

POLICY ON LOANS AND ADVANCES TO DIRECTORS AND SENIOR OFFICERS

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Contents	Pg. No.
Introduction	2
Definitions	2-3
Regulatory Restrictions on Loans and Advances	4-5
Loans and advances to Real Estate Sector	5
Provisions of Companies Act, 2013	6
Annexure- A & B	7-8

1. Introduction

With a view to develop a strong and resilient financial system, the Reserve Bank of India (RBI) vide notification RBI/2021-22/112 bearing Ref. No. DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021 had prescribed a Scale Based Regulation (SBR)- A Revised Regulatory Framework for NBFCs.

The SBR approach renders the regulation and supervision of the NBFCs to be a function of their size, activity and perceived riskiness. These regulations came into effect from October 01, 2022.

The said circular apart from the other scale-based regulations provided for certain regulatory restriction on the loans extended by NBFCs to their directors, senior officers and relatives thereof. As per the said circular the company is categorized as NBFC- Middle Layer and accordingly the regulations as applicable for NBFC- Middle layer shall be complied with.

In accordance with the above the "Board of Directors" ("*Board*") of Sonata Finance Private Limited ("*the Company*") has formulated a Policy on grant of loans to directors, senior officers and relatives of directors and to entities where directors or their relatives have major shareholding.

2. Definitions

- i) "**Board of Directors**" or "**Board**" in relation to a company, means the collective body of the directors of the company;
- ii) "**Company**" means Sonata Finance Private Limited.
- iii) "**Control**" as per Clause (27) of Section 2 of the Companies Act, 2013, shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner.
- iv) "**Employee**" means those employees who are on the payroll of the company.
- v) "**Major shareholder**" shall mean a person holding 10 % or more of the paid-up share capital or five crore rupees in paid-up shares, whichever is lower.
- vi) "**Managing Director**" as per clause (54) of Section 2 of the Companies Act, 2013, means a director who, by virtue of the articles of a company or an agreement with the company or a resolution passed in its general meeting, or by its Board of Directors, is entrusted with substantial powers of management of the affairs of the company and includes a director occupying the position of managing director, by whatever name called.

- vii) **"Middle Layer"** shall consist of (a) all deposit taking NBFCs (NBFC-Ds), irrespective of asset size, (b) non-deposit taking NBFCs with asset size of ₹1000 crore and above and (c) NBFCs undertaking the following activities (i) Standalone Primary Dealers (SPDs), (ii) Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs), (iii) Core Investment Companies (CICs), (iv) Housing Finance Companies (HFCs) and (v) Infrastructure Finance Companies (NBFC-IFCs).
- viii) **"Relative"** as per Clause (77) of Section 2 of the Companies Act, 2013, "relative", with reference to any person, means anyone who is related to another, if—
(i) they are members of a Hindu Undivided Family;
(ii) they are husband and wife; or
(iii) one person is related to the other in such manner as may be prescribed;
- ix) **"Senior Officer"** shall have the same meaning as assigned to **"Senior Management"** under Section 178 of the Companies Act, 2013 which shall mean personnel of the company who are members of its core management team excluding Board of Directors comprising all members of management one level below the executive directors, including the functional heads.

3. Regulatory Restrictions on Loans and Advances

Loans and advances to Directors

Unless sanctioned by the Board of Directors, the Company shall not grant any loans and advances aggregating Rupees Five crores and above to –

- (i) its directors (including the Chairman/ Managing Director) or relatives of the directors;
- (ii) any firm in which any of their directors or their relatives are interested as a partner, manager, employee or guarantor; and
- (iii) any company in which any of their directors, or their relatives are interested as a major shareholder, director, manager, employee or guarantor.

Provided that a director or his/her relatives shall be deemed to be interested in a Company, being the subsidiary or holding company, if they are major shareholder or in control of the respective holding or subsidiary company.

Provided that the Director who is directly or indirectly concerned or interested in any proposal shall disclose the nature of their interest to the Board when any such proposal is discussed. Such interested directors shall recuse themselves from the meeting, subject to their presence being 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.

The proposals for credit facilities of an amount being less than Rupees Five crore, to the borrowers shall be sanctioned by the Financial Advisory and Asset & Liability Management Committee ("*Committee*") of the Company under powers vested by board. All the proposals approved by the committee shall be reported to the Board of Directors on quarterly basis.

In case any of the committee members is interested in the proposal for grant of loan, he /she shall rescue himself/ herself from the discussion over the said agenda and the remaining members forming the quorum shall consider the proposal.

