

Policy on Related Party Transactions

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POLICY ON RELATED PARTY TRANSACTION

1. Preface

The Board of Directors (the "Board") of The Karur Vysya Bank Limited (the "Bank" or "KVB"), have adopted the Policy on Related Party Transactions ("Policy") to regulate the determination of materiality threshold and of dealing with transactions between the Bank and its Related Parties in transparent manner.

2. Objective

This Policy is designed to govern the transparency of approval process and disclosures requirements to ensure the conduct of related party transactions is in the best interest of the Bank and its shareholders and to comply with the statutory provisions in this regard.

3. Legal Framework & Principle Governing the Policy

The Policy framework encompasses the requirements stipulated vide Section 188 of the Companies Act, 2013 (ACT), read with the Rules framed there under, Applicable Accounting Standards, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time ('**SEBI LODR**'), Section 20 of the Banking Regulation Act, 1949 and Master Circular issued by RBI on Loans and Advances - Statutory and Other Restrictions from time to time.

The principle behind regulating Related Party Transactions is to protect the interest of stakeholders by ensuring fair and transparent disclosures, placing onus on the governing bodies of the Bank to set criteria and thresholds for determination of the need for undertaking related party transactions and seeking requisite approvals as prescribed under the legislations to prevent abuse of the power vested with them. Further it is essential to keep a stringent check on Related Party Transactions which may present a potential or actual conflict of interest and may act against the best interest of the Bank and its shareholders.

4. Effective Date

This policy was originally approved by the Board of Directors of the Bank in its meeting held on 23.09.2014. In terms of Regulation 23(1) of SEBI LODR the policy shall be reviewed by the board of directors at least once every three years and updated accordingly.

5. Definitions

- a. **“Arm’s Length Transaction”** means a transaction between two Related Parties that is conducted as if they were unrelated and at terms as would be applicable to an unrelated person or entity, so that there is no conflict of interest. Parameters for determination of arm’s length basis need not necessarily be price alone.
- b. **“Annual consolidated Turnover”** means Total Income (i.e. Interest earned plus Other Income) of the last audited Financial Statements of the Bank.
- c. **“Audit Committee” (ACB)** means Committee of Board constituted from time to time under the provisions of the RBI Circular Guidelines, SEBI LODR and Companies Act, 2013.
- d. **“Board”** means Board of Directors of the Bank as defined under the Companies Act, 2013.
- e. **“Control”** shall be as defined under Section 2(27) of Companies Act, 2013 and as per the prescribed Accounting Standards.
- f. **“Key Managerial Personnel” (KMP)** means key managerial personnel as defined under Section 2(51) of the Companies Act, 2013;
- g. **“Material Related Party Transaction”** shall have the same meaning as defined under Regulation 23(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI LODR”). 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% of the annual consolidated turnover of the Bank as per the last audited financial statements of the Bank.

In the case of appointment to any office or place of profit in the Bank if the monthly remuneration exceeds ` 2.50 Lakh comes under Material Related Party transaction as per Section 188 of the Companies Act, 2013.

However the "transaction" here applies to all transactions specified under Section 188 of the Companies Act, 2013 and or rules made there under and Regulation 23(1) of SEBI LODR, which however shall not include the availment of services of the Bank both Deposit related or Advances related products

- h. **"Material modifications"** means any modifications to the 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 25% of the originally approved transaction.
- i. **"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.

The following factors are indicative of a transaction being in the ordinary course of business:

1. The transaction is normal or otherwise unremarkable for the business.
2. The transaction is frequent/regular
3. The transaction is a source of income for the business
4. Transactions that are part of the standard industry practice, even

though the Bank may not have done it in the past.

