

Annexure II

**Policy on Materiality of Related
Party Transactions and on
Dealing with Related Party
Transactions.
2020-21**

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**Shares & Bonds Department
Corporate Centre, State Bank Bhavan,
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(Note: This policy document is also available at website of SBI in (<https://www.sbi.co.in/web/corporate-governance/corporate-governance>))

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1. PREAMBLE.

- 1.1. The State Bank of India, ("SBI" or "the Bank"), a body corporate constituted under the provisions of the State Bank of India Act, 1955 ("SBI Act"), is governed by the provisions of the SBI Act. Further, SBI is bound by the regulations viz. State Bank of India General Regulations, 1955 ("SBIGR") framed under section 50 of the SBI Act. SBI is also bound by the provisions mentioned in section 51 of the Banking Regulations Act, 1949 ("BR Act"), and the directions and guidelines issued by the regulatory authority, Reserve Bank of India ("RBI") from time to time in accordance with the BR Act, Reserve Bank of India Act, 1934 ("RBI Act") or any other statutory provisions.
- 1.2. SBI, being a listed entity is to comply with the regulations of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation 2015 (Listing Regulations) and the guidelines issued by the Securities and Exchange Board of India ("SEBI") from time to time in this regard.
- 1.3. Regulation 23 of the Listing Regulations shall apply to the body corporates such as SBI to the extent that it does not violate their other statutes and guidelines or directives issued by the relevant regulatory authorities, governing the functions of the Bank.
- 1.4. Regulation 23 (1) of the Listing Regulations, dealing with Related Party Transactions requires a listed entity to formulate a policy on materiality of Related Party transactions and on dealing with Related Party and this Policy is formulated to fulfil the said requirement.

2. NAME AND SCOPE OF THE POLICY.

- 2.1. This policy shall be called "Policy on Materiality of Related Party Transactions and on Dealing with Related Party Transactions" ("Policy").
- 2.2. The Central Board of SBI shall be empowered to approve and adopt this Policy.
- 2.3. This Policy outlines the basis on which the Materiality of Related Party Transactions will be determined and the manner of dealing with the Related Party Transactions.

Operational Guidelines with respect to Related Party Transaction and/or Material Related Party Transaction under the Policy has been framed and will be amended from time to time according to requirement, with the approval of competent authority.

3. APPLICABILITY

- 3.1. Subject to the exemptions mentioned in the Policy, this Policy shall be applicable to all Related Party transactions entered by the Bank.

4. DEFINITIONS

- 4.1. **“Annual Consolidated Turnover”** means total income (i.e. interest earned plus other income) as per the last audited consolidated financial statements of the Bank.
- 4.2. **“Audit Committee”** means the Audit Committee of the Central Board of the Bank.
- 4.3. **“Bank”** means the State Bank of India (SBI), constituted under the State Bank of India Act, 1955.
- 4.4. **“Central Board”** means the Central Board as defined under Section 19 of the State Bank of India Act, 1955 as amended from time to time and includes the Executive Committee of the Central Board constituted as per Section 30 of the State Bank of India Act, 1955.
- 4.5. **“Key Managerial Personnel (KMPs)”** means the Chief Executive Officer (Chairman), Managing Directors, Deputy Managing Director (Finance), Chief Financial Officer and Company Secretary of the Bank if any.
- 4.6. **“Material Related Party Transaction(s)”** means:
- (a) a transaction(s) entered by the Bank with a Related Party, shall be considered material if the transaction 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 Bank as per the last audited financial statements of the Bank; or
 - (b) a transaction involving payments made to a Related Party with respect to brand usage or royalty, shall be considered material if the transaction to

be entered into individually or taken together with previous transactions during a financial year, exceeds five percent of the Annual Consolidated Turnover of the Bank as per the last audited financial statements of the Bank.

- 4.7. **“Related Party”**: For the purpose of this Policy, an entity shall be considered as related to the Bank if :

Such entity is a Related Party under Section 2(76) of the Companies Act, 2013¹; or

Such entity is a Related Party under the applicable accounting standards².

