



**Utkarsh Small Finance Bank**

**RELATED PARTY TRANSACTIONS & ARM'S LENGTH POLICY**  
**EFFECTIVE FROM DECEMBER 20, 2023**



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## A) Overview

### 1. Background & Objective

The objective of this policy is to ensure due and timely identification and reporting of the transactions between the Bank and its Related Parties (defined below) and to govern the pricing mechanism of all the transactions among Bank group entities and its related parties as per various regulatory requirements, financial limits and approval processes.

### 2. Definitions

**“Annual Turnover”** means the aggregate value of the realization of amount made on account of services rendered by the Bank during a financial year. Accordingly, the turnover is considered as Total Income of the Bank,

**“Arm’s Length Basis”** means a transaction between two related parties

(a) that is conducted as if they were unrelated, so that there is no conflict of interest;

(b) where the acts/ arrangements have been commercially negotiated;

(c) where pricing is arrived at as per the rule/guidelines that may be issued by/ under the Income Tax Act, 1961, the Reserve Bank of India, Securities and Exchange Board of India (SEBI) and/or such other statutory or regulatory bodies as applicable to any of the contract/ arrangements contemplated or the Listing Regulations;

(d) where the terms of contract/arrangement other than pricing are generally on a basis similar to those as may be applicable for similar category of goods and services or similar category/ profile of counterparties;

(e) such other criteria as may be issued under applicable law from time to time.

**“Audit Committee of the Board”** means the audit committee constituted by the Board in accordance with the guidelines of the RBI and Companies Act, 2013 and SEBI (LODR) as amended from time to time.

**“Board”** means Board of Directors of the Bank.

**“Key Managerial Personnel”** means the persons defined under the Companies Act, 2013 and includes:

- a. the chief executive officer or the managing director or the manager;
- b. the company secretary;
- c. the whole-time director;
- d. the chief financial officer;



- e. such other officer, if any, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and

such other officer as may be prescribed under the Companies Act, 2013 and SEBI (LODR) from time to time.

**“Listing Regulation”** means Securities and Exchange Board of India (SEBI) (Listing Obligations & Disclosure Requirements) Regulations (LODR), 2015, as may be applicable from time to time.

**“Material Modification”** In addition to a Related Party Transaction approved by the Audit Committee or a material related party transaction approved by the Shareholders as the case may be, material modifications means any variation having an impact on the monetary limits already approved by the Audit Committee or Shareholders, as the case may be exceeding 10% of the transactions or ₹ 1 crore (One Crore Rupees only) whichever is lower in each case over and above the approved limits.

**“Material Related Party Transaction”** means a transaction with a related party if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds Rupees One Thousand Crore or ten per cent (10%) of the annual turnover of the Bank as per the last audited financial statements of the Bank, whichever is lower.

Further, a transaction involving payments made to a Related Party with respect to brand usage or royalty shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed 5% of the Annual Turnover of the Bank as per the last audited financial statements of the Bank .

**“Ordinary Course of Business”** includes but not limited to a term for activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions.

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 and is in furtherance of the Business.
- iii. The transaction is permitted by the Memorandum of Association of the Bank.
- iv. The transaction is a source of income for the business.
- v. Transactions that are part of the standard industry practice, even though the Bank may not have done it in the past.
- vi. The transactions which are common in the Banking industry.
- vii. The transactions which the Audit Committee or the Board shall, after considering the materials placed before them, considers as if the transaction is in the Ordinary Course of the business and meet arm’s length requirements.

**“Policy”** means this Related Party Transactions & Arms’ Length policy.



**“Related Party”** means related party as defined under Section 2(76) of the Companies Act, 2013, under the applicable accounting standards and, as defined under SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 as amended from time to time.

**“Related Party Transaction”** (RPT) as provided under Companies Act, 2013 and includes a transaction involving a transfer of resources, services or obligations between:

- (i) the Bank or any of its subsidiaries, if any, on one hand and a related party of the Bank on the other hand; or
- (ii) the Bank or any of its subsidiaries, if any, 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, if any, 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 of 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 listed entity 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/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by the Board.

