

**Karvy Financial Services Limited**

**Corporate Governance Policy**

## INTERNAL GUIDELINES ON CORPORATE GOVERNANCE

### **I. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE**

Karvy Financial Services Limited ('the Company'/ KFSL) recognizes its role as a citizen and endeavors to adopt the best practices and the highest standards of Corporate Governance through transparency in business ethics and accountability to its stakeholders. Good corporate governance is a systematic process which enables the company to operate in a manner that meets with the ethical, legal and business expectations. It personifies the goals of protecting the interests of all stakeholders while respecting the duty of the Board and senior management to oversee the affairs of a company, ensure accountability, inculcate integrity and promote long-term growth and profitability.

### **II. RBI GUIDELINES ON CORPORATE GOVERNANCE**

KFSL is registered with the Reserve Bank of India ("RBI") as a Systemically Important Non-Deposit taking Non-Banking Financial Company (NBFC-ND-SI) under RBI Act, 1934 and categorised as a "Loan -Non Deposit Taking NBFC.

In order to enable NBFCs to adopt best practices and greater transparency in their operations, RBI has issued guidelines on Corporate Governance under Chapter X of Master Directions DNBR. PD. 008/03.10.119/2016-17 September 01, 2016 (as amended from time to time). In pursuance of the aforesaid RBI Guidelines, the Company has framed these Internal Guidelines on Corporate Governance.

### **III. GOVERNANCE STRUCTURE**

#### **A. Board of Directors**

The Board of Directors along with its constituted Committees shall provide strategic direction and guidance to the Company's management and review the performance of the Company. The Board of Directors of the Company shall have an optimum combination of Executive, Non-Executive, Independent and Woman Directors in compliance with the provisions of the Companies Act, 2013 (the Act) read with the rules framed there under or other Regulations applicable to the Company.

The Board shall meet a minimum of four (4) times in a year, at least once in each quarter [in such a manner that not more than one hundred and twenty days shall intervene between two consecutive meetings of the Board]. The quorum for the Board Meetings shall be as per the requirements of the Companies Act, 2013 and Articles of Association of the Company. The minutes of the Board meeting shall be circulated to the Directors and placed before the Board for noting in its subsequent meeting.

## **B. Duties and Responsibilities of the Board of Directors**

In accordance with the provisions of Section 166 of the Companies Act, 2013 and as a matter of corporate governance, the directors of the Company have the following duties:-

- (i) A director of a company shall act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment.
- (ii) A director of a company shall exercise his duties with due and reasonable care, skill and diligence and shall exercise independent judgment.
- (iii) A director of a company shall not involve in a situation in which he may have a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the company.
- (iv) A director of a company shall not achieve or attempt to achieve any undue gain or advantage either to himself or to his relatives, partners, or associates and if such director is found guilty of making any undue gain, he shall be liable to pay an amount equal to that gain to the company.
- (v) A director of a company shall not assign his office and any assignment so made shall be void.

## **C. Committees of the Board**

To focus effectively on the issues and ensure expedient resolution of diverse matters, the Board constitutes a set of Committees with specific terms of reference / scope. The Board of Directors have constituted various Committees of the Board to act in accordance with provisions of the Companies Act, 2013, applicable RBI guidelines and other applicable laws and regulations. The composition, terms of reference, meetings and quorum of these Committees shall be as decided by the Board of Directors subject to the applicable provisions of the Companies Act, RBI Guidelines and other applicable laws and the Company's Articles of Association. The minutes of the meetings of all Committees of the Board shall be placed before the Board for noting in subsequent meeting.

Currently, the Board has constituted the following Board Level Committees:

### **1. Audit Committee:**

The Company has in place the Audit Committee in accordance with the provisions of Section 177 of the Companies Act, 2013 and RBI guidelines on Corporate Governance.

<b>Chairman</b>	The Chairman of the Audit Committee shall be an Independent Director and who is elected by the members of the Audit Committee.
<b>Composition</b>	The Committee constituted by the Board shall at all times comprise of a minimum number of three directors with independent directors forming majority.

