

ANNEXURE I

RELATED PARTY TRANSACTION POLICY

Version No. 2.0

2018-19

BALANCE SHEET AND CENTRAL ACCOUNTS SECTION  
FINANCIAL MANAGEMENT AND SUBSIDIARIES WING

HEAD OFFICE

112, J C ROAD

BANGALORE – 560 002



Document title	Related party transaction policy
Created by	Balance sheet and central accounts section(BSCA), Financial management and subsidiaries Wing
Date	16.02.2018
Document classification	Internal
Document No.	BSCA Section :: FM & S Wing :: RPT Policy :: ON – 16/2018 Dated 16.02.2018

**Version History**

Version No	FY	Changes/Comments	Changed by
1.0	2014-15	Initial Document	BSCA Section
1.1	2016-17	Modified	BSCA Section
2.0	2018-19	No Changes from version 1.1	-

**Version Approval**

Version No	Date of Approval	Changes/Comments	Approved by
1.0	20.03.2015	Approved	ORMC
1.0	20.04.2015	Approved	Audit Committee of the Board
1.0	18.06.2015	Approved	Board of Directors
1.1	21.05.2016	Approved	ORMC
1.1	29.06.2016	Approved	Audit Committee of the Board
1.1	29.12.2016	Approved	Board of Directors
2.0	26.09.2017	Approved	ORMC
2.0	26.12.2017	Approved	Audit Committee of the Board
2.0		Placed before BOD	



**CONTENTS**

Sl No	Contents	Page No
1	Preface	4
2	Legal Framework	4
3	Objective	4
4	Scope of Application	4
5	Definitions	5
6	Policy	8
7	Details required for ascertaining related party	8
8	Types of Transactions covered	9
9	Identification of potential Related Party Transactions	10
10	Material Related Party Transaction	10
11	Review and Approval of Related Party Transactions	11
12	Related Party Transactions without the prior approval under this Policy	12
13	Disclosure	13
14	Records relating to Related Party/Supporting documents	13
15	Interpretation	14
16	Secrecy Provisions	14
	Annexure 1	15
	Annexure 2	17



## 1. Preface

The Board of Directors (the "Board") of Canara Bank has adopted the following policy and procedures with regard to Related Party Transactions as defined below in accordance with SEBI Notification on Listing Obligations And Disclosure Requirements) Regulations, 2015, as part of corporate governance norms. Bank shall comply Regulation 23 on Related Party Transactions to the extent it doesn't violate our respective statutes and guidelines or directives issued by regulatory authorities as the Bank is not a Company, but body corporate constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and is regulated by Reserve Bank of India. The policy shall be subject to review/ratification in accordance with the procedure set forth below in order to ensure the transparency and procedural fairness of such transactions. The Board has decided that the Audit Committee of the Board will review/ratify and may amend this policy from time to time.

## 2. Legal Framework

In terms of Security Exchange Board of India (SEBI) circular No. SEBI/LAD-NRO/GN/2015-16/013 dated 02 September 2015, **it is mandatory for the listed entities to formulate a policy on materiality of related party transactions and also on dealing with Related Party Transactions.**

However, in case of Public Sector Banks (being Listed Entities), Related Party Transactions are governed by the Reserve Bank of India, vide its –

- ✓ Circular No. DBOD.No.BP.BC.89/21.04.018/2002-03, dated 29.03.2003 on Guidelines on Compliance with Accounting Standards(AS) by Banks;
- ✓ Master Circular No. DBR.BP.BC No.23 /21.04.018/2015-16, dated 01.07.2015 on Disclosures in Financial Statements – Notes to Accounts;

## 3. Objective

The policy is framed as per requirements of the Listing Regulations entered into by the Bank with the Stock Exchanges effective from 1<sup>st</sup> December 2015 and intended to ensure proper approval and reporting of transactions between the Bank and its Related Parties. Such transactions shall be appropriate only, if they are in the best interest of the Bank and its shareholders.

