

Capital Small Finance Bank Limited

Materiality Policy for Related Party Transactions [Updated upto September 23, 2021]

CAPITAL SMALL FINANCE BANK LIMITED

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1. Introduction

The Board of Directors of Capital Small Finance Bank Limited ("the Bank/ Company") have adopted the following policy ("Materiality policy for Related Party Transactions") and procedures with regard to Related Party Transactions ("RPT"), in line with the requirements of Section 177 (4) (iv) and Section 188 of the Companies Act, 2013 read with Rules made thereunder ("the Act") and Regulation 23 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations"), as amended from time to time, Banking Regulation Act 1949, RBI guidelines and Accounting Standards as applicable..

This policy seeks to provide guidance on identification of related parties and the proper conduct and documentation of all related party transactions. The objective of this policy is to ensure that transactions between the Bank and its related parties are based on principles of transparency and arm's length pricing. Likewise, this policy also aims at preventing and providing guidance in situations of potential conflict of interests in the implementation of transactions involving such related parties.

Any term not defined in the policy shall have meaning as defined in the Companies Act, 2013, SEBI Listing Regulation or other applicable statutes.

2. Objective

The key objectives of this policy are as under:

- i) Ensure due and timely identification, approval, disclosure and reporting of transactions between the Bank and any of its related parties in compliance with the applicable laws and regulations as applicable and amended from time to time.
- ii) Determine the disclosures to be made about those items.
- iii) Govern the approval process and disclosure requirements to ensure transparency in the conduct of Related Party Transactions in the best interest of the Bank and to comply with the statutory provisions in this regard.
- iv) Identify outstanding balances, including commitments, between the Bank and its related parties.

3. Applicability

The policy document applies to reporting of related party relationships and transactions between the Bank and its related parties wherein "Related Party" shall mean a person that is related to the Bank as defined under Section 2(76) of the Companies Act, 2013 or under Regulation 2 (1)(zb) of the SEBI Listing Regulations as may be amended from time to time.

"Related Party Transaction" shall mean all transactions as per Regulation 2 (1) (zc) of the SEBI Listing Regulations as may be amended from time to time.

4. Identification of Related Party Transaction

"**Related Party Transaction**" means a transfer of resources, services or obligations between a Bank and a related party, 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.

The Bank shall consider any transaction/s with a related party as material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds 10% percent of the annual consolidated turnover ('turnover' is considered as the 'Total Income', i.e., total of interest income and other income) and as per the last audited financial statements.

Directors and the Key Managerial Personnel ("KMP") will be responsible to update the management/Bank of

any changes in relationships with related party as defined under Section 2(76) of the Companies Act 2013 and SEBI Listing Regulations, as applicable, directorships, holdings, interests and/ or controls immediately on him / her becoming aware of such changes.

5. Disclosure and Reporting Requirements

The Bank shall report related party relationships and transactions between the Bank and its related parties in line with Master Circular – Disclosure in Financial Statements – ‘Notes to Accounts’ and as per applicable Accounting Standards

The Bank shall submit within 30 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of related party transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the stock exchanges.

The Bank shall place the policy on Related Party Transactions on its website www.capitalbank.co.in.

6. Procedure for Approval for Related Party Transactions

6.1 Procedure for seeking approval for Related Party Transactions

Functional departmental heads shall submit to the Chief Operating Officer/ Chief Financial Officer (CFO) the details of proposed transaction with details/draft contract/ draft agreement or other supporting documents justifying that the transactions are on arms’ length basis and in ordinary course of business at prevailing market rate. Based on this, the Bank shall appropriately take it up for necessary prior approvals from the Audit Committee at its next meeting and convey the decision to the originator.

All Related Party Transactions (RPTs) shall require prior approval of the Audit Committee of the Board (ACB). However, the ACB may grant omnibus approval for Related Party Transactions for not more than 1 year, after which fresh approval shall need to be taken for related party transactions proposed to be entered into by the Bank subject to following conditions-

(1) The Audit Committee shall with due approval of the Board of Directors, specifies the below criteria for making the omnibus approval:

- (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) Audit committee shall review on quarterly basis, the details of related party transaction entered by the Bank pursuant to each of the omnibus approval so made.
- (e) transactions which cannot be subject to the omnibus approval by the Audit Committee, if any.

