

COMPLIANCE MANAGEMENT POLICY

Background

The Compliance Function has received a high level of attention from regulators worldwide. Compliance is an integral feature of a well- managed business, capable of creating value through enhanced reputation, investor confidence and lower cost of capital.

Scale based Supervision by RBI: RBI vide its Circular dated October 22, 2021, introduced the Scale based Regulation (SBR) applicable for NBFCs which comes into effect from October 01, 2022. The new approach requires NBFCs to comply with additional regulations based on the size of the NBFC. Subsequent directive from RBI required NBFCs to put in place a comprehensive Compliance Policy including appointment of a Chief Compliance Officer.

Accordingly, the Company is required to put in place a detailed Compliance Policy which should also take into account, as applicable, the legal and statutory rules and regulations, primarily that of Reserve Bank of India (RBI) and other relevant Statutory Authorities. The Policy provides the structure and lays down the main principles of the Company compliance norms, standards, and methodologies to follow. This policy is prepared in accordance with the relevant regulations.

1. Scope of the Policy

The Compliance Policy (hereinafter referred to as Policy), applies to the Company as a whole, and is one of the main procedures which all Company employees must apply, regardless of their responsibilities or area of activity.

It includes entity in whole, its branches, Corporate Office as well as the Head Office and such other premises as may be identified by the management from time to time. An "Employee" shall mean and include a natural person, who works within the Company on a permanent or temporary basis within the scope of an employment contract, secondment, service agreement, directly or in deputation.

This Policy is applicable to the management of all Compliance Risks in the Company as mentioned in the Risk management Policy of the Company including Financial Crime Risk, Regulatory Compliance Risk, Conduct Risk, and all associated risks.

2. Objective of the Policy

The Company operates in a highly regulated environment. It takes its obligations to comply with applicable laws, rules and regulations extremely seriously, including the spirit of the law. Demonstrating compliance is a core part of how the Company does business, which is critical to maintaining the trust of the customers and protecting the interests of the stakeholders.

The Compliance Policy sets the principles and standards for managing Compliance Risks across all the business units and also describes key roles and responsibilities of the independent Compliance function in supporting the Company to remain compliant with applicable laws, rules, and regulations.

The Policy aims primarily at:

- the development of a high-level culture of compliance adherence by all the employees,
- sustaining the effectiveness and efficiency of the Company's compliance framework,
- thereby ensuring compliance with all relevant laws, regulations and internal policies.

3. Policy statement

The policy subscribes to the following principles: -

- The company shall be responsible for implementing appropriate systems processes and controls to identify and manage compliance risks
- The Senior management team/all Key Managerial Persons shall be responsible for following up on the conclusions and recommendations from the Compliance Department /CCO and wherever appropriate for implementing corrective measure
- The Company shall conduct its activities in adherence with the applicable law, rules regulations and risk tolerance set by the Board to manage compliance risks
- In undertaking activities, the company is exposed to Compliance risk which is an inherent element of doing business and as such must be considered when developing and executing its business strategy

4. Managing Compliance: Guiding principles

Managing Compliance entails diverse processes encompassing various procedures including but not limited the following:

- Identifying and tracking compliance requirements involved in the conduct of business operations
- Devising and designing appropriate Governance directives by way of policies and procedures for all the impacting departments to follow
- Tracking observance of the directives by all impacting departments and staff through appropriate monitoring programs.
- Monitoring efficiency of monitoring programs to know if they are adequate, breaches and addressing them in a timely manner
- Tracking additional compliance requirements from regulators on an ongoing basis
- Balancing business objectives with strong compliance grounding
- Manage and report compliance risk in all its operational, business and functional areas including the IT compliance requirements

Compliance function seeks to achieve these tasks with the help of the following guiding principles;

Principle 1. All employees are responsible for maintaining a strong compliance culture

Principle 2: The company conducts its business in line with a sound risk mitigating approach for Regulatory Compliance covering all risks that its operations are exposed

Principle 3: The Board and Senior management takes appropriate measures and provides adequate resources to enable the Company Compliance to undertake its legal and regulatory responsibilities and maintain its independence

Principle 4: Compliance provides primary oversight of Regulatory compliance, Financial Crime and Conduct related Risks and performs its responsibilities independently

Principle 5: Company's Compliance establishes and maintains an independent governing framework for the management of Regulatory Compliance and other related compliance requirements consistent with the company's Risk Management framework and policies

Principle 6: The Company's Compliance establishes and maintains Governing Information by way of policies and procedures and also undertakes compliance risks assessment for the management of Regulatory Compliance, Financial Crime and Conduct related Risks

Principle 7: Compliance function performs monitoring and testing activities for Regulatory Compliance, Financial Crime and Conduct Risks besides providing training on these topics.