	Majority of the members of the Audit Committee shall be financially literate and shall have ability to read and understand the financial statements.
<b>Meetings and Quorum</b>	<p>The Audit Committee shall meet at least two times in a financial year and as many additional times as the Committee deems necessary to carry out its duties effectively.</p> <p>The quorum shall be either two members or one-third of the members of the Audit committee whichever is higher.</p>
<b>Terms of reference</b>	<ul style="list-style-type: none"> <li>(a) recommend for appointment, remuneration and terms of appointment of auditors of the Company;</li> <li>(b) review, monitor and evaluate the auditor's qualifications, independence and performance, and effectiveness of audit process;</li> <li>(c) review and examine the financial statement or financial result and the auditor's report before their submission to the board;</li> <li>(d) overview financial reporting process and disclosure of financial information to ensure that the financial statements/results are correct, suffice and credible.</li> <li>(e) approval or any subsequent modification of transactions of the company with related parties;</li> <li>(f) scrutiny of the inter-corporate loans and investments;</li> <li>(g) valuation of undertakings or assets of the company, wherever necessary;</li> <li>(h) evaluation of internal financial controls and risk management systems;</li> <li>(i) monitoring the end use of funds raised through public offers and related matters. and</li> <li>(j) formulate, establish and implement vigil mechanism for directors and employees to report on genuine concerns and review the its functioning;</li> <li>(k) oversee the vigil mechanism through the committee.</li> </ul>

## 2. Nomination and Remuneration Committee

The Company has in place the Nomination and Remuneration Committee (NRC) in accordance with the provisions of Section 178 of the Companies Act, 2013 and the rules made thereunder and in compliance with the RBI guidelines on Corporate Governance.

<b>Chairman</b>	The Chairman of the NRC shall be an Independent Director and who is elected by the members of the Committee members.
<b>Composition</b>	<ul style="list-style-type: none"> <li>i. Committee shall comprise of non-executive directors.</li> <li>ii. At least one-half of the committee shall comprise of independent directors.</li> </ul>
<b>Meetings and Quorum</b>	<p>The NRC shall meet at least once in a financial year and as many additional times as the Committee deems necessary to carry out its duties effectively.</p> <p>The quorum shall be either two members or one-third of the members of the NRC, whichever is higher.</p>
<b>Terms of reference</b>	<ul style="list-style-type: none"> <li>(a) Periodically oversee an evaluation of the Board, and recommend desirable changes in Board size, composition, Committees structure and processes, and other aspects of the Board’s functioning;</li> <li>(b) Recommend new Board members in light of resignation of current members or a planned expansion of the Board;</li> <li>(c) Review stockholder proposals relating to Board’s composition and recommend an appropriate course of action;</li> <li>(d) Review key corporate governance processes not specifically assigned to other committees, and recommend changes needed to ensure that the company is at best practice;</li> <li>(e) formulate criteria for determining qualifications, positive attributes and independence of director and recommend to the Board a policy, relating to the remuneration for the directors, key managerial personnel and other employees;</li> <li>(f) Review and recommend the compensation and variable pay for Executive Directors to the Board;</li> <li>(g) Ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks,</li> </ul>

	<p>(h) Review the Company's ESOP Schemes/ issue of sweat equity shares and recommend changes as necessary; oversee administration of the ESOP Schemes:</p> <ul style="list-style-type: none"> <li>• Grant Options to eligible employees, in consultation with management; and</li> </ul> <p>(i) Perform other activities related to this Charter as requested by the Board of Directors or to address issues related to any significant subject within its term of reference.</p>
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### 3. Corporate Social Responsibility Committee (CSR Committee)

The Board has constituted the CSR Committee in accordance with the provisions of Section 135 of the Companies Act, 2013 and the rules made thereunder.

<b>Composition</b>	The Committee shall comprise of a minimum number of three directors, of which at least one shall be an independent director.
<b>Meetings and Quorum</b>	<p>The CSR Committee shall meet at least once in a financial year and as many additional times as the Committee deems necessary to carry out its duties effectively.</p> <p>The quorum shall be either two members or one-third of the members of the CSR Committee, whichever is higher.</p>
<b>Terms of reference</b>	<p>(a) to formulate, establish, implement and review appropriate corporate social responsibility policies for KDMSL and earmark funds to CSR programs;</p> <p>(b) monitor and review the operation and evaluate the effectiveness of KDMSL's corporate social responsibility policies and programs;</p> <p>(c) promote and support continuous improvement in KDMSL's corporate social responsibility philosophy and performance;</p> <p>(d) encourage and monitor the establishment and maintenance of relationships with key stakeholders including non-government organizations, sporting and cultural organizations and other community groups; and</p>

	<p>(e) encourage and promote volunteerism and awareness of corporate social responsibility related issues among KDMSL's staff, local community and other stakeholders.</p> <p>(f) advise and review the proposed disclosures of the Company on corporate social responsibility in its Annual Report and such other documents or publications as the CSR Committee may find it appropriate.</p> <p>(g) review the outcome and impact of the corporate social responsibility activities.</p> <p>(h) entrust CSR activities to any trust/foundation, when a decision is made to carry CSR activities through a trust/foundation.</p>
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#### 4. Risk Management Committee

The Company has in place the Risk Management Committee in accordance with the RBI guidelines on corporate governance as applicable to non-deposit taking systemically important NBFs.

