



## American Express Banking Corp. Policy

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| <b>Policy Reference &amp; Name</b> | : | <b>AEBC 4.26 India Statutory Auditor Appointment Policy</b>   |
| <b>Effective Date</b>              | : | <b>June 29, 2022</b>  |
| <b>Policy Sponsor</b>              | : | <b>India Branch CEO</b>   |
| <b>Policy Custodian</b>            | : | <b>AEBC India Branch Controller</b>   |
| <b>Policy Overseer</b>             | : | <b>AEBC Controller</b>  |
| <b>Approval Requirement</b>        | : | <b><u>Approval Level Required: Level 1</u></b><br>Level 1: AEBC Board of Directors<br>Level 2: AEBC India CEC<br>Level 3: N/A<br>Level 4: Policy Signatories            |
| <b>Level 4 Policy Signatories</b>  | : | 1. Policy Sponsor – India Branch CEO<br>2. Policy Overseer – AEBC Controller  |
| <b>Policy Scope</b>                | : | The India Statutory Auditor Appointment Policy is applicable to AEBC India for appointment of statutory auditors for India Branch in accordance with the RBI guidelines |
| <b>Next Scheduled Review</b>       | : | <b>June 2023</b>  |
| <b>No Later Than</b>               | : | <b>December 2023</b>  |
|                                    | : |   |



# American Express Banking Corp. Policy

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**Changes to Previous Policy:** Policy updated with Formatting Changes and recent changes to designations

## Table of Contents

|      |  |   |
|------|--|---|
| 1.0  | OVERVIEW AND PURPOSE.....                                  | 3 |
| 2.0  | POLICY SCOPE .....   | 3 |
| 3.0  | KEY DEFINITIONS .....                                      | 3 |
| 4.0  | ROLES AND RESPONSIBILITIES.....                            | 3 |
| 5.0  | POLICY REQUIREMENTS.....                                   | 4 |
| 6.0  | POLICY EXCEPTION/CONFLICT/INTERPRETATION RESOLUTION .....  | 7 |
| 7.0  | POLICY APPROVAL REQUIREMENTS.....                          | 7 |
| 8.0  | ENFORCEMENT OF ISSUED POLICIES AND PROCEDURES .....        | 7 |
| 9.0  | POLICY IMPLEMENTATION .....                                | 8 |
| 10.0 | RELATED POLICIES, GUIDELINES AND SUPPORTING DOCUMENTS..... | 8 |
| 11.0 | POLICY REVISION HISTORY .....                              | 8 |
| 12.0 | POLICY APPENDICES.....                                     | 9 |



## 1.0 OVERVIEW AND PURPOSE

The purpose of this India Statutory Auditor Appointment Policy (hereinafter referred to as “the Policy”) is to ensure that the Bank appoint auditors for annual statutory audit of AEBC India Branch in adherence to RBI Circular ‘Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)’ dated April 27, 2021.

## 2.0 POLICY SCOPE

This Policy is applicable to AEBC India for compliance towards Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) issued by RBI.

## 3.0 KEY DEFINITIONS

- Asset size means total assets
- Network of audit firms as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014
- Group entities shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above
- Words and expressions used in this Policy and not defined herein but defined in the RBI circular shall have the meaning respectively assigned to them in the RBI circular

## 4.0 ROLES AND RESPONSIBILITIES

### **AEBC India Country Executive Committee (CEC):**

- Ensure that management comply with the policy requirements
- Decide actual number of Statutory auditors to be appointed as per defined limits
- Approve the shortlisted firms as statutory auditors of AEBC India Branch and the audit fees
- Assess any concerns related to the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices
- Review the performance of Statutory auditors on an annual basis and report any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory auditors or any other matter considered as relevant to RBI within two months from completion of the annual audit
- Review and approve the content of the policy

### **AEBC Controller:**

- Oversee implementation of this policy and ensure communication and procedures to ensure compliance
- Recommend any changes and updates to the policy as required by regulations

