

# AU Small Finance Bank Limited

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## POLICY ON RELATED PARTY TRANSACTIONS & MATERIALITY

## Version Control

Document Version	Description of Changes	Date	Prepared / Changed by
1.0	First Version was approved by Board	24 <sup>th</sup> January 17	Secretarial Department
1.1	The same is being put up in view of transition to Banking platform.	April 17	Secretarial Department
2.0	Annual review of Policy by Board	April 18	Secretarial Department

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## 1. Introduction

Au Small Finance Bank Limited (hereinafter referred to as “Bank”) shall be governed by the Banking Regulation Act 1949, Companies Act, 2013 and Rules made thereunder, Accounting Standard 18 issued by ICAI until Ind AS - 24 issued by the MCA, becomes applicable, RBI guidelines and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. In view of the above guidelines, the policy on arm’s length for reviewing, approving and ratifying RPT and providing disclosures with respect to the above transactions is being approved by the Board.

This policy seeks to define a mechanism to handle RPT in order to ensure the transparency and substantive and procedural fairness of such transactions. The RPT can present a potential or actual conflict of interest which may be against the best interest of the Company.

This policy seeks to provide guidance on identification of related parties and the proper conduct and documentation of all related party transactions.

## 2. Objective

The key objectives of this policy are as under

- i) Ensure due and timely identification, approval, disclosure and reporting of transactions between the Company and any of its Related Parties in compliance with the applicable laws and regulations as may be amended from time to time.
- ii) Identify outstanding balances, including commitments, between the Company and its related parties
- iii) Determine the disclosures to be made about those items.
- iv) Ensure that the Company’s financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.
- v) Govern the approval process and disclosure requirements to ensure transparency in the conduct of Related Party Transactions in the best interest of the Company and to comply with the statutory provisions in this regard.

## 3. Applicability

- i) The policy document applies to reporting related party relationships and transactions between a reporting enterprise, i.e. the Company and its related parties. This policy shall be applicable to transactions undertaken with Board of Directors & their Relatives;
- ii) Key Managerial Personnel (KMP) of the Bank & their Relatives; and
- iii) Related Parties as defined under Companies Act 2013

The above terms have been defined in Annexure 1 of the policy.

## 4. Identification of Related Party Transaction

The Company shall consider any transaction/s with a related party as material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds 5% percent of the annual consolidated turnover and as per the last audited financial statements.

Related party with reference to a Bank means:

- i) Names of his / her Relatives;
- ii) Partnership firms in which he / she or his / her Relative is a partner;
- iii) Private Companies in which he/ she is a member or Director;
- iv) Public Companies in which he/she is a Director and holds along with his/her Relatives more than 2% of paid up share capital;
- v) Any Body Corporate whose Board of Directors, Managing Director or Manager is accustomed to act in accordance with his / her advice, directions or instructions; and
- vi) Persons on whose advice, directions or instructions, he / she is accustomed to act (other than advice, directions or instructions obtained from a person in professional capacity).

Every Whole Time Director and the Key Managerial Personnel will also be responsible to update the management of any changes in the above relationships, directorships, holdings, interests and/ or controls immediately on him / her becoming aware of such changes.

The Company Secretary and or /Secretarial Department shall prepare and maintain the database of Related Parties on the basis of aforesaid information/ declaration including any revisions therein. Internal auditors/ Statutory Auditor shall verify the process of ascertaining the Related Parties and their correct recording /listing in register of Contracts/arrangement etc. as per the Section 189 of the Companies Act, 2013 and Rules thereof as well as their classification regarding whether they are on arm's length basis.

The aforesaid list shall be circulated to MD/CFO/ Department Heads/ Branch Heads, the Finance & Accounts Department and statutory auditor.

## 5. Disclosure and Reporting Requirements

### 5.1 Regulatory Disclosures

The Bank shall place the policy on Related Party Transactions on its website.

The Company shall disclose the name and nature of related party relationship, irrespective of whether there have been transactions, where control exists. The disclosures may be limited to aggregate for each of the above related party categories and as indicated in the format below:

Items/ Party	Related	Associates/Joi nt Ventures	Key Management Personnel	Relatives of Key Management Personnel	Total
Borrowings					
Deposits					
Placement of Deposits					
Advances					
Investments					
Non funded Commitments					
Leasing / HP Arrangements availed					
Purchase of Fixed Assets					
Sale of fixed assets					
Interest paid					
Interest received					
Rendering of services					
Receiving of					

services				
Management contracts				

*Note:* Where there is only one entity in any category of related party, the Company need not disclose any details pertaining to that related party other than the relationship with that related party.