The determination of whether a transaction is in the ordinary course of business or not shall be considering its specific nature and circumstances.

j. **"Promoter" and "Promoter Group"** shall have the same meaning as assigned to them respectively in clauses (oo) and (pp) of sub-regulation (1) of regulation 2 of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.

k. **"Related party"** means a Related Party as defined under the SEBI LODR, which interalia provides that a person or an entity shall be considered as related to the Bank if:

I. Pursuant to Section 2(76) of the Companies Act, 2013 such person or entity as stated below and includes :

1. a director or his relative;
2. a key managerial personnel or his relative;
3. a firm, in which a director, manager or his relative is a partner;
4. a private company in which a director or manager or relative is a member or director;
5. a public company in which a director or manager and holds is a director and holds along with his relatives, more than two per cent of its paid-up share capital;
6. anybody 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;
7. any person under whose advice, directions or instructions a director or manager is accustomed to act except in case of directions or instructions given in a professional capacity;
8. any company which is:
 - i) a holding, subsidiary or an associate company of the Bank;
 - ii) a subsidiary of a holding company to which it is also a subsidiary; or
 - iii) an investing company or the venture of the Bank;
9. For the purpose of this clause, "the investing company or the venturer of a Bank" means a body corporate whose investment in the Bank would result in the bank becoming an associate

company of the body corporate.

10. Director other than an independent director or key managerial personnel of the holding company or his relative.

II. Pursuant to applicable Accounting Standards such person or entity as stated below is:

- a. A person or a his relative is related to a reporting entity if that person:
 - a. has control or joint control of the reporting entity;
 - b. has significant influence over the reporting entity; or
 - c. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b. An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - viii. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

III. Pursuant to SEBI LODR as stated below is

- a) any person or entity forming a part of the promoter or promoter group of the listed entity; or
 - b) any person or any entity, holding equity shares:
 - (i) of twenty per cent or more; or
 - (ii) of ten per cent or more, with effect from April 1, 2023 in the entity 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.
- l. **“Relative”** means relative as defined under the Sec 2(77) of Companies Act, 2013. and includes anyone who is related to another, if
- 1. Members of a Hindu undivided family;
 - 2. husband or wife;
 - 3. Father (including step-father);
 - 4. Mother (including step-mother);
 - 5. Son (including step-son);
 - 6. Son’s wife;
 - 7. Daughter;
 - 8. Daughter’s husband;
 - 9. Brother (including step-brother); and
 - 10. Sister (including step-sister).
- m. **“Related Party Transaction”** means a transaction involving a transfer of resources, services or obligations between:
- (i) a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; or
 - (ii) a listed entity 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 listed entity or any of its subsidiaries, with effect from April 1, 2023;

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 SEBI from time to time.

6. Identification of Potential Related Party Transactions

A director/ Key Managerial Personnel of the Bank are responsible for providing notice to the Board or Audit Committee of any potential Related Party Transaction involving him/ her or his/her Relative, including any additional information about the transaction that the Audit Committee may reasonably require. Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy.

The Bank strongly prefers to receive such notice of any potential Related Party Transaction well in advance so that the Audit Committee has adequate time to obtain and review information about the proposed transaction.

The Company Secretary may seek and verify concern or interest of Directors, Key Managerial Personnel in contracts or arrangements proposed to be placed at the meetings of Board or Audit Committee or General meetings. The ultimate responsibility of disclosure of interest shall however lie on the interested party.

7. Review and approval of Related Party Transactions by Audit Committee

All related party transactions and subsequent material modifications shall require prior approval of the audit committee of the listed entity. Further only those members of the audit committee, who are independent directors, shall approve related party transactions.

Proposed Related Party Transactions will be reported through a memorandum placed before the ACB in the immediate next meeting scheduled to be convened for its review/approval. Any member of the Committee who has an interest in any Related Party Transaction will recuse himself or herself and abstain from discussion/deliberations and voting on the agenda seeking approval of the Related Party Transaction. The Memorandum shall contain 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 other relevant matters.

In determining whether to approve a Related Party Transaction, the Committee will consider the aspects stated in the following factors, among others, to the extent relevant to the Related Party Transaction:

1. Name of the related party and the relationship, Nature, particulars and duration of transaction and material terms including the value, if any, The manner of determining the pricing and whether the terms of the RPT are fair and on arm's length basis to the Company.
2. The percentage of the listed entity's annual consolidated turnover, for the immediately preceding financial year, that is represented by the value of the proposed transaction;
3. Justification as to why the RPT is in the interest of the listed entity;
4. A copy of the valuation or other external party report, if any such report has been relied upon;
5. Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT on a voluntary basis
6. Whether the terms of the Related Party Transaction are fair and are

- on arm's length basis to the Bank and would apply on the same basis if the transaction did not involve a Related Party;
7. Whether the Related Party Transaction would affect the independence of an independent director;
 8. Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
 9. Whether the Related Party Transaction would present any conflict of interest for any director or Key Managerial Personnel of the Company, taking into account the size of the transaction, the overall financial position of the director or other Related Party, the direct or indirect nature of the director's, Key Managerial Personnel's or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Board/Committee deems relevant.

