



SBI (Mauritius) Ltd

Bank to grow with

POLICY ON RELATED PARTY TRANSACTIONS

Version: 2.1

Document History

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REGULATORY UPDATES:

- Guideline of Related Party Transactions revised in May, 2022.
- Bank of Mauritius clarification dated 21.10.2022 on revised Related Party Transactions Guidelines.

List of Abbreviations

Abbreviation	Expansion
BOM	Bank of Mauritius
RMCB	Risk Management Committee of the Board
ECC	Executive Credit Committee
RCOM	Risk Management Committee
RPT	Related Party Transactions
SBI	State Bank of India
SBIML / The Bank	SBI (Mauritius) Ltd

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1. Introduction

The Bank of Mauritius (BOM) issued guidelines on Related Party Transactions (RPT) in December 2001 which were then revised in June 2015. BoM recently revised the guidelines on related party transaction on 12.05.2022. The revised guidelines, inter-alia, require the Board of Directors of a financial institution to review and approve the policy on RPT periodically at intervals not exceeding one year.

SBIML formulated its RPT policy referring to the above guidelines read in conjunction with the Banking Act 2004, Companies Act 2001 and the BOM Guidelines on Scope of Application of Basel III and Eligible Capital.

SBIML's RPT policy enunciates the basic framework of risk management to be put in place across the bank with regard to related party transactions and the objective of the policy is also to regulate transactions between the Bank and its related parties, with particular emphasis on regulatory limits.

2. Related Party

The BOM Guidelines provide that *“Related Party in relation to a financial institution has the same meaning as in the Banking Act 2004”*.

As per Banking Act 2004, *“Related Party in relation to a financial institution means-*

- (a) a person who has significant interest in the financial institution or the financial institution has significant interest in the person;*
- (b) a director or senior officer of the financial institution or of a body corporate that controls the financial institution;*
- (c) the spouse, a child, the parent or ascendant or descendant of a natural person covered in paragraphs (a) and (b);*
- (d) an entity that is controlled by a person described in paragraphs (a) to (c); or*
- (e) a person or class of persons who has been designated by the central bank as a related party because of its past or present interest in or relationship with the financial institution being such that it might be reasonably expected to affect the exercise of best judgment of the financial institution in respect of a transaction.”*

3. Responsibilities of the Board of Directors

The Board of Directors shall

- a) ensure that SBIML has a robust system of checks and balances to monitor compliance with the regulatory limits uphold impartiality and prevent credit activities of any kind which override established credit approval policies and procedures when granting credit facilities to related parties.
- b) ensure that the policies, systems and procedures are subject to regular review by control functions to ensure their continuing effectiveness, adequacy and enforcement.
- c) ensure that any transaction with related parties that may have a material effect on the stability and solvency of the Bank is identified and dealt with in a timely manner.
- d) ensure that all related party transactions are done as per pre-approved limits for RPT under Delegation of Financial Powers.
- e) ensure that market terms and conditions (i.e. in respect of a loan or other credit facilities, the terms and conditions are no more favorable than those offered to the public by the Bank in the ordinary course of business and in respect of other transactions, the terms and conditions including price, rent or interest rate that might be reasonably expected to apply to similar transactions in an open market where parties deal at arm's length, acting knowledgeably and willingly) are applied to all related party transactions.

4. Internal Guidelines on RPT

- a) The Board members and staff approving/monitoring the related party transactions shall declare their interest (if any) and shall, in the case of conflict of interest, be excluded from the approval and monitoring process of related party transactions. The declaration of interest shall be duly documented.
- b) All shareholders with significant interest, beneficial owners, directors, senior officers and other body corporate that the control the Bank or which the Bank controls will declare the entities controlled by them and (in case of natural persons) their spouse, child, parent or ascendant or descendant at the start of every financial year to the Compliance department and any changes in the same should also be immediately communicated.
- c) The Bank shall ensure that it stays within the regulatory limits and will apply market related terms while granting credit exposures to a related party. In this regard the following procedure shall be followed:

