



**POLICY FOR  
MATERIAL SUBSIDIARIES  
2021**

**FOREIGN BUSINESS DEPARTMENT, HEAD OFFICE**

**DOMESTIC SUBSIDIARY MANAGEMENT DIVISION**



## Policy for Material Subsidiaries

### 1. PREAMBLE:

In terms of Regulation 16(1)(c) of SEBI (Listing Obligations and Disclosure Requirement) Regulations – 2015 as amended from time to time ('**Listing Regulations**'), the listed entities are required to formulate a policy for determining "Material Subsidiary".

Further in terms of Regulation 46(2)(h) of the Listing Regulations the policy shall be disclosed on the Bank's website and weblink thereto shall be provided in the Annual Report of the Bank.

### 2. BACKGROUND:

In terms of Regulation 2(1)(p) of the Listing Regulations "listed entity" has been defined as an entity which is listed on a recognized stock exchange(s), the designated securities issued by it or designated securities issued under schemes managed by it, are in accordance with the listing agreement entered into between the entity and the recognized stock exchange(s).

As per Explanation to Regulation 16(1)(c), listed entity shall formulate a policy for determining "Material Subsidiary". Our Bank being a listed entity has formulated a **Policy for "Material Subsidiaries"** as under:

### 3. DEFINITIONS:

#### **"Audit Committee of the Board (ACB)"**

**ACB** means a Committee of the Board constituted by the Board of Directors as per the guidelines of the Reserve Bank of India (RBI). 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 and inspections of the RBI.

#### **"Board"**

**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

**"Definition of Subsidiary, Associates, Joint Ventures, 'Control and Significant Influence' in terms of Indian Accounting Standards" -**  
listed in Annexure-I

Classification: Internal



**"Financial Services Companies" - listed in Annexure-II**

**"Material Subsidiary"**

"Material subsidiary" shall have the meaning as defined under Regulation 16 (1)(c) of Listing Regulations as under .

Material Subsidiary shall mean a subsidiary, whose income or net worth (i.e. paid up capital and free reserves) exceeds ten percent of the consolidated income or net worth respectively of the Company and its subsidiaries in the immediately preceding accounting year.

**"Significant transaction or arrangement"** means any individual transaction or arrangement that exceeds or is likely to exceed 10% of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the material unlisted subsidiary for the immediately preceding accounting year.

**4. POLICY:**

- A. As per regulation 24(1) of the Listing Regulations, at least one independent director on the Board of Directors of the Bank shall be a director on the Board of Directors of an unlisted material subsidiary, whether incorporated in India or not.

For the purposes of this provision, notwithstanding anything to the contrary contained in regulation 16 of Listing Regulations, the term "material subsidiary" shall mean a 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.

- B. The Audit Committee of the Bank shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.
- C. The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the Bank.
- D. The management of the unlisted subsidiary shall periodically bring to the attention of the Board of Directors of the Bank, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.

Explanation.- For the purpose of this regulation, the term "significant transaction or arrangement" shall mean any individual transaction or arrangement that exceeds or is likely to exceed ten percent of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the unlisted subsidiary for the immediately preceding accounting year.

Classification: Internal



- E. Bank shall not dispose of shares in its material subsidiary which would reduce its shareholding (either on its own or together with other subsidiaries) to less than or equal to 50% or cease the exercise of control over the subsidiary without passing a special resolution in its General Meeting except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event is disclosed to the recognized stock exchanges within one day of the resolution plan being approved.
- F. Selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary on an aggregate basis during a financial year shall require prior approval of shareholders by way of special resolution unless the sale/disposal/lease is made under a scheme of arrangement duly approved by a Court/Tribunal or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event is disclosed to the recognized stock exchanges within one day of the resolution plan being approved.
- G. Where Bank has a listed subsidiary, which is itself a holding company, the provisions of this regulation shall apply to the listed subsidiary in so far as its subsidiaries are concerned.

