

## Policy on Related Party Transactions

### 1. Scope and Purpose

The Companies Act, 2013 (the Act), the rules framed thereunder as well as Regulation 23 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations), contain detailed provisions relating to Related Party Transactions.

This Policy on Related Party Transactions (**Policy**) has been framed as per the requirements of the Regulation 23 of Listing Regulations and is intended to ensure proper approval and reporting of the concerned transactions between the Corporation and its Related Parties.

Pursuant to changes in the applicable law, this Policy was amended by the Board of Directors of the Corporation at its meetings held on January 27, 2016 and July 30, 2018.

Thereafter pursuant to amendment in Companies (Meetings of Board and its Powers) Second Amendment Rules, 2019, this Policy has once again been amended by the Board of Directors of the Corporation at its meeting held on March 13, 2020. This Policy shall be effective from April 1, 2020.

### 2. Interpretations

All words and expressions used herein, unless defined herein, shall have the same meaning as respectively assigned to them, in the Applicable Law under reference.

'Applicable Law' includes (a) the Companies Act, 2013 and rules made thereunder as amended from time to time; (b) the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015; (c) Indian Accounting Standards; and (d) any other statute, law, standards, regulations or other governmental instruction relating to Related Party Transactions.

### 3. Terms of the Policy

All Related Party Transactions will be subject to following approval matrix, as may be applicable:

Provisions	Ceiling on the Amount	Approval Required		
		Audit and Governance Committee	Board of Directors	Shareholders (Ordinary Resolution)
Transactions in the <i>ordinary course of business</i> and on <i>arm's length basis</i>	up to <b>10% of the</b> annual consolidated turnover of the Corporation	√	-	-
	<i>In excess of above limits</i>	√	√	√ (All related parties to abstain from voting.)
<b>Transactions either not in the <i>ordinary course of business</i> or <i>arm's length basis</i></b>				
Sale, purchase or supply of any goods or materials, directly or through appointment of agent.		√	√	√* 10% or more of the turnover
Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent.		√	√	√* 10% or more of the net worth
Leasing of property of any kind.		√	√	√* 10% or more of the turnover
Availing or rendering of any services, directly or through appointment of agent.		√	√	√* 10% or more of the turnover
Appointment of any related party to any office or place of profit in the Corporation, its subsidiary company or associate company.		√	√	√* Monthly remuneration exceeding two and half lakh rupees
Underwriting the subscription of any securities or derivatives thereof, of the Corporation.		√	√	√* Remuneration exceeding 1% of net worth
<b>* Note: In case of shareholders' approval related parties that are parties to the contract/arrangement or transaction shall abstain from voting.</b>				
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 Corporation Note: All related parties to abstain from voting.

#### 4. Identification of Related Parties and Related Party Transactions

The Compliance Officer shall:

- a. Identify and keep on record the Corporation's related parties, along with their personal/company details.
- b. Update the record of related parties whenever necessary and shall be reviewed at least once a quarter.
- c. Furnish on a monthly basis to the concerned departments viz. Treasury, Accounts, Operations, Resources and Facilities Management at Corporate Office and branches, who are responsible for entering into contracts/arrangements/agreements with entities for and on behalf of the Corporation, and circulate the list of Related Parties to all such employees of the Corporation along with the approval thresholds for entering into transactions with such enlisted Related Parties.
- d. Ensure that the members of senior management furnish a certificate to the Board of Directors annually relating to all material, financial and commercial transactions with related parties, where they have personal interest that may have a potential conflict with the interest of the listed entity at large.

