



IDFC FIRST Bank Limited

Policy on Related Party Transactions

POLICY ON RELATED PARTY TRANSACTIONS

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POLICY ON RELATED PARTY TRANSACTIONS

1. Preamble

Regulation 23 of the Securities and Exchange Board of India ('SEBI') (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations'), requires a listed company to formulate a Policy on materiality of Related Party Transactions and also on dealing with such Related Party Transactions.

This policy is intended to ensure the proper approval and reporting of transactions between the Bank and its Related Parties based on the applicable laws and regulations applicable to the Bank. Such transactions are appropriate only if they are in the best interest of the Bank and its shareholders.

The objective of this Policy is to ensure that transactions between the Bank and its related parties (defined hereinafter) are based on principles of transparency and arm's length pricing. Likewise, this Policy aims at preventing and providing guidance in situations of potential conflict of interests in the implementation of transactions involving such related parties. This Policy outlines the basis on which the materiality of related party transactions will be determined and the manner of dealing with the related party transactions by the Bank.

2. Definitions

"Annual Consolidated Turnover" is defined as Total Income (i.e. Interest earned plus Other Income) of the last audited Consolidated Financial Statements of the Bank.

"Audit Committee or Committee" means Committee of the Board of Directors of the Bank constituted under provisions of the SEBI Listing Regulations.

"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.

"Board" means Board of Directors of the Bank.

"control" 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.

"Key Managerial Personnel" under the Companies Act, 2013, in relation to a company, means:

- (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.

“Key Management Personnel” under the Accounting Standard means 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. For example, in the case of a company, the managing director(s), whole time director(s), manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered key management personnel.

“Material Related Party Transaction” shall have the same meaning as given to ‘a transaction with a related party shall be considered material’ under the SEBI Listing Regulations, as may be amended from time to time.

A transaction with a related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, **exceeds ten percent of the annual consolidated turnover** of the Bank as per the last audited financial statements of the Bank.

Provided that, 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 five percent of the annual consolidated turnover of the Bank as per the last audited financial statements of the Bank.

“net worth” means the aggregate value of the paid-up share capital and all reserves created out of the profits, securities premium account and debit or credit balance of profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;

“Policy” means Related Party Transaction Policy.

“Relative” and “Related Party” are been defined in the policy at later point.

“Related Party Transaction” shall mean all transactions as per Regulation 2 (1)(zc) of the SEBI Listing Regulations as may be amended from time to time.

A related party transaction is a transfer of resources, services or obligations between the Bank and a related party, regardless of whether a price is charged or not.

A **"transaction"** with a related party shall be construed to include single transaction or a group of transactions in a contract.

“Significant influence”

under the Companies Act, 2013 means control of at least twenty per cent of total voting power, or control of or participation in business decisions under an agreement.

under accounting standard means participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies.

“turnover” means the gross amount of revenue recognised in the profit and loss account from the sale, supply, or distribution of goods or on account of services rendered, or both, by a company during a financial year. Accordingly, for the Bank, the ‘turnover’ is considered as the ‘Total Income’, i.e., total of interest income and other income.

3. Disclosure of Related Party

A. RELATIVE:

► Under Companies Act means:

with reference to any person, means any one 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 the following manner;
 - a) Father (including step-father)
 - b) Mother (including the step-mother)
 - c) Son (including the step-son)
 - d) Son’s wife
 - e) Daughter
 - f) Daughter’s husband
 - g) Brother (including step-brother)
 - h) Sister (including step-sister)

► Under Accounting Standards means:

Relative in relation to an individual, means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.

► Under SEBI Listing Regulations means:

Relative as defined under sub-section (77) of section 2 of the Companies Act, 2013 and rules prescribed there under.

Provided this definition shall not be applicable for the units issued by mutual fund which are listed on a recognised stock exchange(s);

B. RELATED PARTY, WITH REFERENCE TO BANK MEANS:

► Under Companies Act:

- (i) a director or his relative;
- (ii) a key managerial personnel or his relative;
- (iii) a firm, in which a director, manager or his relative is a partner;
- (iv) a private company in which a director or manager or his relative is a member or director;

- (v) a public company in which a director or manager is a director **and holds** along with his relatives, more than two per cent of its paid-up share capital;
- (vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;
- (vii) any person on whose advice, directions or instructions a director or manager is accustomed to act: **Provided** that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;
- (viii) any body corporate which is:
 - a) a holding, subsidiary or an associate company of such company;
 - b) a subsidiary of a holding company to which it is also a subsidiary; or
 - c) an investing company or the venturer of the company.