<b>Composition</b>	The Committee shall consist of such number of members as may be determined by the Board.
<b>Meetings and Quorum</b>	The Committee will meet at least once in a quarter. The quorum shall be two members.
<b>Terms of reference</b>	<p>(a) External Risk to be reviewed in terms of the economic environment, stock market update, industry overview, product sector overview and any other development/trigger which would directly impact the portfolio or sourcing.</p> <p>(b) review operational risk (including sub risk for operational risk), information technology risk and integrity risk;</p> <p>(c) Performance of the portfolio across all products.</p>

#### 5. Asset Liability Management Committee (ALCO Committee)

The Company has in place the ALCO Committee in accordance with the RBI guidelines on corporate governance as applicable to non-deposit taking systemically important NBFs.

<b>Composition</b>	The Committee shall consist of such number of members as may be determined by the Board.
<b>Meetings and Quorum</b>	The Committee will meet at least once in a quarter. The quorum shall be two members.
<b>Terms of reference</b>	(a) Addressing concerns regarding asset liability mismatches; (b) Achieving optimal return on capital employed while maintaining acceptable levels of risk relating to liquidity; (c) Addressing concerns regarding interest rate risk exposure; and (d) To do such other acts, deeds and things as may be directed by the Board and required to comply with the applicable laws.

## 6. Treasury and Investment Committee

The Company has constituted Treasury and Investment Committee in accordance with the RBI guidelines on corporate governance as applicable to non–deposit taking systemically important NBFCs.

<b>Composition</b>	The Committee shall consist of such number of members as may be determined by the Board.
<b>Meetings and Quorum</b>	The Committee will meet at least once in a quarter. The quorum shall be two members.
<b>Terms of reference</b>	(a) To determine the investment of funds as a part of liquidity management. (b) To monitor the status of investments made by the company.

## 7. Business Review and Monitoring Committee (BRC)

The Company has constituted Business Review and Monitoring Committee of the Board.

<b>Composition</b>	The Committee shall consist of such number of members as may be determined by the Board.
<b>Meetings and Quorum</b>	The Committee will meet as and when required. The quorum shall be two members.
<b>Terms of reference</b>	(a) Review of the portfolio of the company. (b) Review and approve the cases of restructuring as per the RBI guidelines.



	(c) To do such other acts as the Board may prescribe.
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## 8. IT Strategy Committee

The Company has constituted IT Strategy Committee of the Board pursuant to Master Direction DNBS.PPD.No.04/66.15.001/2016-17 issued by RBI on Information Technology dated June 08, 2017.

<b>Chairman</b>	The Chairman of the committee shall be an independent director.
<b>Composition</b>	<p>The Committee shall consist of the following individuals:</p> <ul style="list-style-type: none"> <li>• Independent Director, Chairman of the committee</li> <li>• CEO and Managing Director</li> <li>• Chief Financial Officer (CFO)</li> <li>• Chief Information Officer (CIO)</li> <li>• Chief Technology Officer (CTO)</li> <li>• IT in charge</li> <li>• And such other director/ official as deemed necessary</li> </ul>
<b>Meetings and Quorum</b>	<p>The Committee shall meet at least twice a year, however not more than six months should elapse between two meetings.</p> <p>The quorum for a meeting of the Committee shall be one-third or two members whichever is higher.</p>
<b>Terms of reference</b>	<p>(a) Approving IT strategy and policy documents and ensuring that the management has put an effective strategic planning process in place;</p> <p>(b) Ascertaining that management has implemented processes and practices that ensure that the IT delivers value to the business;</p> <p>(c) Ensuring IT investments represent a balance of risks and benefits and that budgets are acceptable;</p> <p>(d) Monitoring the method that management uses to determine the IT resources needed to achieve strategic goals and provide high-level direction for sourcing and use of IT resources;</p> <p>(e) Ensuring proper balance of IT investments for sustaining company's growth and becoming aware about exposure towards IT risks and controls.</p>

	(f) Discussion & Approval Short Term Plans. (g) Discussion Key Transformation Projects.
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## 9. Borrowing Committee

The Company has constituted Borrowing Committee of the Board.

