



**Utkarsh Small Finance Bank**

**RELATED PARTY TRANSACTIONS POLICY**



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## **A) Overview**

### **1. Objective**

The objective of this policy is to ensure due and timely identification of the transactions between the Bank and its Related Parties (defined below) in compliance with the applicable laws and regulations and to govern the approval process and disclosure requirements to ensure transparency in the conduct of Related Party Transactions (defined below) in the best interest of the Bank and its shareholders.

### **2. Definitions**

**“Annual Turnover”** means the total income (i.e. interest earned + other income) as per the financial statements of the Bank.

**“Arm’s Length Basis”** means a transaction between two related parties that is (a) conducted as if they were unrelated, so that there is no conflict of interest; (b) acts/ arrangements have been commercially negotiated; (c) pricing is arrived at as per the rule/guidelines that may be issued by/ under the Income Tax Act, 1961, as amended, the Reserve Bank of India, Securities and Exchange Board of India and/or such other statutory or regulatory bodies as applicable to any of the contract/ arrangements contemplated or the Listing Regulations; (d) terms of contract/arrangement other than pricing are generally on a basis similar to those as may be applicable for similar category of goods and services or similar category/ profile of counterparties; (e) such other criteria as may be issued under applicable law from time to time.

**“Audit Committee of the Board”** means the audit committee constituted by the Board in accordance with the guidelines of the RBI and Companies Act, 2013, as amended.

**“Board”** means board of directors of the Bank.

**“Key Managerial Personnel”** includes:

- i. the chief executive officer or the managing director or the manager;
- ii. the company secretary;
- iii. the whole-time director;
- iv. the chief financial officer;
- v. such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and
- vi. such other officer as may be prescribed under the Companies Act, 2013 from time to time.



**“Material Related Party Transaction”** means a transaction with a related party if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds 10% of the Annual Turnover of the Bank as per the last audited financial statements of the Bank.

Further, a transaction involving payments made to a Related Party with respect to brand usage or royalty shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed 5% of the Annual Turnover of the Bank.

**“Ordinary Course of Business”** includes but not limited to a term for activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions.

The following factors are indicative of a transaction being in the ordinary course of business:

- i. The transaction is normal or otherwise unremarkable for the business.
- ii. The transaction is frequent/regular.
- iii. The transaction is permitted by the Memorandum and Articles of Association of the Bank.
- iv. The transaction is a source of income for the business.
- v. Transactions that are part of the standard industry practice, even though the Bank may not have done it in the past.

**“Policy”** means this Related Party Transactions policy.

**“Related Party”** means related party as defined under Section 2(76) of the Companies Act, 2013 and related party under the applicable accounting standards.

**“Related Party Transaction”** means a transfer of resources, services or obligations between the Bank and a Related Party, regardless of whether a price is charged and a "transaction" with a Related Party shall be construed to include a single transaction or a group of transactions in a contract/ agreement and includes any transaction which is defined as a “related party transaction” under relevant provisions of the Companies Act, 2013, as amended, the rules prescribed thereunder, the applicable accounting standards or any other related law, regulation or standard in force from time to time.

**“Relative”** means relative as defined under Section 2(77) of the Companies Act, 2013 and the rules prescribed thereunder.

### **3. Effective date**

This policy is effective from the date it is duly approved by Board.



## **B) Policy**

All Related Party Transactions are required to be referred to the Audit Committee of the Board for approval in accordance with this Policy.

### **1. Identification of Potential Related Party Transactions**

Each director and Key Managerial Personnel is responsible for providing declaration to the company secretary containing details of Related Parties and any additional information that the company secretary may reasonably request.

Each director and Key Managerial Personnel is also responsible to update the company secretary/management of any changes in the above information immediately on him/he becoming aware of such changes.

The company secretary shall maintain a database of Related Parties containing the names of individuals and companies identified based on the definition of Related Party and declarations mentioned above, including any revisions therein, provided by the directors. The list of Related Parties shall be updated whenever necessary and shall be reviewed on a timely basis and shall be communicated to the functional departmental heads.

The functional departmental heads shall submit, to the chief compliance officer of the Bank, chief risk officer of the Bank and the company secretary, the details of a proposed transaction with draft agreement or other supporting documents justifying that the transactions are on Arm's Length Basis and at prevailing market rates. Based on such information, the Company Secretary will facilitate for the necessary approval from the Audit Committee of the Board.