#### 5. Ascertaining whether Related Party Transactions are in the Ordinary Course of Business

- i. Although the term "Arm's Length Basis" has been defined under Section 188 of the Act, what transactions would be considered to be in the "ordinary course of business" has not been specified under the Companies Act, 2013. In the case of *Seksaria Biswan Sugar Factory Ltd. v. Commissioner of Income Tax, Bombay*, the Bombay High Court, in relation to what constitutes 'ordinary course of business', observed that "it must be found as to whether the particular act has any connection with the normal business that the company is carrying on and whether it is so related to the business of the company that it can be considered to be performed in the ordinary course of the business of that company."
  - A. Therefore, in order to determine whether a transaction is within the ordinary course of business or not, some of the principles that may be adopted to assess are as follows:
    - a) whether the transaction is in line with the usual transactions, customs and practices undertaken by the company to conduct its business operations and activities;
    - b) whether it is permitted by the Memorandum and Articles of Association of the company; and
    - c) whether the transaction is such that it is required to be undertaken in order to conduct the routine or usual transactions of a company.
  - B. Any of the following conditions are met:
    - a) the transaction, including, but not limited to sale or purchase of goods or property, or acquiring or providing of services, conveying or accepting leases, transfer of any resources, hiring of any executives or other staff, providing or availing of any guarantees or collaterals, or receiving or providing any financial assistance, or issue, transfer, acquisition of any securities, is in the normal routine of the Corporation's business; or
    - b) the transaction is in the nature of reimbursements, received or provided, from or to any related party, whether with or without any mark-up towards overheads, and is considered to be congenial for collective procurement or use of any facilities, resources, assets or services and subsequent allocation of the costs or revenues thereof to such related party in an appropriate manner; and
  - C. The transaction is not
    - a) an exceptional or extra ordinary activity as per applicable accounting standards or financial reporting requirements;
    - b) any sale or disposal of any undertaking of the Corporation, as defined in explanation to clause (a) of sub-section (1) of Section 180 of the Act.
- ii. The Corporation may also consider whether the transaction contemplated under the proposed contract or arrangement is either similar to contracts or arrangements which have been undertaken in the past, or in the event that such transaction is being undertaken for the first time, whether the Corporation intends to carry out similar transactions in the future.
- iii. Further, whether the transaction value is within the reasonable range for similar types of other transactions, will also be an important consideration. An exceptionally large value transaction should invite closer scrutiny.

#### 6. Ascertaining whether Related Party Transactions are on an Arm's Length Basis

- i. The following illustrative tests may be used by the Audit and Governance Committee for ascertaining arm's length nature of contracts/arrangements that may be entered into by the Corporation with related parties, or any modification, variation, extension or termination thereof:
  - a. The contracts/arrangements are entered into with Related Parties, are at such prices/discounts/premiums and on such terms which are offered to unrelated parties of similar category/profile.

- b. The contracts/arrangements have been commercially negotiated.
- c. The pricing is arrived at as per the rule/guidelines that may be issued by or acceptable for the purpose of National Housing Bank, Ministry of Corporate Affairs, Government of India, Income Tax Act, 1961, Securities and Exchange Board of India and/or such other statutory or regulatory bodies as applicable to any of the contract/arrangements contemplated under the Act, Rules framed thereunder or Listing Regulations.
- d. The terms of contract/arrangement other than pricing are generally on a basis similar to those as may be applicable for similar category of goods and services or similar category/profile of counterparties.
- e. Such other criteria as may be issued under Applicable Law.
- ii. Further, in order to determine the optimum arm's length price, the Corporation may also apply the most appropriate method from any of the following methods as prescribed under Section 92C(1) of the Income Tax Act, 1961 read with Rule 10 B of the Income Tax Rules, 1962 –
  - a. Comparable Uncontrolled Price Method (CUP method)
  - b. Resale Price Method
  - c. Cost Plus Method
  - d. Profit Split Method
  - e. Transactional Net Margin Method
  - f. Other Method as prescribed by the Central Board of Direct Taxes
- iii. The Audit and Governance Committee shall be entitled to rely on professional opinion or representation from the counter party in this regard.
- iv. The Audit and Governance Committee may refer the Pricing Policy of the Corporation for determining the arms' length pricing for transactions entered into/to be entered into with the related parties. This Policy shall be updated annually or as may be deemed necessary by the Board of Directors/Audit and Governance Committee of Directors of the Corporation.
- v. Notwithstanding the above, whether a particular transaction is on arm's length basis or not, is a decision to be taken by the Board of Directors and the Audit and Governance Committee of Directors of the Corporation. Once the Board of Directors on the recommendation of Audit and Governance Committee, determines that the relevant transaction has taken place on an arm's length basis, so long as they have reasonable basis for the same, their decision shall be final.