The terms and conditions for loans amounting to Rs.10 Lakhs or more are covered as **Annexure-B**. Further, any credit facility below the amount of Rs. 10 Lakhs shall continue to be governed by the terms and conditions as covered in the Loan Policy of the company.

Further the committee may approve interest free salary advances up to 20% of annual salary / incentive payable to the Managing Director and the Senior officers. However, any such approval shall be subject to the limits of the committee and the grant of such assistance shall be reported to the Board on quarterly basis. Further no subsequent advances shall be allowed, until the settlement of the previous advances extended.

For the purpose of grant of loan to the directors or senior officials, as previously mentioned:

- (i) The Company shall obtain a declaration from the borrower giving details of the relationship of the borrower with the directors/ senior officers of the Company for loans and advances aggregating Rupees Five crore and above. The Company shall recall the loan if it comes to their knowledge that the borrower has given a false declaration.
- (ii) These guidelines shall be duly brought to the notice of all directors & placed before the NBFC board of directors.
- (iii) The Company shall disclose in its Annual Financial Statement, aggregate amount of such sanctioned loans and advances in the format as annexed (**Annexure A**) to this policy

Loans and advances to Senior Officers

The Company shall abide by the following when granting loans and advances to their senior officers:

- i) Loans and advances sanctioned to senior officers of the NBFC shall be reported to the Board on a quarterly basis.
- ii) No senior officer or any Committee comprising, inter alia, a senior officer as member, shall, while exercising powers of sanction of any credit facility, sanction any credit facility to a relative of that senior officer. Such a facility shall be sanctioned by the next higher sanctioning authority under the delegation of powers.

The above norms relating to grant of loans and advances shall equally apply to awarding of contracts to the directors, their relatives or the senior officials.

4. Loans and advances to Real Estate Sector

While appraising loan proposals involving real estate, the company shall ensure that the applicant has obtained prior permission from government/ local government/ other statutory authorities for the project, wherever required. To ensure that the loan approval process is not hampered on account of this, while the proposals may be sanctioned in normal course, the disbursements shall be made only after the borrower has obtained requisite clearances from the government / other statutory authorities.

For the purpose application of regulatory restrictions on grant of Loans and Advances above, the term 'loans and advances' will not include loans or advances against -

- a) Government securities
- b) Life insurance policies
- c) Fixed deposits
- d) Stocks and shares
- e) Any loans granted to an employee of the company under any scheme applicable generally to employees.

Provided that company's interest/lien is appropriately marked with legal enforceability.

5. Provisions of Companies Act, 2013

The policy, in addition to the foregoing provisions, shall also cover the provisions of the Companies Act 2013 with regard to Loans & Advances to the Directors. In compliance with the provisions of Section 185 of the Companies Act, 2013, the company shall not either directly or indirectly, advance any loan, to any of its directors or to any other person in whom the director is interested or give any guarantee or provide any security in connection with any loan taken by him or such other person.

The expression —“to any other person in whom director is interested” shall mean and include:

- (a) any director of the lending company, or of a company which is its holding company or any partner or relative of any such director;
- (b) any firm in which any such director or relative is a partner;
- (c) any private company of which any such director is a director or member;
- (d) anybody corporate at a general meeting of which not less than twenty-five per cent. of the total voting power may be exercised or controlled by any such director, or by two or more such directors, together; or

(e) anybody corporate, the Board of directors, managing director or manager, whereof is accustomed to act in accordance with the directions or instructions of the Board, or of any director or directors, of the lending company.

However, giving of any loan to a Managing or Whole-time director:

- (i) as a part of the conditions of service extended by the company to all its employees;
or
- (ii) pursuant to any scheme approved by the members by a special resolution shall be exempted.

Loans to Directors, Senior Officers and relatives of Directors

(₹ crore)

	Current Year	Previous Year
Directors and their relatives		
Entities associated with directors and their relatives		
Senior Officers and their relatives		

Terms and conditions

Loans amounting to Rs. 10.00 Lakhs or more to directors & Senior Officers and their relatives shall be granted as per the following terms and conditions.

1. **Purpose** – as defined in the existing loan policy of the company duly approved by board of directors
2. **Security** –
 - i) Third party guarantee / mortgaged property having means / value of proposal not less than 125% of loans.
 - ii) Lien / Hypothecation on assets being financed.
 - iii) Collaterals to be vetted by company's approved advocate & valuer if obtained.
3. **Rate of Interest** – The rate of interest chargeable from the director or Senior officers (including their relatives) shall be equal to the cost of funds (being the financial cost at which the funds are raised by the company) during the financial year previous to the year in which the loan is being given