



AU SMALL FINANCE BANK LIMITED

Policy on Related Party Transactions and Materiality

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1. Introduction

The Board of Directors of AU Small Finance Bank Limited (“**the Bank**”/ “**Company**”) has adopted the Policy on Related Party Transactions and Materiality (“**Policy**”) and procedures with regard to Related Party Transactions (“**RPT**”) (defined hereinafter), in line with the requirements of Regulation 23 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**SEBI Listing Regulations**”), Section 177(4)(iv) and Section 188 of the Companies Act, 2013 read with Rules made thereunder (“**the Act**”), as amended from time to time and Accounting Standards, as applicable.

2. Objective

The objective of this Policy and procedure is to ensure that Related Party Transactions are based on principles of transparency and arm’s length pricing. This Policy seeks to provide guidance on identification of related parties and the proper conduct and documentation of all related party transactions. Likewise, this policy also aims at preventing and providing guidance in situations of potential conflict of interests in the implementation of Related Party Transactions.

The key objectives of this policy are as under:

- i) Ensure due and timely identification, approval, disclosure and reporting of transactions between the Bank and any of its related parties (“RPTs”) in compliance with the Applicable Laws amended from time to time.
- ii) Identify outstanding balances, including commitments, between the Bank and its Related parties.
- iii) Determine the disclosures to be made about RPTs.
- iv) Outline the basis on which the materiality of RPTs will be determined.
- v) Govern the approval process and disclosure requirements to ensure transparency in the conduct of Related Party Transactions in the best interest of the Bank and its shareholders and to comply with the statutory provisions in this regard.

3. Applicability

The policy document applies to identification, approval and reporting of Related Party Transactions material or otherwise, undertaken by the Bank.

4. Definitions

4.1 “Applicable Law” means the following laws as may be amended from time to time, applicable in relation to Related Party framework:

- The Companies Act, 2013 and rules issued thereunder;
- The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015;
- RBI Master Direction on Financial Statements - Presentation and Disclosures dated August 30, 2021
- Accounting Standard (AS) 18 - Related Party Disclosure
- Applicable circulars, clarifications, etc. issued by the Ministry of Corporate Affairs and the Securities and Exchange Board of India

as may be amended from time to time.

4.2 “Annual Consolidated Turnover of the Bank” means ‘Total Income’ of the Bank i.e. total of interest income and other income as per the last audited consolidated financial statements.

4.3 “Audit Committee” means the Audit committee of the Board of Directors of the Bank constituted under provisions of Applicable Law.

4.4 “Arms Length Transaction” shall mean a transaction between two Related Parties that is conducted as if they were unrelated, so that there is no conflict of interest.

4.5 “Board” means the Board of Directors as defined under Section 2(10) of the Companies Act, 2013.

4.6 “Material Modification of Related Party Transaction” shall mean:

- A variation, either individually or taken together with any previous variation, made in the value of the transaction/contract as approved by the Audit Committee and/or shareholders, which has the effect of variation in the approved value of the transaction, by 10% or more;
- Variation in the tenure of the contract by 20% or more of the original tenure, or continuation of the contract or arrangement beyond the tenure originally agreed upon, except for completion of any residual performances;
- The terms of the contract cease to be in ordinary course and/or on arm’s length or such other parameter as may be determined by the Audit Committee from time to time;

Provided that following shall not be termed as **Material Modification of Related Party Transaction**:

- Modifications which may be mandated pursuant to change in law;
- Modifications pursuant to and in accordance with the pre-defined terms of the approved transaction/ contract, whether with or without mutual consent of parties, as the case may be;
- Modifications resulting from change in constitution of either of the parties pursuant to schemes of arrangement (e.g. merger, amalgamation, demerger, etc.);
- Modifications which are purely technical and do not result in substantive change or alteration of rights, interests, and obligations of any of the parties; and
- Modifications uniformly affected for similar transactions with unrelated parties.

4.7 “Material Related Party Transaction under the Act” means transactions as provided in Section 188 of the Act entered into with a related party as defined under Section 2(76) of the Act that is not in the ordinary course of business or not at an arm’s length basis and exceeds the threshold as specified in Rule 15 of Companies (Meetings of the Board and its Powers) Rules, 2015.

4.8 “Material Related Party Transaction under the SEBI Listing Regulations” shall have the same meaning as defined under Regulation 23(1) of the SEBI Listing Regulations. The Bank shall consider a transaction 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 Rs. 1,000 crores (Rupees one thousand crores) or 10% (Ten per cent) of the Annual Consolidated Turnover of the Bank as per the last audited financial statements of the Bank, whichever is lower.

Notwithstanding the above, 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% (five percent) of the Annual Consolidated Turnover of the Bank as per the last audited financial statements of the Bank.

The materiality limits for transactions related to brand usage or royalty is within the overall limits provided under Regulation 23(1) of SEBI Listing Regulations.

4.9 “Related Party” shall mean a person or entity that is related to the Bank as defined under Section 2(76) of the Companies Act, 2013 or under Regulation 2(1)(zb) of the SEBI Listing Regulations as may be amended from time to time.

