

MANAPPURAM FINANCE LIMITED (MAFIL)

POLICY FOR ADDRESSING FUNDING NEEDS OF SUBSIDIARIES

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Prepared by	Risk Management Department
Reviewed by	Policy Review Committee
Approved by	MD and CEO, MAFIL

1. Background

The Board of Directors of Manappuram Finance Limited (MAFIL) is committed to ensuring that all transactions involving loans to subsidiaries are conducted in a fair, transparent, and prudent manner. In line with this commitment and to ensure compliance with applicable laws and regulations, this policy has been formulated to provide a framework for evaluating and approving loans to subsidiaries, addressing related-party issues, and ensuring that such transactions are economically viable and in the best interests of the Company and its stakeholders. This Policy shall be read in conjunction with applicable provisions of the Companies Act 2013, SEBI (LODR) Regulations, 2015 (including Regulation 23), Reserve Bank of India Directions and applicable Indian Accounting Standards.

2. Policy proposition

MAFIL recognises that in the initial 3 to 5 years of formation of subsidiaries, they may require parental support in the form of equity and loans. The Company's general policy is that each subsidiary once reaching 3 to 5 years of existence, should be able to raise the resources required from the market based on its own credentials. Notwithstanding, the company is required to recognise that there may be difficulties for subsidiaries which are in existence for 3 to 5 years also, in raising resources at economically sustainable and competitive terms due to various systemic issues.

3. Options available to MAFIL to fund its subsidiaries

The options available for the company will be (a) direct funding, (b) providing corporate guarantee to the prospective lenders to the Subsidiaries and (c) Issuing Letter of comfort to the prospective lenders to the subsidiaries.

While Direct lending and guarantee options will have Capital adequacy and ALM impacts, Letter of comfort option can be a good alternative to go for. These letters of comfort are in the form of letters addressed to the lenders / subsidiary affirming that during the currency of loans from lenders, MAFIL shall continue to have controlling interest in the subsidiary. If lenders insist, MAFIL can also specify that it will not divest shareholdings in the subsidiary beyond a specified limit and that its shareholding will not go below a certain per cent. Draft of the comfort letter shall be prepared in consultation with our auditors and vetted by a reputed legal firm. Though Letter of comfort option will be the most preferred option as long as the commercial terms are competitive, it also depends on the relative powers of the subsidiaries and parent to persuade the lenders to accept such lending terms.

Accordingly, Subsidiaries shall be persuaded to explore the Letter of comfort option as illustrated in the preceding paragraph, wherever possible which as per conventional accounting practice do not warrant any treatment as a contingent liability. If the letter of

comfort includes any financial commitments, there should be a prudential balance sheet disclosure.

Wherever direct funding and/or guarantee options are necessary, MAFIL, the parent based on scrutiny of appropriate documents evidencing rejection of finance, covenants necessitating finance from lower rate of interest by the parent, holding back of sanctioned facilities, events of defaults in the loan covenants etc., will consider support to subsidiaries by providing need-based finance / guarantee facilities.

MAFIL shall price direct funding or providing guarantees subject to Arm's length norms appropriately taking into account the implicit support that the parent is bound.

4. Economic Rationale

MAFIL's Wholly owned subsidiaries and majority owned subsidiaries may be able to command on a standalone basis certain level of standing for raising resources required by them from time to time from the market. However, it is important for the group to ensure that such resources are available timely so that their operations are not impacted. Therefore, it may be necessary for the parent company to extend resources support in situation where it may be difficult for them to raise funds from the market at competitive cost and also whenever the parents' funds position is better and could take this route rather than idling its funds. Accordingly, we need to balance the situations and to have a strategy optimising these aspects.

5. Prudential issues

Lending to subsidiaries, in excess of 10% of owned funds, will require the entire amount to be deducted from the Net worth as against normal Capital Adequacy (15% being minimum) in case of lending to other borrowers. This would mean that any lending can be resorted to as long as MAFIL has surplus capital, and our liquidity position is and is expected to be comfortable during the tenor of the loan or expect to have competitive access to competitively priced funds from the open market.

