



# **POLICY ON RELATED PARTY TRANSACTIONS**

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## **1. OBJECTIVE**

As per the requirement under Regulation 23(1) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI Regulations, 2015), the following policy on dealing with related party transactions has been recommended by the Audit Committee and adopted by the Board of directors (the "Board") of The Federal Bank Limited (the "Bank"). The objective of this policy is to meet proper approval and reporting norms as required under the applicable laws and establish transparency on the dealings of the bank with its related parties and to prevent any conflict of interest in the implementation of transactions involving such related parties. This Policy outlines the basis on which the materiality of related party transactions and subsequent modifications will be determined by the Bank. The Audit Committee / Board shall review and may amend the policy from time to time.

## **2. DEFINITIONS**

### **a) Annual Consolidated Turnover**

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.

### **b) Arm's Length Transaction**

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.

### **c) Associate Company**

As per Sec 2 (6) of the Companies Act, 2013, "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.

Explanation—

(a) "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement.

(b) "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.

### **d) Audit Committee**

Audit committee means Committee of Board of Directors of the Bank constituted under provisions of listing agreement with the stock exchanges and as per the provisions of Regulation 18 of Chapter IV of SEBI Regulations, 2015 and the Companies Act, 2013 (the Act).

### **e) Key Managerial Personnel**

As per Sec 2 (51) of the Companies Act, 2013, Key Managerial Personnel 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

**f) Material Related Party Transaction**

Material Related Party Transaction shall have the same meaning as defined under Regulation 23 (1) of the SEBI Regulations, 2015. 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 ₹ 1,000 crores or 10% of the annual consolidated turnover of the Bank as per the last audited financial statements of the Bank, whichever is lower.

Transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transaction / transactions to be entered into individually or taken together with previous transactions during a financial year, exceed 5% percent of the annual consolidated turnover of the Bank as per the last audited financial statements of the Bank.

**g) Material Modification as defined by Audit Committee**

“Material modifications” means any modifications to the material related party transactions which were approved by the Audit Committee or Board or Shareholders during the year which will change the complete nature of the transaction and in case of monetary thresholds which is in excess of 10% of the originally approved transaction.

**h) Material Subsidiary**

Material subsidiary for the purpose of this Policy shall mean a subsidiary, whose income or net worth exceeds 10% of the consolidated income or net worth respectively, of the Bank and its subsidiaries in the immediately preceding accounting year.

**i) Net worth**

As per Regulation 2 (1) (s) of the SEBI Regulations, 2015, Net worth means Net worth as defined under section 2 (57) of Companies Act, 2013.

As per Sec 2 (57) of the Companies Act, 2013, “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.

**j) Ordinary course of business**

Ordinary course of business will include the transactions undertaken by the Bank in the normal course of banking business as permitted by law/ regulations or as part of common/ customary business practices or by its long standing conduct.

**k) Related Party**

**As per Regulation 2 (1) (zb) of the SEBI Regulations, 2015:**

“Related party” 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 forming a part of the promoter or promoter group of the Bank; or any person or any entity, holding equity shares of 10% or more in the Bank either directly or on a beneficial interest basis

as provided under section 89 of the Companies Act, 2013, at any time, during the immediate preceding financial year; shall be deemed to be a related party.

**As per Sec 2 (76) of the Companies Act, 2013:**

<b>Related party with reference to a company, means —</b>	
(i)	Director or his Relative*
(ii)	A Key Managerial Personnel (KMP) 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 percent 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 (Other than in Professional Capacity)
(vii)	Any person on whose advice, directions or instructions a director or manager is accustomed to act: (Other than in Professional Capacity)
(viii)	any company which is— (a) a holding, subsidiary or an associate company of such company; or (b) a subsidiary of a holding company to which it is also a subsidiary; (c) an investing company or the venturer of the company;" Explanation— "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)	Any other person as may be prescribed: A director other than an independent director or key managerial personnel of the holding company or his relative with reference to a company (Prescribed as per Companies (Specification of definitions details) Rules, 2014.

\* - The term "Relative" as defined under Section 2(77) of the Companies Act, 2013 with reference to any person, means anyone who is related to another, if

- (1) they are members of a Hindu Undivided Family
- (2) they are husband and wife
- (3) "Father" including step-father.
- (4) "Mother" including the step-mother.
- (5) "Son" including the step-son.
- (6) Son's wife.
- (7) Daughter.
- (8) Daughter's husband.
- (9) "Brother" including the step-brother;
- (10) "Sister" including the step-sister.

**As per Accounting Standard 18 issued by Institute of Chartered Accountants of India:**

**Related party:-** parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions

Accounting Standard 18, *Related Party Disclosures* deals with the following Related party relationships only:

- a) enterprises directly or, or indirectly through one or more intermediaries, control, or are controlled by, or 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.

In addition to the above, as a matter of good corporate governance, subsidiaries of Associates/joint ventures are also to be treated as related party as per the definition of *Ind AS 24 Related Party Disclosures*.