## AEBC India Branch Controller:

- Ensure communication and procedures to comply with the requirements of the policy
- Shortlist firms for appointment as statutory auditors of AEBC India Branch and make recommendation to AEBC India CEC along with the audit fees
- Raise any concerns related to the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices to AEBC India CEC
- Review the performance of Statutory auditors on an annual basis and raise any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory auditors or any other matter considered as relevant to AEBC India CEC from completion of the annual audit
- Recommend any changes and updates to the policy as required by regulations

## 5.0 POLICY REQUIREMENTS

- a) **Prior Approval of Reserve Bank of India (RBI):** Bank shall take prior approval of RBI (Department of Supervision) for appointment/reappointment of Statutory auditors, on an annual basis in terms of the requirements given in the policy. For this purpose, Bank shall apply to Department of Supervision, RBI before 31st July of the reference year.

ii) For this purpose, Bank shall approach the Central Office of RBI (Department of Supervision).

b) **Number of Statutory auditors and Branch Coverage:**

- If asset size (total assets) is ₹15,000 crore and above as at the end of previous year, the statutory audit shall be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)] otherwise it shall be conducted by one audit firm
- It shall be ensured that joint auditors of the Entity do not have any common partners and they are not under the same network (As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) of audit firms
- Bank may finalize the work allocation among Statutory auditors, before the commencement of the statutory audit, in consultation with Statutory auditors
- The appointment of actual number of Statutory auditors shall be decided by the AEBC India Country Executive Committee (CEC), subject to the following limits:

| S. No. | Asset Size of the Entity                            | Maximum number of Statutory auditors |
|--------|---|--------------------------------------|
| 1.     | Up to ₹5,00,000 crore                               | 4                                    |
| 2.     | Above ₹ 5,00,000 crore and up to ₹ 10,00,000 crore  | 6                                    |
| 3.     | Above ₹ 10,00,000 crore and up to ₹ 20,00,000 crore | 8                                    |
| 4.     | Above ₹ 20,00,000 crore                             | 12                                   |

- The above limits have been prescribed by RBI to ensure that the number of Statutory auditors appointed by the Bank are adequate, commensurate with the asset size and extent of operations of the Entities, with a view to ensure that audits are conducted in a timely and effective manner



- vi) Statutory auditors shall visit and audit at least the Top 20 branches/Top 20% of the branches of the Bank (in case of Entities having less than 100 branches), to be selected in order of the level of outstanding advances, in such a manner as to cover a minimum of 15% of total gross advances of the Bank. In addition, the Bank shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

**c) Eligibility Criteria of Auditors**

Bank shall appoint audit firm(s) as its statutory auditors fulfilling the eligibility norms as prescribed in appendix.

**d) Independence of Auditors**

- i) Bank 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 to the AEBC India CEC of the Bank and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- ii) Concurrent auditors of the Bank shall not be considered for appointment as Statutory auditors of the Bank. The audit of the Entity and any entity with large exposure (As defined in RBI instructions on 'Large Exposures Framework') to the Bank for the same reference year shall also be explicitly factored in while assessing independence of the auditor.
- iii) The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the Statutory auditors for the Bank or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as Statutory auditors. However, during the tenure as statutory auditor, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest, and Bank may take their own decision in this regard, in consultation with the AEBC India CEC.
- iv) A conflict would not normally be created in the case of the following special assignments (indicative list): (i) Tax audit, tax representation and advice on taxation matters, (ii) Audit of interim financial statements, (iii) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements, (iv) reporting on financial information or segments thereof
- v) The restrictions as detailed in para d) iii) and iv) above, should also apply to an audit firm under the same network (As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) of audit firms or any other audit firm having common partners.