## 4. Scope of Application

The policy shall be applicable to the transactions made with;

- a) Board of Directors and their relatives;
- b) Key management Personnel (KMP) of the Bank and their relatives; and



c) Related parties, as defined hereinafter.

## 5. Definitions

5.1 **“Arm’s length transaction”** “Arm’s length transaction” means a transactions between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

5.2 **“Associate company”**, means a company in which the Bank has a significant influence, but which is not a subsidiary company of the Bank and includes a joint venture company.  
Explanation.— “significant influence” means control of at least twenty percent of total share capital, or of business decisions under an agreement;

5.3 **“Audit Committee of the Board (ACB)”** means Committee of Board constituted by the Board of Directors as per the guidelines of the Reserve Bank of India (RBI) and the Government of India (GOI). The ACB provides direction as well as overseeing the operation of the total audit function of the Bank, which includes the organization, operationalisation and quality control of internal audit and inspection within the Bank and follow up on the statutory/external audit of the Bank.

5.4 **“Board”** means Board of Directors of the Bank in terms of Section 9 (3) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

5.5 **“Control”** shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner;

5.6 **“Joint Venture”** means a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

5.7 **“Key Managerial Personnel (KMP)”** shall mean the following whole time key management personnel of the Bank:

- (i) Chairman and Managing Director;
- (ii) Managing Director and Chief Executive Officer;
- (iii) Executive Director;
- (iv) Chief Finance Officer (CFO); and
- (v) Company Secretary / Board Secretary;



**5.8 “Listing Agreement”** shall mean the listing agreement for equity executed by the Bank with BSE Limited and National Stock Exchange of India Limited, as per the SEBI (LODR) regulations 2015, where the equity share of the Bank is listed.

**5.9 “Material Related Party Transaction”** means related party transaction as defined in Regulation 23 of the listing Regulations. i.e, a transaction with a related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

**5.10 “Office or place of profit”** “Office or place of profit” means any office or place—

- (i) Where such office or place is held by a KMP, and receives from the Bank anything by way of remuneration over and above the remuneration to which he is entitled as KMP, by way of salary, fee, incentives, perquisites, any rent-free accommodation, or otherwise as may be fixed by the Central Government from time to time;
- (ii) where such office or place is held by an individual other than KMP or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it receives from the Bank anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

**5.11 “Policy”** means Related Party Transaction Policy.

**5.12 “Reserve Bank of India”** shall mean Reserve Bank of India as constituted under the Reserve Bank of India Act, 1934

**5.13 Related Party”** shall include:

- i. a director or his relative ;
- ii. a key managerial personnel or his relative ;
- iii. a firm, in which a director of the Bank or his relative is a partner ;
- iv. a private company in which a director of the Bank is a member or director ;
- v. a public company in which a director of the Bank is a director or holds along with his relatives, more than two per cent of its paid-up share capital;
- vi. any Body Corporate whose Board of directors, managing director, or manager is accustomed to act in accordance with the advice, directions or instructions of a director of the Bank ;
- vii. any person under whose advice, directions or instructions a director or manager is accustomed to act :



- viii. Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity ;
- ix. any company which is –
  - (A) a subsidiary or an associate company of the Bank; or
  - (B) a subsidiary of a Company which is also a subsidiary of the Bank;

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party, directly or indirectly, in making financial and/or Operating decisions.

**5.14 “Relative”** means a person defined under Section 45 S(3) of RBI Act, 1934 and shall include:

- i. Members of a Hindu Undivided Family;
- ii. Spouse;
- iii. Father (including step-father);
- iv. Mother (including step-mother);
- v. Son (including step-son);
- vi. Son’s wife;
- vii. Daughter;
- viii. Daughter’s husband;
- ix. Brother (including step-brother);
- x. Sister (including step-sister).

**5.15 “Related Party Transaction”** would mean a transaction as defined under AS 18 and includes transaction which involves a transfer of resources or obligations between related parties, regardless of whether or not a price is charged.

**Explanation:** A “transaction” with a related party shall be construed to include single transaction or a group of transactions in a contract.