<b>Composition</b>	The Committee shall consist of such number of members as may be determined by the Board.
<b>Meetings and Quorum</b>	The Committee will meet as and when required. The quorum shall be two members.
<b>Terms of reference</b>	(a) Authorize to borrow money from banks, FIs, body corporates otherwise than on debentures - not exceeding the limits as determined by the members. (b) Create necessary charges on the assets of the Company as they may deem fit.

## 10. Share Allotment Committee

The Company has constituted Share Allotment Committee of the Board.

<b>Composition</b>	The Committee shall consist of such number of members as may be determined by the Board.
<b>Meetings and Quorum</b>	The Committee will meet as and when required. The quorum shall be two members.
<b>Terms of reference</b>	(a) Allotment of shares to the shareholders of the company (b) Issue share certificates to the shareholders

## 11. Debenture Issuance and Allotment Committee

The Company has constituted Share Allotment Committee of the Board.

<b>Composition</b>	The Committee shall consist of such number of members as may be determined by the Board.
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<b>Meetings and Quorum</b>	The Committee will meet as and when required. The quorum shall be two members.
<b>Terms of reference</b>	(a) Issuance and allotment of debentures. (b) Fix record dates for payment of interest and principal repayments.

## 12. Credit Committee

The Company shall constitute Credit Committee of the Board to approve loan proposals beyond the limits specified by the Board from time to time.

<b>Composition</b>	The Committee shall consist of such number of members as may be determined by the Board.
<b>Meetings and Quorum</b>	The Committee will meet as and when required. The quorum shall be two members.
<b>Terms of reference</b>	(a) Consider and approve loan proposals beyond the delegated authority of the Credit Head and CEO, subject to the limits laid down by the Board for exposures to a single borrower and a borrower group etc. (b) Examine delegation of powers relating to credit. (c) Review other matters relating to credit.

## D. Fit and Proper Criteria

The Company has in place a policy for ascertaining the 'fit and proper' criteria for the proposed/ existing directors as per the applicable RBI guidelines for NBFCs. In terms of Chapter XI of Master Direction No. DNBR. PD.008/03.10.119/2016-17 dated September 01, 2016 (as amended from time to time) issued by Reserve Bank of India, the Nomination and Remuneration Committee of the Board shall ensure the 'Fit & Proper' status of existing/ proposed Directors of the Company. For this purpose, necessary declarations/undertakings/statements shall be obtained in line with the Guidelines issued by the RBI for the time being in force.

A quarterly statement on change of directors (certified by the Auditors of the Company wherever required) and

a certificate by the Managing Director of the Company certifying that 'fit and proper' criteria in selection of Directors has been followed by the Company shall be furnished to the Regional Office of the RBI in terms of the Guidelines issued by the RBI for the time being in force.

## E. STATUTORY AUDITORS

The appointment of Statutory auditors and the partner/s of the Chartered Accountant Firm conducting the Statutory Audit of the Company, shall be in terms of the provisions of Section 139 and 141 of the Companies Act, 2013 and in accordance with the applicable RBI guidelines as amended from time to time.

#### **F. POLICIES OF THE COMPANY**

The Company, in line with the requirement of the Companies Act, 2013, the guidelines issued by the Reserve Bank of India and others acts, rules, and regulations applicable to the Company, has framed and adopted following policies which shall form part and parcel of the overall corporate governance framework of the Company. These policies are reviewed and updated at regular intervals based as per statutory requirement or on modification or amendments of various acts, rules, regulations, statues applicable to the Company.

- i. Fair Practices Code
- ii. Whistle Blower Policy
- iii. Know Your Customer
- iv. Preservation of Records Policy
- v. Investment policy
- vi. Policy note on Asset classification, NPA provisioning and Restructuring of advances
- vii. Related Party Policy
- viii. Nomination and Remuneration Policy
- ix. Vigil Mechanism Policy
- x. Fit and Proper Policy
- xi. Fraud Risk Policy
- xii. CSR Policy

#### **G. Review of Guidelines**

The Board or any of its Committee may review the framework from time to time as may be required.