**e) Professional Standards of Statutory auditors**

- i) The Statutory auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- ii) The AEBC India CEC shall review the performance of Statutory auditors on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory auditors 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 AEBC India CEC, with the full details of the audit firm.
- iii) In the event of lapses in carrying out audit assignments resulting in misstatement of Bank's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and

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responsibilities of the Statutory auditors in relation to Entities, the Statutory auditors would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

**f) Tenure and Rotation**

- i) Bank shall appoint the Statutory auditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, Bank can remove the audit firms during the above period only with the prior approval of the concerned office of RBI (Department of Supervision), as applicable for prior approval for appointment, as mentioned at Para 5.0 a) of this policy.
- ii) An audit firm would not be eligible for reappointment in the Bank for six years (two tenures) after completion of full or part of one term of the audit tenure.
- iii) In case an audit firm has conducted audit of the Bank for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the Bank for six years from completion of part-tenure.

**g) Audit Fees and Expenses**

- i) The audit fees for Statutory auditors of the Bank shall be decided in terms of the relevant statutory/regulatory provisions.
- ii) The audit fees for Statutory auditors of the Bank 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 computerization, identified risks in financial reporting, etc.
- iii) The AEBC India CEC shall approve audit fees of Statutory auditors.

**h) Procedure for Appointment of Statutory auditors**

- i) Bank shall shortlist minimum of 2 audit firms for every vacancy of Statutory auditors so that even if firm at first preference is found to be ineligible/refuses appointment, the firm at second preference can be appointed and the process of appointment of Statutory auditors does not get delayed. However, in case of reappointment of Statutory auditors by bank till completion of tenure of continuous term of 3 years, there would not be any requirement of shortlisting and sending names of multiple audit firms to RBI while seeking approval to appointment.
- ii) The Bank shall place the name of shortlisted audit firms, in order of preference, before AEBC India CEC for selection as Statutory auditors. Upon selection of Statutory auditors by the bank in consultation with AEBC India CEC and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of Statutory auditors.
- iii) The Bank shall obtain a certificate, along with relevant information as per Form I as given in the appendix, from the audit firm(s) proposed to be appointed as Statutory auditors by the Bank to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment of Statutory auditors of the Bank, under the seal of the said audit firm.
- iv) The Banks shall verify the compliance of audit firm(s) to the eligibility norms prescribed by RBI for the purpose and after being satisfied of their eligibility, recommend the names along with a certificate, in the format as per Form II as given in the appendix, stating that the audit firm(s) proposed to be appointed as statutory auditor by them comply with all eligibility norms prescribed by RBI for the purpose.
- v) While approaching the RBI for its prior approval for appointment of Statutory auditors, Bank shall indicate their total asset size as on March 31st of the previous year (audited figures) and recommend



names of audit firms for appointment as Statutory auditors in the order of preference and also furnish information as per Form I and Form II as given in the appendix, to facilitate expeditious approval of appointment/re-appointment of the concerned audit firm.

## 6.0 POLICY EXCEPTION/CONFLICT/INTERPRETATION RESOLUTION

It is the responsibility of every individual subject to this policy to escalate to the Policy Sponsor or Policy Overseer any conflicts, interpretation issues, or policy gaps/inadequacies associated with AEBC Policies.

All requests for exceptions to policies, or the related procedures, must be formally approved by the Policy Approvers, as outlined in Section 7.0 of this Policy. Exception requests must include an Action Plan and Rationale and must carry either an Expiration or Review Date. Any identified exception to a policy that has not yet been approved must be escalated to the respective Policy Overseer immediately. Approved policy exceptions do not constitute policy non-compliance.

It is the responsibility of the Policy Sponsors to define their Policy's Exception / Conflict / Interpretation Resolution Requirements. The Policy Custodian (Owner) will maintain documentation of all exceptions and will regularly review these exceptions to assess whether a policy change is required and to ensure ongoing policy compliance.

The AEBC Chief Operating Officer and Head – Business Regulatory Projects and Banking Operations retains the authority to resolve conflicts surrounding policy management and policy framework, with appropriate AEBC leadership, should they arise.

## 7.0 POLICY APPROVAL REQUIREMENTS

This policy must be reviewed and approved by the AEBC Board of Directors at least annually. Additional reviews could be triggered by major changes in corporate strategy, the regulatory environment or financial market conditions.