**“Relative”** means relative as defined under Section 2(77) of the Companies Act, 2013 and with reference to any person, means any one who is related to another, if:-

- i. They are members of Hindu Undivided Family (HUF);
- ii. They are Husband and Wife or
- iii. One person is related to the other in such manner as may be prescribed

List of relatives as specified in rule 4 of the Companies (Specification of definitions details) Rules 2014 are as under :-

- i. Father (including step-father)
- ii. Mother (including step-mother)
- iii. Son (including step-son)
- iv. Son’s wife
- v. Daughter



- vi. Daughter's husband
- vii. Brother (including step-brother)
- viii. Sister (including step-sister)

**"Person"** as defined under Section 2(31) of the Income Tax Act, 1961 includes :

- (i) an individual,
- (ii) a Hindu undivided family,
- (iii) a company,
- (iv) a firm,
- (v) an association of persons or a body of individuals, whether incorporated or not,
- (vi) a local authority, and
- (vii) every artificial juridical person, not falling within any of the preceding sub-clauses.

### **Effective date**

This policy shall be in effect from December 20, 2023.

## **B) Policy**

In drawing up the Policy, guidance has been taken from various documents such as RBI guidelines, Income Tax Act, 1961, SEBI Guidelines, Companies Act, 2013, Accounting Standards issued by the ICAI etc.

### **1. Identification of Potential Related Party Transactions**

Each Director and Key Managerial Personnel is responsible for providing declaration to the company secretary containing details of Related Parties and any additional information that the company secretary may reasonably request.

Each Director and Key Managerial Personnel is also responsible to update the company secretary/management of any changes in the above information immediately on him/he becoming aware of such changes.

The company secretary shall maintain a database of related parties containing the names of individuals and companies identified based on the definition of Related Party and declarations mentioned above, including any revisions therein, provided by the directors & Key Managerial Personnel. The list of Related Parties shall be updated whenever necessary and shall be reviewed by company secretary on a timely basis not later than a quarter and shall be communicated to the functional departmental heads.

The functional departmental heads shall submit, to the chief compliance officer, chief risk officer and the company secretary of the Bank, the details of a proposed transaction with draft agreement or other supporting documents justifying that the transactions are on Arm's Length Basis and at prevailing market rates. Based on such information, the Company Secretary will facilitate for the necessary approval from the Audit Committee of the Board.



The company secretary shall maintain register giving separately the particulars of all contracts or arrangements to which sub-section (2) of section 184 or section 188 applies, in such manner and containing such particulars as may be prescribed and after entering the particulars, such register or registers shall be placed before the next meeting of the Board and signed by all the directors present at the meeting.

Disclosure of Interest under Section 184 & 189 of the Companies Act by Directors and KMPs:-

Before Borrowing, Lending, Investment and Procurement or any such transactions, the general confirmation on their Interest with the other party is to be taken from all the Directors & Key Managerial Personnel (Key Managerial Personnel as defined under Companies Act) of the Bank before the approval of such proposals.

The interested person will be abstaining from the agenda items in the meetings.

## 2. Review and prior approval of Related Party Transactions

The prior approval policy framework is given below :-

All Related Party Transactions and subsequent material modifications.	<b>Audit Committee of the Board</b>
Material Related Party Transactions and subsequent material modifications as defined by Audit Committee. Transactions referred under section 188, and where Audit Committee does not approve the transaction	<b>Approval of the Board</b>
Material Related Party Transactions and subsequent material modifications as defined by Audit Committee and also approved by the Committee & the Board. Related Party Transactions not on Arm's Length Basis or not in the Ordinary Course of Business and such transactions exceeding certain thresholds as prescribed under section 188 of the Companies Act, 2013 read with its prescribed rules	<b>Shareholders' Approval</b>

All Related Party Transactions will be subject to following approval matrix as mentioned in **Annexure A** forming part of this policy, as may be applicable and as amended from time to time.

## 3. General Criteria for Approval of Related Party Transactions

The criteria for approval of Related Party Transactions will be applicable as per the provisions of Companies Act, 2013, and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time.