6. Related party issues

All such transactions (as mentioned in Clause 3 of this policy) shall be treated as Related Party Transactions and shall be undertaken in the ordinary course of business and on an arm's length basis in compliance with Regulation 23 of SEBI (LODR) Regulations, 2015, with requisite approvals of the Audit Committee, Board and shareholders, wherever applicable. However, being a group entity, while determining the arm's length interest rate, both perspectives (Take into account the perspectives of lender and borrower) to be considered independently, as follows:

- Existing implicit support of the lender to the borrower
- Debt raising capacity of the borrower entity.
- The borrowers credit rating and credit worthiness.
- Any lenders covenant applicable to MAFIL from its lenders.
- Covenants of subsidiaries to their lenders to obtain and maintain particular level of loans from the holding company at lower rate of interest, subordinate to the lenders' loans. (Though many of the Indian lenders conventionally stipulates such covenants in the financing documents, as such stipulations goes against the arms – length test, such lenders should be persuaded to not insist for the parent charging lower interest).
- In case of subscription to subordinated debt of the subsidiary, the pricing should not be below the rates of the third-party subscribers.
- The opportunity cost of making the loan.
- Analysis of interest rate at which other lenders lend to them or these lenders lend to similarly placed borrowers.
- Proper legal documentation.

7. Approving Authorities

All proposals for financial support to subsidiaries shall be approved in accordance with a defined approval framework, including prior approval of the Audit Committee and the Board of Directors, and shareholder approval wherever required under applicable laws. Any approvals granted by MD & CEO under exigencies shall be placed before the Audit Committee and Board for ratification. If any loans are sanctioned by MD & CEO on contingencies, such sanctions shall be brought before the Audit Committee and the Board for its consideration and ratification.

8. Loans and advances to Directors and companies they are interested in

“MAFIL shall not grant loans, advances, guarantees or securities to directors or to entities in which directors are interested, except in compliance with the Reserve Bank of India (Non-Banking Financial Companies – Credit Risk Management) Directions, 2025 regulations, and with prior approval of the Board of Directors or its Committee as may be applicable.

- any company in which any of their directors, or their relatives is interested as a major shareholder, director, manager, employee or guarantor.
- A director or his relatives shall be deemed to be interested in a company, being the subsidiary or holding company, if he is a major shareholder or is in control of the respective holding or subsidiary company.

The director who is directly or indirectly concerned or interested in any proposal should disclose the nature of his interest to the Board when any such proposal is discussed. He should recuse himself from the meeting unless his presence is required by the other

directors for the purpose of eliciting information and the director so required to be present shall not vote on any such proposal.

8A. General Principles on Lending to Related Parties

a. Provisions in the Credit Policy

- The Board shall have the overall responsibility of ensuring that suitable mechanisms are put in place for implementation of the policy on lending to related parties by the MAFIL
- The credit policy of MAFIL , as required in terms of the extant directions, shall contain specific provisions relating to ‘lending to related parties’ in accordance with the provisions of Reserve Bank of India (Non-Banking Financial Companies – Credit Risk Management) Directions, 2025. The policy shall prescribe, inter alia, additional safeguards to address the risks emanating from lending to related parties.
- The policy shall also have specific provisions for lending to ‘Specified employees’ of MAFIL and their relatives.
- Further, the policy shall, as a part of the whistleblowing mechanism, encourage employees to communicate confidentially and without the risk of reprisal, legitimate concerns about irregular, unethical, or questionable loans to related parties; and eliminate quid pro quo arrangements, if any.
- The policy shall specify aggregate limits for loans towards related parties. Within this aggregate limit, there shall be sub-limits for loans to a single related party and a group of related parties. These limits shall be within the extant prudential exposure limits prescribed by the Reserve Bank.

b. Materiality Threshold

- Credit Facilities to related parties can be extended by MAFIL in terms of their credit policy. However, such loans, including personal loans to directors or a KMP, shall be subject to a materiality threshold as per the credit policy, which shall not be higher than the following ceilings:

Category of NBFCs	Materiality Threshold
Middle Layer	₹5 crore
Layer of the NBFC shall be based on the last audited balance sheet.	

For loans, materiality threshold shall apply at individual transaction level.