**5.16 “Subsidiary”** means a company in which the Bank:

- a) controls the composition of the Board of Directors; or
- b) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies

For the purpose of this clause a subsidiary shall be considered as material if the subsidiary, whose income or net worth exceeds twenty percent of the consolidated income or net worth



respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.

## 6. Policy

All Related Party Transactions shall require prior approval of the Audit Committee of the Board in terms of Regulation 23 of the Listing Regulations. However, the Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the company subject to the following conditions:

6.1 The Audit Committee shall lay down the criteria for granting the omnibus approval in line with the policy on Related Party Transactions of the Bank and such approval shall be applicable in respect of transactions which are repetitive in nature.

6.2 The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the company;

6.3 Such 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;
- The indicative base price/current contracted price and the formula for variation in the price if any; and
- Such other conditions as the Audit Committee may deem fit;

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

6.4 Audit Committee shall review, atleast on a quarterly basis, the details of RPTs entered into by the company pursuant to each of the omnibus approval given.

6.5 Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

## 7. Details required for ascertaining related party

The following details shall be required for ascertaining the related party:

- 1) Declaration/Disclosure of interest by all the Directors and KMPs in the prescribed form (Annexure 2)





- 2) Declarations of relatives by all Directors and KMPs in the prescribed form (Annexure 2)
- 3) Declaration about a Firm in which a Director or his relative is a partner (Annexure 2)
- 4) Declaration about a private company in which a Director is a member or Director (Annexure 2)
- 5) Declaration regarding a public company in which a Director is a Director and holds along with the relatives more than 2% of the paid up share capital (Annexure 2)
- 6) Notice from Directors of any change in particulars of Directorship or in other positions during the year. (Annexure 2)
- 7) Details of any body corporate whose Board of Directors, Managing director or managers is accustomed to act in accordance with the advice, directions or instructions of a director of the Bank. (Annexure 2)
- 8) Details of any person on whose advice, directions or instructions a director is accustomed to act. (Annexure 2)
- 9) Provided that nothing in point no 7 & 8 shall apply to the advice, directions or instructions given in a professional capacity.
- 10) Details of any Company which is
  - A holding, subsidiary or an associate company of such company; or
  - A subsidiary of a holding company to which it is also a subsidiary.

#### 8. Types of Transactions covered

Under SEBI Listing Regulations, following shall also be covered:

1. Transfer of resources, services or obligations between a listed entity and a related party, regardless of whether a price is charged.

Further, a transaction with a related party shall be construed to include single transaction or a group of transactions in a contract

Under Accounting Standard 18, all transactions involving transfer of resources or obligations between related parties, regardless of whether or not a price is charged shall be covered. To name a few:

- 1) Purchases or sales of goods (finished or unfinished);
- 2) Purchases or sales of fixed assets;
- 3) Rendering or receiving of services;
- 4) Agency arrangements;
- 5) Leasing or hire purchase arrangements;
- 6) Transfer of research and development;
- 7) Licence agreements;



- 8) Finance (including loans and equity contributions in cash or in kind);
- 9) Guarantees and Collaterals; and
- 10) Management contracts including for deputation of employees.

Pursuant to RBI Guidelines on Disclosure in Financial Statements - Notes to Accounts (Accounting Standard 18), the following transactions between related parties will be covered such as:

- i) Borrowings
- ii) Deposit
- iii) Placement of deposits
- iv) Advances
- iv) Investments
- v) Non-funded commitments
- vi) Leasing/HP arrangements availed
- vii) Leasing/HP arrangements provided
- ix) Purchase of fixed assets
- x) Sale of fixed assets
- xi) Interest paid
- xii) Interest received
- xiii) Rendering of services
- xiv) Receiving of services
- xv) Management contracts

#### 9. Identification of potential Related Party Transactions

Each Director and Key Managerial Personnel is responsible for providing notice to the Board or the Audit Committee, any potential Related Party Transaction involving him or her or his or her Relative, including any additional information about the transaction that the Board/ Audit Committee may reasonably request. The Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy.