(2) The Audit Committee shall consider the following factors while specifying the criteria for making approval, namely: -

- (a) repetitiveness of the transactions (in past or in future).
- (b) justification for the need of omnibus approval.

(3) 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.

(4) The omnibus approval shall broadly contain or indicate the following: -

(a) name of the related parties.	(b) nature and duration of the transaction;	(c) maximum amount of transaction that can be entered into;	(d) the indicative base price or current contracted price and the formula for variation in the price, if any	(e) any other information relevant or important for the Audit Committee to take a decision on the proposed transaction
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Provided that where the need for related party transaction 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.

(5) 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.

In case of non-repetitive transactions, the agenda of the Audit Committee at which the item is proposed to be moved shall disclose-

- i) the name and details 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) any other information relevant or important for the Audit Committee to take a decision on the proposed transaction.

Where any director or KMP is interested in any contract or arrangement with a related party, such director should not be present at the meeting during discussions on the agenda item relating to such contract or arrangement.

6.2 Review and Approval of Related Party Transactions

Related Party Transactions will be referred to the next scheduled meeting of Audit Committee for review and approval. All entities falling under the definition of related parties shall abstain from voting irrespective of whether the entity is a party to the particular transaction or not.

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.

Audit Committee shall be entitled to call for such information/ documents in order to understand the scope of the proposed related party transaction(s) and recommend an effective control system for the verification of the supporting documents.

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 Board shall ensure that the same be put up for approval by the shareholders of the Bank.

No member of the Audit Committee/ Board shall participate in the review or approval of any Related Party Transaction in which such member is interested, except that the director / Key Managerial Personnel shall provide all material information concerning the Related Party Transaction to the Audit Committee / Board.

Exceptions allowed under Applicable Laws for Related Party Transactions shall be exempted from the scope of this Policy unless the Audit Committee/ Board decide otherwise. Nothing in this Policy shall override any provisions of Applicable Law made in respect of any matter stated in this Policy.

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 of Directors	Shareholders (Ordinary Resolution)
Transactions in the ordinary course of business and on arm's length basis	Up to 10% of the Annual Consolidated turnover of the Bank	☐	-	-
	In the excess of above limit	☐	☐	☐ (All related parties to abstain from voting)
Transactions either not in the ordinary course of business or 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 turnover
Availing or rendering of any services, directly or through appointment of agent		?	?	✓ * Exceeding 10% of the turnover
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 lakh rupees
Underwriting the subscription of any securities or derivatives thereof, of the Bank		?	?	✓ * Remuneration exceeding 1% of net worth
* Note: In case of shareholders' approval for such transactions, related parties that are parties to the contract shall abstain from voting.				
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 consolidated turnover of the Bank Note: All related parties to abstain from voting

7. Confidentiality Obligations

Related party disclosure requirements as laid down as per applicable Accounting Standard apply in circumstances where providing such disclosures would conflict with the reporting entity's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.

In case a statute or a regulator or a similar competent authority governing the Bank prohibits the Bank to disclose certain information which is required to be disclosed as per the above referred standard, disclosure of such information is not warranted.

8. Related Party Transactions without the prior approval 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 obtain post facto approval from the Audit Committee. In case the Bank is not able to take prior approval from the Audit Committee, 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 as promptly as reasonably practical after it is entered into after it becomes reasonably apparent that the transaction is covered by this policy. In connection with any review of a Related Party Transaction, the Board has authority to modify or waive any procedural requirements of this Policy.

The Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Committee under this Policy and shall take any such action it deems appropriate in compliance of applicable laws and regulations.

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, immediate discontinuation of the transaction, seeking approval of the shareholders, payment of compensation for the loss suffered by the related party, etc.

In connection with any review of a Related Party Transaction, the Audit Committee has the final authority to modify or waive any procedural requirements of this Policy.

9. Policy Review and Updates

The Board approved policy shall be reviewed as and when required or at least once every two years.

10. Policy Authorization

This Policy has been approved by the Board of Directors of Capital Small Finance Bank Limited.

11. Regulatory References

- i) SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- ii) Companies' Act, 2013
- iii) RBI Master Circular on 'Disclosure in Financial Statements – Notes to Accounts' dated July 1, 2015
- iv) Applicable Accounting Standard