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SECRETARIAL DEPARTMENT

POLICY ON MATERIALITY OF RELATED PARTY TRANSACTIONS AND FOR DEALING WITH RELATED PARTY TRANSACTIONS AND POLICY FOR DETERMINING MATERIAL SUBSIDIARY

1. Preamble

The Regulation 23(1) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, mandates that listed entity (Bank) shall formulate a policy on materiality of related party transactions and on dealing with Related Party Transactions, including clear threshold limits, duly approved by the Board of Directors and such policy shall be reviewed by the Board of Directors at least once in every three years and updated accordingly. The Board of Directors of the Bank having considered the recommendations of the Audit Committee of the Board has adopted the following policy and procedure with regard to Related Party Transactions (“RPT”).

2. Objectives

The objective of this policy and procedure is to ensure that transactions between the Bank and its related parties are based on the principles of transparency. Similarly this policy aims at preventing and providing guidance in situations of potential conflict of interests in the implementation of transactions involving Related Parties.

3. Definitions

Related party- an entity shall be considered as related to the Company if-

(1) such entity is a related party under Section 2(76) of the Companies Act, 2013 i.e.,

- i) a director or his relative;
- ii) a key managerial personnel or his relative;
- iii) a firm, in which a director, manager or his relative is a partner;
- iv) a private company in which a director or manager or his relative is a member or director;
- v) a public company in which a director or manager is a director and 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 or manager (except advice, directions or instructions provided in professional capacity)
- vii) any person on whose advice, directions or instructions a director or manager is accustomed to act (except advice, directions or instructions provided in professional capacity);
- viii) any body corporate which is-
 - (A) a holding, subsidiary or an associate company of such company; or
 - (B) a subsidiary of a holding company to which it is also a subsidiary; or
 - (C) an investing company or the venturer of a company;

- ix) such other person as may be prescribed i.e., director other than an independent director or key managerial personnel of the holding company or his relative with reference to a company, shall be deemed to be a related party.

(2) such entity is a related party under the applicable accounting standards.

(3) Any person or any entity, holding equity shares of ten per cent or more in the Bank 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 shall be deemed to be a related party.

Relative with reference to any person means anyone who is related to another, if –

- (i) they are members of a Hindu Undivided Family
- (ii) they are husband and wife
- (iii) one person is related to the other in such manner as may be prescribed i.e.,
 - (1) Father (including step-father)
 - (2) Mother (including step-mother)
 - (3) Son (including step-son)
 - (4) Son's wife
 - (5) Daughter
 - (6) Daughter's husband
 - (7) Brother (including step-brother)
 - (8) Sister (including step-sister)

Key Managerial Personnel (KMP) in relation to a company means:

- (i) Whole Time Director/s
- (ii) the Company Secretary;
- (iii) the Chief Financial Officer;
such other officer, not more than one level below the Directors who is in whole-time employment, designated as Key Managerial Personnel by the Board;

“Related Party Transaction” means a transaction involving a transfer of resources, services or obligations between :

- (i) the 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; or
- (ii) the Bank 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 Bank 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:

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 Bank 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 deposits by banks at the terms uniformly applicable/offered to all shareholders/public or category of depositors, 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:

The aforesaid definition shall not be applicable for the units issued by mutual funds which are listed on a recognized stock exchange(s);”

The above referred definition shall not be applicable to transaction/s, 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, except for the transactions referred in Section 188 of Companies Act, 2013.

Material Related Party Transaction means any transaction/s to be entered into individually or taken together with the previous transactions during a financial year above the threshold specified in the Listing Regulations i.e., a transaction with a related party to be entered into individually or taken together with previous transactions during a financial year, exceeds Rs.1000 crore or ten percent of Bank’s annual consolidated turnover as per the last audited financial statements whichever is lower.

Material modification means any variation:

- in the value of the transactions exceeding 10 percent of the value of the transaction/contract or
- in the terms and conditions rendering a transaction/contract becoming a non-arm’s length basis transaction/contract.

Investing Company or Venturer of a Company means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.

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.

