

DCB BANK LIMITED

Policy on Related Party Transactions

Version 3.0

Confidential

Glossary of Abbreviations used in this Document

ACB	Audit Committee of the Board
AS	Accounting Standard
ESOP	Employee Stock Options Plan
ICAI	Institute of Chartered Accountants of India
KMP	Key Managerial Person
NRCB	Nomination and Remuneration Committee of the Board
RBI	Reserve Bank of India
RPTs	Related Party Transactions
SEBI	Securities and Exchange Board of India

Policy on Related Party Transactions

1. Background

This policy on Related Party Transactions (RPTs) is being put in place in view of the following:

The Companies Act, 2013 has defined Related Party (Secs. 2(76) and (77)), the role of Audit Committee (Sec.177) and the Related Party Transactions (Sec. 188) that require approval of the Audit Committee for all RPTs, or the Board or the Shareholders in respect of certain specific related party transactions. **The provisions as per these sections are effective April 1, 2014.**

Clause 49 of Equity Listing Agreement has been amended by the Securities and Exchange Board of India (SEBI) vide their circular dated April 17, 2014 including inter alia, a requirement of prior approval by the Audit Committee of all Related Party Transactions. **The revised Clause 49 would be applicable to all listed companies with effect from October 1, 2014.**

Banks in India are governed by the Reserve Bank of India guidelines contained in their circular No. DBOD. No. BP. BC. 89 /21.04.018/2002-03 March 29, 2003 - "Guidelines on compliance with Accounting Standards (AS) by banks", the gist of which is as follows:

Related Parties: To begin with, related parties for a bank are its parent, subsidiary(ies), associates/joint ventures, Key Management Personnel (KMP) and relatives of KMP. KMP are the whole time directors for an Indian bank and the chief executive officer for a foreign bank having branches in India. Relatives of KMP would be on the lines indicated in Section 45 S of the R.B.I. Act, 1934.

Disclosure format: The illustrative disclosure format recommended by the Institute of Chartered Accountants of India (ICAI) as a part of General Clarification (GC) 2/2002 has been suitably modified to suit banks.

The illustrative format of disclosure by banks for AS 18 is furnished in the master circular on disclosure requirements by banks. As contained in the master circular, the manner of disclosures required by paragraphs 23 and 26 of AS 18 is illustrated in the circular and that the format is merely illustrative and is not exhaustive.

2. Identification of the related parties

As per the requirement of above regulations, the Bank has identified its (i) Directors and their relatives, and (ii) KMP and their relatives as Related Parties. Though the RBI guidelines prescribe whole time directors as KMP, the Bank, as a listed company, has to comply with the requirements of clause 49 of the listing agreement and accordingly, the Managing Director and CEO, the Chief Financial Officer and the Company Secretary will be the KMP. Currently, the Bank does not have any subsidiary or associate or joint ventures or a parent company.

The Bank has obtained the list of relatives of Directors and KMP of the Bank.

Further, the entity handling post-employment benefit plan for the benefit of employees of the Bank is also a related party as defined in Clause 49. Accordingly, in the Bank's case the Development Credit Bank Ltd. Staff Gratuity Fund and the Development Credit Bank Ltd. Employees' Provident Fund Trust are identified as related parties for Clause 49 purposes.

3. Frame work to identify and update related parties on an ongoing basis

The Secretarial Department of the Bank obtains and circulates an updated list of Directors and their relatives and the relatives of Key Managerial Personnel (KMP). The Secretarial Department will be responsible for updating the list of the related parties along with their relatives on a quarterly basis and circulate the updated list to the user departments of the Bank and the Business/Functional Heads.

Business/Functional Heads of the Bank, based on the list circulated to them, will be responsible to report to the Finance Department in the prescribed format, the transactions entered with the related party on quarterly basis.

The Finance Department will also obtain from the Operations unit, a list of related party transactions in respect of various financial transactions captured in the system. This report will be validated with the reports obtained from the Business / Functional Heads as above. The Finance Department will be responsible for reporting periodically all these transactions to the Audit Committee for its approval.