### **l) Related Party Transactions**

As per Regulation 2 (1) (zc) of the SEBI Regulations, 2015, "Related party transaction" means a transaction involving a transfer of resources, services or obligations between Bank or any of its subsidiaries on one hand and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the Bank or any of its subsidiaries 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 transactions in a contract.

Provided that the following shall not be a related party transaction:

- a) The issue of specified securities on a preferential basis, subject to compliance of the requirements under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;
- b) The following corporate actions by the Bank which are uniformly applicable/offered to all shareholders in proportion to their shareholding:
  - i. Payment of dividend;
  - ii. Subdivision or consolidation of securities;
  - iii. Issuance of securities by way of a rights issue or a bonus issue; and
  - iv. Buy-back of securities.
- c) Acceptance of fixed deposits by banks at the terms uniformly applicable / offered to all shareholders / public; subject to disclosure of the same along with disclosure of related party transactions every six months to the stock exchange / stock exchanges, in the format as specified by the Board.

### **m) Subsidiary Company**

#### **As per Regulation 2 (1) (zm) of the SEBI Regulations, 2015:**

"Subsidiary company" or "subsidiary" means a subsidiary as defined under Section 2 (87) of the Companies Act, 2013.

#### **As per Sec 2 (87) of the Companies Act, 2013:**

"Subsidiary company" or "subsidiary", in relation to any other 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— (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) company includes any body corporate;

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

### **3. POLICY**

All Related Party Transactions must be reported to Audit Committee and referred for approval by the Committee in accordance with this Policy. The Audit committee may grant general approval for repetitive related party transactions specifying details like name, nature, base price, maximum amount and the period of transaction. Such general approval will be valid for a period of one year and a fresh approval shall be taken for every financial year.

### **4. IDENTIFICATION OF RELATED PARTY AND RELATED PARTY TRANSACTIONS**

Each Director and Key Managerial Personnel is responsible for providing declaration to the Secretarial department about the Related Party involving him or her or his or her Relative, including any additional information that the Company Secretary may reasonably request. Further, the Director and Key Managerial Personnel shall intimate the Secretarial department as and when any changes are required to the Related Parties, as mentioned in the declaration, on or before the first Board meeting after such change.

The Secretarial department shall maintain a database of Related Parties (along with their PAN) identified based on the definition of Related Party and declaration provided by the Directors and Key Managerial Personnel. A Related party will be brought to the attention of the Management / Functional teams and Board / Audit committee at least on an annual basis by the Secretarial Department and the database of Related Party shall be updated whenever necessary and reviewed on a timely basis and would be communicated to the functional departments.

The functional departments shall submit to the Head of Financial Reporting and the Company Secretary, the details of proposed transaction (except those for which omnibus approval has been granted by the Audit Committee as explained subsequently) 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, Financial Reporting department will facilitate for the necessary approval from the Audit Committee.

### **5. APPROVAL POLICY FRAMEWORK FOR RELATED PARTY TRANSACTIONS**

<b>Audit Committee Approval</b>	Audit Committee approval is required for following except the transactions specified under Regulation 23 (5) of SEBI Regulations, 2015.  In accordance with Regulation 23 (2) of SEBI Regulations, 2015, all Related Party Transactions and subsequent material modifications shall require prior approval of the Audit Committee of the Bank.  Related party transaction to which the subsidiary of a Bank is a party, but the Bank is not a party, shall require prior approval of the audit committee of the Bank, if the value of such transaction whether entered into
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	<p>individually or taken together with previous transactions during a financial year exceeds 10% of the annual standalone turnover, as per the last audited financial statements of the Subsidiary.</p> <p><i>(Only those members of the audit committee, who are independent directors, shall approve related party transactions)</i></p> <p><i>Any member of the Committee who has a potential interest in any Related Party Transaction will recuse himself or herself and abstain from discussion and voting on the approval of the Related Party Transaction.</i></p> <p><i>The Audit Committee shall also review the status of long-term (more than one year) or recurring Related Party Transactions on an annual basis.</i></p>
<p><b>Board of Directors Approval</b></p>	<p>Board of Directors approval is required for:</p> <p>I. Related Party Transactions referred by the Audit Committee specifically for Board approval.</p> <p>II. Related Party Transactions not in ordinary course of business or not on arm's length basis, which are falling within the scope of Section 188 of the Companies Act, 2013 not exceeding the limits prescribed as per Para 6 above.</p> <p><i>Where any Director is interested in any contract or arrangement with a related party, such Director shall not be present at the meeting during the discussion on the subject matter of the resolution relating to such contract or arrangement.</i></p>
<p><b>Shareholder's Approval</b></p>	<p>Share Holders approval by Ordinary Resolution is required for except the transactions specified under Regulation 23 (5) of SEBI Regulations, 2015:</p> <p>I. Material Related Party Transactions and subsequent material modifications as defined by the audit committee.</p> <p>II. Related Party Transactions not in ordinary course of business or not on arm's length basis, which are falling within the scope of Section 188 of the Companies Act, 2013 and exceeding the limits prescribed as per Para 6 above.</p> <p><i>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. In case of material related party transactions and subsequent material modifications, no related party shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not.</i></p>

**Notes:**

1. Prior approval of the audit committee of the Bank and Shareholders shall not be required for a related party transaction to which the listed subsidiary is a party but the Bank is not a party, if regulation 23 and regulation 15 (2) of SEBI Regulations, 2015 are applicable to such listed subsidiary. For related party transactions of unlisted subsidiaries of the listed subsidiary, the prior approval of the audit committee of the listed subsidiary shall suffice.