The notice of any such potential Related Party Transaction should be given to the Board/Audit Committee well in advance so that the Audit Committee has adequate time to obtain and review information about the proposed transaction.

#### 10. Material Related Party Transaction

All related Party Transactions shall require prior approval of Audit Committee except those transactions exempted by the committee through omnibus specific approval. All "Material"



related party transactions shall require approval of the shareholders through special resolution and the related parties shall abstain from voting on such resolutions.

Provided that above provisions read with Point No 6 shall not be applicable in the following:

1. Transactions entered into between two government companies;
2. Transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

### 11. Review and Approval of Related Party Transactions

Related Party Transactions will be referred to the next regularly scheduled meeting of Audit Committee for review and approval. Any member of the Committee who has a potential interest in any Related Party Transaction will reclude himself or herself and abstain from discussion and voting on the approval of the Related Party Transaction.

To review a Related Party Transaction, the Committee will 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. In determining whether to approve a Related Party Transaction, the Committee will consider the following factors, among others, to the extent relevant to the Related Party Transaction:

- ❖ Whether the terms of the Related Party Transaction are fair and on arms length basis to the Bank and would apply on the same basis if the transaction did not involve a Related Party;
- ❖ Whether there are any compelling business reasons for the Bank to enter into the Related Party Transaction and the nature of alternative transactions, if any;
- ❖ Whether the Related Party Transaction would affect the independence of an independent director;
- ❖ Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;



- ❖ Whether the Bank was notified about the Related Party Transaction before its commencement and if not, why pre-approval was not sought and whether subsequent ratification is allowed and would be detrimental to the Bank; and
- ❖ Whether the Related Party Transaction would present an improper conflict of interest for any Key Managerial Personnel of the Bank, taking into account the size of the transaction, the overall financial position of the 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 decides 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.

Notwithstanding the foregoing, the following Related Party Transactions shall not require approval of Audit Committee or Shareholders:

- a. Any transaction that involves providing of compensation to a Key Managerial Personnel in connection with his or her duties to the Bank or any of its subsidiaries or associates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.
- b. Any transaction in which the Related Party's interest arises solely from ownership of securities issued by the Bank and all holders of such securities receive the same benefits pro rata as the Related Party.

## 12. Related Party Transactions without the prior approval under this Policy

In the event the Bank becomes aware of a Related Party Transaction with a Related Party that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the Committee. The Committee shall consider all 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. 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 any case, where the Committee determines not to ratify a Related Party Transaction that has been commenced without approval, the Committee, 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 has the final authority to modify or waive any procedural requirements of this Policy.

### 13. Disclosure

- 13.1 Necessary disclosures shall be made in the Annual Financial Statements as required under AS 18 and RBI guidelines (Annexure 1). Further, as required under the Listing Agreement, necessary details of all materially significant related party transactions which may have potential conflict with the interests of the Bank at large, shall also be also given in Report on Corporate Governance section in Annual Report.
- 13.2 Details of all material transactions with related parties shall be disclosed quarterly along with the compliance report on Corporate Governance.
- 13.3 The Bank shall disclose the policy on dealing with related party transactions on its website and a web link thereto shall be provided in the Annual Report.

### 14. Records relating to Related Party/Supporting documents

All disclosures, supporting documents shall be preserved for a period of eight years from the end of the financial year to which it relates and shall be kept in the custody of the BSCA Section or any other person authorised by the Board for the purpose.

Agreement or other supporting documents along with proper justification of the transaction being on arms length basis in the ordinary course of business at a prevailing market rate shall also be preserved for a period of 8 years from the end of the financial year to which it relates and shall be kept in the custody of the BSCA Section or any other person authorized by the Board for the Purpose



## 15. Interpretation

In any circumstances 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 procedure until such time as these policies and procedures are changed to confirm to the law, rule, regulation or standard.