4.10 “Related Party Transaction” shall mean a transaction involving a transfer of resources, services or obligations between the Bank and a Related Party of the Bank 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 and transaction between the Bank and any other person the purpose and effect of which is to benefit a related party of the Bank.

Provided that the transactions mentioned in the proviso to Regulation 2(1)(zc) of the SEBI Listing Regulations shall not be a related party transaction for the purpose of compliance under the SEBI Listing Regulations.

Any term not defined in the Policy shall have meaning as defined in the Act or SEBI Listing Regulations or other applicable statutes.

5. Identification of Related Party Transaction

5.1 Directors and the Key Managerial Personnel (“KMP”) shall be responsible to inform the Company Secretary and/or Secretarial Department on appointment and then immediately as and when any change occurs in relationships with related party as defined under Section 2(76) of the Companies Act 2013 and SEBI Listing Regulations, as applicable viz. relatives, directorships, holdings, interests and/ or controls etc.

5.2 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.

5.3 Company Secretary and/or Secretarial Department on periodic basis shall share the list of related parties to the departments, which are responsible for / instrumental in getting into a transaction with a Related Party for monitoring purposes.

5.4 The Bank shall endeavour to identify such transactions with unrelated parties, the purpose and effect of which is to benefit a Related Party.

6. Procedure for Approval for Related Party Transactions

6.1 Prior Approval by the Audit Committee

- a) All Related Party Transactions and Material Modification(s) thereto shall require **prior** approval of the Audit Committee of the Bank. In any case, all modifications, even if not classified as Material Modification shall be approved by the Audit Committee (Prior approval not necessitated in case of non-material modification).
- b) Only those members of the Audit Committee, who are independent directors, shall vote to approve related party transactions.
- c) The Audit Committee shall be provided with the information as prescribed in the 'Industry Standards on "Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions" notified by SEBI from time to time or information as required under the Applicable Laws.
- d) The Audit Committee shall be entitled to call for such additional information/ documents in order to understand the scope of the proposed related party transaction(s) and recommend an effective control system for the verification of the supporting documents.
- e) The Audit Committee shall also be entitled to engage the services of external consultants for advisory on continual compliances and reviewing the Related Party Transactions of the Bank.
- f) In determining whether to approve a Related Party Transaction, the Audit Committee shall consider (among other aspects it deems relevant), if there are clearly demonstrable reasons from the Bank's business point of view, in the interest of the Bank, to enter into a transaction with a Related Party.
- g) Any member of the Audit Committee who has a potential interest in any Related Party Transaction shall recuse himself or herself and shall abstain from discussion and voting on the approval of the related party transaction
- h) The Audit Committee shall also review the status of long-term (more than one year) or recurring Related Party Transactions on an annual basis.

6.2 Procedure for seeking omnibus approval for Related Party Transaction

In the case of repetitive transactions which are in the normal course of business of the Bank, the Audit Committee may grant omnibus approval keeping in mind the repetitiveness and justification for the need for the omnibus approval.

The Audit Committee may grant omnibus approval for Related Party Transactions for not more than 1 financial year, after which fresh approval shall need to be taken for Related Party Transactions proposed to be entered into by the Bank subject to following conditions-

- 1) The Audit Committee shall, after obtaining approval of the Board of Directors, specify the criteria for making the omnibus approval which shall include the following, namely:
 - a) maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year;
 - b) the maximum value per transaction which can be allowed;
 - c) extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval;
 - d) review, at such intervals as the Audit Committee may deem fit, related party transaction entered into by the Company pursuant to each of the omnibus approval made;
 - e) transactions which cannot be subject to the omnibus approval by the Audit Committee, if any.

- 2) The Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval, namely: -
 - a) repetitiveness of the transactions (in past or in future); and
 - b) justification for the need for omnibus approval.
- 3) The Audit Committee shall satisfy itself on the need for omnibus approval for transactions of repetitive nature and that such approval is in the interest of the company.
- 4) Audit Committee shall review on quarterly basis, the details of Related Party Transaction entered by the Bank pursuant to each of the omnibus approval so granted.
- 5) For the purpose of omnibus approval, the Audit Committee shall be provided with the information as prescribed in the 'Industry Standards on "Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions" notified by SEBI from time to time or information as required under the Applicable Laws.

Provided that where the need for related party transactions cannot be foreseen and aforesaid details are not available, Audit Committee may make omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.

6.3 Prior Approval by the Board of Directors

- a) Prior approval of the Board of Directors to be obtained for related party transactions, if:
 - i. the same are not in ordinary course of business and/or not on arm's length in accordance with Section 188 of the Act; or
 - ii. the Audit Committee determines that a Related Party Transaction should be brought before the Board; or
 - iii. the Board, in any case, elects to review any Related Party Transaction *suo moto*; or
 - iv. needs to be approved by the Board under any law for the time being in force
- b) The parameters set forth above in case of the Audit Committee shall also apply to the Board's review and approval of the proposed Related Party Transaction with or without such modification as may be necessary or appropriate under the circumstances.
- c) Any member 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.

