

Policy for Appointment of Statutory Auditors

1. Background

RBI vide its circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 (“RBI Circular”) has issued guidelines for Appointment of Statutory Auditors (SA) for Commercial banks, (excluding RRBs), UCBs and NBFCs (including HFCs). The guidelines require lending institutions to formulate a policy approved by the Board of Directors (“the Board”) to be hosted on its official website and formulate necessary procedures thereunder to be followed for the appointment of SA’s.

2. Objective

The Policy shall act as a guideline for appointment of the SAs of the Company. The Objective of the Policy is to:

- i) Determine the number of SAs based on various parameters;
- ii) Criteria for appointment of SAs; and
- iii) Procedure to be followed for appointment of SAs.

3. Applicability

This Policy will be applicable for appointment of SAs by the Company from the second half of the financial year 2021-22 onwards including any amendments if any, made from time to time by the Regulators.

4. Scope

This policy shall form the basis for appointment of SA/(s). The Company shall comply with the relevant provisions of the Companies Act, 2013, rules made thereunder and the regulations/ guidelines/ circulars/ notifications as issued by the Reserve Bank of India. In case of conflict between the provisions of the Companies Act and the RBI regulations, the RBI regulations (being sectoral regulator) shall prevail. Further, in the event any guidance on the regulatory framework/ RBI regulations / guidelines is required; the same shall be referred to the Concerned Department for its final views on the matter.

5. RBI reporting

The Company will inform the Bangalore Regional Office of RBI (Department of Supervision), with respect to the appointment of SA’s for each year by way of a certificate in Form A (as prescribed by RBI) within one (1) month of such appointment.

6. Number of Statutory Auditors and Branch Coverage:

The Company is required to decide on the number of SAs based on the guidance provided under this policy. Minimum number of SA/(s) to be appointed by the Company shall be one for conducting statutory audit, if the Company’s asset size as on March 31 of previous year does not exceed ₹15,000 Crore. For asset size of ₹15,000 crores and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms. The Company shall ensure that joint auditors do not have any common partners and they are not under the SA me network of audit firms. The Company may finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SA. The number of SA s to be appointed for a financial year shall be decided, inter alia, taking into account the

relevant factors such as the size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, availability of other independent audit inputs, identified risks in financial reporting, etc. The actual number of SA's to be appointed shall be decided by Board subject to the following limits:

Asset Size of the Company	Maximum No. of Auditors
Upto ₹5,00,000 crore	4
Above ₹5,00,000 crore and upto ₹10,00,000 crore	6
₹10,00,000 crore and upto ₹20,00,000	8
Above ₹20,00,000 crore	12

Since the asset size of the Company is more ₹1,000 crores but lesser than ₹10,000 crores as on the last reporting period i.e., March 31, 2021, the Company must appoint at least one (1) SA and a maximum four (4) joint SAs can be appointed if required.

7. Minimum Eligibility Criteria of Auditors

In accordance with the RBI circular, since the Company's asset size is more than 1,000 crores and less than ₹15,000 crores, the audit firms shall fulfil the following minimum criteria for being eligible to be considered for appointment as SA of the Company:

- i) Minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years should be three.
- ii) Out of total FTPs, minimum number of fellow chartered accountant (FCA) partners associated with the firm for a period of at least three years should be two.
- iii) Minimum number of full-time partners / paid Chartered Accountants (CAs) with Certified Information System Auditor (CISA) / ISA qualification should be one.
- iv) Minimum number of years of relevant audit experience of the firm should be eight. The relevant audit experience would be experience of the firm as statutory / branch auditors of Banks / NBFCs / AIFI, and
- v) Minimum number of professional staff should be twelve. Along with the criteria as specified by the RBI, the Company shall appoint the SA's, meeting the criteria as per section 141 of the Companies Act, 2013.

8. Tenure and Rotation

As per the provisions of the Companies Act, 2013 SA can be appointed for two terms consisting of five years each. However, as per the RBI Circular, in order to protect the independence of the auditor's/audit firms, the Company shall appoint the SAs for a continuous period of 3 years, subject to the SA satisfying the eligibility norms each year. If the Company removes SAs before completion of 3 years of tenure, it shall inform Bangalore Regional Officer at RBI about the same, along with the reasons / justification within a month of such decision being taken. The Company will not reappoint an audit firm for six years after the completion of full or part of one term of the audit tenure. RBI being the sectoral regulator, the Company shall appoint the SA as per the RBI guidelines.

9. Independence of the Statutory Auditors

9.1. The Audit Committee of the Board (ACB), shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. Any concerns in this regard may be flagged by the ACB to the Board of Directors of the Company and concerned Senior Supervisory Manager (SSM)/Mumbai Regional Office (MRO) of RBI.

9.2. In case of any concern with the Management of the Company such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SAs shall approach the Board/ACM of the Company, under intimation to the concerned SSM/RO of RBI.

9.3. Concurrent auditors of the Company will not be considered for appointment as SAs. The audit of the Company and any entity with large exposures to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.

9.4. The time gap between any non-audit work i.e. services mentioned at Section 144 of Companies Act, 2013, internal assignments, special assignments, etc. by the SAs of the Company or any audit/non-audit work for the Company's group entities should be at least one year, before or after its appointment as SAs.

However, during the tenure as SA, an audit firm may provide such services to the concerned entities, which may not normally result in a conflict of interest, and Company may take their own decision in this regard, in consultation with the Board/ACB.

9.5. The restrictions as detailed in para 9.3 and 9.4 above, shall apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

10. Procedure for Appointment of Statutory Auditors

The RBI circular prescribe the procedure for appointment of SAs, which includes the following:

- i) The Company shall shortlist minimum of two audit firms for every vacancy of SA.
- ii) The Company shall obtain a certificate from each of the audit firms proposed to be appointed as SAs that it complies with all the eligibility norms prescribed by RBI. Such certificate shall be duly signed by the main partner/s of the audit firm proposed for appointment under the seal of the said audit firm.
- iii) The ACB shall recommend the appointment of the SA to the Board and the Board shall recommend the same for the approval of the shareholders. The Shareholders shall appoint the SA except the first SA and the appointment of SA in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.

11. Professional Standards of Statutory Auditors:

The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence. The Board/ACB of the Company shall review the performance of SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SAs or any other matter considered as relevant shall be reported to RBI within two months from completion of the annual audit. Such reports should be sent with the

approval/recommendation of the Board/ACB, with the full details of the audit firm. In the event of lapses in carrying out audit assignments resulting in misstatement of financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SAs in relation to the Company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

12. Audit Fee and Expenses:

The Company shall ensure that the audit fees of the Company shall be reasonable and commensurate with the scope and coverage of audit, size and spread of assets, accounting and administrative units, complexity of transactions, level of computerisation, identified risk in financial reporting, etc. The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.

13. Review of the Policy:

This Policy shall be reviewed as and when deemed necessary and will be submitted to the Board for its approval on the recommendation of the ACB. In case there are any regulatory changes requiring modifications to the Policy, the Policy shall stand modified in accordance with regulations.