Prior to each review by the AEBC Board, this policy, and any proposed changes in this policy, should be reviewed by the AEBC India CEC.

### Approval Level

|         |  |
|---------|--|
| Level 1 | AEBC Board of Directors  |
| Level 2 | AEBC India CEC   |
| Level 3 | N/A  |
| Level 4 | Policy Sponsor – India Branch CEO<br>Policy Overseer – AEBC Controller |

## 8.0 ENFORCEMENT OF ISSUED POLICIES AND PROCEDURES

All employees and agents of AEBC are responsible for complying with applicable official policy, procedure or a standard/program. AEBC Senior Management and Officers are ultimately responsible for ensuring adherence to policy within AEBC. Internal auditors and control groups, as applicable, will review compliance with policy and procedure. **Noncompliance with issued policies or procedures is a breach of the terms of employment and may lead to disciplinary actions which may include termination of employment, or third-party agreement.**



AEBC Policies do not take precedence over local law, yet still must be aligned to management policy requirements.

## 9.0 POLICY IMPLEMENTATION

Management will oversee that procedures necessary to implement this policy are established for AEBC India.

The policy is effective as of the date on the cover page.

## 10.0 RELATED POLICIES, GUIDELINES AND SUPPORTING DOCUMENTS

The following is a list of related policies and related guidelines:

- RBI Circular 'Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)' dated April 27, 2021

## 11.0 POLICY REVISION HISTORY

|                          |               |
|--------------------------|---------------|
| Previous Approval Dates: | July 30, 2021 |
| Current Approval Date:   | June 29, 2022 |



## 12.0 POLICY APPENDICES

### Eligibility Criteria for Appointment as statutory auditor

#### A. Basic Eligibility

| Asset Size of the Bank as on 31st March of Previous Year | Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years [Note 1] | Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least three (3) years | Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification [Note 2] | Minimum No. of years of Audit Experience of the firm [Note 3] | Minimum No. of Professional staff [Note 4] |
|--|---|--|--|---|--|
| Above ₹15,000 crore                                      | 5   | 4  | 2  | 15  | 18   |
| Above ₹ 1,000 crore and Up to ₹15,000 crore              | 3   | 2  | 1  | 8   | 12   |
| Up to ₹1,000 crore                                       | 2   | 1  | 1  | 6   | 8  |

**Note 1:** There should be at least one-year continuous association of partners with the firm as on the date of shortlisting for considering them as full time partners. Further, for appointment as statutory auditors of the Bank with asset size above ₹ 1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

For Bank with asset size above ₹ 1,000 crore, the full-time partner's association with the firm would mean exclusive association. The definition of 'exclusive association' will be based on the following criteria:

- The full-time partner should not be a partner in other firm/s.
- She/He should not be employed full time / part time elsewhere.
- She/He should not be practicing in her/his own name or engaged in practice otherwise or engaged in other activity which would be deemed to be in practice under Section 2(2) of the Chartered Accountants Act, 1949.
- Bank shall obtain undertaking from the firm that the income of the partner from the firm/LLP is adequate for considering them as full-time exclusively associated partners, which will ensure the capability of the firm for the purpose.

#### **Note 2:** CISA/ISA Qualification:

There should be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of shortlisting for considering them as Paid CAs with CISA/ISA qualification for the purpose.

#### **Note 3:** Audit Experience:



# American Express Banking Corp. Policy

Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ AIFIs. In case of merger and demerger of audit firms, merger effect will be given after 2 years of merger while demerger will be effected immediately for this purpose.

## **Note 4: Professional Staff**

Professional staff includes audit and article clerks with knowledge of book-keeping and accountancy and who are engaged in on-site audits but excludes typists/stenos/computer operators/ secretaries/subordinate staff, etc. There should be at least one-year continuous association of professional staff with the firm as on the date of shortlisting for considering them as professional staff for the purpose.

## **B. Additional Consideration**

(i) The audit firm, proposed to be appointed as statutory auditor for the Bank, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.

(ii) The audit firm should not be under debarment by any Government Agency, National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators.

