

2019

Governance Risk and Compliance Policy

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Governance Risk and Compliance Policy

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SECTION-I: Corporate Governance

1. Introduction and Objective:

A best practice on governance issues is an evolutionary and continuing process. Corporate Governance practice embodies the dual goals of protecting the interests of all stakeholders while respecting the duty of the Board and senior management to oversee the affairs of the company, ensure accountability, inculcate integrity and promote long-term growth and profitability.

Reserve Bank of India issues guidelines on Corporate Governance to Non- Deposit taking NBFCs in order to enable the adoption of best practices and greater transparency in their operations. In view of the RBI Guidelines and the Companies Act, 2013 the Company lays down the following set of guidelines / corporate governance practices to create value for the stakeholders viz. the shareholders, employees, customers, society at large etc.

The affairs of the Company shall be conducted with integrity, fairness, accountability and transparency. All commitments in its dealings with stakeholders and regulatory authorities shall be met. This policy applies to all employee, core/senior management and Board of Directors of Kirloskar Capital Limited (KCL)

2. Board of Directors:

- Board of the Company shall be constituted as per Companies Act-2013 and it shall adhere to the requirements of the Companies Act 2013 (as applicable) from time to time. The Board of Directors have overall responsibility of overseeing Management's work and monitoring it to ensure that it contributes to objectives and vision of the Company.
- Apart from being responsible for providing oversight of senior management, Board is responsible to ensure that Company is compliant of all applicable law, rules and regulations. Board needs to ensure a culture of good governance within the Company.
- Board members should be and remain qualified, individually and collectively, including through training, for their positions. They should understand corporate governance role and should be able to exercise sound, objective judgment about the affairs of the Company.
- The Board of Directors shall conduct meetings every quarter and the gap between two Board Meetings shall not exceed 120 days, the Directors to attend Board meetings regularly and participate in the deliberations and discussions effectively, in case the same is not possible for any Director to attend the meeting the absence shall be communicated to the Board either orally or in writing for unavailability.
- The Board of Directors shall study the Board papers/notes and enquire on the status of matters raised in previous meetings.

- The Board of Directors shall review and approve policies of KCL
- The Board of Directors shall ensure that employees are given adequate autonomy within a well- defined and controlled operational framework to discharge their responsibilities and perform their duties in a disciplined manner with utmost integrity and good conduct.
- Establish risk management system to manage the exposure arising from various risks applicable to companies.
- Ensure that the IT systems in place are appropriate and establishes strategy and policies for the protection of data and assets of the Company.

3. Committees under Board of Directors:

With the objective of attaining accountability, transparency and fairness, following Committees are specifically constituted by the Board for the below mentioned purposes to act in accordance with the terms of reference specified by the Board:

Committees	Functions	Members	Requirements	Periodicity of Meetings
Asset Liability Management Committee (ALCO)	<ul style="list-style-type: none"> • Attend to aspects relating to Asset Liability Management; • Ensuring adherence to the Risk Management Policies approved by the Board/ Committees of the Board; • Monitor the asset liability gap and strategize action to mitigate the risk associated 	ALCO to comprise the following: CEO MD Head of Finance Head of Treasury	Mandatory	ALCO and Risk committee should meet on quarterly basis or as may be decided by the Members

Corporate Social Responsibility Committee (CSR)	<ul style="list-style-type: none"> ● Attend to aspects relating to Corporate Social Responsibility ● Ensuring adherence to the CSR provisions lead down in the Policies approved by the Board / Committees of the Board/Companies Act and it's Rules; ● Monitor the activities of CSR along with determining the CSR expenditure and the activities to be undertaken are as per the Companies Act, 2013 and Rules 	CSR Committee to comprise of Board of Directors	Mandatory	The Committee should meet on quarterly basis or as may be decided by the Members
Credit Committee	<ul style="list-style-type: none"> ● Approving of lending criteria ● Approving new financial products, if any ● Review and monitoring of portfolio mix ● Scrutinizing the loan proposals and if satisfied approving the sanction of the loan proposal. ● Approving any changes/variations in the loan amount, tenor, interest rates and security structure ● Approving credit write offs ● Perform such other allied functions as may be required from time to time. 	<ol style="list-style-type: none"> 1. Mr. Mahesh Chhabria 2. Mr. Vimal Bhandari 3. Mr. Nihal Kulkarni 4. Mr. Rahul Kirloskar 	Not Mandatory Committee. The Committee to form for Operational convenience	The Committee shall meet at such intervals as is required

Statutory Compliance Certificate shall be placed by the Compliance officer at regular intervals ensuring that all the laws applicable to the company are complied with.