Ordinary Course of Business includes but not limited to transaction(s)/activities that are normal and incidental to the business covering the usual transactions, customs and practices related to the business as a going concern and considered to be at arm’s length basis. The classification of a transaction as in the ‘ordinary course of business’ or otherwise will be based on specific nature and circumstances of transaction/s. Broadly the following factors are indicative of a transaction being in the ordinary course of business:

- a. The transaction is normal or otherwise unremarkable for the business.
- b. The transaction is frequent/regular.
- c. The transaction is a source of income for the business.
- d. Transactions that are part of the standard industry practice, even though the Bank may not have done it in the past.

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.

4. Identification of Related Party and Related Party Transactions:

To enable proper identification of related parties and related party transactions, the following disclosures shall be made by the Directors:

- (a) At the first meeting of the Board in which he/she participates as a Director and thereafter at the first Board Meeting in every financial year or whenever there is any change in the disclosures already made, disclose the concern or interest in any company/firm/entity in form MBP-1;
- (b) List of Relatives with PAN details/other identifier;
- (c) List of the entities in which the relative is a proprietor/partner/member or director of a private limited company;
- (d) List of public companies in which the director is also a director and holds along with his/her relatives more than two per cent of its paid up share capital.

Further, the Key Managerial Personnel shall make the following disclosures:

- (a) List of relatives and their interest, if any, in any company or firm to be furnished at the beginning of the financial year and shall keep it updated for any subsequent changes.

The format is provided in Annexure.

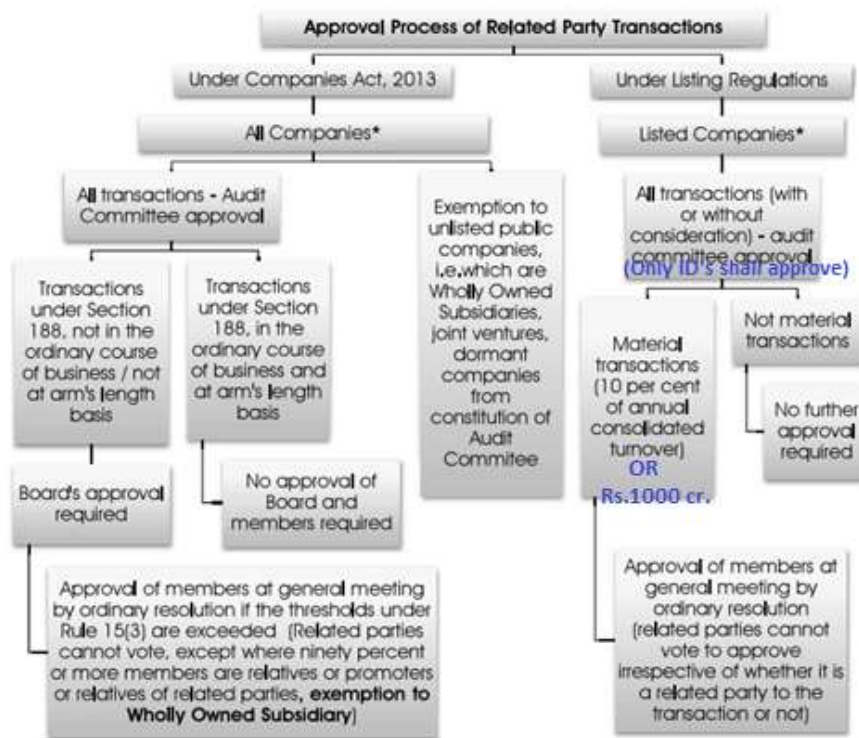
The Related Parties details will be brought to the notice of the Management and the Board/Audit Committee of the Board by the Company Secretary at least on an annual basis. The Company Secretary shall circulate the list of Related Parties and any change in thereof to the various Departments of the Bank.

5. Review and approval of Related Party Transactions:

The approval of RPTs shall be as per the requirements of:

- Regulation 23 of SEBI(LODR) Regulations, 2015
- Section 177 and 188 of Companies Act, 2013
- Rule 15(3) of the Companies (Meetings of the Board and its Powers) Rules, 2014.

The approval matrix is as under:



Exemption under Reg.23(5): Transactions between the Bank and its WOS.