(iii) The Bank shall ensure that appointment of statutory auditors is in line with the ICAI's Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.

(iv) If any partner of a Chartered Accountant firm is a director in the entity, the said firm shall not be appointed as statutory auditor of any of the group entities of that Entity. Group entities shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above.

(v) The auditors for Bank with asset size above ₹1,000 crore should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS), commensurate with the degree/ complexity of computer environment of the Bank where the accounting and business data reside in order to achieve audit objectives.

## **C. Continued Compliance with basic eligibility criteria**

In case any audit firm (after appointment) does not comply with any of the eligibility norms (on account of resignation, death etc. of any of the partners, employees, action by Government Agencies, NFRA, ICAI, RBI, other Financial Regulators, etc.), it may promptly approach the Bank with full details. Further, the audit firm shall take all necessary steps to become eligible within a reasonable time and in any case, the audit firm should be complying with the above norms before commencement of Annual Statutory Audit for Financial Year ending 31st March and till the completion of annual audit.

In case of any extraordinary circumstance after the commencement of audit, like death of one or more partners, employees, etc., which makes the firm ineligible with respect to any of the eligibility norms, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.



# American Express Banking Corp. Policy

## Form I: Eligibility Certificate from (Name and Firm Registration Number of the firm)

### A. Particulars of the firm:

| Asset Size of Entity as on 31st March of Previous Year                   | Number of Full-Time partners (FTP)s associated* with the firm for a period of three (3) years | Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years | Number of Full Time Partners/ Paid CAs with CISA/ISA Qualification | Number of Years of Audit Experience# | Number of Professional staff |
|--|---|--|--|--------------------------------------|------------------------------|
|  |   |  |  |                                      |                              |
| *Exclusively associated in case of asset size of more than ₹ 1,000 crore |   |  |  |                                      |                              |
| #Details may be furnished separately for experience as SCAs/SAs and SBAs |   |  |  |                                      |                              |

### B. Additional Information:

- Copy of Constitution Certificate.
- Whether the firm is a member of any network of audit firms or any partner of the firm is a partner in any other audit firm? If yes, details thereof.
- Whether the firm has been appointed as SCA/SA by any other Commercial Bank (excluding RRBs) and/or All India Financial Institution (AIFI)/RBI/NBFC/UCB in the present financial year? If yes, details thereof.
- Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- Details of disciplinary proceedings etc. against firm by any Financial Regulator/Government agency during last three years, both closed and pending.

### C. Declaration from the firm

The firm complies with all eligibility norms prescribed by RBI regarding appointment of SCAs/SAs of Commercial Banks (excluding RRBs)/UCBs/NBFCs (as applicable). It is certified that neither I nor any of our partners / members of my / their families (family will include besides spouse, only children, parents, brothers, sisters or any of them who are wholly or mainly dependent on the Chartered Accountants) or the firm / company in which I am / they are partners / directors have been declared as wilful defaulter by any bank / financial institution.

It is confirmed that the information provided above is true and correct.

Signature of the Partner

(Name of the Partner)

Date:

## Form II: Certificate to be submitted by the Bank regarding eligibility of audit firm proposed to be appointed as Statutory Auditor

The Bank is desirous of appointing M/s \_\_\_\_\_, Chartered Accountants (Firm Registration Number \_\_\_\_\_) as Statutory Auditor for the financial year \_\_\_\_\_ for their 1st/2nd/3rd term and therefore has sought the prior approval of RBI as per the section 30(1A) of the Banking Regulation Act, 1949/ Section 10 (1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980/ Section 41(1) of SBI Act, 1955.



## American Express Banking Corp. Policy

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2. The bank has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Auditor of the bank for FY \_\_\_\_\_ along with relevant information (copy enclosed), in the format as prescribed by RBI.
  3. The firm has no past association/association for \_\_\_\_\_ years with the bank as Statutory Central Auditor / Statutory Auditor / Statutory Branch Auditor.
  4. The Bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of statutory auditors of Commercial Banks.

Signature  
(Name and Designation)  
Date: