

POLICY ON RELATED PARTY TRANSACTIONS



1. OBJECTIVE:

As per the requirement under Regulation 23(1) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI Regulations, 2015), the following policy on dealing with related party transactions has been recommended by the Audit Committee and adopted by the Board of Directors (the “Board”) of The Federal Bank Limited (the “Bank”). The objective of this policy is to meet proper approval and reporting norms as required under the applicable laws and establish transparency on the dealings of the bank with its related parties and to prevent any conflict of interest in the implementation of transactions involving such related parties. This Policy outlines the basis on which the materiality of related party transactions and subsequent modifications will be determined by the Bank. The Audit Committee/ Board shall review and may amend the policy from time to time.

2. DEFINITIONS:

a) Annual consolidated Turnover:

Annual consolidated Turnover is defined as Total Income (i.e. Interest earned plus Other Income) of the last audited Consolidated Financial Statements of the Bank.

b) Arm’s Length Transaction:

Arm’s Length Transaction means a transaction between two Related Parties that is conducted as if they were unrelated, so that there is no conflict of interest.

c) Audit Committee:

Audit committee means Committee of Board of Directors of the Bank constituted under provisions of listing agreement with the stock exchanges and as per the provisions of Regulation 18 of Chapter IV of SEBI Regulations, 2015 and the Companies Act, 2013 (the Act).

d) Material Related Party Transaction:

Material Related Party Transaction shall have the same meaning as defined under Regulation 23(1) of the SEBI Regulations, 2015. 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.

e) Material Modification as defined by Audit Committee:

“Material modifications” means any modifications to the material 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 10% of the originally approved transaction.

f) Material Subsidiary:

Material subsidiary for the purpose of this Policy shall mean a subsidiary, whose income or net worth exceeds 10% of the consolidated income or net worth respectively, of the Bank and its subsidiaries in the immediately preceding accounting year.

g) Net worth

Net worth means Net worth as defined under section 2 (57) of Companies Act, 2013.

h) Ordinary course of business

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.

i) Related Party:

Related Party” shall mean a person or entity that is related to the company as defined under Section 2(76) of the Companies Act, 2013 or Accounting Standard 18 issued by Institute of Chartered Accountants of India, under Regulation 2 (1) (zb) of the SEBI Listing Regulations, 2015 as may be amended from time to time.

j) Related Party Transactions:

As per Regulation 2 (1) (zc) of the SEBI Regulations, 2015, “Related party transaction” means a transaction involving a transfer of resources, services or obligations between Bank or any of its subsidiaries on one hand and a related party of the Bank or any of its subsidiaries on the other hand 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 transactions in a contract.

3. IDENTIFICATION OF RELATED PARTY AND RELATED PARTY TRANSACTIONS:

Each Director and Key Managerial Personnel is responsible for providing declaration to the Secretarial department about the Related Party involving him or her or his or her Relative, including any additional information that the Company Secretary may reasonably request. Further, the Director and Key Managerial Personnel shall intimate the Secretarial department as and when any changes are required to the Related Parties, as mentioned in the declaration.

The Secretarial department shall maintain a database of Related Parties containing the names of individuals and companies identified based on the definition of Related Party and declaration provided by the Directors and Key Managerial Personnel. A Related party will be brought to the attention of the Management / Functional teams and Board / Audit committee at least on an annual basis by the Secretarial Department and the database of Related Party shall be updated whenever necessary and reviewed on a timely basis and would be communicated to the functional departments.

The functional departments shall submit to the Head of Financial Reporting and the Company Secretary, the details of proposed transaction (except those for which omnibus approval has been granted by the Audit Committee as explained subsequently) with draft agreement or other supporting documents justifying that the transactions are on arm’s length basis at prevailing market rate. Based on such information, Financial Reporting department will facilitate for the necessary approval from the Audit Committee.

4. APPROVALS FOR RELATED PARTY TRANSACTIONS:

Audit Committee Approval	Audit Committee approval is required for following except the transactions specified under Regulation 23 (5) of SEBI Regulations, 2015. I. All Related Party Transactions and subsequent material modifications shall require prior approval of the Audit Committee of the Bank. II. Related party transaction to which the subsidiary of a Bank is a party, but the Bank is not a party, shall require prior approval of the audit committee of the Bank, if the value
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	<p>of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds 10% of the annual consolidated turnover, as per the last audited financial statements of the Bank.</p> <p><i>(Only those members of the audit committee, who are independent directors, shall approve related party transactions)</i></p> <p><i>Any member of the Committee who has a potential interest in any Related Party Transaction will recuse himself or herself and abstain from discussion and voting on the approval of the Related Party Transaction.</i></p>
Board of Directors Approval	<p>Board of Directors approval is required for:</p> <p>I. Related Party Transactions referred by the Audit Committee specifically for Board approval.</p> <p>II. Related Party Transactions not in ordinary course of business or not on arm's length basis, which are falling within the scope of Section 188 of the Companies Act, 2013 not exceeding the limits prescribed.</p> <p><i>Where any Director is interested in any contract or arrangement with a related party, such Director shall not be present at the meeting during the discussion on the subject matter of the resolution relating to such contract or arrangement.</i></p>
Shareholder's Approval	<p>Share Holders approval by Ordinary Resolution is required for except the transaction specified under Regulation 23 (5) of SEBI Regulations, 2015:</p> <p>I. Material Related Party Transactions and subsequent material modifications as defined by the audit committee.</p> <p>II. Related Party Transactions not in ordinary course of business or not on arm's length basis, which are falling within the scope of Section 188 of the Companies Act, 2013 and exceeding the limits prescribed.</p> <p><i>No member of the company shall vote on such resolution, to approve any contract or arrangement which may be entered into by the company, if such member is a related party. In case of material related party transactions and subsequent material modifications, no related party shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not.</i></p>

Notes:

1. Prior approval of the audit committee of the Bank and Shareholders shall not be required for a related party transaction to which the listed subsidiary is a party but the Bank is not a party, if regulation 23 and regulation 15 (2) of SEBI Regulations, 2015 are applicable to such listed subsidiary. For related party transactions of unlisted subsidiaries of the listed subsidiary, the prior approval of the audit committee of the listed subsidiary shall suffice.
2. As per Regulation 23 (5) of SEBI Regulations, 2015, Approval of Audit Committee (including omnibus approval) and approval of Shareholder's is not required for the following:
 - a) Transactions entered into between the Bank and its wholly owned subsidiary whose accounts are consolidated with the Bank and placed before the shareholders at the general meeting for approval.
 - b) Transactions entered into between two wholly-owned subsidiaries of the listed holding company, whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval
3. All entities falling under the definition of related parties shall not vote to approve the relevant transaction irrespective of whether the entity is a party to the particular transaction or not.

5. DECISION REGARDING TRANSACTION IN ORDINARY COURSE OF BUSINESS AND AT ARM'S LENGTH:

The Audit Committee or the Board of Directors shall, after considering the documents and materials placed before them for approval, judge if the transaction is in the ordinary course of business and meet the arm's length requirements.

6. OMNIBUS APPROVAL BY AUDIT COMMITTEE FOR RELATED PARTY TRANSACTIONS PROPOSED TO BE ENTERED:

As permitted in Regulation 23 (3) of the SEBI Regulations, 2015 and Sec.177 (4) (iv) of Companies Act, 2013 Omnibus approval for Related Party Transactions proposed to be entered into by the bank, can be given by the Audit Committee except the transactions specified under Regulation 23 (5) of SEBI Regulations, 2015, subject to the following conditions:

- (a) 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;
- (b) the audit committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the Bank;
- (c) the omnibus approval shall specify:
 - (i) the name / names of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall be entered into,
 - (ii) the indicative base price / current contracted price and the formula for variation in the price if any; and
 - (iii) 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 rupees one crore per transaction.

- (d) the audit committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the Bank pursuant to each of the omnibus approvals given.
- (e) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year:

In relation to the Investment and Credit exposure with the related parties, already a board approved policy framed by the Integrated Risk Management Department titled as 'Policy on management and monitoring of Group risk (Bank's own group) and Intra – Group transactions and exposures' is in place. Hence, the limit for those transactions will be governed by the said policy itself.

7. RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY

In the event the Bank becomes aware of a Related party transaction with a related party that has not been approved in accordance with this Policy prior to its consummation, the transaction shall be brought to the Audit Committee, the Board and/or shareholders of the Bank as required under applicable law. The Audit Committee shall review considering 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.

In case the Bank is not able to take prior approval from the Audit Committee, the Board and/or shareholders of the Bank, 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 and post facto approval is

obtained as promptly as reasonably practical after it is entered into or after it becomes reasonably apparent that the transaction is covered by this policy.

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, discontinuation or rescission of the transaction or seeking the approval of the shareholders, payment of compensation for the loss suffered by the related party etc. In connection with any review/approval of a related party transaction, the Audit Committee has authority to modify or waive any procedural requirements of this Policy, in compliance with applicable regulations.

8. DISCLOSURES:

- i) The extracts of this Policy shall be uploaded in the website of the Bank www.federalbank.co.in and the web link thereto will be provided in Corporate Governance section in the Annual Report.
- ii) Every contract or arrangement entered within the scope of Section 188 of the Companies Act, 2013 shall be referred to in the Board's report to the shareholders along with the justification for entering into such contract or arrangement.
- iii) As per the provisions of Regulation 23 (9) of Chapter IV of SEBI Regulations, 2015, The Bank shall submit to the stock exchanges disclosures of related party transactions in the format specified by the SEBI and publish the same on its website. The Bank shall make such disclosures every six months within fifteen days from the date of publication of its standalone and consolidated financial results. 'High value debt listed entity' (Outstanding listed debt more than Rs.500 Crore) shall submit such disclosures along with its standalone financial results for the half year.
- iv) In accordance with Regulation 27(2)(b) of SEBI LODR, details of all material transactions with related parties shall be disclosed along with the quarterly Compliance Report on Corporate Governance to the recognised stock exchanges within timelines prescribed.

9. REVIEW OF THE POLICY

This Policy is framed based on the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Companies Act, 2013 and rules thereunder and other applicable law. In case of any subsequent changes in the provisions of the SEBI Regulations 2015 or the Companies Act, 2013 and rules thereunder or other applicable law, the relevant amended provisions would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law.

This Policy shall be reviewed by the Audit Committee/Board Annually or as and when any changes are to be incorporated in the Policy due to amendment in regulations or for reasons deemed appropriate by the Audit Committee and the Board of Directors.