Head Finance also needs to place a certificate on half yearly basis that books of accounts are maintained and financial statement are prepared according to applicable law, accounting standards, rules, regulations and there exist a system of internal control over financial reporting.

4. Connected Lending Relationships:

- The Company shall comply with the RBI Regulations/ requirements and as per the Companies Act, 2013 and the Rules on lending to Directors, their relatives or Directors of other Companies and their relatives and other entities.
- KCL shall ensure that it collects information from all the Directors individually, to the effect that he is a Director or a member of a specified body corporate or a firm and hence he is to be regarded as concerned or interested in or interested in any contract or arrangement which may, after the date of the notice, be entered into with that body corporate or firm.
- It shall be ensured that such notice of disclosure of interest is submitted by all the Board of Directors by the mid of April every financial year and as and when any change in their interest arises. The concerned Director shall ensure that such general notice or renewal thereof is brought upon and read at the first meeting of the Board before the Notice of such Board Meeting is issued and the said disclosures shall be in the formats as per Section 164 and 184 of the Companies Act, 2013 and Rules as may be laid down from time to time.
- KCL shall not grant any loan on any non-market parameter, advance or non-fund based facility or any other financial accommodation / facility to:-
 - The Directors or their relatives
 - to any firm in which any of its Directors is interested as Partner/ Manager
 - Employee or Guarantor in respect of whom any of its Directors is a Guarantor.
 - any company of which, or the subsidiary or the holding company of which, any of the Directors of the company is a Director, Managing Agent, Manager, Employee, or Guarantor or any firm in which they (said Directors of the company) hold substantial interest
 - the Directors shall take approval of its members/shareholders if the Directors are giving a loan, guarantee, investments to its group, Directors, relatives and or any related entity. The Directors shall ensure to inform the RBI of the same.

5. Additional Guidelines:

In addition to the above KCL shall follow the following guidelines for due compliance:

- All the employees of KCL are obliged to carry out their duties in an honest, fair, diligent and ethical manner, within the scope of the authority conferred upon them and in accordance with the laws, rules, regulations, agreements, guidelines, standards and internal policies and procedures.

- The Board of Directors of the Company is entrusted with the fiduciary responsibility of oversight of the affairs of the Company. As Directors of the Company, they have a duty to make decisions and implement policies in the best interest of the Company and its Stakeholders.
- The Directors & Senior Management personnel are required to act in accordance with the highest standards of personal and professional integrity, honesty, ethical and legal conduct, when acting on behalf of the Company or in connection with the Company's business or operations and at social events. An honest conduct is considered as such when a conduct is free from fraud or deception. KCL considers ethical conduct to be confirming to the accepted professional standards of conduct and include ethical handling of actual or apparent conflicts of interests between personal and professional relationships.
- The Directors and the Senior Management personnel shall:
 - Act honestly, fairly, ethically, with integrity and loyalty and conduct themselves in a professional, courteous and respectful manner;
 - Act in the best interests of the Company and in a manner to enhance and maintain the reputation of the Company and fulfill their fiduciary duties towards the stakeholders of the Company.
 - Act in good faith, with responsibility, due care, competence, diligence and independence.
 - Treat their colleagues and other associates of the Company with dignity.
- The Directors and Senior Management personnel shall avoid and disclose any activity or association that creates or appears to create a conflict between the personal interest and the Company's business interest.
- A conflict of interest exists where the interest or benefits of one person or entity conflicts with the interests or benefits of the Company.
- Relationships with prospective or existing suppliers, contractors, customers, competitors or regulators must not affect the independent and sound judgment on behalf of the Company.
- The Directors and the Senior Management personnel are required to disclose to the Board any situation that may be, or appear to be, a conflict of interest.
- The Directors and Senior Management personnel shall not work for or receive payments for services from any competitor, customer, distributor or supplier of the Company without approval of the Board.