Principle 8: Compliance function shall engage, cooperate and communicate with Regulators openly, and transparently

Principle 9: CCO shall be a part of significant decisions, processes, major changes (including systems) and the approval of new and amended products

Principle 10: Compliance shall be responsible for the conflicts of interest framework and resolving/escalating the same

Principle 12: Compliance is responsible for independent reporting on matters relating to Regulatory Compliance, Financial Crime and Conduct Risks

5. Setting a Strong Compliance structure across the Company

A strong Compliance culture means all employees and others acting for or on behalf of the Company understand the Compliance requirements (and the risks if they are not observed) relevant for their respective roles and are empowered to take steps to ensure that the Company remains compliant with applicable laws, rules and regulations and governing guidelines/policies.

- Board and Senior management set the basic tone for a strong Compliance culture and for continuously promoting, monitoring, and assessing the impact on the Group's financial stability, risk profile and governance arrangements. Employees in a managerial role have special responsibilities for reinforcing a strong Compliance Culture within their teams.
- Employees should understand how to perform their respective roles in line with applicable laws, rules, regulations and Governing policies and sop. Employees are empowered to always put compliance first, in performing their respective roles, and will be held accountable for their actions.
- Decision-making processes to encourage a broad range of views, allow for challenging current practices, and stimulate a constructive and critical attitude. Employees should feel empowered to raise concerns in an open and constructiveway
- Appropriate incentives should play a key role in aligning risk-taking behaviour with the Group's risk profile and long-term interests

6. Compliance management norms

The beginning of any Compliance Function in the Company is derived from the rules and regulations issued by the regulators, mainly RBI, RoC, MCA etc. from time to time and also the relevant statutory directions as issued by the competent authorities and/or the rules or laws as applicable to the Company based on the nature of business/operations being carried out.

Such directions are normally issued in the form of Circulars, Notices, Communications (letter, newspaper or other visual mediums) etc. or through notification in the Official Gazette of the Nation.

Efforts are made to update such announcements on an ongoing basis to be included in the Compliance Calendar of the Company, earmarked for compliance. Steps in

this regard include:

- a) Identification of compliance responsibilities/duties.
- b) Seeking clarifications from the issuing authority in case of any ambiguity in the directions issued.
- c) Fixation of relevant responsibilities.
- d) Communicating the concerned personnel or Department on the recent announcements/ developments.
- e) Follow up with the concerned personnel/Department to ensure compliance.
- f) Extend all necessary support functions to the concerned personnel/Department to comply with the directions.
- g) Design system based controls wherever possible.
- h) Initiate amendments to the existing internal guidelines/ circulars if necessary or issue fresh guidelines or circulars to spread awareness on the subject/topic to all concerned.
- i) Initiate steps to include the newly issued Directions or changes thereof in the training materials of the Company and sessions to be held by the Compliance Function taking into consideration the relevance and intended audience so far as the directions are concerned.
- j) Follow up the outstanding issues on an ongoing basis to ensure the directions are compiled within the defined time frames.
- k) Include the said directions in the periodic review processes being performed by the Compliance Department.
- l) Furnish the management with adequate information/updates on the compliance status of the Company, steps initiated towards being complied and bring to the notice of the management/board the additional requirements for being complied, if any.

7. Compliance Program

The Company shall carry out an annual Compliance risk assessment in order to identify and assess major Compliance Risks faced by the Company and prepare a plan to manage the risks. An annual review is to be carried out by the senior management of the Company which shall ensure coverage of the relevant compliance norms.

8. The Compliance control system – Permanent and Periodic controls

Permanent Control is an overall system set up to permanently control risks and monitor the execution of strategic actions. It is based on policies, procedures, processes and control plans and involves organizational measures, controls and governance.

These controls are carried out:

- firstly, by and under the responsibility of operating staff (level-1 controls) and
- secondly, by independent functions, within or outside the entities (level-2 controls), and
- thirdly, by the Audit Dept (level-3 controls)

Wherever applicable, in accordance with the proportionality principle, only a level-1 control may have to be carried out for a low-risk situation whereas only a level-2 control will have to be carried out in exceptional circumstances.