All Related Party Transactions, other than:

- i. transactions between the Bank and wholly owned subsidiaries, if any, whose accounts are consolidated with such holding company and placed before the shareholders at the



general meeting for approval; or

- ii. transactions which are in the Ordinary Course of Business; or
- iii. transactions which are on Arm's Length Basis,

shall require prior approval of the Audit Committee of the Board and/or the Board and/or shareholders in accordance with this Policy.

#### **4. Arm's Length Principle**

The fundamental premise of Arm's Length Principle (ALP) is that the parties to a transaction should be independent and on equal footing. It requires that the price charged should be the same as it would have been if the parties to the transaction were not related to each other.

#### **5. Audit Committee Approval**

All Related Party Transactions and subsequent material modifications shall be referred to the Audit Committee of the Board for review and prior approval. All the Independent Directors of the Audit Committee present in the meeting shall approve the related party transaction(s).

Further any member of the Audit Committee of the Board who is interested in any Related Party Transaction shall abstain himself/herself from discussion and voting on the approval of the Related Party Transaction.

To review, approve, ratify, disapprove or reject a related party transaction, the Audit Committee of the Board must be provided with all relevant material information of the related Party Transaction, including the terms of the transaction, the business purpose of the transaction, the benefits to the Bank and to the Related Party, and any other relevant matters.

The Bank shall provide such information for review of the audit committee for approval of a proposed related party transaction as may be prescribed from time to time under Companies Act, Listing Regulations and any circulars, notification issued therein.

The audit committee shall also review the status of long-term (more than one year) or recurring related party transactions on an annual basis. Related Party Transactions that are not in ordinary course of business but on arm's length basis may be approved by Audit Committee. Where such Related Party Transactions fall under Section 188 (1) of the Act, the Audit Committee shall recommend the transaction for approval of the Board.

Related Party Transactions that are not on arm's length basis, irrespective of whether those are covered under Section 188 of the Act or not, may be placed by the Audit Committee, along with its recommendations, to the Board for appropriate action.

The Audit Committee of the Board shall, after considering the materials/ documents/ information placed before them; judge if the transaction is in the Ordinary Course of Business and meets the Arm's Length requirements.

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### **Omnibus Approval on Annual Basis**

The Audit Committee of the Board may grant omnibus approval for related party transactions proposed to be entered into by the Bank in a financial year prior to beginning of that particular financial year.

The Audit Committee of the Board shall review on a quarterly basis the aforesaid Related Party Transactions entered into by the Bank pursuant to each of the omnibus approval given.

Such 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.

The Audit Committee of the Board shall, specify the criteria for making the omnibus approval which shall include the following:

- i. maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year;
- ii. the maximum value per transaction which can be allowed;
- iii. extent and manner of disclosures to be made to the Audit Committee of the Board at the time of seeking omnibus approval;
- iv. review, at such intervals as the Audit Committee of the Board may deem fit, Related Party Transaction entered into by the Bank pursuant to each of the omnibus approval made;
- v. transactions which cannot be subject to the omnibus approval by the Audit Committee of the Board.

The Audit Committee of the Board shall also consider the factors while specifying the criteria for making omnibus approval, namely: -

- i. repetitiveness of the transactions (in past or in future);
- ii. justification for the need of omnibus approval.

The Audit Committee of the Board 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 name of the Related Parties, nature and duration of the transaction, maximum amount of transaction, indicative base price or current contracted price and the formula for variation in the price, if any and any other information relevant or important for the Audit Committee of the Board to take a decision on the proposed transaction.

Provided that where the need for Related Party Transaction cannot be foreseen and aforesaid details are not available, Audit Committee of the Board may make omnibus approval for such transactions subject to their value not exceeding Rs. 1 crore per transaction.



## **6. Board of Directors Approval**

The Board shall review and approve (as appropriate) the Related Parties Transactions referred to it by the Audit Committee of the Board.