- The Directors and Senior Management personnel shall not use personal influence to make the Company do business with a company/institution in which his or her relatives are interested. As a rule, Directors and Senior Management personnel shall avoid conducting Company's business with a relative or with an entity in which a relative is associated in any significant role. In case of conflicts, disclosure shall be made to the Board of Directors and a prior approval of the Members/shareholders of the Company shall be obtained as per the applicable laws and regulations.
- No personnel shall accept gifts beyond value detailed in the clauses pertaining to gifts prescribed by KCL HR policy. Similar guidelines would be applicable to gratuities or any offer, payment, promise to pay, or authorization to pay any money, or anything of value that could be interpreted to adversely affect business decisions or likely to compromise their personal or professional integrity. Gift items of nominal value, such as small promotional items bearing another company's name, business meals, gifts received because of personal relationships and not because of official position, mementos received because of attending a widely held gatherings as panelist/speaker and other customary gifts are allowed. (Gifts are not always physical objects - they might also be services, favors or other items of value).
- The Directors and Senior Management personnel shall not divert business opportunities of the Company, by exploiting for their own personal gain, business opportunities that are discovered through the use of corporate propriety information or position. However, the Directors and Senior Management personnel can pursue such business opportunities once they are fully disclosed to the company and the Company declined to pursue such opportunities.
- The assets of the Company shall be used for legitimate business purposes and shall not be used for personal purposes. Incidental personal use, if reasonable does not amount to violation of these guidelines.
- It is the general obligation of the Directors to conduct the business and operations of the Company in accordance with the laws, rules, regulations, agreements, guidelines, standards including accounting standards governing its operations. The Directors and Senior Management personnel shall also comply with the internal policies and procedures of the Company to the extent applicable to them.
- It is the Company's policy to ensure continuous, timely and adequate disclosure of Company's information. The Company is committed to full, fair, accurate, timely and understandable disclosure in reports and documents; it files with or submits to the regulatory authorities and in other public communications.
- The Directors and Senior Management personnel shall provide only public information to the analyst/research person/large investors like institutions. The Directors and Senior Management personnel must maintain the confidentiality of information relating to the affairs of the Company until and unless authorized or

legally required to disclose such information; and shall not use confidential information for their personal advantage.

- The Directors and Senior Management personnel are obligated to deal fairly and honestly with each other, the Company's affiliates and with the Company's customers, suppliers, competitors and other third parties.
- The Directors and Senior Management personnel shall not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation or any other unfair dealing or practice. The Company is committed to free and open competition in the marketplace.
- The Directors and Senior Management personnel shall avoid actions that could reasonably be construed as being anti-competitive, monopolistic or otherwise contrary to laws governing competitive practices in the marketplace, including antitrust laws. Such actions include misappropriation and/or misuse of a competitor's confidential information or making false statements about the competitor's business and/or business practices.
- It is the duty and obligation of every Director and Senior Management personnel to comply with these internal guidelines on corporate governance. Any violation of these internal guidelines on corporate governance shall be reported to any member of the Board of the Company.
- The Personal Investments in any kind of Secondary Markets of every employee shall be approved as per the 'KCL's Insider Trading Policy'.

Guidelines on Know Your Customer and Anti Money Laundering Policy

- Company has adopted Know Your Customer (KYC) and Anti Money Laundering Policy (AML) policy as per the extant regulations prescribed by the Reserve Bank of India.
- The KYC & AML Policy provides a comprehensive and dynamic framework and measures to be taken in regard to Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT).

Section II: Risk Management

This is the policy relating to Risk Management which covers various aspects and procedure to follow in managing and identifying the various risk in the company.

1. Risk Segregation:

Risk management at the company shall have two elements

Regulatory Risk Compliance: KCL shall comply with and report on regulatory requirements on portfolio characteristics. While the overall risk management policy shall need to ensure compliance and reporting on these elements, it shall not be limited to meeting regulatory needs alone on;

- Corporate governance guidelines
- Risk and Asset liability committees and reporting

Overall Risk Management Policy: This shall form a policy for managing risk to meet business objectives. While core elements of the management team and the Board have deep experience with the deployment of capital in different forms and in managing attendant risks, this policy seeks to provide the basis for a common understanding of risk parameters and the mechanisms to mitigate them.