#### 7. Procedure for approval and review of Related Party Transactions

- (i) Subject to the threshold limits specified below, all Related Party Transactions or changes therein must be referred for prior approval by the Audit and Governance Committee in accordance with this Policy.
- (ii) The threshold limits for approvals will be as follows:
  - a. The transactions, for which omnibus approval of the Audit and Governance Committee has already been sought, will not require prior approval of the Audit and Governance Committee for each transaction entered into, pursuant to the same.
  - b. Transactions above the value of Rs.1 crore per transaction may be granted omnibus approval by Audit and Governance Committee subject to criteria specified under Clause 8 below. Such transactions shall be reported to the Audit and Governance Committee on a quarterly basis.
  - c. Where the need for related party transaction cannot be foreseen and the details thereof are not available, the Audit and Governance Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs. 1 crore per transaction. Such transactions shall also be reported to the Audit and Governance Committee on a quarterly basis.
  - d. Transactions other than those referred to in Section 188 of the Act between the Corporation and its wholly owned subsidiary companies would not require the omnibus approval of the Audit and Governance Committee. Such transactions shall be reported to the Audit and Governance Committee on a quarterly basis.
- (iii) Related Party Transactions that are not in ordinary course of business but on arm's length basis may be approved by Audit and Governance Committee. Where such Related Party Transactions fall under Section 188 (1) of the Act, the Audit and Governance Committee shall recommend the transaction for approval of the Board.
- (iv) 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 and Governance Committee, along with its recommendations, to the Board for appropriate action.
- (v) All relevant facts pertaining to a Related Party Transaction shall be placed with the Audit and Governance Committee, inclusively:
  - a. the name of the related party and nature of relationship;

- b. the nature, duration of the contract and particulars of the contract or arrangement;
  - c. the material terms of the contract or arrangement including the value, if any;
  - d. any advance paid or received for the contract or arrangement, if any; and
  - e. any other information relevant or important for the Committee to take a decision on the proposed transaction.
- (vi) Audit and Governance 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.
- (vii) In determining whether approval can be accorded to a Related Party Transaction, the Audit and Governance Committee shall consider the following factors:
- a. whether the Related Party Transaction is in the ordinary course of business of the Corporation;
  - b. whether the terms of the Related Party Transaction is on arm's length basis;
  - c. whether there are any adequate reasons of business expediency for the Corporation to enter into the Related Party Transaction, after comparing alternatives available, if any;
  - d. whether the Related Party Transaction would affect the independence of any director/key managerial personnel;
  - e. whether the proposed Related Party Transaction includes any potential reputational/regulatory risks that may arise as a result of or in connection with the proposed transaction; and
  - f. whether the Related Party Transaction would present an improper conflict of interest for any director or key managerial personnel of the Corporation, taking into account the size of the transaction, the overall financial position of the Related Party, the direct or indirect nature of interest of the Related Party in the transaction and such other factors as the Audit and Governance Committee deems relevant.
- (viii) If the Audit and Governance Committee determines that a Related Party Transaction should be brought before the Board of Directors, 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 Board shall consider and approve the Related Party Transaction at a meeting and 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.
- (ix) 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 Corporation.
- (x) Where, owing to exigencies, Related Party Transactions have been entered into without being placed for prior approval by the Audit and Governance Committee, reasoned explanation for the same must be received from the contracting employees to the satisfaction of the Audit and Governance Committee. The Audit and Governance Committee may ratify such transactions, or may put forth the transactions before the Board along with its recommendations and the Board may either ratify such transactions or seek to avoid the same.
- (xi) If approval of the Board/shareholders, where applicable, for entering into a Related Party Transaction is not feasible, then the Related Party Transaction shall be ratified by the Board/shareholders, if required, within 3 months of entering in the Related Party Transaction.
- In any case where either the Board/shareholders determine not to ratify a Related Party Transaction that has been commenced without approval, the Committee or Board or the shareholders, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction, or modification of the transaction to make it acceptable for ratification. In connection with any review of a Related Party Transaction, the Board has authority to modify or waive any procedural requirements of this Policy.
- (xii) No member of the Audit and Governance 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 and Governance Committee/Board.
- (xiii) Exceptions allowed under Applicable Laws for Related Party Transactions shall be exempted from the scope of this Policy unless the Audit and Governance Committee/Board decide otherwise.
- (xiv) Nothing in this Policy shall override any provisions of Applicable Law made in respect of any matter stated in this Policy.
- (xv) A certificate shall be obtained from the Statutory Auditors of the Corporation on a quarterly basis stating that the Related Party Transactions entered into by the Corporation during the previous quarter were in accordance with this Policy.
- (xvi) The Audit and Governance Committee shall review all Related Party Transactions on a quarterly basis.
- (xvii) In addition to the Audit and Governance Committee, all the Related Party Transactions shall also be reviewed by the Board of Directors of the Corporation on an annual basis.

