

DCB BANK LIMITED

Policy on Related Party Transactions

Version 4.0

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
LODR	Listing Obligation and Disclosure Requirements - SEBI (LODR) Regulations, 2015
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 23 sub clause (2) of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 vide their notification dated September 02, 2015 including inter alia, a requirement of prior approval by the Audit Committee of all Related Party Transactions.

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 Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 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.

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 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 into 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.
 - 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.

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- 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.
- B. All related party transactions other than the above, if any, 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 Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

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

In compliance with the requirements of the Companies Act, 2013 and Clause 23 sub clause (3) (d) of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, 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 into 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.

List of transactions with Related Parties to the extent of the values stated, requiring omnibus approval annually and applicable regulatory requirements

As per the Rule 6A inserted by Ministry of Corporate Affairs under the Companies (Meetings of Board and its Powers) Second Amendment Rules, 2015, the Bank shall be required to obtain approval of ACB and may make omnibus approval for related party transactions subject to the following prescribed conditions.

- The Audit Committee shall, after obtaining approval of the Board of Directors, 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 company.
- The omnibus approval shall contain or indicate the following:-
 - a) Name of the related parties
 - b) Nature and duration of transaction
 - c) Maximum amount of transactions that can be entered into
 - d) The indicative base price or current contracted price and the formula for variation in the price, if any; and
 - e) Any other information relevant or important for the Audit Committee to take decision on the proposed transactions

Provided that where the need for related party transactions 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 expiry of such financial year.
- Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the company

Annexure 2: Annual Review of list of transactions approved by ACB under omnibus approval

Sl. No.	Related Party Category	Nature of transactions	Value of transaction & Justification for arm's length
1	Directors and Key Managerial Persons ('KMP') and their relatives	Acceptance of deposits from related parties in the normal course of banking business	Not exceeding Rs. 25 crores per deposit transaction, at arm's length rates as offered in the normal course of business
2	i) Directors and their relatives ii) KMP	i) Lending of credit facilities (including funded and non-funded exposure) ii) Loans to KMP other than whole time directors, as per approved employee loans scheme	i. Exempted lending as permitted in RBI master circular for example, loans against deposits ii. if such loans are part of any approved staff loan scheme and on same terms as applicable to eligible employees under such scheme which could be grade based which may not apply to all employees but only to a certain or more vintage in the Bank or certain grade and above
3	Directors and KMP and their relatives	Interest paid to and interest received from related parties. All employees including KMP eligible for additional 1% per annum over card rates for deposits	Interest as may be applicable on the above transactions
4	Directors and KMP and their relatives	Foreign remittances for personal purposes	Equivalent of up to USD 100,000 For KMP at same terms as offered to all employees
5	Directors and KMP and their relatives	Letting of lockers	As applicable for bank's customers and if for KMP, as applicable to all employees.
6	Director and KMP and their relatives	Other banking services like issue of demand drafts, funds transfers, investments in third party products, etc.	Not exceeding Rs.25 lakhs per draft or funds transfer transaction or any other mode of remittance in Indian Rupee Up to Rs.1 crore per transaction for investment in third party products
7	KMP	Salaries including managerial remuneration	As approved by RBI or NRCB (Nomination and Remuneration Committee of the Board)
8	KMP	Employee Stock Options	As approved by NRCB
9	Directors and KMP and their relatives	Dividend payment	As approved by the Board and the Shareholders in AGM
10	KMP	Sale of fixed assets in the form of used cars or home furnishings	As approved per HR employee benefit scheme Value of such item sold not exceeding Rs.1 lakh per instance, except in case of sale of used car before completion of 5 years, in which case, such sale value not

DCB BANK

Sl. No.	Related Party Category	Nature of transactions	Value of transaction & Justification for arm's length
			exceeding Rs.10 lakhs. If the car, owned by the Bank, is bought out by the employee in accordance with the terms of service and as per HR policy in place, such transaction may also be within the purview of permitted transaction as per omnibus approval.
11	Chairman of the Bank	Payment of Chairman's remuneration	As approved by the RBI
12	Other than whole time directors	Payment of Directors' sitting fees	As approved by the NRCB