2. Roles and Responsibilities:

Overall risk management at KCL shall be carried out through oversight at different levels of the organization from the Board to elements of the Operating Team. The roles of the different elements of the risk organization and broad Delegation of Authority shall be set out by board time to time. Board shall conduct overall oversight and delegate authority to subordinate committees

3. Risk and Mitigation:

The said part is divided into various departments and the role and responsibility shall be on the part of the Head of the concerned departments only.

Compliance function:

A. Regulatory Risk

The company being an NBFC shall have exposure to risk related to non-compliance to regulatory guidelines, laws as applicable. Such non-compliance may result in levy of heavy penalties and fines by the regulator, as well as, reputational loss to the company. The risk can arise due to non-compliance to applicable guidelines and/or lack of monitoring and follow-up on the implementation of applicable laws.

Mitigation:

- The compliance and legal / secretarial department shall submit a compliance certificate post ensuring adherence to applicable laws on quarterly basis to the Risk Committee.

- The Board shall take note of the compliance certificate and Compliance officer shall report to Board in case of any material non-compliance.
- The Board shall do a regular review of risk and identify gaps if any and take corrective actions

Business Team (Retail/Wholesale) function:

B. Credit Risk

The company is subject to credit risk in terms of non-recovery of interest as well as principal amount of the money lent by the company to its customers. Such risk can arise due to inadequate documentation or evaluation of the borrower, default by the existing borrowers, external factors such as political volatility in the region of exposure concentration, amongst many other factors leading to loss of revenue for the company. The Company has set up a Credit Committee for approval of the lending in both Retail Operations and Wholesale lending, the decision by the Credit Committee shall be binding on the Business Department. The Credit Committee is empowered to deploy, monitor, manage the funds of the Company in terms of its charter as approved by the Board if the Company.

Mitigations

- The company has formed a Credit procedures and policy to address the risk.
- Continuous monitoring mechanism is developed by adopting various checks and controls in the process
- The Board of the Company is responsible for the approval of deployment of all the capital, divestments of loans/assets and shall take decisions on portfolio concentration.
- The Board of the Company shall also take note of any deviations and monitor the operational risk

Senior Management:

C. Operational Risk

Operational risk is the risk arising out of failure of internal process, people and systems put in place by the company. Such risk may also arise out of the external factors as well as internal control system failure defeating the core objective of the company operations.

D. Asset-Liability Management Committee (ALCO)

The ALCO monitors the asset liability composition of the Company's business and determines actions to mitigate risks associated with the asset liability mismatches in consultation with Credit Committee.

E. Risk Management Committee (RMC)

The RMC is responsible for setting up and reviewing integrated risk management policies of the Company from time to time.

Mitigations

- The company has drafted various Policies and set out Standard Operating Procedures as well as Risk Control Matrices for core and material business processes.
- The Employee Hand Book of the company sets out appraisal process which shall make every personnel responsible according the KPI / KRAs set out by the company.
- The company shall insure all the assets of the company including the KMPs through comprehensive evaluation of the value of such assets.
- The company through its internal audit and control system shall keep a check on all the business and supporting processes.
- KCL has made responsible the concerned business heads/management for storage and retention of records
- Internal review mechanism is in place to report all types of non-compliance
- In compliance with requirement of the new Companies Act 2013, the company has developed mechanism of risk control matrix to test the control and identify the gaps and take remedial measures.
- The company has leverage of cloud-based technologies. Company has developed detail IT policy to protect the data and take care of BCP/DRP.

F. Reputation Risk

The company being an NBFC is subject to reputational loss arising due to various other risks such as Regulatory non-compliance, Operational breakdown or Borrower Dissatisfaction.

Mitigations

- KCL has formed HR Policy in order to address any concerns of the employees internally.
- KCL has created Fair Practice Code which sets out the Grievance Redressal Mechanism in order to address customer concerns
- The fair practice code also ensures that the company does not rely upon any coercive activities in order to recover the money from borrowers.
- Head Finance and Compliance officer to monitor the media news, RBI or any regulatory notification on defaults or another matter which impacts the reputation of the KCL

G. Strategic Risk

The risk arising out of non-responsiveness of business in adapting to internal as well as external environment. Such risk arises when the business strategies are not flexible to factor in the macro factors.