Source: ICSI Guidance note on related party transactions

- (1) All Related Party Transactions and subsequent modifications shall require approval of the Audit Committee of the Bank except for:
 - i. transactions between the Bank and its wholly owned subsidiary, whose accounts are consolidated with the Bank and placed before the shareholders at the general meeting of the Bank for approval ("WOS transaction").
 - ii. transactions entered into between two wholly-owned subsidiaries of the Bank, whose accounts are consolidated with the Bank and placed before the shareholders at the general meeting for approval.
 - iii. The transactions with related parties other than those mentioned in the Companies Act in respect of whom, credit proposals are being sanctioned by the MCB/Board in terms of clause 2.1.2 of the RBI Master Circular on "Loan & Advances-Statutory and Other Restrictions" dated July 1, 2015.

Further, only those members of the Audit Committee, who are independent directors, shall approve related party transactions.

- (2) Besides, all Related Party Transactions defined in Section 188(1) of Companies Act, 2013, require approval of the Board of Directors by way of a resolution at its meeting.
- (3) If the transactions referred in Sl No. 2 above, exceed the thresholds mentioned in the first proviso to Section 188(1) of Companies Act, 2013 read with Rule 15(3) Companies (Meetings of the Board and its Powers) Rules, 2014, approval of the members of the Bank by way of an ordinary resolution in the General Meeting shall be obtained.
- (4) If the transactions mentioned in (2) and (3) above are entered into in the ordinary course of business of the Bank (or in banking-customer relationship in the normal course) and on an Arm's Length basis, approval of the Audit Committee will be sufficient.

- (5) All Material RPTs and subsequent modifications shall require approval of the members through an ordinary resolution at General Meeting.
- (6) An RPT to which the Bank's subsidiary is a party, but the Bank is not a party, shall require prior approval of the Bank's Audit Committee if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds ten per cent of the annual consolidated turnover, as per the last audited financial statements of the Bank;
- (7) An RPT to which the Bank's subsidiary is a party, but the Bank is not a party, shall require prior approval of the Bank's Audit Committee if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year, exceeds ten per cent of the annual standalone turnover of the subsidiary as per their last audited financial statements;
- 6. Omnibus approval:** In case of transactions which are frequent and regular in nature and are in the Ordinary Course of business of the Bank, the Audit Committee may grant omnibus approval for such Related Party Transactions proposed to be entered into by the Bank and fix up limits within which the management may carry out such transactions without prior approval of the Audit Committee for the specific transactions as long as these are carried out on the principles approved by the Audit Committee and in the interest of the Bank.

Such omnibus approval shall be valid for a period not exceeding one year and shall require fresh approval after the expiry of one year. In such a case, 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 approval given.

Also, where the need for related party transaction cannot be foreseen and the details as may be required are not available, the Audit Committee may grant omnibus approval for such transaction on case to case basis subject to their value not exceeding Rupees One crore per transaction/s taken together with the previous transactions during a financial year.

Any member of the Audit Committee/Board who is interested/potentially interested in the Related Party Transaction shall abstain from discussion and shall not vote on the resolution approving the Related Party Transaction.

7. Transactions not requiring the approval of the Audit Committee:

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

- a. Appointment and payment of remuneration/compensation to a Director or KMP 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, including any variations thereto, to a Director or KMP pursuant to the Nomination and Remuneration Committee/Board approval as may be applicable;
- b. Share based incentive plans or ESOPs for the benefits of the Directors or Key Managerial Personnel pursuant to shareholders' approval.
- c. Any benefits, interest arising to Related Party solely from the ownership of Bank's shares at par with other holders, for example, dividends, right issues, stock split or bonus shares pursuant to shareholders' or Board of Directors approval as may be applicable.

- d. Contribution with respect to Corporate Social Responsibility (CSR) to eligible entities pursuant to approval of Board or the CSR Committee.

