



# Material Related Party Transactions Policy

## History of Revisions

Version	Summary of Revisions	Date of Approval
2.0	Annual Review	09-Nov-20
1.0	Policy Formulation	21-Nov-19

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## 1. Preamble

### 1.1 Objective of the Policy

The objective of this Policy is to provide a framework, which will enable the Equitas Small Finance Bank to spell out the process of review and approval of Material Related Party Transactions, in order to set forth the procedures under which such transactions must be reviewed and approved or ratified. This Policy is intended to ensure the proper approval and reporting of transactions between the Bank and its Related Parties, to be in the best interest of the Bank and its shareholders.

### 1.2 Scope of the Policy

- a. The scope of this policy is to regulate transactions between the Bank and its Material Related Parties based on the applicable laws and regulations applicable to the Bank.
- b. This policy also enumerates the rights and obligation of Bank ,whilst dealing with Material Related Party Transactions which can present potential or actual conflicts of interest

### 1.3 Definitions

- a. "Act" will mean Companies Act,2013
- b. "Audit Committee or Committee" means the Audit Committee of the Board of Directors of the Company;
- c. "Board" means the Board of Directors of the Company;
- d. "Key Managerial Personnel" means the following managerial personnel as defined under the Companies Act, 2013:
  - i. The Chief Executive Officer or the Managing Director or Manager;
  - ii. the Company Secretary;
  - iii. the Whole-Time Director;
  - iv. the Chief Financial Officer
  - v. such other officer as may be prescribed under the Companies Act 2013;
- e. "Listing Regulations" will mean SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and amendments made thereto;
- f. "Policy" means this Material Related Party Transactions Policy;
- g. "Related Party" means an entity which is a related party as defined in Section 2(76) of the Companies Act, 2013 or if such entity is related party under the applicable Accounting Standards and includes any person or entity belonging to the promoter or promoter group of the listed entity and holding 20% or more of shareholding in the listed entity;

- h. "Related Party Transaction" means any transaction directly or indirectly involving any Related Party which is a transfer of resources, services or obligations between a company and a related party, regardless of whether a price is charged;
- i. "Transaction" with a related party will be construed to include single transaction or a group of transactions in a contract;
- j. "Material Related Party Transaction" means a transaction with a Related Party if the transaction / transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds 10% (ten percent) of the annual consolidated turnover of the Bank as per the last audited financial statements of the Bank, as specified in the Listing Regulations in force from time to time;
- k. "Relative" means a relative as defined in Section 2(77) of the Companies Act, 2013.

## **2. Regulatory Framework Applicable Regulations**

### **2.1 [Companies Act, 2013](#)**

#### **2.1.1 A Related party with reference to a company means:**

- a. director or a key managerial person or their relatives or
- b. a firm, private company in which the partner, director/ manager or his relative is a partner or
- c. a private company or a public company in which a director or manager is a director and holds along with his relatives, more than 2% of its paid-up share capital. ( Section 2(76) of the Companies Act, 2013)

#### **2.1.2 Duties of Director**

A director of a company should not achieve or attempt to achieve any undue gain or advantage either to himself or to his relatives, partners, or associates and if such director is found guilty of making any undue gain, he should be liable to pay an amount equal to that gain to the company. (Section 166(5) of the Companies Act, 2013)

#### **2.1.3 Related party transactions**

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, no company shall enter into any contract or arrangement with a related party with respect to—

- a. sale, purchase or supply of any goods or materials;
- b. selling or otherwise disposing of, or buying, property of any kind;
- c. leasing of property of any kind;
- d. availing or rendering of any services;
- e. appointment of any agent for purchase or sale of goods, materials, services or property;
- f. such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
- g. underwriting the subscription of any securities or derivatives thereof, of the company;

Provided that no member of the company shall vote on such resolution, to approve any contract or arrangement, which may be entered into by the company, if such member is a related party

Provided also that nothing in this sub-section shall apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest. (Section 188(1) of the Companies Act, 2013).

**2.1.4** It should be open to the company to proceed against a director or any other employee who had entered into such contract or arrangement in contravention of the provisions of this section for recovery of any loss sustained by it as a result of such contract or arrangement.

## **2.2 SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 dated Sep 02, 2015.**

2.2.1 The listed entity should formulate a policy on materiality of related party transactions and on dealing with related party transactions with prior approval of Audit Committee of the Board (Clause 23(1), 23(2) of the Regulation)

2.2.2 Audit committee might grant omnibus approval for related party transactions proposed to be entered into by the listed entity subject to the following conditions, namely-

- a. the audit committee should lay down the criteria for granting the omnibus approval in line with the policy on related party transactions of the listed entity and such approval should be applicable in respect of transactions which are repetitive in nature;
- b. the audit committee should satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the listed entity;
- c. the omnibus approval should specify:
  - i. the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that should 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: Provided that 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 rupees one crore per transaction.
- d. the audit committee should review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given.
- e. Such omnibus approvals should be valid for a period not exceeding one year and will require fresh approvals after the expiry of one year: (Clause 23(3) of the Regulation)

2.2.3 All material related party transactions should require approval of the shareholders through resolution and the related parties should abstain from voting on such resolutions whether the entity is a related party to the particular transaction or not. (Clause 23(4) of the Regulation)

2.2.4 All entities falling under the definition of related parties should abstain from voting irrespective of whether the entity is a party to the particular transaction or not (Clause 23(7) of the Regulation)

### **2.3 Accounting Standards of Related Party Disclosures**

This Standard should be applied in reporting related party relationships and transactions between a reporting enterprise and its related parties. The requirements of this Standard apply to the financial statements of each reporting enterprise as also to consolidated financial statements presented by a holding company. (AS 18 Standard of Related Party Disclosures)

## **3. ESFB Policy framework**

### **3.1 Identification of Potential Related Party and Transactions**

Every Director and Key Managerial Personnel is responsible for providing notice to the Board or the Audit Committee of the list of related parties as covered under Section 2(76) of the Act as well under Accounting Standard 18. This list of related parties will be updated on an annual basis and further changes informed as soon as possible. Each director as well as KMP will inform the Bank in advance of any potential Related Party Transaction involving him or her or his or her Relative, including any additional information about the transaction that the Board/Audit Committee may reasonably request. Board/Audit Committee will determine whether the transaction does, in fact constitute a Related Party Transaction requiring compliance with this Policy.