If the Committee determines that a Related Party Transaction should be brought before the Board, or if the Board in any case elects to review any such matter or it is mandatory under any law for Board to approve the Related Party Transaction, then the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances.

Exceptions: the following Related Party Transactions shall not require approval of Audit Committee:

- i. Any transaction that involves the providing of compensation to a director or Key Managerial Personnel in connection with his or her duties to the Bank including reimbursement of business and travel expenses incurred in the ordinary course of business as per norms.
- ii. Availment of any services of the Bank in ordinary course of business by the related party such as placement of deposits, opening of any type of deposit account or other Banking products offered by the Bank to any of its customers, provided that the rate of interest for the deposit products or charges being offered to the related party shall be at such rates as are being offered to its other customers or at card rates.

- iii. In respect of any credit facility provided to relative of any Director/ Interested concerns pursuant to section 20 of the Banking Regulation Act, 1949, the Bank would be strictly adhering to the guidelines issued by the Reserve Bank of India in this regard. All transactions pursuant to section 20 of the Banking Regulation Act, 1949 shall be placed for review of Audit Committee.
- iv. In respect of KMPs, the rate of interest or other charges etc. shall be at the rates as are being offered to other employees of the Bank whether for the Deposit related products or advances related products. The said rates will not however be extended to the relative of such KMPs.

8. Omnibus Approval by Audit Committee for Related Party Transactions proposed to be entered

The Audit Committee grants omnibus approval for transactions in ordinary course of business and on arm's length basis with related parties, same being recurring in nature.

Omnibus approval shall specify

- The name/s of the related party, nature of transaction, period of transaction
- Maximum amount of transaction that can be entered into, in aggregate and per transaction
- The indicative base price / current contracted price and the formula for variation in the price if any
- Repetitiveness of the transaction (In past or in future)
- Justification for the need of omnibus approval.
- Transactions which cannot be subject to the omnibus approval by the Audit Committee.
- Any other relevant information to take the decision on the proposed transaction

Audit Committee may grant omnibus approval for transactions subject to their value not exceeding ` 1 Crore per transaction.

The Audit Committee would review on a quarterly basis the Related Party Transactions entered into by the Bank pursuant to each of the omnibus

approval given. Fresh approval of the Audit Committee would be obtained on an annual basis.

9. Obtaining Shareholder's Approval

The Board of Directors of the Company shall mandatorily place before the members of the Bank, all Material Related Party Transactions and obtain their approval.

All Related Party Transactions which are not on Arm's Length and Ordinary Course of business and material modifications shall be placed before the members of the Bank for their prior approval.

Except with the prior approval of the company by a resolution, a company shall not enter into any related party transactions which breach the thresholds stipulated under Section 188 of Companies Act, 2013 read with Rule 15 of Companies (Meetings of Board and its Powers) Rules, 2014 and Regulation 23(1) of SEBI LODR.

The notice sent to the shareholders seeking approval for any proposed RPT shall, in addition to the requirements under the Companies Act, 2013, include the following information as a part of the explanatory statement:

- I) A summary of the information provided by the management to the audit committee while approving the transaction.
- II) Justification for why the proposed transaction is in the interest of the listed entity;
- III) A statement that the valuation or other external report, if any, relied upon by the listed entity in relation to the proposed transaction will be made available through the registered email address of the shareholders;
- IV) Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT, on a voluntary basis;
- V) Any other information that may be relevant.