Mitigations

- The Board and Risk Committee are made ultimate responsible authorities in order to ensure that the risk in the organization are mitigated as well as monitored.
- The Risk/ALCO committee are given responsibility of recommending the changes in the risk appetite of the company

H. Liquidity Risk

The risk arises due to asset liability mismatch. The inadequacy of the company in increasing its asset base, managing any unplanned changes in funding sources and meeting the financial commitments when required may result in non-liquidity.

Mitigations

- The company has drafted Asset Liability Management Policy in line with the RBI guidelines.
- The Asset Liability Management Committee (ALCO) is responsible for managing the risk arising out of exposures to interest rate changes and mismatches between assets and liabilities.

I. Contagion Risk

The risk arising due to probability of large-scale credit default by borrowers belonging to a particular geographical territory or state. Such default may arise due

to external factors such as political discourse, war-like situation, etc leading to moral hazard thereby escalating the risk of possibility of a default.

Mitigations

- The company has formed a Fair Practice Code which sets out Grievance Redressal Process in order to have a direct connect with customers.
- The Board of Director along with its committee is responsible for ensuring the portfolio divestment which shall include ensuring that there no credit concentration to specific geography.
- The company also has no significant credit concentration to any specific industry. It is sector agnostic.

4. Controls and Monitoring:

- The Board shall be responsible for overall implementation of this policy.
- The Head Finance shall be responsible for overall implementation on Internal Controls over Financial Reporting

Section III : Fraud Risk Management

- Frauds should be classified as under, based mainly on the provisions of the Indian Penal Code:
 - a. Misappropriation and criminal breach of trust
 - b. Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property
 - c. Unauthorized credit facilities extended for reward or for illegal gratification
 - d. Cheating and forgery
 - e. Irregularities in foreign exchange transactions.
 - f. Any other type of fraud not coming under the specific heads as above
- The MD/CEO along with the compliance officer (as and when appointed) should ensure that all frauds are reported to the Board promptly on their detection.
- Such reports should, among other things, take note of the failure on the part of the concerned officials, and consider initiation of appropriate action against the officials responsible for the fraud.
- Information relating to frauds for the quarters ending March, June, September and December should be placed before the Board of Directors during the month following the quarter to which it pertains.

- These should be accompanied by supplementary material analyzing statistical information and details of each fraud so that the Board would have adequate material to contribute effectively in regard to the punitive or preventive aspects of frauds.
- The following aspects should be taken into account while making such a review:
 - (i) Whether the systems in KCL are adequate to detect frauds, once they have taken place, within the shortest possible time
 - (ii) Whether frauds are examined from staff angle
 - (iii) Whether deterrent punishment is meted out, wherever warranted, to the person/s found responsible
 - (iv) Whether frauds have taken place because of laxity in following the systems and procedures and, if so whether effective action has been taken to ensure that the systems and procedures are scrupulously followed by the staff concerned
 - (v) Whether frauds are reported to local Police, as the case may be, for investigation.
- The annual reviews should also, among other things, include the following details:
 - Total number of frauds detected during the year and the amount involved as compared to the previous two years (if any)
 - Analysis of frauds according to different categories (if any) and different business areas (if any)
 - Modus operandi of major frauds reported during the year along with their present position
 - Detailed analyses of frauds of Rs. 1 lakh and above.
 - Estimated loss to KCL during the year on account of frauds, amount recovered and provisions made.
 - Number of cases (with amounts) where staff are involved and the action taken against staff
 - Time taken to detect frauds (number of cases detected within three months, six months and one year of their taking place)
 - Position with regard to frauds reported to Police.
 - Number of frauds where final action has been taken by KCL and cases disposed of.
 - Preventive/punitive steps taken by KCL during the year to reduce/minimize the incidence of frauds.
 - KCL Board of Directors shall be responsible overall requirement of fraud risk management guidelines issued by RBI guidelines from time to time.

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