**H. Secretarial Audit and Secretarial Compliance Report:**  
As per Regulation 24A of the Listing Regulations,

- (1) every listed entity and its material unlisted subsidiary incorporated in India shall undertake secretarial audit and shall annex with its annual report, a secretarial audit report, given by a company secretary in practice, in such form as may be specified with effect from the year ended March 31, 2019
- (2) Every listed entity shall submit a secretarial compliance report in such form as specified, to stock exchanges, within sixty days from end of each financial year.

**5. Para-Banking norms set by RBI:**

**Prudential Regulation for Bank's Investments:**

Investment by the Bank in a subsidiary or in a financial services company not being a subsidiary or a non-financial services company shall be subject to the following conditions:

**(a) Limits on investments:**

- i. Equity investment by the bank in a subsidiary company, or a financial services company, not being a subsidiary, individually, shall not exceed 10 per cent of the bank's paid-up share capital and reserves as per the last audited balance sheet or a subsequent balance sheet, whichever is lower.

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- ii. The aggregate of equity investment in factoring subsidiaries and factoring companies shall not exceed 10% of the bank's paid up capital and reserves.
- iii. Bank shall not contribute more than 49 per cent of the equity of Infrastructure Debt Fund set up as a Non-banking Finance Company (IDF-NBFC).
- iv. Bank contributing less than 30 per cent of the equity of IDF-NBFC shall not be a sponsor.
- v. Bank shall not –
  - a. Hold more than 10 per cent in the equity of a deposit taking NBFC. **Provided** that this does not apply to a housing finance company.
  - b. Make an investment of more than 10 per cent of the unit capital of a Real Estate Investment Trust/Infrastructure Investment Trust subject to overall ceiling of 20 per cent of its net worth permitted for direct investments in shares, convertible bonds/ debentures, units of equity-oriented mutual funds and exposures to Alternative Investment Funds.
  - c. Hold more than 10 per cent of the paid up capital of a company, not being its subsidiary engaged in non-financial services or 10 per cent of the bank's paid up capital and reserve, whichever is lower.

**Provided** investments in excess of 10 per cent but not exceeding 30 per cent of the paid up share capital of such investee company shall be permissible in the following circumstances:

- (i) the investee company is engaged in non-financial activities permitted for banks in terms of Section 6(1) of the Banking Regulation Act, 1949; or
  - (ii) the additional acquisition is through restructuring of debt or to protect the banks' interest on loans/investments made to a company. The bank shall submit a time bound action plan for disposal of such shares within a specified period to RBI.
- d. ~~Hold along with its subsidiaries, associates or joint ventures or entities directly or indirectly controlled by the bank; and mutual funds managed by Asset Management Companies (AMCs) controlled by the bank, more than 20 per cent of the investee company's paid up share capital engaged in non-financial services. However, this cap doesn't apply to the cases mentioned at 5(a)(v)(c)(i) and (ii) above.~~
  - e. Make any investment in a Category III Alternative Investment Fund (AIF). Investment by a bank's subsidiary in a Category III AIF shall be restricted to the regulatory minima prescribed by SEBI.

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- vi. The aggregate equity investments made in all subsidiaries and other entities engaged in financial services and non-financial services, including overseas investments shall not exceed 20 per cent of the bank's paid-up share capital and reserves.

**Provided** that for calculating the aggregate investment for compliance with the limit of 20 per cent of paid up capital and reserves, the following investments shall be excluded:

- a. investments held under 'Held for Trading' category that are not held beyond 90 days as envisaged in the Master Directions on Prudential Norms for Investments;
- b. investments in excess of 10 per cent in non-financial companies acquired in circumstances as mentioned at 5 (a) (v) (c) (ii) above.

**(b) Requirement for approval of Reserve Bank of India:**

Bank shall not, without the prior approval of RBI, make:

- i. investment in a subsidiary and a financial services company that is not a subsidiary.

**Provided** that such prior approval shall not be necessary in the following circumstances:

- a. The investment is in a company engaged in financial services; and
- b. The bank has the minimum prescribed capital (including Capital Conservation Buffer) and has also made a net profit in the immediate preceding financial year; and
- c. The shareholding of the bank including the proposed investment is less than 10 per cent of the investee company's paid up capital; and
- d. The aggregate shareholding of the bank along with shareholdings, if any, by its subsidiaries or joint ventures or other entities directly or indirectly controlled by the bank, is less than 20 per cent of the investee company's paid up capital.

**Explanation:** Prior approval of RBI shall not be required if the investments in the financial services companies are held under the 'Held for Trading' category and are not held beyond 90 days.

- ii. investment in a non-financial services company in excess of 10 percent of such investee company's paid up share capital as stated at 5 (a) (v) (c) (i).
- iii. investment of more than 10 per cent of the paid up capital/ unit capital in a Category I/ Category II Alternative Investment Fund.

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- (c) Bank shall ascertain the risks arising on account of equity investments in Alternative Investment Funds done directly or through their subsidiaries, within the Internal Capital Adequacy Assessment Process (ICAAP) framework and determine the additional capital required which will be subject to supervisory examination as part of Supervisory Review and Evaluation Process. This shall also be applicable to sponsoring of Infrastructure Debt Funds by banks.

**Conclusion:**

Annexures I & II form part of this policy and this policy is subject to comprehensive review annually to incorporate latest RBI guidelines on Para-Banking Activities and/or Securities Exchange Board of India guidelines on Corporate Governance in listed entities.



## Annexure – I

### Definition of Subsidiary, Associates, Joint Ventures, 'Control and Significant Influence' in terms of Indian Accounting Standards

Accounting Standards 18, 21, 23 and 27 define the above mentioned terms.

**Subsidiary** is an enterprise that is controlled by another enterprise (known as the parent).

**Associate** is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

#### Control –

- (a) The ownership, directly or indirectly, through subsidiary(ies), of more than one-half of the voting power of an enterprise; or
- (b) Control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise, or
- (c) a substantial interest in voting power and the power to direct, by statute or agreement, the financial and/or operating policies of the enterprise.

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

**Significant Influence** is the power to participate in the financial and/or operating policy decisions of the investee but not control over its policies.



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## Financial Services Companies

For the purpose of prudential guidelines on investments in subsidiaries and other companies, 'financial services companies' are companies engaged in the 'business of financial services'.

The 'business of financial services' means –

- (i) the forms of business enumerated in clauses (a), (c), (d), (e) of sub-section (1) of section 6 of the Banking Regulation Act, 1949 and notified under clause (o) of sub-section (1) of section 6 of the Banking Regulation Act, 1949;
- (ii) the forms of business enumerated in clause (c) and clause (f) of Section 45 I of Reserve Bank of India Act, 1934;
- (iii) business of credit information as provided under the Credit Information Companies (Regulation) Act, 2005;
- (iv) operation of a payment system as defined under the Payment and Settlement Systems Act, 2007;
- (v) operation of a stock exchange, commodity exchange, derivatives exchange or other exchange of similar nature;
- (vi) operation of a depository as provided under the Depositories Act, 1996;
- (vii) business of a securitisation or reconstruction company as provided under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
- (viii) business of a merchant banker, portfolio manager, stock broker, sub-broker, share transfer agent, trustee of trust deeds, registrar to an issue, merchant banker, underwriter, debenture trustee, investment adviser and such other intermediary as provided in the Securities and Exchange Board of India Act, 1992 and the regulations made there under;
- (ix) business of a credit rating agency as defined in the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999;
- (x) business of a collective investment scheme as defined under the Securities and Exchange Board of India Act, 1992;
- (xi) business of managing a pension fund;
- (xii) business of an authorised person as defined under the Foreign Exchange Management Act, 1999; and
- (xiii) such other business as may be specified by Reserve Bank from time to time.