### **2. Review and Approval of Related Party Transactions**

The approval policy framework is given below:

All Related Party Transactions	<b>Audit Committee of the Board</b>
Related Party Transactions referred by Audit Committee for approval of the Board to be considered and Related Party Transactions not in the Ordinary Course of Business or not on Arm's Length Basis and Material Related Party Transactions	<b>Approval of the Board</b>
Material Related Party Transactions and Related Party Transactions not on Arm's Length Basis nor in the Ordinary Course of Business and exceeding certain thresholds as prescribed under the Companies Act, 2013 read with its prescribed rules	<b>Shareholders' Approval</b>

### **3. General Criteria for Approval of Related Party Transactions**

The criteria for approval of Related Party Transactions will be applicable as per the provisions



of Companies Act, 2013, as amended and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended.

All Related Party Transactions, other than:

- i. transactions between the Bank and wholly owned subsidiaries (if any) whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval; or
- ii. transactions which are in the Ordinary Course of Business; or
- iii. transactions which are on Arm's Length Basis,

shall require approval of the Audit Committee of the Board and/or the Board and/or shareholders in accordance with this Policy.

### **Audit Committee**

All Related Party Transactions shall be referred to the Audit Committee of the Board for review and prior approval.

Any member of the Audit Committee of the Board who has a potential interest in any Related Party Transaction shall recuse himself or herself and abstain from discussion and voting on the approval of the Related Party Transaction.

To review, approve, ratify, disapprove or reject a Related Party Transaction, the Audit Committee of the Board must 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 Bank and to the Related Party, and any other relevant matters.

### **Board of Directors**

The Board shall review and approve (as appropriate) the Related Parties Transactions referred to it by the Audit Committee of the Board.

Except with the consent of the Board given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, the Bank 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 Bank, its subsidiaries or associates, and
- vii. underwriting the subscription of any securities or derivatives thereof, of the Bank

Provided that no contract or arrangement, in the case of the Bank having a paid-up share capital of not less than such amount, or transactions not exceeding such sums, as may be prescribed under the applicable rules under the Companies Act, 2013, shall be entered into except with the prior approval of the Bank by a special resolution.

A director who is interested in any contract or arrangements with a Related Party shall not be present at the meeting during discussions on the subject matter of the resolution relating to such contract or arrangement and abstain from voting on the approval of such Related Party Transaction.

The information provided in the agenda of the Board meeting at which the resolution is proposed to be passed shall specifically cover the following:

- 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; and
- vii. any other information relevant or important for the Audit Committee of the Board to take a decision on the proposed transaction.

### **Shareholders' Approval**

All Material Related Party Transactions and all Related Party Transaction which are not on Arm's Length Basis nor in the Ordinary Course of Business and exceeding certain thresholds as prescribed under the Companies Act, 2013 read with the prescribed rules shall require approval of the shareholders through special resolution and the Related Parties shall abstain from voting on such resolutions. However, the requirements of approving Material Related Party Transactions would not be applicable in respect of a resolution plan approved under section 31 of the Insolvency and Bankruptcy Code, 2016 subject to the event being disclosed to the recognized stock exchanges within one day of the resolution plan being approved.

The explanatory statement to be annexed to the notice of a general meeting shall contain the following particulars namely:

- i. name of the related party;



- ii. name of the director or key managerial personnel who is related, if any;
- iii. nature of relationship;
- iv. nature, material terms, monetary value and particulars of the contract or arrangement;
- v. any other information relevant or important for the members to take a decision on the proposed resolution.

Any member of the Bank who has a potential interest in any Related Party Transaction shall recuse himself or herself and abstain from discussion and voting on the approval of the Related Party Transaction.

All entities falling under the definition of Related Parties shall not vote to approve the resolution being placed before the shareholders, irrespective of whether the entity is a party to transaction or not.

#### **4. Material Related Party Transactions**

In accordance with the provisions of the Listing Regulations and the terms of this Policy, all Material Related Party Transactions shall require approval of the shareholders through resolution and no related party shall vote to approve such resolutions whether the entity is a Related Party to the particular transaction or not.

#### **5. Decision regarding transaction in Ordinary Course of Business and at Arm's Length**

The Audit Committee of the Board shall, in respect of the Related Party Transactions referred to them for approval, after considering the materials/ documents/ information placed before them; judge if the transaction is in the Ordinary Course of Business or at Arm's Length Basis.

