RBI;
- Appropriate action under disciplinary policy;
- Whistleblower protection ensured.

15.3 Corrective Action

- Transaction corrected through adjustment or reversal;
- Excess payment recovered from related party;
- Policy process strengthened to prevent recurrence;
- Training provided to relevant staff;
- Board review and policy amendments if needed.

16. POLICY REVIEW AND AMENDMENTS

- Policy reviewed annually by Audit Committee and Board;
- Updated for regulatory changes and amendments;
- Communicated to all staff and related parties;
- Published on Company website;

- Training provided on policy requirements and procedures.

For Navarathna Housing Finance Ltd.,



(Managing Director)