Except with the consent of the Board given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, the Bank shall not enter into any contract or arrangement with a related party with respect to:

- i. sale, purchase or supply of any goods or materials;
- ii. selling or otherwise disposing of, or buying, property of any kind;
- iii. leasing of property of any kind;
- iv. availing or rendering of any services;
- v. appointment of any agent for purchase or sale of goods, materials, services or property;
- vi. such related party's appointment to any office or place of profit in the Bank, its subsidiaries or associates, and
- vii. underwriting the subscription of any securities or derivatives thereof, of the Bank

Provided that no contract or arrangement, as may be prescribed under the applicable rules under the Companies Act, 2013, shall be entered into except with the prior approval of the Bank by a resolution.

Where the Related Party Transactions fall under Section 188 (1) of the Act, the same shall be approved by the Board after its recommendation by the Audit Committee.

Related Party Transactions that are not on arm's length basis, irrespective of whether those are covered under Section 188 of the Act or not, shall be approved by the Board after its recommendation by the Audit Committee.

If the Related Party Transaction needs to be approved at a general meeting of the shareholders by way of a resolution pursuant to Applicable Laws, the same shall be first reviewed by the Board prior to being put up for approval by the shareholders of the Bank

A director who is interested in any contract or arrangements with a related party shall not be present at the meeting during discussions on the subject matter of the resolution relating to such contract or arrangement and abstain from voting on the approval of such Related Party Transaction.

The information provided in the agenda of the Board meeting at which the resolution is proposed to be passed shall specifically cover the following:

- i. the name of the related party and nature of relationship;
- ii. the nature, duration of the contract and particulars of the contract or arrangement;
- iii. the material terms of the contract or arrangement including the value, if any;



- iv. any advance paid or received for the contract or arrangement, if any;
- v. the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
- vi. 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
- vii. any other information relevant or important for the Audit Committee of the Board to take a decision on the proposed transaction.

## **7. Shareholders' Approval**

All Material Related Party Transactions and subsequent material modifications as defined in this Policy, Related Party Transaction which are either not on Arm's Length Basis or not in Ordinary Course of Business and such transactions exceeding certain thresholds as prescribed under section 188 of the Companies Act, 2013 read with the prescribed rules shall require prior approval of the shareholders through a resolution and no related party shall vote to approve such resolution whether the entity is a related party to the particular transaction or not.

The explanatory statement to be annexed to the notice of a general meeting shall contain such particulars as may be required under applicable law(s).

## **8. Pricing as per Arm's length principle**

The pricing for transactions with related parties can be determined in line with the provisions of Income Tax Act, 1961.

All international transactions and specified domestic transactions entered between associated enterprises should conform to the arm's length principle.

The arm's length price in relation to international transactions as well as specified domestic transactions shall be determined as per the pricing methodologies specified in section 92C of the Income Tax Act, 1961.

The Bank and its subsidiaries and step-down subsidiaries, if any, also needs to maintain the contemporaneous documentation required to benchmark all related party transactions and should comply with the reporting requirements of furnishing the report of such transactions in Form 3CEB duly certified by a Chartered Accountant.

## **9. Related Party Transactions not approved under this Policy**

In the event the Bank becomes aware of a Related Party Transaction that has not been approved under this Policy prior to its consummation, the Bank would ratify the transaction from Audit Committee of the Board upon receipt of such information.

In case the Bank is not able to obtain prior approval from the Audit Committee of the Board, 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 notice of Audit Committee of the Board as promptly as reasonably practical after it is entered into or after it becomes reasonably apparent that the transaction is



covered by this Policy.

The Audit Committee of the Board shall consider 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 and also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Audit Committee of the Board under this Policy, and shall take any such action it deems appropriate. In any case, where the Audit Committee of the Board determines not to ratify a Related Party Transaction that has been commenced without approval, the Audit Committee of the Board, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction. In connection with any review of a Related Party Transaction, the Audit Committee of the Board has the authority to modify or waive any procedural requirements of this Policy.

Any contract or arrangement with Related Parties which is entered into by a director or any other employee, without obtaining the consent of the Board or approval by a resolution in the general meeting as may be required, and it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, then such contract or arrangement shall be voidable at the option of the Board and if the contract or arrangement is with a Related Party to any director, or is authorised by any other director, the directors concerned shall indemnify the company against any loss incurred by it. The Bank can proceed against such director or employee to recover any loss sustained by it as a result of such contract or arrangement.