2. As per Regulation 23 (5) of SEBI Regulations, 2015, Approval of Audit Committee (including omnibus approval) and approval of Shareholder's is not required for the following:
  - a) Transactions entered into between the Bank and its wholly owned subsidiary whose accounts are consolidated with the Bank and placed before the shareholders at the general meeting for approval.
  - b) Transactions entered into between two wholly-owned subsidiaries of the listed holding company, whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.
3. All entities falling under the definition of related parties shall not vote to approve the relevant transaction irrespective of whether the entity is a party to the particular transaction or not.

#### **6. OMNIBUS APPROVAL BY AUDIT COMMITTEE FOR RELATED PARTY TRANSACTIONS PROPOSED TO BE ENTERED**

As permitted in Regulation 23 (3) of the SEBI Regulations, 2015 and Sec.177 (4) (iv) of Companies Act, 2013 Omnibus approval for Related Party Transactions proposed to be entered into by the bank, can be given by the Audit Committee except the transactions specified under Regulation 23 (5) of SEBI Regulations, 2015, subject to the following conditions:

- (a) the audit committee shall lay down the criteria for granting the omnibus approval in line with the policy on related party transactions of the Bank and such approval shall be applicable in respect of transactions which are repetitive in nature;
- (b) the audit committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the Bank;
- (c) the omnibus approval shall specify:
  - (i) the name / names of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall 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 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.
- (e) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year:

In relation to the Investment and Credit exposure with the related parties, already a board approved policy framed by the Integrated Risk Management Department titled as 'Policy on management and monitoring of Group risk (Bank's own group) and Intra – Group transactions and exposures' is in place. Hence, the limit for those transactions will be governed by the said policy itself.

## **7. DECISION REGARDING TRANSACTION IN ORDINARY COURSE OF BUSINESS AND AT ARM'S LENGTH**

The Audit Committee or the Board of Directors 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.

## **8. RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY**

8.1 In the event the Bank becomes aware of a Related party transaction with a related party that has not been approved in accordance with this Policy prior to its consummation, the transaction shall be brought to the Audit Committee, the Board and/or shareholders of the Bank as required under applicable law. The Audit Committee shall review considering 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.

8.2 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 not be deemed to violate this Policy, or be invalid or unenforceable, so long as the transaction is brought to the Audit Committee and 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.

8.3 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, discontinuation or rescission of the transaction or seeking the approval of the shareholders, payment of compensation for the loss suffered by the related party etc. In connection with any review/approval 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.

## **9. DISCLOSURES**

- i) The extracts of this Policy shall be uploaded in the website of the Bank [www.federalbank.co.in](http://www.federalbank.co.in) and the web link thereto will be provided in Corporate Governance section in the Annual Report.
- ii) Every contract or arrangement entered into as per Para 6 above shall be referred to in the Board's report to the shareholders along with the justification for entering into such contract or arrangement.
- iii) As per the provisions of Regulation 23 (9) of Chapter IV of SEBI Regulations, 2015, The Bank shall submit to the stock exchanges disclosures of related party transactions in the format specified by the SEBI and publish the same on its website. The Bank shall make such disclosures every six months on the date of publication of its standalone and consolidated financial results. 'High value debt listed entity' (Outstanding listed debt more than ₹500 Crore) shall submit such disclosures along with its standalone financial results for the half year.
- iv) The illustrative format of disclosure by banks for the AS 18-Related Party Disclosures as per RBI Master Circular on Disclosure in Financial statements - Notes to Accounts.
- v) In accordance with Regulation 27(2)(b) of SEBI LODR, details of all material transactions with related parties shall be disclosed along with the quarterly Compliance Report on Corporate Governance to the recognised stock exchanges within timelines prescribed.

## **10. REVIEW OF THE POLICY**

This Policy shall be reviewed by the Audit Committee/ Board Annually or as and when any changes are to be incorporated in the Policy due to amendment in regulations or for reasons deemed appropriate by the Audit Committee and the Board of Directors.

## **11. AMENDMENTS / MODIFICATIONS**

This Policy is framed based on the provisions of the Banking Regulation Act, 1949, the Companies Act, 2013 and rules thereunder, other applicable law and guidelines issued by Reserve Bank of India. In case of any subsequent changes in the provisions of the Banking Regulation Act or the Companies Act, 2013 and rules thereunder or other applicable law or guidelines, 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/ guidelines.

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