Summary - Approvals Required

<p>Approval of Audit Committee</p> <p>- only those members of the audit committee, who are independent directors, shall approve Related Party Transactions</p>	<ol style="list-style-type: none"> 1. Prior approval of all Related Party Transactions and subsequent modification. 2. All RPTs Omnibus approval subject to compliance with the conditions specified in regulation 23 of SEBI (LODR) Regulation. Read with Rule 6A of the Companies (Meeting of Board and its Powers) Rules, 2014.
<p>Board</p>	<ol style="list-style-type: none"> 1. Related Party Transactions referred by the Audit Committee specifically for approval of the Board. 2. Related Party Transactions not in ordinary course of business and not on arm's length basis with in the scope of section 188 of the Companies Act, 2013.
<p>Shareholders</p>	<p>Prior Approval of the shareholders:</p> <ol style="list-style-type: none"> 1. All Material Related Party Transactions. 2. Subsequent Material Modifications of the Material Related Party Transactions 3. Related Party Transactions not in ordinary course of business and not on arm's length basis with in the scope of section 188 of the Companies Act, 2013.

10. Related Party Transactions not approved under this Policy

Pursuant to Section 177 and Section 188 (3) of the Act, in the event the Bank becomes aware of a Transaction with a Related Party that has not been approved or ratified under this Policy, the transaction shall be placed before the Audit Committee or Board or the Shareholders as may be required in accordance with this policy for review and ratification.

The Committee shall consider all the relevant facts and circumstances regarding the Related Party Transaction, and shall examine all options available to the Bank, including ratification, revision or termination of the Related Party Transaction. 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.

Where such Related Party Transaction is not ratified by the Board of directors or the Shareholders, such transaction shall be voidable at the option of the Board or, as the case may be, of the shareholders. In connection with any review of a Related Party Transaction, the Committee has authority to modify or waive any procedural requirements of this Policy.

11. Disclosures

- a. Bank is required to disclose each year in the Audited Financial Statements certain transactions between the Bank and Related Parties as well as policies concerning transactions with Related Parties in terms of Accounting Standards.
- b. Details of all material transactions with Related Parties shall be disclosed to stock exchanges quarterly, along with the compliance report on corporate governance.
- c. Bank shall submit along with the publication of half yearly financial results [Standalone or Consolidated as may be applicable], disclosures of all related party transactions, in the format specified SEBI from time to time and publish the same on its website.
- d. This Policy will be displayed in our website and web link thereto shall be provided in the Annual Report of the Bank.
- e. The Reserve Bank of India, vide its Master Circular – Disclosure in Financial Statements – ‘Notes to Accounts’ – RBI/DOR/2021-22/83 DOR.ACC.REC.No.45/21.04.018/2021-22 dated August 30, 2021, has prescribed the manner in which the disclosures are to be made in the financial statements of the banks in respect of transactions with related party as envisaged under the Accounting Standard 18. The format of disclosure by banks for AS-18, as suggested by RBI, is annexed as **Annexure I** with this Policy. The said disclosure will inter

alia include transactions with related parties covering borrowings, deposits, advances, investments, purchase/ sale of fixed assets, lease transactions, interest paid / received and receipts / payments towards receiving / rendering services respectively.

12. Interpretation

In any circumstance where the terms of these Policies and Procedures differ from any existing or newly enacted law, rule, regulation or standard governing the Bank, the law, rule, regulation or standard will take precedence over these policies and procedures until such time as these Policies and Procedures are changed to confirm to the law, rule, regulation or standard.

Annexure I

Accounting Standards – Format for Related Party Disclosure

The manner of disclosures required under AS-18 is illustrated below. It may be noted that the format is merely illustrative and is not exhaustive.

(Amount in ` Cr)

Items/ Related Party	Parent (as per ownership or control)	Subsidiaries	Associates/ Joint Ventures	Key Management Personnel	Relatives of Key Management Personnel	Total
March 31st						
Borrowings						
Deposit						
Placement of deposits						
Advances						
Investments						
Non-funded commitments						
Leasing/HP arrangements availed						
Leasing/HP arrangements provided						
Purchase of fixed assets						
Sale of fixed assets						
Interest paid						

Items/ Related Party	Parent (as per ownership or control)	Subsidiaries	Associates/ Joint Ventures	Key Management Personnel	Relatives of Key Management Personnel	Total
Interest received						
Rendering of services						
Receiving of services						
Management contracts						