#### **10. Exemption from applicability of the Policy**

Notwithstanding the foregoing, but subject to the provisions of the applicable laws from time to time, the following Related Party Transactions shall not require separate/additional approval under this Policy:

- i. Any transaction pertaining to remuneration of Directors and KMPs that require approval of the Nomination and Remuneration Committee of the Bank and the Board;
- ii. Transactions that have been approved by the Board under specific provisions of the Act, e.g. inter corporate deposits, borrowings, investments etc. with or in wholly owned subsidiaries or other Related Parties;
- iii. Payment of Dividend;
- iv. Transactions involving corporate restructuring, such as buy-back of shares, capital reduction, merger, demerger, hive-off etc. which are approved by the Board and carried out in accordance with specific provisions of the Act or the Listing Regulations or other regulations framed by Securities and Exchange Board of India; and
- v. Contribution towards Corporate Social Responsibility (CSR) within the overall limits approved by the Board that require approval of the CSR Committee.

#### **11. Reporting of Related Party Transactions**

Every contract or arrangement with Related Parties referred to in section 188 (1) of the Companies Act, 2013 will be disclosed by the Bank in the Board's Report in accordance with Section 134(3)(h)



of the Companies Act, 2013 in such form and manner as may be specified.

The Bank shall disclose in its financial statements, related party relationships and transactions between the Bank and its related parties in line with RBI's Master Circular on Disclosure in Financial Statements- 'Notes to Accounts' and as per applicable Accounting Standards.

The details of Material Related Party Transactions, if any, will be included in the corporate governance reports which are required to be submitted to the stock exchanges on a quarterly basis.

This Policy shall be disclosed on the Bank's website and a web link thereto shall be provided in the Annual Report of the Bank.

The Bank shall submit the disclosures of Related Party Transactions, within the timeline and manner as specified in SEBI (Listing Obligations and Disclosure Requirements) and publish the same on its website.

## **12. Review of the Policy and Amendments**

This Policy shall be reviewed by the Board once in three years or as may be required and updated accordingly or as may be otherwise prescribed by the Audit Committee of the Board/ Board from time to time.

Any change in the Policy shall be approved by the Board and any subsequent amendment/modification in applicable laws, rules, regulations and accounting standards shall automatically apply to this Policy.

## **13. Confidentiality Clause**

The information in this policy is strictly confidential to the Bank and should not be disclosed to any other person. It may not be reproduced in whole, or in part, nor may any of the information contained therein be disclosed without the prior consent of the Compliance Department in pdf format.

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## Annexure A

All Related Party Transactions will be subject to following approval matrix, as may be applicable and as amended from time to time:-

Provisions	Ceiling on the amount	Approval Required		
		Audit Committee	Board	Shareholders
Transactions in the ordinary course of business and on arm's length basis	Up to 10% of the Annual turnover of the Bank or ` 1,000 cr, whichever is lower.  In case branch usage or royalty-upto 5% of the Annual turnover of the Bank	✓	-	-
	In the excess of above limit	✓	✓	✓
Transactions either not in the ordinary course of business or not on arm's length basis				
Sale, purchase or supply of any goods or materials, directly or through appointment of agent		✓	✓	✓  Exceeding 10% of the turnover
Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent.		✓	✓	✓  Exceeding 10% of the net worth
Leasing of property of any kind.		✓	✓	✓  Exceeding 10% of the net worth
Availing or rendering of any services, directly or through appointment of		✓	✓	✓  Exceeding 10% of the net



agent				worth
Appointment of any related party to any office or place of profit in the Bank, its subsidiary company or associate company		✓	✓	✓ Monthly remuneration exceeding two and half lakh rupees
Underwriting the subscription of any securities or derivatives thereof, of the Bank		✓	✓	✓ Remuneration exceeding 1% of net worth
Any other transaction with related parties, other than those covered above, resulting in transfer of resources, obligations or services		✓	✓ For Transactions that are not on arm's length basis.	✓ Exceeding 10% of the annual turnover of the Bank