- All loans above the prescribed materiality threshold shall be sanctioned by the Board of MAFIL . However, MAFIL at its discretion, may delegate the above powers of lending beyond the materiality threshold to a Committee of the Board other than the Audit Committee of the Board. As regards loans below the materiality threshold, the same can be sanctioned by appropriate authority in terms of powers delegated to them.

c. Recusal of Interested Parties

- Directors, KMP, or Specified employees shall recuse themselves from deliberations and decision on loan proposals, or contracts and arrangements, involving themselves or their related parties. Such recusal shall also extend to deliberations and decisions relating to any subsequent material changes to the terms of such loans, including one-time settlements, write-offs, waivers, enforcement of security, implementation of resolution plans, etc

d. Monitoring of Loans to Related Parties

- MAFIL shall put in place a suitable mechanism for maintaining and periodically updating the list of all the related persons, and the related parties thereof, as well as the loans sanctioned by the bank to such related persons and related parties.
- Credit facilities sanctioned to 'specified employees' and their relatives shall be reported to the Board on an annual basis.
- Periodic reviews shall be conducted at quarterly or shorter intervals by internal auditors to check, inter alia, whether guidelines and procedures in relation to loans to related parties are being adhered to or not.
- Any deviation from the policy relating to lending to related parties and reasons therefor shall be reported to the Audit Committee of the Board or to the Board, where Audit Committees are not formed.
- Any product, entity or structure formed with the objective of circumventing these Directions through various means, such as reciprocal lending or quid pro quo arrangements, and identified as such by the auditors of MAFIL or by the supervisory authority and investigating agencies shall always be treated as lending to related party.

e. Others

- In addition to the provisions of these Directions on lending to related parties, MAFIL shall continue to comply with the applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time.

f. Enforcement Actions

- Any non-compliance with and circumvention of these Directions shall result in imposition of supervisory and enforcement actions as deemed appropriate by the Reserve Bank. These penalties may include imposition of monetary penalty, requirement of full provisioning, directions to conduct staff accountability exercises, forensic audits, and restrictions or any other supervisory and enforcement actions as deemed fit.

9. Pricing options (Arm's length norms)

9.1 Lender's perspective

Scenarios / particulars	Comments
Based on cost of funds (Marginal cost) plus a spread (mark-up) comprising capital cost and overheads.	For computation of the net owned funds, investments and advances in subsidiaries in excess of 10% of owned funds will be deducted from the owned funds. As our exposure to subsidiaries are in excess of 10% of our owned funds, any incremental loans to subsidiaries will be deducted from our owned funds. Given the fact that the 100 % of the amount will be deducted from the owned funds, this approach (recovery of capital cost) will not be practical. However, recovery of reasonable overheads can be considered while fixing spread. For loans within the 10% of the owned funds this approach (i.e. recovery of capital cost and overheads) is practical.



Based on cost of funds (Marginal cost) with no mark up	This can be adopted subject to the following: a) Satisfying lenders covenant, if any, applicable to the subsidiary or MAFIL b) MAFIL'S liquidity position is extremely comfortable with limited options for alternative deployment during the tenor.
Parent's ALM indicates a clear business surplus and subsidiary has exhausted market sources.	In such cases the yield spread between lending to subsidiary and investment of the surplus liquidity by the parent in market instruments should be evaluated and rationale for lending should be documented in ACB. It shall be ensured that the funds so lent to all the subsidiaries shall not exceed 50% of the operational cashflow per annum generated by the parent.
Guarantee commission on guarantees	The guarantee fee being paid by MAFIL to its lenders for the financial guarantees, subject to a minimum of 1% p.a.

9.2 Borrowers' perspective

At the rate at which the entity can access similar tenor funds from open market based on its own credit rating, with or without a letter of comfort from parent; or at the rate offered by parent, whichever is low	This may be acceptable, but it does not consider: a) any implicit support available from parent; and b) the subordination requirement insisted by the lenders from the parent.
At the rate at which the entity can access similar tenor funds from open market plus 100 bps or at the rate offered by parent whichever is low	Given the implicit support that the parent continues to extend to the borrower, it will be justified in conceding a marginal premium over market quotes from other lenders