#### **6. Omnibus Approval on an Annual Basis**

The Audit Committee of the Board shall grant omnibus approval for Related Party Transactions in the nature of normal banking transactions in Ordinary Course of Business with Related Parties, same being recurring in nature.

The Audit Committee of the Board shall review on a quarterly basis the aforesaid Related Party Transactions entered into by the Bank pursuant to each of the omnibus approval given.

Such omnibus approval shall be valid for a period not exceeding one financial year and shall require fresh approval after the expiry of such financial year.

The Audit Committee of the Board shall, specify the criteria for making the omnibus approval which shall include the following:

- i. maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year;
- ii. the maximum value per transaction which can be allowed;





- iii. extent and manner of disclosures to be made to the Audit Committee of the Board at the time of seeking omnibus approval;
- iv. review, at such intervals as the Audit Committee of the Board may deem fit, Related Party Transaction entered into by the Bank pursuant to each of the omnibus approval made;
- v. transactions which cannot be subject to the omnibus approval by the Audit Committee of the Board.

The Audit Committee of the Board shall also consider the factors while specifying the criteria for making omnibus approval, namely: -

- i. repetitiveness of the transactions (in past or in future);
- ii. justification for the need of omnibus approval.

The Audit Committee of the Board shall satisfy itself on the need for omnibus approval for transactions of repetitive nature and that such approval is in the interest of the Bank.

The omnibus approval shall contain or indicate the name of the Related Parties, nature and duration of the transaction, maximum amount of transaction, indicative base price or current contracted price and the formula for variation in the price, if any and any other information relevant or important for the Audit Committee of the Board to take a decision on the proposed transaction.

Provided that where the need for Related Party Transaction cannot be foreseen and aforesaid details are not available, Audit Committee of the Board may make omnibus approval for such transactions subject to their value not exceeding Rs. 1 crore per transaction.

## **7. Related Party Transactions not approved under this Policy**

In the event the Bank becomes aware of a Related Party Transaction that has not been approved under this Policy prior to its consummation, the Bank would obtain approval from the Audit Committee of the Board as and when, upon receipt of such information.

In case the Bank is not able to obtain prior approval from the Audit Committee of the Board, such a transaction shall not be deemed to violate this Policy, or be invalid or unenforceable, so long as the transaction is brought to the Audit Committee of the Board as promptly as reasonably practical after it is entered into or after it becomes reasonably apparent that the transaction is covered by this Policy.

The Audit Committee of the Board shall consider all of the relevant facts and circumstances regarding the Related Party Transaction, and shall evaluate all options available to the Bank, including ratification, revision or termination of the Related Party Transaction and also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Audit Committee of the Board under this Policy, and shall take any such action it deems appropriate. In any case, where the Audit Committee of the Board determines not to ratify a Related Party Transaction that has been commenced without approval, the Audit Committee of the Board, as appropriate, may direct additional actions including, but not



limited to, immediate discontinuation or rescission of the transaction. In connection with any review of a Related Party Transaction, the Audit Committee of the Board has the authority to modify or waive any procedural requirements of this Policy.

Any contract or arrangement with Related Parties which is entered into by a director or any other employee, without obtaining the consent of the Board or approval by a resolution in the general meeting as may be required, and it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, then such contract or arrangement shall be voidable at the option of the Board and if the contract or arrangement is with a Related Party to any director, or is authorised by any other director, the directors concerned shall indemnify the company against any loss incurred by it. The Bank can proceed against such director or employee to recover any loss sustained by it as a result of such contract or arrangement.

## **8. Reporting of Related Party Transactions**

Every contract or arrangement with Related Parties referred to in section 188 (1) of the Companies Act, 2013 will be disclosed by the Bank in the Board's Report in accordance with Section 134(3)(h) of the Companies Act, 2013.

The details of Material Related Party Transactions will be included in the corporate governance reports which are required to be submitted to the stock exchanges on a quarterly basis.

This Policy shall be disclosed on the Bank's website and a web link thereto shall be provided in the Annual Report of the Bank.

The Bank shall submit within 30 days from the date of publication of its standalone and financial results for the half year, disclosures of Related Party Transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the Stock Exchanges and publish the same on its website.

## **9. Review of the Policy and Amendments**

This Policy shall be reviewed by the Board at least once every three years and updated accordingly or as may be otherwise prescribed by the Audit Committee of the Board/ Board from time to time.

Any change in the Policy shall be approved by the Board and any subsequent amendment/modification in applicable laws, rules, regulations and accounting standards shall automatically apply to this Policy.