4. Identification of related party transactions

- A. The nature of transactions that may be entered by the Bank with related parties in the normal course of business has been listed below:
- i. Acceptance of deposits from the related parties (current accounts, savings accounts and term deposits) in the normal course of business.
 - ii. Lending of credit facilities (including funded and non-funded exposure) to KMP or their relatives. As per the provisions of the Banking Regulation Act, 1949, the Bank cannot lend to the directors or firms in which they are interested, except for certain specified types of loans as prescribed in the RBI master circular. Only loans to KMP other than whole time directors, as per approved employee loans scheme of the Bank under the same terms and conditions of such employee loans will be considered for the purpose of inclusion in the list of transactions in the normal course of business.
 - iii. Interest paid to and interest received from related parties: KMP of the Bank are eligible for additional 1% per annum interest over the card rates on their deposits as defined in the RBI master circular on payment of interest on deposits from bank's own staff and accordingly, such interest amounts will be included in these transactions in the normal course of business.
 - iv. Foreign remittances by directors and their relatives for their personal and / or business purposes at terms as applicable to other customer of the Bank and by KMP for personal purposes at the same terms as offered to all employees of the Bank, for example, commission on such foreign remittances may be waived for all employees of the Bank.
 - v. Letting of lockers as per the terms and conditions of the facility as offered to all customers of the Bank.

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- vi. Other banking services like issue of demand drafts, funds transfers, investments in third party products, etc. on the same terms and conditions as offered to all other employees of the Bank.
 - vii. Salaries including managerial remuneration – approved by the RBI or the Nomination and Remuneration Committee of the Board (NRCB) as the case may be.
 - viii. Employee Stock Options (ESOP) granted to KMP and exercise thereof by KMP as per prior approvals given by NRCB.
 - ix. Dividend payment on investments made by related parties in the Bank's shares, as approved by the shareholders in the Annual General Meeting.
 - x. Sale of fixed assets in the form of used cars or home furnishings at written down value, provided to KMP as part of their terms of service.
 - xi. Chairman's remuneration as approved by RBI.
 - xii. Directors' Sitting Fees at rates approved by NRCB.
 - xiii. Purchase on behalf of and sale of certain government securities by the Bank to the Gratuity Fund and Provident Fund Trust at market related yields prevalent on the date of sale.
- B. All related party transactions other than the above will be executed with prior approval of the Audit Committee in each case. Such transactions may be put up for approval of the Audit Committee members by email and in all such cases, the transactions will be collated and presented in the next Audit Committee meeting for the purpose of reporting.
- C. Specific transactions as listed in Sec.188 of the Companies Act, 2013 requiring prior approval of the Board / shareholders will be put up to Audit Committee for prior approval as envisaged in the Act and in Clause 49 of the listing agreement.

5. Board / Shareholders' Approval of the related party transactions

In compliance with the requirements of the Companies Act, 2013 and the revised Clause 49 of the listing agreement, the Bank will report the related party transactions to the Audit Committee on quarterly basis. Further, as per the requirements of the Companies Act, 2013, in respect of transactions entered with the related parties which are not entered into by the Bank in the ordinary course of business and are not at an arm's length basis, the Bank will obtain the prior approval of the Board of Directors.

Further, no material transaction i.e. transaction of value more than 5% of the turnover or 20 percent of net worth shall be entered into by the Bank except with the prior approval of the shareholders of the Bank by a special resolution.

6. Reporting of related party transactions

All related party transactions, as pre-approved by the Audit Committee being in the nature of normal course of business and at arm's length, occurring between two audit committee meetings will be collated and reported to the Audit Committee in its subsequent meeting, normally on a quarterly basis.

7. Disclosure of related party transactions

The illustrative format of disclosure by banks for AS-18 is furnished in the RBI master circular on disclosure requirements by banks. As contained in the master circular, the manner of disclosures required by paragraphs 23 and 26 of AS 18 is illustrated in the circular and that the format is merely illustrative and not exhaustive. The Bank will, therefore, disclose annually the reported part transactions in the format prescribed by the RBI in its master circular and as applicable to all banks, updated for further requirements of AS-18, if any. This will be the responsibility of the Financial Control unit of the Bank.

8. Review of the policy

The policy will be reviewed annually, preferably in the first quarter of every financial year, and will be placed for approval by the Audit Committee.