

IndusInd Bank Limited

Policy on Related Party Transactions (RPTs)

1.0 Preamble

The corporate governance norms in respect of transactions with related parties have been evolving over the years with increasing emphasis on accountability, transparency and disclosure. The Companies Act, 2013 has brought in a number of changes, *inter alia*, in respect of the approval levels, transaction oversight, and disclosure requirements with regard to related party transactions.

The SEBI too has come up with robust norms on related party transactions as a part of corporate governance requirements applicable to listed companies. In terms of the requirements of amended clause 49 of Listing Agreement entered into by Bank with Stock Exchanges, it is necessary that the Bank should formulate a policy on dealing with Related Party Transactions..

This Policy approved by the Board of Directors of the Bank will be applicable to the Bank and the transactions between Bank and its Related Parties will be regulated through this policy.

This Policy comes into effect from October 01, 2014.

2.0 Definitions

“Audit Committee” (ACB) means the Committee of Board of Directors of the Bank constituted under provision of RBI circular guidelines, Listing Agreement and Companies Act, 2013.

“Board” means Board of Directors of the Bank.

“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. For determination of arm’s length basis, guidance may be taken from the provisions of Transfer Pricing under Income Tax Act, 1961.

“Associate Company” means any other company, in which the Bank has a significant influence, but which is not a Subsidiary company of the Bank and includes a joint venture company.

Explanation - For the purpose of this clause, “significant influence” means control of at least twenty percent of total share capital, or of business decisions under an agreement.

“Control” shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 / Section 2(27) of the Companies Act 2013.

“Related party” - The process of identification of related parties shall be guided by the applicable statutes and regulatory guidelines, including but not limited to,

- (a) The Banking Regulation Act, 1949
- (b) The Companies Act, 2013
- (c) Guidelines and Circulars issued by the RBI
- (d) SEBI Regulations, Orders, Circulars and Listing Agreement with Stock Exchange
- (e) Mandatory Accounting Standards

Without limiting the scope of the para above, in general, the following class of persons / entities will be treated as “related parties” to the Bank:

- (a) Bank’s Parent which will include promoters and its Subsidiaries and Associates
- (b) Key Managerial Personnel (KMP) including whole Time Directors and their relatives
- (c) A subsidiary company
- (d) An associate company in which the Bank holds more than 20% of the total share capital
- (e) A Director, his / her relative, private companies in which the Director or his/her relative is a member or Director, public companies in which the Director or his/her relatives hold more than 2% of total share capital

A strategic intent to participate in the equity of a company is necessary to treat the company as an “associate” entity.

The following investments will be excluded while considering the 20% limit specified in the para 2 above:

- (i) Holding of shares in a fiduciary capacity
- (ii) Investment with the intent to trade or to hold merely for earning a return
- (iii) Acquisition, either through conversion or otherwise, of share capital in full or partial settlement of amounts due to the Bank.

“Related Party transaction” means a transaction involving transfer of resources, services or obligations between the Bank and the Related Party, regardless of whether a price is charged.

“Relative” with reference to any person, means anyone 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 person as :
 - (a) Father (including step-father)
 - (b) Mother (including step-mother)
 - (c) Son (including step-son)
 - (d) Son’s wife
 - (e) Daughter
 - (f) Daughter’s husband
 - (g) Brother (including step-brother)
 - (h) Sister (including step-sister)

“Material Related Party transaction”: A transaction with a related party shall be considered material if the transaction / transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual consolidated income of the Bank as per the last audited financial statements.

3.0 Transactions with Related Parties

3.1 The Bank’s transactions with related parties can be classified into two broad categories:

- (a) The Bank providing any of its banking product or service to a related party; and
- (b) The Bank procuring any product or service from a related party.

3.2 Following transactions covering banking products / services excluding grant of loans and advances contemplated under section 20(1) of the Banking Regulation Act, 1949 and under the guidelines issued by RBI from time to time with ‘Related Party’ do not require the specific approval of ACB/ Board provided these transactions are entered in ordinary course of banking business, at ‘arm’s length’ price under the general or specific product programmes and /or policies approved by the Bank / its Board of Directors.

3.2.1 All transactions, other than extending a credit facility, can be undertaken with ‘related parties’ which are in the normal course of banking business such as remittances, extending safe deposit locker facilities, providing foreign exchange, depository / demat services, sale of wealth products etc.

3.2.2 General approval is given for accepting deposits from an associate or a subsidiary or a Director of the Bank, or his relative or an associate entity or from a KMP or his / her relative, up to Rs.100 crores provided these deposits are accepted at the prevalent interest rates that are applicable to all other constituents /customers and are subject to compliance of guidelines issued by RBI from time to time.

3.3 Apart from the matter relating to appointment and / or remuneration of a whole time director, all other related party transactions (not exempted in Para 3.2 above) shall require the prior approval of the Audit Committee. The Audit Committee can, subject to the parameters specified in para 3.11 below, provide a general approval valid for a period not exceeding one year.

3.4 The matters relating to appointment and / or remuneration of a whole time director will be dealt with by the Nomination / Remuneration Committee and will be subject to the approval of Board of Directors of the Bank and the Reserve Bank of India.

3.5 While according their approval, the Audit Committee shall ensure that the transactions with related parties are strictly governed by the principle of commercial prudence; the pricing or other terms and conditions of transactions with a related party shall not be less favorable to the Bank than similar transactions that are / would be entered into with an unrelated party.