- i. Respective Vice Presidents shall ensure that the above procedure is followed in respect of all transactions involving direct or indirect credit risk exposure including, Buyers' Credit granted on the Letter of Comfort or any such instrument undertaking repayment thereof and guarantees, in whichever form, issued on the counter guarantee of parent bank. The same shall apply to placements with parent bank, its associates and subsidiaries.
 - ii. Risk department shall apprise Senior Management on any breaches in RPT limits in the Monthly RCOM meeting.
 - iii. Internal Audit department shall conduct regular reviews to check that established policies, limits and procedures in relation to RPT are adhered to.
- d) A note on Related Party transactions shall be put up by Global Business unit to the Board of Directors on a quarterly basis that covers:
 - i. new related party transactions;
 - ii. the performance of bank's related party exposures including compliance with policies and procedures (including internal/ regulatory limits), breach of covenants, deterioration in credit quality, impairment of assets and non-perfection of collateral;
 - iii. the performance of services provided by related parties and other arrangements/ contracts with related parties including compliance with agreed service level agreements; and
 - iv. any breaches or recommendations of control functions, Audit Committee or the Risk Management Committee in respect of related party transactions.
- e) Any exception to the regulatory limit shall be referred to BOM for prior approval.
- f) No write-off of related party credit exposure shall take place without the prior approval of the Board of Directors.

5. Approval of Related Party Transactions

- a) The Board of Directors shall approve the following:
 - i. the terms and conditions for credit facilities to the staff of the Bank under the terms and conditions of employment contracts;
 - ii. credit facilities to staff which are not in line with the terms and conditions as approved by the board under (i) above;
 - iii. credit exposures to related parties where the aggregate of credit exposures to any single related party and/or its group of connected counterparties exceed 2 per cent of the Tier 1 capital of the Bank or MUR500 million, whichever is lower;
 - iv. any other transaction with related parties where the aggregate amount due by/to any single related party and/or its group of connected counterparties

exceed 2 per cent of the Tier 1 capital of the Bank or MUR500 million, whichever is lower; and

- v. all related party transactions posing special risks to the Bank.

- b) All the transactions that do not meet the criteria set out in (a) above for Board approval shall be approved by the sanctioning authorities in line with the Delegation of Financial Powers and shall be reported to the Board at quarterly intervals.

- c) In no case a related party transaction should be approved by a forum consisting of less than three persons at senior management level with the exception of staff loans under the terms and conditions of employment contracts as approved by the Board.

6. Rules governing Related Party Transactions

As per BOM guidelines, *“related party transactions include the following:*

- a. Credit, financial leasing, non-fund based commitments such as documentary credits, guarantees on behalf of a related party, acquiring a loan made by a third party to a related party; investment in equity or other debt instruments of a related party, and any other commitment to provide funds or substitute of funds to a related party;*
- b. Placements made by the financial institution with a related party;*
- c. Conditional sales agreements with a related party;*
- d. Consulting or professional service contracts with a related party;*
- e. Deposits placed with the financial institution by a related party; and*
- f. Acquisition, sale or lease of assets of a related party;*
- g. Any pecuniary relationship or other transactions or arrangement with a related party (including by way of service agreements or contracts).”*

The guidelines further provide that *“all transactions with related parties must be carried out on terms and conditions that are at least as favorable to the financial institution as market terms and conditions.”*

However, the Bank may grant credit facilities to its staff which are not at prevailing market terms and conditions, provided that these terms and conditions are within the terms and conditions of employment contracts and have been approved by the Board of Directors.

7. Classification of Related Party Exposures

Related parties, whether body corporates or natural persons, fall into two main groups:

- (a) Those that are related to SBIML because of ownership interest; and
- (b) Those that are related otherwise, such as directors and senior officers, who may also have some ownership interest in the financial institution

The related party exposures are further classified into three main categories as detailed below:

Category 1:

This includes credit exposures to:

- (a) A person who has significant interest in the Bank;
- (b) A director of the Bank;
- (c) A director of a body corporate that controls the Bank;
- (d) The spouse, child and parent of a natural person covered in (a) or (b) or (c) above;
- (e) Any entity that is controlled by a person described in (a) or (b) or (c) or (d) above;
- (f) Any entity in which the Bank has significant interest, excluding a subsidiary of the Bank as mentioned in (e) above.

Category 2:

This includes credit exposures to:

- a) Senior Officers, which are outside the terms and conditions of employment contracts;
- b) The spouse, child and parent of senior officers;
- c) Senior officers of a body corporate that controls the Bank;
- d) Any entity that is controlled* by a person described in a) or b) or c) above; and
- e) A subsidiary of the Bank with no shareholder (natural person) holding directly or indirectly more than a significant shareholding in the parent financial institution.

**A natural person shall be deemed to control an entity if he/she owns, directly or indirectly, 10% or more of the capital or voting rights of that entity.*

Category 3:

This includes credit exposures to senior officers, which are within the terms and conditions of employment contracts.

The related parties of SBIML are provided in **Appendix 1**.