Explanation: For the purpose of this clause, "the investing company or the venturer of a company" means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.

- (ix) a director other than an independent director or key managerial personnel of the holding company or his relative with reference to a company.

► **Under Accounting Standards:**

- a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);
- b) associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture;
- c) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;
- d) key management personnel and relatives of such personnel; and
- e) enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.

► **Under SEBI Listing Regulations means:**

A related party as defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards

Provided that 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 shall be deemed to be a related party.

Provided further the units issued by mutual funds which are listed on a recognized stock exchange will not be considered as related party

Each Director and Key Managerial Personnel is responsible for providing declaration in specified format by the Bank, to the Company Secretary on Related Parties involving him / her and his / her Relative, including any additional information that the Company Secretary may reasonably request. Such information shall be

provided at the time of appointment, at the time of first board meeting in every financial year and as and when there is any change in last provided information, promptly.

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 declaration provided by the Directors and Key Managerial Personnel.

The list of Related Parties as maintained by the Secretarial Department shall be updated whenever necessary and reviewed on a timely basis and would be communicated to the functional departments of the Bank to identify the Related Party Transactions.

4. Identification of Potential Related Party Transactions

Each Director and Key Managerial Personnel is responsible for providing notice to the Management of the Bank and the Board or Audit Committee of any potential Related Party Transaction involving him or her or his or her Relative, including any additional information about the transaction that the Audit Committee/ Board may reasonably request. Audit Committee/ Board will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy.

The functional departments shall submit to the Head – Finance and the Company Secretary, the details of proposed transaction with draft agreement or other supporting documents justifying that the transactions are on arm's length basis at prevailing market rate. Based on such information, the Company Secretary will facilitate for the necessary approval from the Audit Committee of the Bank.

5. Review and Approval of Related Party Transactions

All the transactions which are identified as Related Party Transactions shall be subject to review and must be referred to the Audit Committee for approval in accordance with this Policy except transactions for which omnibus approval has been obtained from Audit Committee. The Audit Committee shall consider all relevant factors while deliberating the related party transactions for its approval.

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

The Audit Committee will be provided with all relevant material information of Related Party Transactions, including the terms of the transaction, the business purpose of the transaction, the benefits to the Bank/ Related Party, if any, and any other relevant matters as specified under the Companies Act and SEBI Listing Regulations.

The Audit Committee or the Board shall after considering the documents and materials placed before them for approval, judge if the transaction is in the ordinary course of business and meets the arm's length requirements.

In determining whether to approve, ratify, disapprove or reject a Related Party Transaction, the Audit Committee, shall take into account all the factors it deems appropriate.

The Audit Committee shall review all the transactions with related parties on a quarterly/ annual basis as applicable as per the provisions of applicable laws.

The approval matrix framework is provided as 'Annexure A'

6. Omnibus approval by Audit Committee for Related Party Transactions

All Related Party Transactions shall require prior approval of the Audit Committee, unless specifically exempted under applicable laws.

However, the Audit Committee may, in the interest of the Bank, grant omnibus approval for Related Party Transactions that are repetitive in nature, subject to the following conditions to be contained in the omnibus approval:

- (i) specify the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into, wherever possible;
- (ii) specify 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.

The Audit Committee may also, in the interest of the Bank, grant omnibus approval for Related Party Transactions that cannot be foreseen and for which the aforesaid details are not available subject to their value not exceeding Rs. 1 crore per transaction or such other amount as may be prescribed in the applicable regulations in this regard from time to time.

The Audit Committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the Bank pursuant to each of the omnibus approvals given. Such omnibus approval shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

7. Related Party Transactions not approved under this Policy

In the event the Bank becomes aware of a Related Party Transaction with a Related Party that has not been approved under this Policy prior to its consummation, the Bank would obtain post facto approval from the Audit Committee, the Board and/or shareholders of the Bank as required under applicable law. In case the Bank is not able to take such prior approval from the Audit Committee, the Board and/or shareholders of the Bank such a transaction shall not be deemed to violate this Policy, or be invalid or unenforceable, so long as *post facto* approval is obtained 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 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. 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 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, in compliance with applicable regulations.

Where any contract or arrangement 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 and if 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, such contract or arrangement shall be voidable at the option of the Board or, as the case may be, of the shareholders and if the contract or arrangement is with a related party to any Director/ KMP, or is authorised by any other Director/ KMP, the Directors/ KMP concerned shall indemnify the Bank against any loss incurred by it.

8. Reporting of related party transactions

Every contract or arrangement, which is required to be approved by the Board/ shareholders under this Policy, shall be referred to in the Board's Report to the shareholders along with the justification for entering into such contract or arrangement.

The details of material transactions with related parties will be included in the Corporate Governance Report which are required to be submitted to the stock exchanges on a quarterly basis.

The details of materially significant related party transactions that may have potential conflict with the interests of Bank, to be included in the Corporate Governance Report which forms part of the Annual Report.

The details of related party transactions on a consolidated basis would be submitted, to the stock exchanges and published on the Bank's website on a half-yearly basis, within 30 days from the publication of the Bank's financial results.

The transactions with any person or entity belonging to the promoter/ promoter group of the Bank and having shareholding of 10% or more in the Bank would be disclosed in the annual report.

The Bank will disclose as per applicable Accounting Standard "Related Party Disclosures" and RBI circular on the Master Circular - Disclosure in Financial Statements - 'Notes to Accounts' related party transactions in the Annual accounts.

Such further disclosure of the related party transactions shall be made as may be prescribed by the Companies Act or the SEBI Listing Regulations or any other regulatory authority or statute from time to time in such format as may be prescribed.

9. Policy Review

This Policy is framed based on the provisions of the SEBI Listing Regulations, the Companies Act, 2013 and rules thereunder and other applicable law. In case of any subsequent changes in the provisions of the SEBI Listing Regulations or the Companies Act, 2013 and rules thereunder or other applicable law, the relevant amended provisions would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law.

This Policy will be communicated to all employees and other concerned persons of the Bank and shall be placed on the website of the Bank at www.idfcfirstbank.com and the web link thereto will be provided in Corporate Governance section of the Annual Report.

This Policy shall be reviewed by the Audit Committee/ Board as and when any changes are to be incorporated in the Policy due to change in applicable law or on an annual basis.

Approval Matrix Framework

Transactions in the ordinary course of business and on arm's length basis			
Ceiling on the Amount	Approval Required		
	Audit Committee	Board of Directors	Shareholders*
upto 10% of the annual Consolidated turnover of the Bank	Yes	-	-
In excess of above limits	Yes	Yes	Yes
Transactions either not in the ordinary course of business or arm's length basis			
Provisions	Approval Required		
	Audit Committee	Board of Directors	Shareholders*
Sale, purchase or supply of any goods or materials, directly or through appointment of agent.	Yes	Yes	Yes (Amounting to 10% or more of the turnover)
Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent.	Yes	Yes	Yes (Amounting to 10% or more of the networth)
Leasing of property of any kind.	Yes	Yes	Yes (Amounting to 10% or more of the turnover)
Availing or rendering of any services, directly or through appointment of agent.	Yes	Yes	Yes (Amounting to 10% or more of the turnover)
Appointment of any related party to any office or place of profit in the Corporation, its subsidiary company or associate company.	Yes	Yes	Yes (Monthly remuneration exceeding two and half lakh rupees)
Underwriting the subscription of any securities or derivatives thereof, of the Corporation.	Yes	Yes	Yes (Remuneration exceeding 1% of networth)
Any other transaction with related parties, other than those covered above, resulting in transfer of resources, obligation or services.	Yes	For Transactions that are not on arm's length basis.	Exceeding 10% of the annual consolidated turnover of the Corporation

* No Related Party shall vote to approve such resolutions at the general meeting, whether the entity is a Related Party to the particular transaction or not.