- 3.6 Any transaction which is not in the ordinary course of business of the Bank will be referred to the Board for a prior approval. Depending on the facts and circumstances of the specific transaction, and the pertinent legislative / regulatory framework, it may require the approval of the shareholders, or need regulatory or governmental clearances.
- 3.7 Extension of a credit facility to an identified subsidiary or associate of the Bank shall go through the normal credit approval grid of the Bank. Besides such approval, facilities beyond an amount of Rs.10 crores to each of the subsidiary or associate shall have to be referred to the Audit Committee for a prior approval.
- 3.8 Once a credit facility is granted to a subsidiary or an associate as above, transactions within the set limits do not require the prior approval of the Audit Committee.
- 3.9 Any contract or arrangement with a 'Related Party', that is not in the ordinary course of business of the Bank or is at a price that is not at arm's length, involving sale, purchase of any goods, disposing of or buying property of any kind, leasing of property of any kind, directly or through appointment of agent, will have to be approved by Board of Directors, subject to compliance of guidelines issued by Reserve Bank of India and / or provisions of Companies Act 2013.
- 3.10 Any contract for procurement of a product or a service from a related party needs prior approval of the Audit Committee, except when covered under para 3.2 above or governed by para 3.11 below.
- 3.11 The Audit Committee may grant omnibus approval for an arrangement or contract for procurement of a product or a service from a Related Party proposed to be entered into by the Bank subject to the following conditions:
- (i) The Audit Committee will grant such approval in respect of transactions which are repetitive in nature and are incidental or conducive to the promotion or advancement of conduct of business of the Bank.
 - ii) The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the Bank;
 - (iii) Such omnibus approval shall specify (i) the name/s of the related party, nature of transaction, period of transaction, maximum amount of transaction that can 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 Rs.1 crore per transaction.
 - (iv) Audit Committee shall review, at least on a quarterly basis, the details of transactions entered into by the Bank pursuant to each of the omnibus approval given.
 - (v) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

4.0 Disclosures

- 4.1 Details of all material transactions with Related Parties shall be disclosed to stock exchanges quarterly, along with the compliance report on corporate governance.
- 4.2 The Bank shall disclose the policy on dealing with Related Party transactions on its website and web-link shall be provided in the Annual Report.
- 4.3 The Reserve Bank of India, vide its Master Circular No. DBOD BP.BC. 8/21.04.018/2014-15 dated July 1, 2014, has prescribed the manner in which the disclosures are to be made in the Financial statements of the banks in respect of transactions with Related party as envisaged under the Accounting Standard 18. The format of disclosure by banks for AS 18, as suggested by RBI, is annexed as Annexure I. The said disclosure will *inter alia* include transactions with Related parties covering borrowings, deposits, advances, investments, purchase / sale of fixed assets, lease transactions, interest paid / received and receipts / payments towards receiving / rendering services respectively.

5.0 Review of the policy

- 5.1 A report confirming compliance to this Policy has to be presented to the Board at least once in a year.
- 5.2 This Policy may be reviewed by the Board, as and when necessary, and in any case at least once in three years.

6.0 Related Party transactions (RPTs) without approval under this policy

In the event the Bank becomes aware of any transactions with related parties that are not approved under this policy, prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all relevant facts and circumstances regarding the same and shall evaluate all options available to the Bank including ratification, revision or termination of the transaction. The Audit Committee shall also examine the facts and circumstances pertaining to the failure of reporting such transaction to the Committee under this policy and take any such action as deemed appropriate.

In any case, where the Committee decides not to ratify a transaction that has been commenced without its approval, the Committee, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation of rescission of the transaction.

In connection with any review of a transaction with a related party, the Committee has authority to modify or waive any procedural requirements of this policy.

The policy shall be communicated to all concerned persons for due adherence.

Accounting Standard 18 - Format for Related Party Disclosures

The manner of disclosures required by paragraphs 23 and 26 of AS 18 is illustrated below. It may be noted that the format is merely illustrative and is not exhaustive.

(Amount in ₹ crore)

Items / Related Party	Parent (as per ownership or control)	Subsidiaries	Associates / Joint ventures	Key Management Personnel @	Relatives of Key Management Personnel	Total
Borrowings #						
Deposit#						
Placement of deposits #						
Advances #						
Investments#						
Non-funded commitments#						
Leasing / HP arrangements availed #						
Leasing / HP arrangements provided #						
Purchase of fixed assets						
Sale of fixed assets						
Interest paid						
Interest received						
Rendering of services *						
Receiving of services *						
Management contracts*						
Note : Where there is only one entity in any category of related party, banks need not disclose any details pertaining to that related party other than the relationship with that related party						
* Contract services etc. and not services like remittance facilities, locker facilities etc.						
@ Whole time directors of the Board and CEOs of the branches of foreign banks in India.						
# The outstanding at the year-end and the maximum during the year are to be disclosed.						

Illustrative disclosure of names of the related parties and their relationship with the bank

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|--|------------------------|
| 1. Parent | A Ltd |
| 2. Subsidiaries | B Ltd and C Ltd |
| 3. Associates | P Ltd, Q Ltd and R Ltd |
| 4. Jointly controlled entity | L Ltd |
| 5. Key Management Personnel | Mr. M and Mr. N |
| 6. Relatives of Key Management Personnel | Mr. D and Mr. E |