## Policy on Related Party Transactions & Materiality

### 5.2 Statutory Disclosures

The disclosure requirements in the annual report as per the SEBI LODR Regulations shall be as follows:

Sr. no.	In the accounts of	Disclosures of amounts at the year end and the maximum amount of loans/ advances/ Investments outstanding during the year.
1	Holding Company	Loans and advances in the nature of loans to subsidiaries by name and amount.  Loans and advances in the nature of loans to associates by name and amount.  Loans and advances in the nature of loans to firms/companies in which directors are interested by name and amount.

The Company shall also disclose the materially significant related party transactions that may have potential conflict with the interests of the Company at large.

The Audit Committee shall review, at least on a quarterly basis, the details of RPTs entered into by the Company pursuant to each of the omnibus approval given.

The Audit Committee shall also review the statement of significant related party transactions as submitted by the senior management.

### 5.3 Accounting standard related disclosures

The Company shall disclose key management personnel compensation in total and for each of the following categories:

- i) short-term employee benefits;
- ii) post-employment benefits;
- iii) other long-term benefits;
- iv) termination benefits; and
- v) share-based payment.

If the Company has/had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationships as well as information



about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. At a minimum, disclosures shall include:

- i) the amount of the transactions;
- ii) the amount of outstanding balances, including commitments, and their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and details of any guarantees given or received;
- iii) provisions for doubtful debts related to the amount of outstanding balances; and
- iv) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

The disclosures shall be made separately for each of the following categories:

- i) entities with joint control or significant influence over the entity;
- ii) associates;
- iii) joint ventures in which the entity is a venturer;
- iv) key management personnel of the entity and
- v) other related parties

## **6. Approval for Related Party Transactions**

### **6.1 Procedure for seeking omnibus approval for Related Party Transactions**

Functional departmental heads shall submit to the Chief Financial Officer (CFO) and Company Secretary (CS) the details of proposed transaction with details/draft contract/ draft agreement or other supporting documents justifying that the transactions are on arms' length basis in an ordinary course of business at prevailing market rate. Based on this note, Company Secretary will appropriately take it up for necessary prior approvals from the Audit Committee at its next meeting and convey the decision to the originator.

All Related Party Transactions (RPTs) shall require prior approval of the Audit Committee of the Board (ACB). However, the ACB may grant omnibus approval for Related Party Transactions for not more than 1 year, after which fresh approval shall need to be taken. Such omnibus approval shall specify (i) the name/s of the related party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into, (ii) the indicative base price / current contracted price and the formula for variation in the price if any and (iii) such other conditions as the Audit Committee may deem fit;

In cases where the need for Related Party Transaction cannot be foreseen and aforesaid details are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs.1 crore per transaction and such approval shall be valid for a period of One Year.

In case of non-repetitive transactions, the agenda of the Audit Committee at which the item is proposed to be moved shall disclose-

- i) the name of the related party and nature of relationship;
- ii) the nature, duration of the contract and particulars of the contract or arrangement;
- iii) the material terms of the contract or arrangement including the value, if any;
- iv) any advance paid or received for the contract or arrangement, if any;
- v) the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
- vi) whether all factors relevant to the contract have been considered, if not, the details of factors not considered with the rationale for not considering those factors;
- vii) any other information relevant or important for the Audit Committee to take a decision on the proposed transaction; and
- viii) statement of transactions as per the contracts/arrangements.

The MD/ CFO should certify whether the contracts/transactions are at arm's length. Similarly the internal auditors and /statutory auditors should examine the entire documentation and certify the same.

Where any director is interested in any contract or arrangement with a related party, such director should not be present at the meeting during discussions on the agenda item relating to such contract or arrangement.

## **6.2 Review and Approval of Related Party Transactions**

Related Party Transactions will be referred to the next regularly scheduled meeting of Audit Committee for review and approval. All entities falling under the definition of related parties shall abstain from voting irrespective of whether the entity is a party to the particular transaction or not.

To review a Related Party Transaction, the Committee will be provided with all relevant material information of the Related Party Transaction, including the terms of the transaction, the business purpose of the transaction, the benefits to the Company and to the Related Party, and any other relevant matters.

Except with the consent of the Board of Directors given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, the Company shall not enter into any contract or arrangement with a related party with respect to:

- i) Sale, purchase or supply of any goods or materials
- ii) Selling or otherwise disposing of, or buying, property of any kind
- iii) Leasing of property of any kind
- iv) Availing or rendering of any services
- v) Appointment of any agent for purchase or sale of goods, materials, services or property
- vi) Such related party's appointment to any office or place of profit in the Company, its subsidiaries or associates, and

- vii) Underwriting the subscription of any securities or derivatives thereof, of the Company

No contract or arrangement, in the case of the Company having a paid-up share capital of not less than such amount, or transactions not exceeding the prescribed limits in Companies Act, 2013, shall be entered into except with the prior approval of the Company by a special resolution.