8. Regulatory Limits

Having categorized the related parties into 3 categories as above, the BOM Guideline provides that “credit exposure to any single borrower / group of closely related customers who are related parties to the financial institution shall be governed by the Guideline on Credit Concentration Risk, subject to the following conditions:

- a) The aggregate of credit exposures to and investments in equity shares of all related parties in Category 1, other than investments in subsidiaries and associates, should not exceed 60% of the financial institution’s Tier 1 capital; and
- b) The aggregate of credit exposures to and investments in equity shares of all related parties in Category 1 and 2, other than investments in subsidiaries and associates, should not exceed 150% of the financial institution’s Tier 1 Capital.”

9. Exemptions from regulatory limits

The Bank shall be exempted from the regulatory limits on the following credit exposures:

- (a) A credit exposure to the extent to which it is collateralized by deposits with the Bank or Government of Mauritius securities or a loan to the extent to which it is guaranteed by the Government of Mauritius;
- (b) A credit exposure to the extent to which it is collateralized by securities issued by another government or a loan to the extent to which it is guaranteed by another government provided that the exposure is:
 - (i) Denominated and funded in its national currency, and
 - (ii) Approved by BOM under paragraph 6 of the *Guideline on Standardized Approach to Credit Risk* for a zero per cent risk weight (as per **Appendix 2**)
- (c) A credit exposure to parastatal bodies and to an entity in which Government has more than 50 per cent shareholding;
- (d) Inter-bank transactions as part of treasury operations;
- (e) Credit exposures, including aggregate credit exposures to a group of closely related customers as defined in the Annex II to the *Guideline on Credit Concentration Risk*, representing less than 2 per cent of the financial institution’s Tier 1 capital, and
- (f) Category 3 type of related party exposures.

10. BOM's Discretion

BOM may consider requests for granting of facilities to related parties which would cause the credit exposure of the Bank to exceed the regulatory limits, on the express condition that the additional credit exposure shall be deducted from the Bank's Tier 1 Capital, along with other conditions that BOM may choose to impose.

11. Reporting Requirements

BOM requires a financial institution to report on a quarterly basis all information relating to credit exposures to related parties including exemptions from regulatory limits on credit limits in prescribed formats. Respective Business Units where RPT are domiciled will be responsible for conveying the information to Global Business unit for consolidation and reporting to BOM. Global Business department shall also seek a confirmation on any change in Senior Officers / Directors from Company Secretary for preparation of RPT return.

The Bank should have adequate information systems to monitor its related party credit exposures and identify exceptions. Thus, the detailed list of all related parties should be regularly updated by the Compliance department.

12. Disclosure Requirements

The Bank shall ensure that disclosures of interest are made in accordance with the provisions of Section 48 of the Banking Act 2004.

The Bank shall disclose its related party transactions in accordance with the requirements of the Guideline on Public Disclosure of Information.

13. Review of the Policy

This Policy document will be comprehensively reviewed every year and will be put up to the Board of Directors for approval. However, mid-term review maybe undertaken by Risk Department, to facilitate changes in existing policy consistent with any regulatory changes.

APPENDIX 1:

Related Parties of SBI (Mauritius) Ltd

Category 1

Parent Bank

State Bank of India

Directors

Executive Directors

Non-Executive Directors

Independent Directors

Spouse, Child and Parents of Directors

Non-Banking Subsidiaries / Foreign Banking Subsidiaries/ Joint Ventures / Investments of SBI

1. SBI Capital Markets Ltd (Consolidated)
2. SBI DFHI Ltd
3. SBI Mutual Fund Trustee Company Private Ltd
4. SBI Global Factors Limited
5. SBI Pension Funds Private Limited
6. SBI Funds Management Private Limited
7. SBI Cards & Payment Services Limited
8. SBI Life Insurance Company Limited
9. SBI-SG Global Securities Private Limited
10. SBI General Insurance Company Limited
11. C-Edge Technologies Limited
12. Macquarie SBI Infrastructure Management Pte Ltd
13. SBI Macquarie Infrastructure Management Private Limited
14. SBI Macquarie Infrastructure Trustee Private Limited
15. Oman India Joint Investment Fund Management Co. Private Limited
16. Oman India Joint Investment Fund-Trustee Co Private Limited
17. SBI Foundation
18. SBI Infra Management Solutions Pvt Ltd
19. JIO Payments Bank Ltd
20. SBI Payment Services Pvt Ltd
21. State Bank of India (California)
22. SBI Canada Bank
23. State Bank of India (UK) Limited
24. CIBL, Moscow
25. PT Bank SBI Indonesia