**8. Additional matters pertaining to Omnibus Approval**

- (i) In accordance with the Applicable Laws, the Audit and Governance Committee shall grant omnibus approval in line with this Policy and based on the following information:
  - a. the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into;
  - b. the indicative base price or current contracted price and the formula for variation in the price, if any;
  - c. the maximum transaction values; and
  - d. such other conditions as the Audit and Governance Committee may deem fit.
- (ii) Notwithstanding the generality of foregoing, Audit and Governance Committee shall not grant omnibus approval for following transactions:
  - a. Transactions which are not in ordinary course of business or not on an arm's length basis and covered under Section 188(1) of the Act;
  - b. Transactions in respect of selling or disposing of the undertaking of the Corporation;
  - c. Transactions which are not in the interest of the Corporation;
  - d. Such other transactions specified under Applicable Law from time to time.
- (iii) Notwithstanding the generality of foregoing, the following transactions shall not be deemed Related Party Transactions for the purpose of this Policy and as such no omnibus approval is required to be granted for same:
  - a. Any transaction that involves providing of compensation to a director or key managerial personnel, in accordance with the provisions of the Act in connection with his or her duties to the Company or any of its subsidiaries or associates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.
  - b. Reimbursement made of expenses incurred by a Related Party for business purpose of the Company, or reimbursement received for expenses incurred by the Company on behalf of a Related Party.
  - c. Reimbursement of pre-incorporation expenses incurred by or on behalf of a Related Party.
  - d. Any transaction in which the Related Party's interest arises solely by way of ownership of securities issued by the Company and all holders of such securities receive the same benefits pro rata as the Related Party, or other pro rata interest of a Related Party included in a transaction involving generic interest of stakeholders involving one or more Related Parties as well as other parties.
  - e. Recurring/consequential transactions flowing out of a principal transaction or arrangement for which the Audit and Governance Committee has granted its omnibus approval.
  - f. Any other exception which is consistent with the Applicable Laws, including any rules or regulations made thereunder, and does not require prior approval by the Audit and Governance Committee.

**9. Disclosures**

As mandated under the Listing Regulations, the Corporation shall disclose this Policy on its website i.e. [www.hdfc.com](http://www.hdfc.com) and in the Annual Report. Disclosures regarding related party transactions will be made in accordance with the Applicable Law.

**10. Policy Review**

This Policy may be amended, modified or supplemented to ensure compliance with any modification, amendment or supplementation to the Applicable Law once in three years or as may be otherwise prescribed by the Audit and Governance Committee/Board from time to time.