



**SHIVALIK**  
Shivalik Small Finance Bank

## RELATED PARTY TRANSACTION POLICY

<b>Effective Date</b>	November 20 <sup>th</sup> , 2021
<b>Approving Authority</b>	Board of Directors
<b>Approved Date</b>	November 20 <sup>th</sup> , 2021
<b>Policy Owner</b>	Head - Legal & Corporate Secretariat
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## Version Control

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## 1. Background

The Companies Act, 2013 ('Companies Act' or 'the Act') has introduced Sections 177 and 188, which contain provisions regarding related party transactions. This Policy applies to transactions between the Bank and one or more of its Related Parties to ensure transparency and fairness to such transaction.

It provides a framework for governance and reporting of Related Party Transactions. Accordingly, the Board of Directors (the Board) of Shivalik Small Finance Bank Limited (the Bank) has adopted the following policy with regards to related party transactions. The Audit Committee of the Bank will review this policy from time to time and recommend modifications, if any, to the Board for approval.

## 2. Objectives

The objective of this Policy is to (a) ensure that transactions between the Bank and its related parties are based on principles of transparency and arm's length pricing (b) preventing and providing guidance in situations of potential conflict of interests in the implementation of transactions involving such related parties (c) the manner of dealing with the transactions between the Company/Bank and its related parties based on the Companies Act, 2013 and any other laws and regulations as may be applicable to the Company/Bank and (d) to determine the appropriateness of the disclosures to be made.

## 3. Definitions

(i) "Associate Company" 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.

The expression "significant influence" means control of at least twenty percent of total voting power, or control of or participation in business decisions under an agreement;

The expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

(ii) "Audit Committee" the committee as defined under Section 177 of the Companies Act, 2013 constituted by the Board.

(iii) "Key Managerial Personnel" shall have the same meaning as defined in Companies Act, 2013 and such other persons as may be designated by the Board.

(iv) "Ordinary Course of Business" includes but not limited to activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions. The ordinary course of business covers the usual transactions, customs and practices related to the business.

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 a source of income for the business.

(iv) Transactions that are part of the standard industry practice, even though the Bank may not have done it in the past.



(v) “**Related Party**” with reference to the Bank means:

- (a) a director or his relative;
- (b) a key managerial personnel (KMP) or his relative;
- (c) a firm, in which a director, manager or his relative is a partner;
- (d) a private company in which a director or manager or his relative is a member or director;
- (e) 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;
- (f) 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;
- (g) 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;

(h) any company which is: -

- (i) a holding, subsidiary or an associate company of such company;
- (ii) or a subsidiary of a holding company to which it is also a subsidiary;
- (iii) or an investing company or the venture of the company.

(vi) “**Relative**” with respect to a Director or KMP shall mean:

- (a) They are members of a Hindu Undivided Family
- (b) Husband / Wife
- (c) Father (including step father)
- (d) Mother (including step mother)
- (e) Son (including step son)
- (f) Daughter
- (g) Son’s wife
- (h) Daughter’s Husband
- (i) Brother (including step brother)
- (j) Sister (including step sister)

(vii) “**Total Share Capital**” means the aggregate of the paid-up equity share capital and convertible preference share capital.

(viii) “**Total Voting Power**” in relation to any matter, means the total number of votes which may be cast in regard to that matter on a poll at a meeting of a company if all the members thereof or their proxies having a right to vote on that matter are present at the meeting and cast their votes.

(ix) “**Turnover**” has been defined as the gross amount of revenue recognized 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.

(x) “**Subsidiary Company**” or “**Subsidiary**”, in relation to any other company (that is to say the holding company), means a company in which the holding company:

- (i) controls the composition of the Board of Directors; or



(ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation. For the purposes of this clause:

(a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company.

(b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;

(c) the expression "company" includes any Body Corporate;

(d) "layer" in relation to a holding company means its subsidiary or subsidiaries;

(xii) Any words/expressions contained within the Policy and not defined hereby shall have the same meaning as provided in the Companies Act, 2013 and rules made thereunder.

#### **4. Applicability For the Bank**

This policy is applicable for all transactions by the Bank with its related parties including the transactions as specified in Section 188 of the Companies Act, 2013

#### **5. Arm's Length Transaction**

In terms of the Companies Act, the expression '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.

A transaction with a related party will be considered to be on arm's length basis if the key terms, including pricing of the transaction, taken as a whole, are comparable with those of similar transactions if they would have been undertaken with unrelated parties.

The Bank shall enter into transactions with its related parties only if such transactions are at arm's length basis. All other Related Party Transactions which are not in the ordinary course of business or not on arm's length basis shall be referred to the Board of Directors for their approval.

Any member of the Board who has a potential interest in such Related Party Transaction will recuse himself or herself and abstain from discussion or voting on the approval of such Related Party Transaction. Any such Related Party Transactions shall also be placed for prior approval of shareholders if it exceeds the thresholds as prescribed under the Companies Act, 2013.

#### **6. Identification Of Related Party Transaction**

Each Director and Key Managerial Person of the Bank is responsible for providing notice to the Board of any potential related party transactions involving him/her including any additional information about the transaction as the Board may desire. They shall also inform any changes in the above relationships, directorships, holdings, interests and / or controls immediately on him / her becoming aware of such changes. The Directors shall provide notice in advance to the Board on related party transactions. The Secretarial



Department needs to inform any change in the Related Party List to Functional teams of the Bank to identify the Related Party Transactions.

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. All functional departments shall obtain prior permission of the Secretarial Department before entering into any transaction with related parties.

## **7. Approval Of Related Party Transactions**

Heads of functional departments shall submit a note with the details of proposed transactions with related parties to the Company Secretary and Chief Financial Officer with adequate details and copies of draft agreement/ terms sheet etc., Company Secretary shall do the needful for taking the proposal to the Audit Committee for prior approval.

### **Audit Committee**

All the transactions which are identified as related party transactions other than the normal banking transactions at arm's length should be pre-approved by the Audit Committee before entering into such transaction. The Audit Committee shall consider all relevant factors while deliberating the related party transactions for its approval.

Any member of the Committee who has a potential interest in any related party transaction will recuse himself and abstain from discussion and voting on the approval of the related party transaction. The Audit Committee while recommending any proposal for transactions with related parties, shall confirm that the proposal is at arm's length basis.

The Audit Committee may grant omnibus approval for related party transactions which are repetitive in nature and subject to certain criteria/conditions as required under Companies (Meetings of Board and its Powers) Rules, 2014 and such other conditions as it may consider necessary in line with this policy and in the interest of the Bank. Such omnibus approval shall be valid for a maximum period of one financial year.

The Audit Committee shall, 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.

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);
- (b) justification for the need of omnibus approval.

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 Bank. The omnibus approval shall contain or indicate the following: -

- (a) name of the related parties;
- (b) nature and duration of the transaction;
- (c) maximum amount of transaction that can be entered into;
- (d) the indicative base price or current contracted price and the formula for variation in the price, if any;
- (e) Any other information relevant or important for the Audit Committee to take a decision on the proposed transaction.

Provided that where the need of related party transaction 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.

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. Audit Committee shall review, on a quarterly basis, the details of related party transactions entered into by the Bank pursuant to the omnibus approval. In connection with any review of a related party transaction, the Committee has authority to modify or waive any procedural requirements of this policy.

Provided also that in case any transaction involving any amount not exceeding one crore rupees is entered into by a director or officer of the Bank without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the related party to any director or is authorized by any other director, the director concerned shall indemnify the Bank against any loss incurred by it.

### **Board of Directors**

In case any transactions with related parties or the below specified transactions with related parties, if recommended by the Audit Committee to the Board for its approval due to the transaction being not in the ordinary course of business or on arms length, the Board shall consider factors such as, nature of the transaction, material terms, the manner of determining the pricing and the business rationale for entering into such transaction. On such consideration, the Board may approve the transaction or may require such modifications to transaction terms as it deems appropriate under the circumstances. Any member of the Board who has any interest in any related transaction shall abstain from discussion and voting on the approval of the related party transaction:

- Sale, purchase or supply of any goods or materials.
- Selling or otherwise disposing of, or buying, property of any kind.





- Leasing of property of any kind.
- Availing or rendering of any services.
- Appointment of any agent for purchase or sale of goods, materials, services or property.
- Related party's appointment to any office or place of profit in the Bank, its subsidiary company or associate company.
- Underwriting the subscription of any securities or derivatives thereof, of the Bank.

While circulating any agenda on related party transactions, the Secretarial Department shall ensure that the agenda covers the following detailed information.

- a) the name of the related party and nature of relationship;
- b) the nature, duration of the contract and particulars of the contract or arrangement;
- c) the material terms of the contract or arrangement including the value, if any;
- d) any advance paid or received for the contract or arrangement, if any;
- e) the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
- f) 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
- g) any other information relevant or important for the Board to take a decision on the proposed transaction.