6.4 Approval by the Shareholders

- a) Prior approval of the shareholders of the Bank shall be obtained for Material Related Party Transactions under SEBI Listing Regulations and subsequent Material Modifications of such RPT.
- b) Approval of the shareholders shall be obtained for Material Related Party Transactions under the Act in accordance with Section 188 of the Act.
- c) The shareholders shall be provided with the information as prescribed in the 'Industry Standards on "Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions" notified by SEBI from time to time or information as required under the Applicable Laws.
- d) All the shareholders of the Bank who are related parties cannot vote to approve the resolution.

6.5 Exceptions allowed under Applicable Laws for Related Party Transactions shall be exempted from the scope of this Policy unless the Audit Committee/ Board decide otherwise. Nothing in this Policy shall override any provisions of Applicable Law made in respect of any matter stated in this Policy.

6.6 All Related Party Transactions will be subject to following approval matrix, as may be applicable and as amended from time to time:

Type of Transaction	Ceiling on the Amount	Approval Required		
		Audit Committee	Board of Directors	Shareholders
All Related Party Transactions (as defined hereinabove)	Up to 10% of the Annual Consolidated turnover of the Bank or Rs. 1,000 crore, whichever is lower. In case of brand usage or royalty- up to 5% of the Annual Consolidated turnover of the Bank (this is a sub-limit within the aforesaid limit)	✓	For Transactions that are not on arm's length basis- and/or in the ordinary course (Please refer table below for transaction of specific nature)	-
	In the excess of above limit	✓	✓	✓ (All related parties to abstain from voting)
Transactions with Related Party(ies) either not in the ordinary course of business and/or arm's length basis				
Sale, purchase or supply of any goods or materials, directly or through appointment of agent.		✓	✓	✓ * Equal to or Exceeding 10% of the turnover
Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent.		✓	✓	✓ * Equal to or Exceeding 10% of the net worth
Leasing of property of any kind.		✓	✓	✓ *

Type of Transaction	Ceiling on the Amount	Approval Required		
		Audit Committee	Board of Directors	Shareholders
				Equal to or Exceeding 10% of the turnover
Availing or rendering of any services, directly or through appointment of agent		✓	✓	✓ * Equal to or Exceeding 10% of the turnover
Appointment of any related party to any office or place of profit in the Bank, its subsidiary company or associate company		✓	✓	✓ * Monthly remuneration exceeding two and half lakh rupees
Underwriting the subscription of any securities or derivatives thereof, of the Bank		✓	✓	✓ * Remuneration exceeding 1% of net worth
* Note: In case of shareholders' approval for such transactions, all related parties shall abstain from voting.				

7. Related Party Transactions without the prior approval 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 post facto approval from the Audit Committee and/or the Board and/or shareholders of the Bank as required under applicable law.

In case the Bank is not able to take prior approval from the Audit Committee, the Board and/or shareholders of the Bank, such a transaction shall post facto not be deemed to violate this Policy, or be invalid or unenforceable, so long as post facto approval is obtained as promptly as reasonably practicable after it is entered into or after it becomes reasonably apparent that the transaction is covered by this Policy.

While seeking approval, rationale for inability to seek prior approval for the transaction shall be placed before the approving authority at the time of seeking ratification. The Audit Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Audit Committee under this Policy and shall take any such action it deems appropriate in compliance of Applicable Laws.

In case of failure to seek ratification of the Audit Committee, it shall render the transaction voidable at the option of the Audit Committee and if the transaction is with a related party to any director, or is authorised by any other director, the director(s) concerned shall indemnify the Bank against any loss incurred by it.

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, which in any manner, shall not be inconsistent with the provisions of the Applicable Laws.

The details of ratification shall be disclosed along with the disclosures of RPT as required under applicable law.

8. Disclosure and Reporting Requirements

8.1 Website: The Bank shall place the Policy on Related Party Transactions on its website and the web link thereto will be provided in the Corporate Governance section in the Annual Report.

8.2 Annual Report:-

Companies Act, 2013: As required under section 188 of the Act read with the Rules made thereunder, all transactions under section 188 of the Act, which are not on arm's length basis or are material in nature, shall be disclosed in the Board's Report of the Bank.

Accounting Standards: The Bank shall disclose in its Annual Report, Related Party Transactions in line with RBI Master Direction on Financial Statements read with applicable Accounting Standard.

8.3 Stock Exchanges:-

Half Yearly RPT Statement: The Bank shall also submit disclosures of Related Party Transactions on a consolidated basis to Stock Exchanges within the prescribed timeline and in the format specified under Applicable Law and publish the same on its website.

9. Policy Review and Updates

The Board approved Policy shall be reviewed as and when required or at least once every year for incorporating regulatory updates and changes, if any.

10. Policy Authorisation

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

11. Regulatory References

- i) SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- ii) Accounting Standard- 18
- iii) RBI Master Direction on Financial Statements - Presentation and Disclosures dated August 30, 2021
- iv) Companies Act, 2013
- v) Industry Standards notified by SEBI