Provided further that any person or entity belonging to the promoter or promoter group of the Bank and holding 20% or more of shareholding in the Bank shall also be a Related Party:

¹As per Section 2(76) of the Companies Act, 2013 “Related Party” means—

- (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) 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;
- (vii) any person on whose advice, directions or instructions a director or manager is accustomed to act:
Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;
- (viii) any body corporate which is—
 - (A) a holding, subsidiary or an associate company of such company;
 - (B) a subsidiary of a holding company to which it is also a subsidiary; or
 - (C) an investing company or the venture of the company

Explanation.—For the purpose of this clause, “the investing company or the 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
- (ix) such other person as may be prescribed;

² As per Accounting Standard 18, a Related Party is defined as “parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and / or operating decisions.”

- 4.8. **“Related Party Transaction(s) (RPT)”** means a transfer of resources, services or obligations between the Bank and a Related Party, regardless of whether or not 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.
- 4.9. **“Relative”** means relative as defined under sub-section (77) of section 2 of the Companies Act, 2013 and rules prescribed there under.
- 4.10. **“SBI Act”** means the State Bank of India Act, 1955 (Act No. 23 of 1955) as amended from time to time.
- 4.11. **“Subsidiary”** in relation to the SBI, means a company in which the Bank
- i. controls the composition of the Board of Directors; or
 - ii. exercises or controls more than one-half of the total voting power either on its own or together with one or more of its subsidiary companies.

5. DEALING WITH RELATED PARTY TRANSACTIONS

- 5.1. Bank shall obtain prior approval of the Audit Committee in respect of RPT.
- 5.2. Subject to provisions of this clause, the Audit Committee shall be empowered to grant omnibus approval for RPT proposed to be entered into by the Bank.
- 5.3. Before granting any approval, the Audit Committee shall satisfy itself that the approval is in the interest of the Bank.
- 5.4. The Audit Committee may grant omnibus approval to those transactions which are repetitive in nature or such other transactions which the Audit Committee deems fit.
- 5.5. Any proposal seeking omnibus approval shall specify
- (i) the name(s) of the Related Party,
 - (ii) the nature, period and maximum amount of transaction that can be entered into,
 - (iii) the indicative base price or current contracted price and the formula for variation in the price, if any
 - (iv) any other detail(s) as may be specified by the Audit Committee as may deem fit or stipulated by the Bank from time to time.
- 5.6. Where the need for RPT cannot be foreseen and/or details as mentioned in clause 5.5 are not available, the Audit Committee may grant omnibus approval

for such transactions of value not exceeding Rs.1 crore per transaction to be treated as Significant RPT.

- 5.7. Audit Committee shall review, on a quarterly basis, or as may be required, the details of all RPT entered into by the Bank pursuant to each of the omnibus approval accorded by it.
- 5.8. Any omnibus approval granted by the Audit Committee shall be valid for a period not exceeding one year and the Audit Committee shall be empowered to grant fresh approval on expiry of such validity period.

6. DEALING WITH MATERIAL RELATED PARTY TRANSACTIONS

- 6.1. In respect of all Material RPT, the Bank shall obtain approval of the shareholders through a resolution and Related Party shall not vote to approve such resolution irrespective of whether the Related Party is part of particular transaction or not.

7. EXEMPTIONS TO THE POLICY

- 7.1. Nothing contained in Para 5 and 6 of this Policy shall be applicable to any transaction that the Bank may enter into with:
- i. a Government Company³;
 - ii. a Wholly Owned Subsidiary of the Bank whose accounts are consolidated with the Bank and placed before the shareholders at the general meeting for approval;
 - iii. Government or any person or entity in accordance with the permitted business of the Bank as per section 32 or 33 of the SBI Act⁴.

³ "Government Company(ies)" means Government company as defined in sub-section (45) of section 2 of the Companies Act, 2013.