## 16. Secrecy Provisions

In terms of paragraph 5 of Accounting Standard 18, the disclosure requirements do not apply in circumstances when providing such disclosures would conflict with the reporting enterprise's duties of confidentiality as specifically required in terms of statute, by regulator or similar competent authority. In terms of Paragraph 6 of Accounting Standard 18, in case a statute or the RBI or SEBI prohibits the Banks from disclosing certain information which is required to be disclosed, non-disclosure of such information would not be deemed as non-compliance with the requirements of Accounting Standard 18. It is clear from the above that on account of the judicially recognized common law duty of the banks to maintain the confidentiality of the customer details, they need not make such disclosures. In view of the above, where the disclosures under the Accounting Standards are not aggregated disclosures in respect of any category of related party i.e., where there is only one entity in any category of related party, banks need not disclose any details pertaining to that related party other than the relationship with that related party.



**Format for Related Party Disclosures**

The manner of disclosures required by paragraphs 23 and 26 of AS 18 is illustrated below. It may be noted that the format is merely illustrative and is not exhaustive.

(Amount in INRcrore)

Items / Related Party	Parent (as per ownership or control)	Subsidiaries	Associates/ Joint Ventures	KMP@	Relatives of KMP	Total
Borrowings#						
Deposit#						
Placement of deposits#						
Advances#						
Investments#						
Non funded commitments#						
Leasing arrangements availed#						
Leasing arrangements provided#						
Purchase of fixed assets						
Sale of fixed assets						
Interest paid						



Interest received						
Rendering of services*						
Receiving of services*						
Management contracts*						

**Note:** Where there is only one entity in any category of related party, banks need not disclose any details pertaining to that related party other than the relationship with that related party

\* Contract services etc. and not services like remittance facilities, locker facilities etc.

@ Whole time directors of the Board and CEOs of the branches of foreign banks in India.

# The outstanding at the year-end and the maximum during the year are to be disclosed.





**Format of declaration to be given by the Directors/KMP/Related Party & Relatives**

I, \_\_\_\_\_ son/daughter/spouse of \_\_\_\_\_ resident of \_\_\_\_\_ being a Director/Key Management Personnel (KMP)/relative of Director/KMP/related party in the company hereby give notice of my interest of concern in the following company or companies, bodies corporate, firms or other association of individual/transactions:

1	Name of the Companies/Body Corporate/Firms/Association of Individuals	
2	The name of the related party and nature of relationship	
3	The nature, duration of the contract and particulars of the contract or arrangement	
4	Nature of Transactions	
5	Material terms of the contract or arrangement including the value, if any	
6	Any advice paid or received for the contract or arrangement, if any	
7	Manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract	
8	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	
9	Whether arms length transaction	
10	Whether as per approved scheme of the Bank	
11	Any Other information relevant or important for the Board to take a decision on the proposed transaction	

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Designation: \_\_\_\_\_



Format of Information in Related Party Transaction

Name of the Related Party, Relationship and Nature of Facilities:

Sl No.	Name of the Related Party	Nature of Relationship (Eg. Directors/KMP/Relatives of KMP)	Nature of Facilities (Eg. Deposit/Advances/Other facilities)
1			

Nature of transaction:

A) Transaction of routine and repetitive in nature:

Nature of Transactions (Eg. Deposits / Advances / Other Services /Contracts)	Balance Outstanding as on the Reporting date (In lakhs)	Rate of Interest Charged/Provided	Applicable ROI for the similar type of transactions
Advances			
Deposits			
Other Services/Contracts			
Whether Staff rate and whether eligible			
Special concession, if any			
Whether at arm's length			

B) Transaction not covered under (A) and upto a monetary limit of Rs 1 Crore per transaction

Nature of Transactions	Volume of transactions during the reporting period. (In lakhs)
Special concession, if any	
Whether at arm's length	

C) Material Transactions

Nature of Transactions	Volume of transactions during the reporting period. (In lakhs)
Special concession, if any	



Whether at arm's length	
-------------------------	--

\*\*e.g. Lockers, lease agreements, service contracts etc.

I/We hereby confirm that the transactions entered into by me/us/my relatives with the bank were at arms length and no special benefits have accrued to me/us/relatives.

I/we also confirm that all transactions which are in the purview of the related party transaction have been reported by me.

(Signature/Authorized signatory)