## Shareholders

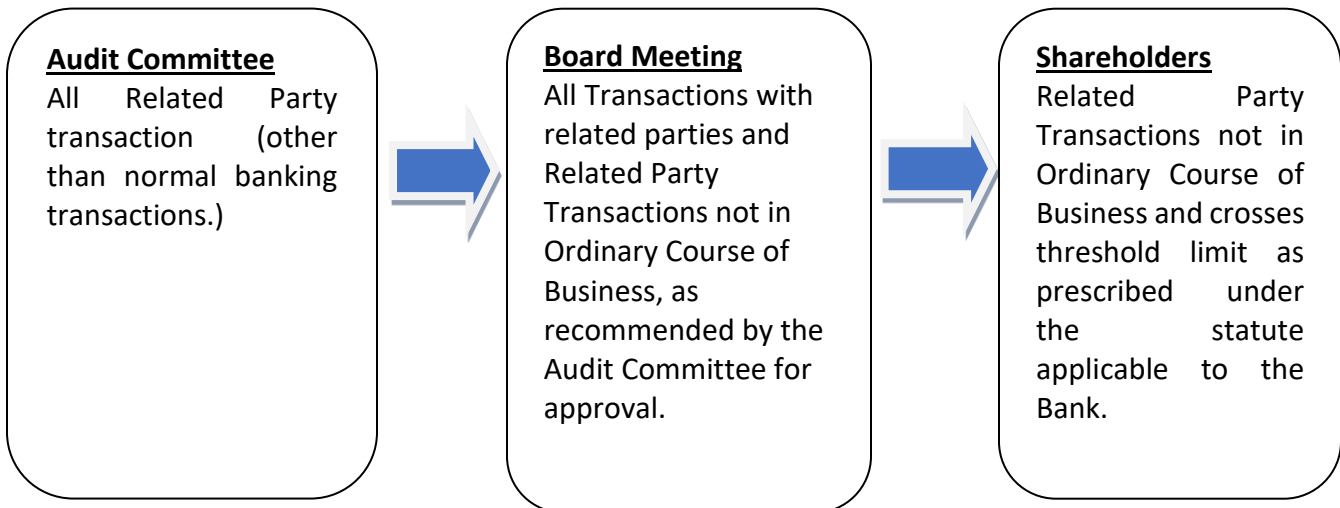
Prior approval of the shareholders by way of a resolution shall be required for related party transactions which are either not in the ordinary course of business or not on an arm's length basis, where the transaction(s) to be entered into, either individually or taken together with previous transactions during the financial years, exceeds the following threshold limits, as specified in Rule 15 of the Companies (Meeting of Board and its Powers) Rules, 2014.

### Threshold Limit for Shareholders Approval for Transactions

S.No.	Type of Transaction	Limits
1.	Sale, purchase or supply of any goods or materials directly or through appointment of agents (or)	Transactions amounting to 10% or more of the Turnover of the Bank.
2.	Selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agents (or)	Transactions amounting to 10% or more of the Net worth of the Bank.
3.	Leasing of property of any kind (or)	Transactions amounting to 10% or more of the Turnover of the Bank.
4.	Availing or rendering of any services directly or through appointment of agents (or)	Transactions amounting to 10% or more of the Turnover of the Bank.



5.	Appointment to any office or place of profit in the company, its subsidiary company or associate company (or)	Monthly Remuneration Exceeding Rs. 2.5 lakhs.
6.	Remuneration for underwriting the subscription of any securities or derivative	Exceeding 1% of Net worth of the Company.



## 8. Duty to Disclose Interest

The Companies Act, 2013, imposes duty on every Director and Key Managerial Person to disclose to the Bank, the contracts or arrangements with the Bank, whether existing or proposed or acquired subsequently, in which he, directly or indirectly, has any interest or concern.

All the Directors and Key Managerial Personnel shall in the first Board meeting to be held in every financial year and whenever there is a change, shall intimate the same to the Nomination Remuneration and Compensation Committee of the Board (NRCCB) and the Board of Directors in Form MBP-1.

## 9. 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.

## 10. Register and Records

The Company should maintain a register, in which all transactions above a prescribed threshold value in respect of contracts/arrangements, in which directors are interested, should be entered and placed before the next meeting of the Board of Directors and signed by all the Directors present at the meeting. The register should be kept at registered office of the Bank and should be open to inspection to all members. Apart from this, all the documents related to the transactions with related parties shall be maintained for 8 years from the date of transactions.