No member of the Company shall vote on such special resolution, to approve any contract or arrangement which may be entered into by the Company, if such member is a related party.

## **7. Confidentiality Obligations**

Related party disclosure requirements as laid down as per Accounting Standard 18 and Ind AS – 24 apply in circumstances where providing such disclosures would conflict with the reporting entity's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.

In case a statute or a regulator or a similar competent authority governing the Company prohibits the Company to disclose certain information which is required to be disclosed as per the above referred standard, disclosure of such information is not warranted.

## **8. Related Party Transactions without the prior approval under this Policy**

In the event the Company becomes aware of a Related Party Transaction that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all the relevant facts and circumstances regarding the Related Party Transaction and shall evaluate all options available to the Company, including ratification, revision or termination of the Related Party Transaction.

The Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Committee under this Policy, and shall take any such action it deems appropriate.

In any case, where the Audit Committee determines not to ratify a Related Party Transaction that has been commenced without approval, the Audit Committee, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation of the transaction, seeking approval of the shareholders, payment of compensation for the loss suffered by the related party, etc.

In connection with any review of a Related Party Transaction, the Audit Committee has the final authority to modify or waive any procedural requirements of this Policy.

## **9. Record Keeping**

All documentation pertaining to the Related Party Disclosure including declaration from directors, registers maintained by Secretarial Department and such other records and evidence shall be maintained permanently or such other period as specified by any other law in force, whichever is higher.

## 10. Policy Review and Updates

The Board approved policy shall be reviewed as and when required or at least annually for incorporating regulatory updates and changes, if any.

## 11. Policy Amendment Authority

Key owners responsible for Policy amendments

Policy Owners	Role
1. Chief Risk Officer	Responsible for implementation of Policy
2. Chief Vigilance Officer	Responsible for ensuring the policy is reviewed annually

## 12. Policy Authorisation

This Policy has been approved by the Board of Directors of AU Small Finance Bank Limited

## 13. Regulatory References

- i) SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- ii) Accounting Standard 18 by ICAI
- iii) Indian Accounting Standard (Ind AS 24) – Related Party Disclosures
- iv) RBI Master Circular on 'Disclosure in Financial Statements – Notes to Accounts' dated July 1, 2015
- v) RBI Master Circular – Loans and Advances – Statutory and Other Restrictions dated July 1, 2015
- vi) Companies' Act, 2013

## Annexure 1 – Definitions

Key Term	Explanation
<b>“Arm’s Length Transaction”</b>	Means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.
<b>“Associate Company”</b>	In relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company. Explanation of significant influence “significant influence” means control of at least twenty percent of total share capital, or of business decisions under an agreement.
<b>“Audit Committee”</b>	Means the audit committee constituted by the Board of Directors of the Company in accordance with applicable law, including the Listing Agreement and the Companies Act, 2013.
<b>“Board”</b>	Means the Board of Directors of AU SMALL FINANCE BANK LIMITED
<b>“Control”</b>	Shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011. As per Ind AS 24, <i>Control</i> is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
<b>“Joint Control”</b>	As per Ind AS 24, is the contractually agreed sharing of control over an economic activity.
<b>“Joint Venture”</b>	Means a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control
<b>“Key Managerial Personnel”</b>	Means Key Managerial Personnel as defined under the Companies Act, 2013, viz <ul style="list-style-type: none"> <li>i) The Managing Director or the Chief Executive Officer or the manager and in their absence, a whole time director</li> <li>ii) The Company Secretary, and</li> <li>iii) The Chief Financial Officer</li> <li>iv) Such other officials as may be prescribed under the Companies Act 2013.</li> </ul> <p>As per Ind AS 24, <i>Key management personnel</i> are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.</p>
<b>“Office or place of profit”</b>	Means any office or place <ul style="list-style-type: none"> <li>i) where such office or place is held by a director, if the director holding it receives from the Company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;</li> <li>ii) where such office or place is held by an individual other than a director or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it receives from the Bank anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise.</li> </ul>
<b>“Related Party”</b>	An entity shall be considered as related to the Company if: Such entity is a related party under Section 2 (76) of the Companies Act, 2013

Approving Authority	Board of Directors
Date of Approval/ Review	26 <sup>th</sup> April 2018