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

#### **3.2.1 Approval of the Audit Committee:**

- a. All Related Party Transactions will require prior approval of the Audit Committee.
- b. Any Member of the Committee who has a potential interest in any Related Party Transaction will recuse himself/herself and abstain from discussion and voting on the approval of the Related Party Transaction(s).
- c. The Audit Committee will be provided with the material facts of such Related Party Transactions and the Audit Committee will determine whether to approve such Related Party Transactions or not.
- d. In assessing a Related Party Transaction, the Audit Committee will consider such factors as it deems appropriate, including without limitation–
  - i. The business reasons for the Bank to enter into the Related Party Transaction
  - ii. The commercial reasonableness of the terms of the Related Party Transaction;
  - iii. The materiality of the Related Party Transaction to the Bank;
  - iv. Whether the terms of the Related Party Transaction are fair to the Bank and on the same basis as would apply if the transaction did not involve a Related Party; and

- v. The extent of the Related Party's interest in the Related Party Transaction.
- e. The following Related Party Transactions will not require approval of Audit Committee or Shareholders:
  - vi. Any transaction that involves providing of compensation to a Director or Key Managerial Personnel in connection with his or her duties to the Bank or any of its Subsidiaries or Associates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business ;and
  - vii. Any transaction in which the Related Party's interest arises solely from ownership of securities issued by the Company.
- f. As per its terms of reference under Section 177 of the Act, the Audit Committee on a quarterly basis will review such transactions with Related Parties.
- g. The Bank will obtain prior approval of the Audit Committee for all the transactions to be entered into with the related parties except with the Wholly Owned Subsidiaries.

### **3.2.2 Mechanism for determining Ordinary course of business and Arm's length basis:**

- a. All transactions or activities that are necessary, normal and incidental to the business of the Bank will be deemed to be in the ordinary course of business. These may also be common practices and customs of commercial transactions.
- b. "Arm's length transaction" means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest. In this regard, Transfer Pricing guidelines issued by the relevant authorities under the provisions of Income-Tax Act 1961 may be used to determine the criteria on a case-to-case basis.

### **3.2.3 Approval of the Board of Directors of the Company:**

- a. As per the provisions of Section 188 of the Act, all kinds of transactions specified under the said Section and which are not in the ordinary course of business and at arm's length basis, will be placed before the Board for its approval.
- b. In addition to the above, the following kinds of transactions with related parties will be placed before the Board for its approval:
  - i. Transactions which may be in the ordinary course of business and at arm's length basis, but
  - ii. which are as per the policy determined by the Board from time to time (i.e. value threshold and/or other parameters) require Board approval in addition to Audit Committee approval;
  - iii. Transactions in respect of which the Audit Committee is unable to determine whether or not they are in the ordinary course of business and/or at arm's length basis and decides to refer the same to the Board for approval;

- iv. Transactions which are in the ordinary course of business and at arm's length basis, but which in Audit Committee's view requires Board approval.
- v. Transactions meeting the materiality thresholds as defined under this Policy and laid down under Listing Regulations and which are intended to be placed before the shareholders for approval.

### **3.2.4 Approval of the Shareholders of the Company:**

- i. All the transactions with related parties exceeding the materiality thresholds as defined under this Policy and laid down in the Listing Regulations/Act and amendments thereto, will be placed before the shareholders for approval.
- ii. The Bank will obtain the approval of the Board and Shareholders in case the Bank enters into any Material transaction with the Related Parties except with the Wholly Owned Subsidiaries.

### **3.3 Omni bus approval**

Criteria and the need for granting omnibus approval

- a. The Audit Committee may, in the interest of the Bank to ensure smooth operations, grant omnibus approval for Related Party Transactions proposed to be entered into by the Bank which are repetitive in nature and which are routine and incidental to the general operations of the Bank, subject to such conditions as it may deem fit. Such approval will be valid for a period not exceeding one year and will specify the following:
  - i. The name(s) of the Related Party;
  - ii. The nature of the transaction, period of transaction, maximum amount of transaction that can be entered into&
  - iii. The indicative base price/current contract price and the formula for variation in the price, if any and
  - iv. Such other conditions as the Audit Committee may deem fit.
- b. The Audit Committee may also grant omnibus approval, without the above details, for unforeseen transaction subject to a value not exceeding ₹ 1 crore per transaction
- c. Such Omni bus approvals will be valid for a maximum period of one year.

### **3.4 Related Party Transactions not approved under this Policy**

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

examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Audit Committee under this Policy, and will 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 its approval, the Committee, 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 has authority to modify or waive any procedural requirements of this Policy.

**4. Provisions in policy over and above but in consonance with guide lines - None**

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**5. Changes to the Policy**

Not Applicable

**6. Periodicity of Review of the Policy**

The Board will review this policy at annual intervals and at such intervals as may be required on the regulatory and other exigencies.

<b>Author of the Policy</b>	<b>Secretarial</b>
<b>Reviewer of the Policy</b>	<b>Compliance</b>
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