26. Nepal SBI Bank Limited
27. Bank of Bhutan Limited
28. SBI Servicos Limitada, Brazil

Category 2&Category 3

Senior Officers

1. Managing Director & CEO
2. Chief Operating Officer
3. Chief Risk Officer
4. Company Secretary and Vice President (Compliance)
5. Vice President (Accounts & Services) & Human Resource
6. Vice President (IT)
7. Vice President (Retail Banking)
8. Vice President (Corporate Banking)
9. Vice President (Global Business)
10. Vice President (Treasury & Planning)
11. Manager (Internal Audit)
12. Manager (Legal & Compliance)
13. Money Laundering Reporting Officer

Spouse, children and parents of Senior Officers

APPENDIX 2:

Part I, Paragraph 6 & 7 on Page 2& 3 of the BOM Guideline on the Standardized Approach to Credit Risk revised in April 2022

Claims on Sovereigns

Claims on Government of Mauritius denominated and funded in Mauritian rupees shall be assigned a preferential risk weight of 0%*. Claims on other sovereigns denominated and funded in their local currency may be assigned a preferential risk weight as determined by the supervisory authority of the sovereign, subject to the prior written approval of the Bank. In the absence of prior written approval of the Bank, claims on other sovereigns in their local currency shall be assigned a risk weights as specified in Table A3.

** The risk weight of 0% may be extended to the risk weighting of collateral and guarantees.*

Claims on other sovereigns in currency other than their local currency and claims on Government of Mauritius denominated in currency other than the Mauritian rupee shall be assigned risk weights as specified in Table A3.

Table A3 - Risk weights for claims on sovereigns in their local currency in the absence of prior written approval of the Bank, claims on sovereigns in currency other than their local currency, claims on Government of Mauritius denominated in currency other than Mauritian rupees, and claims on domestic PSEs denominated in currency other than Mauritian rupees and guaranteed by Government of Mauritius.

Credit Assessment of Standard and Poor's Ratings Services / Fitch Ratings	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Credit Assessment of Moody's Investors Service	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Below B3	Unrated
Consensus risk scores of EC as participating in the arrangement on officially supported export credits	0-1	2	3	4-6	7	
External Rating Grade	1	2	3	4,5	6	Unrated
Risk weight	0 %	20%	50%	100%	150%	100%

Definitions and explanatory notes in the context of the policy

Credit Exposure means a commitment by a financial institution to provide funds or substitute of funds, including leasing facilities other than operating leases, investment in equity, investment in fixed dated securities/debentures and off-balance sheet funds to a customer or group of connected counterparties on a secured or unsecured basis.

(Source: Guideline on Credit Concentration Risk, last revised in August 2019)

Financial Institution means any bank, non-bank deposit taking institution or cash dealer licensed by the central bank

(Source: Banking Act)

Independent Director A director having no relationship with, or interest in, whether past or present, the financial institution or its affiliates, which could or could reasonably be perceived to materially affect the exercise of his judgment in the best interest of the financial institution

(Source: Banking Act)

Market Terms & Conditions (i) in respect of a loan or other credit facilities, the terms and conditions are no more favorable than those offered to the public by the financial institution in the ordinary course of business;

(ii) in respect of other transactions, the terms and conditions, including those relating to price, rent, or interest rate, that might be reasonably expected to apply to similar transactions in an open market where parties deal at arm's length, acting knowledgeably and willingly; and

(iii) the adoption of follow-up and enforcement actions that might be reasonably expected of a prudent person in similar situations.

(Source: Guideline on Related Party Transactions last revised May2022, Page 2 under Interpretation)

Person "person" and words applied to a person or individual shall apply to and include a group of persons, whether corporate or unincorporated

(Source: Interpretation and General Clauses Act)

Senior Officer (a) the chief executive officer, deputy chief executive officer, chief operating officer, chief financial officer, secretary, treasurer, chief internal auditor or manager of a significant business unit of the financial institution; or

(b) a person with similar position and responsibilities as a person in paragraph (a);

(Source: Banking Act 2004)

Significant Interest means owning, directly or indirectly, 10 per cent or more of the capital or of the voting rights of a financial institution or, directly or indirectly, exercising a significant influence over the management of the financial institution, as the central bank may determine;

(Source: Banking Act 2004)

Tier 1 Capital means the sum of Common Equity Tier 1 (CET1) Capital and Additional Tier 1 (AT1) Capital

(Source: BOM Guideline on Scope of Application of Basel III and Eligible Capital, last revised in June 2021)