By contrast, an audit may be carried out by Internal Audit in any circumstances (level-3 controls).

a) Level-1 controls

These are controls carried out in and under the responsibility of all operational entities, in front offices, middle offices, back offices, the support functions and at various levels of management.

Controls can be divided as follows:

a.1) Controls carried out directly by operational staff on operations or transactions which they process, for which they are responsible with reference to operational procedures; these controls are checks made by the individuals involved on their own actions. *Eg: data entry by branch staff while opening Customer accounts*

a.2) Controls carried out by operational staff who process operations or transactions, on operations or transactions processed by other operational staff (controls carried out by middle/back offices, crosschecks, etc.); these controls, carried out with reference to operational procedures, are also a consequence of the segregation of duties. *Eg: Maker- Checker mechanism on the data entry while opening Customer accounts*

a.3) Controls carried out by line managers or the supervisory body, as the case may be, at various levels, as part of their managerial duties. *Eg: validation by Branch Manager/Regional Manager*

At this level, the system should at the very least include a control by operational staff of the operations, transactions and activities for which they are responsible and a control by management and/or the supervisory body (managerial controls), as already stated in the fundamental principles.

The concerned Departments should set up a control system for their own activities.

This will include the level-1 controls, which will differ from level-2 controls.

b) Level-2 controls

These are the controls carried out by independent Control Functions that are part of the permanent control system that may be integrated into entities or separate from them.

Level -2 controls are generally carried out by Compliance Function of the Company.

9. Compliance Function responsibilities

Compliance Function shall be primarily responsible for the following:

- a) Assist the Board and the Senior management in overseeing implementation of the Compliance Policy, including policies, prescription in Compliance Manuals, internal codes of conduct etc
- b) Play the central role in identifying the level of Compliance risk in the organization
- c) Compliance Function shall monitor and ensure compliance by performing sufficient and representative testing . It shall periodically circulate the instances of compliance failures among staff, along with the required preventive instructions. Staff accountability shall be examined for major Compliance failures.
- d) Ensure compliance of regulatory directions given by RBI in both letter and spirit in a time bound and sustainable manner.
- e) Attend to compliance from other regulators in cases where the activities of the entity are not limited to the regulation/supervision of RBI.
- f) Ensure that the concerned departments/staff are aware of the Fair practices Code and the same is implemented in its letter and spirit across the relevant operational functions.
- g) Shall conduct timely reviews to ensure applicable covenants with Lenders as well as the terms and conditions and the guarantees and warranties provided by the Company in its business operations are not deviated from during the pendency of such lending arrangements.
- h) Compliance Department shall also serve as a reference point for the staff from

operational Departments for seeking clarifications /interpretation of various regulatory and statutory guidelines.

Through its supervision and independent level-2 controls, Compliance provides reasonable assurance of the effectiveness and consistency of:

- the process used to control the compliance of Company's operations and protect its reputation,

Compliance involves complying with applicable laws, regulations, professional standards and codes of conduct, as well as the directives of the Board of Directors and any Board Committees. They share its compliance responsibilities with other Company functions, which are responsible for their specific areas, in accordance with an established procedure.

Compliance Department is generally responsible for monitoring the existence and effectiveness of the permanent control systems that must be put in place and managed by the operational entities. The Board Committee shall ensure that the respective Departments have put in place the said systems.

10. Authority/ Powers of CCO & Compliance Function

- The CCO and the Compliance Function shall have the authority to communicate with any staff member.
- The CCO and the Compliance Function shall have access to all records or files that are necessary to enable her / him to carry out entrusted responsibilities in respect of Compliance issues.
- The CCO shall not be given any responsibility which brings elements of conflict of interest, especially any role relating to business. i.e there shall not be any 'dual hatting'.
- The staff in the Compliance Department shall primarily be focused on Compliance Functions and shall not be assigned any other duties where there could be 'conflict of interest'.
- The CCO shall be the nodal point of contact between the NBFC and the regulators / supervisors and shall necessarily be a participant in the structured or other regular discussions held with RBI.

To sum up, Compliance Function as well as the COO shall endeavor to ensure that the Company attains and maintains highest degree of compliance standards, maintain a dynamic compliance framework, keep all policies, documents and procedures updated, identify and take steps to mitigate Compliance risks and shall keep the senior management as well as the Board of the Company apprised and updated on these topics on a regular frequency.