8. Ceiling for Related Party Transactions:

Provisions	Ceiling on the Amount	Approval Required		
		Audit Committee	Board of Directors	Members
Transactions in the ordinary course of business and on an arm's length basis including transactions specified in Section 188(1)	Upto rupees one thousand crore or ten per cent of the annual Consolidated Turnover of the Bank as per the last audited financial statements of the Bank, whichever is lower and also limits as per Rule 15(3) of Companies Act, 2013 and modifications, if any	YES	-	-
	In excess of the above limits (i.e., Material RPT and modifications, if any.	YES	YES	YES
Transactions either not in the ordinary course of business or on an arm's length basis.	In excess of the above limits (i.e., Material RPT) and modifications, if any.	YES	YES	YES
	Transactions specified in Section 188(1) (within the threshold limit) <ol style="list-style-type: none"> 1. Sale, purchase or supply of any goods or materials, directly or through appointment of agent. 2. Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent. 3. Leasing of property of any kind. 4. Availing or rendering of any services, directly or through appointment of agent. 5. Appointment of any related party to any office or place of profit in the Bank, its subsidiary company or associate company. 6. Underwriting the subscription of any securities or derivatives thereof, of the Bank. 7. Any other transaction with related parties, other than those covered above, resulting in transfer of resources, obligation or services 	YES	YES	-
	Other transactions (within the threshold limit)	YES	-	-
1. *Note : In case of shareholders' approval for such transactions, no related parties shall vote to approve on the resolution.				

6. General Guidance:

The Audit Committee shall be provided with the relevant information of Related Party Transactions in accordance with the requirements of the Listing Regulations or as desired by the Audit Committee of the Board. In case of Related Party Transactions to be approved by the Board, the information required under Rule 15(1) of the Companies (Meetings of Board and its Powers) Rules, 2014 as amended from time to time shall be provided to the Board.

Audit Committee/Board, while considering the Related Party Transaction for approval shall *inter alia* consider if there are clearly demonstrable reasons from the Bank's point of view to enter into a transaction with a Related Party.

The Audit Committee of the Board or Board shall after considering the information placed before them, judge whether the transaction is in the ordinary course of business and meets arm's length requirements.

6A. POLICY FOR DETERMINING MATERIAL SUBSIDIARY:

A subsidiary of the Bank will be considered material if, in the immediately preceding accounting year:

- such subsidiary's income exceeds ten percent of the consolidated income of the Bank and its subsidiary/ies OR
- such subsidiary's net worth exceeds ten percent of the consolidated net worth of the Bank and its subsidiary/ies.

Further, for the purpose of Regulation 24 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (i.e., with regard to Corporate Governance requirements with respect to Material Subsidiary), "material subsidiary" shall mean a subsidiary, whose income or net worth exceeds twenty percent of the consolidated income or net worth respectively, of the Bank and its subsidiaries in the immediately preceding accounting year.

7. Disclosure of the Policy

As required under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this Policy shall be uploaded in the website of the Bank at www.karnatakabank.com. Bank will also disclose the details of all material Related Party Transactions on a quarterly basis along with the compliance report on Corporate Governance filed with the Stock Exchanges under Regulation 27 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Further the Bank will disclose as per Accounting Standard (AS 18) "Related Party Disclosures" and RBI circular on the Master Circular - Disclosure in Financial Statements - 'Notes to Accounts' related party transactions in the Annual accounts except certain transactions in the nature of banker-customer relationship as per paragraph 5 of AS-18.

8. Review of the Policy

This Policy is framed based on the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and shall be reviewed on an annual basis. In case of any

subsequent changes in the SEBI Regulations or other applicable law, the relevant amended provisions would prevail over the Policy and such changes would be implemented with the administrative approval of the Managing Director & CEO and the changes will be updated in the annual policy review.

Annexure

Name of the Director/KMP:

LIST OF RELATIVES

Sl. No.	Relation	Name	Firms/LLP wherein Partner	Name of Pvt. Ltd. Companies wherein is a Director or Member (along with % of shareholding)	Name of Public Ltd. Companies wherein is a Director (along with % of shareholding)
1.	Father (including step-father)				
2.	Mother (including step-mother)				
3.	Spouse				
4.	Son (including step-son)				
5.	Son's wife				
6.	Daughter				
7.	Daughter's husband				
8.	Brother (including step-brother)				
9.	Sister (including step-sister)				
10.	If the Director is a member of HUF, then other members of such HUF				