⁴Section 32 and 33 of SBI Act read: "32.State **Bank to act as agent of the Reserve Bank.** - (1)The State Bank shall, if so required by the Reserve Bank, act as agent of the Reserve Bank at all places in India where it has a branch or where there is a branch of a subsidiary bank, and where there is no branch of the banking department of the Reserve Bank, for-

- (a) paying, receiving, collecting and remitting money, bullion and securities on behalf of any Government in India; and
- (b) undertaking and transacting any other business which the Reserve Bank may from time to time entrust to it.

(2) The terms and conditions on which any such agency business shall be carried on by the State Bank on behalf of the Reserve Bank shall be such as may be agreed upon.

8. RPT NOT APPROVED UNDER THIS POLICY

- 8.1. In the event, the Bank becomes aware of any RPT that has not been approved as per Para 5 or 6, of the Policy prior to their consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee may after considering all of the relevant facts and circumstances regarding the RPT, evaluate all options available, including ratification, revision or termination of the RPT and may take appropriate decision. The Audit Committee shall also examine the facts and circumstances pertaining to the failure of reporting such RPT and shall take any such action it deems appropriate.
- 8.2. In case the Audit Committee does not deem fit to ratify an RPT under Para 8.1 above, that has commenced without approval, the Audit Committee, may direct additional actions including, but not limited to, immediate discontinuation of the transaction or such other measures as it may deem appropriate. The Audit Committee shall also have the authority to modify or waive any procedural requirements of the RPT to suit the provisions of this Policy.
- 8.3. In other circumstances, the Audit Committee may recommend to the Central Board and the same shall be empowered to take a decision in respect of such RPT, as it may deem appropriate in the matter.
- 8.4. No member of the Audit Committee / Central Board shall participate in the review or approval of any RPT in which such member is interested except that the Key Managerial Personnel, although can be present, shall provide all material information concerning the RPT to the Audit Committee / Central Board.
- 8.5. In case the aforesaid RPT requires the approval of shareholders, then once it is ratified by the Audit Committee, it shall be ratified by the shareholders in the General Meeting.

(3) If no agreement can be reached on any matter referred to in sub-section (2) or if a dispute arises between the State Bank and the Reserve Bank as to the interpretation of any agreement between them, the matter shall be referred to the Central Government and the decision of the Central Government thereon shall be final.

(4) The State Bank may transact any business or perform any functions entrusted to it under sub-section (1) by itself or through a subsidiary bank or through an agent approved by the Reserve Bank.

33. Other Business which the State Bank may transact.- Subject to the other provisions contained in this Act, the State Bank may carry on and transact the business of banking as defined in clause (b) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), and may engage in one or more of the other forms of business specified in sub-section (1) of section 6 of that Act."

9. DISCLOSURE OF THE RPT/ POLICY

- 9.1. Adequate disclosure of Material RPT with Related Parties shall be disclosed quarterly along with the compliance report on corporate governance.
- 9.2. The Bank shall disclose the Policy on dealing with RPT on its website and also a web link thereto shall be provided in the Annual Report.
- 9.3. The Bank shall w.e.f. half-year ending March 31, 2019 submit within 30 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of RPT on a consolidated basis, in the format prescribed in the relevant accounting standards for annual results, to the stock exchanges and publish the same on its website.
- 9.4. The Bank shall provide Related Party Disclosure in its Annual Report as per Schedule V of Listing Regulations.

10. OWNERSHIP & REVIEW OF THE POLICY

- 10.1. This Policy is owned by Shares & Bonds Department and is subject to updating/review, on account of any change in regulatory requirements or as may be required to do so from time to time. The Central Board shall review the Policy annually *or* at least once every three years and update accordingly.
- 10.2. The Shares and Bonds Department of the Bank or any other department as may be directed by the Central Board shall be empowered to submit the review/ updation of this Policy.
- 10.3. If any change is subsequently approved to this policy, consequent upon any change in regulatory guidelines/operating instructions etc., such changes with the approvals of the designated authority shall be deemed to be a part of the policy till the policy is comprehensively reviewed.