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2020

Governance Risk and Compliance Policy

POLICY DOCUMENT – 008

Policy on 008 - Governance Risk and Compliance Policy

Action	Entity	Signature
Created by	Bhupesh Mahajan	
Reviewed by	NA	
Approved by	CEO	
Approved by	Board / RMC	
Release Date		
Version	3.0	

Version History

Version No.	Particulars	Details
1	Original Policy approved by Board	
2	Changes made on account of change in ALCO committee	Members of ALCO committee has been changed
3	Changes on account of review	Added following:- ● Approach to risk management ● Principle adopted for risk management ● Roles and responsibilities for the board, sub-committees, risk department, functional heads defined ● Few more risk mitigants to regulatory risk, credit risk, operational risk and reputational risk

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 Arka Fincap Limited (AFL)

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 AFL

- 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)	• Attend to aspects relating to Asset Liability Management; • Ensuring adherence to the Risk Management Polices 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: • Mr. Rahul Kirloskar • Mr. Mahesh Chhabria • Mr. Harish Engineer • Mr. Vimal Bhandari	Mandatory	ALCO and Risk committee should meet on quarterly basisor as may be decided by the Members

Corporate Social Responsibility Committee (CSR)	• Attend to aspects relating to Corporate Social Responsibility • Ensuring adherence to the CSR provisions lead down in the Polices 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	• 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.	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.

- AFL 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.

- AFL 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 AFL shall follow the following guidelines for due compliance:

- All the employees of AFL 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. AFL 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 AFL 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 'AFL'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. Introduction

Arka FinCap Ltd (Arka/company) is an NBFC and is in the business of lending. During the course of the business the company is exposed to various kind of risks, like any other business and in today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks for the company are financial risks, which further include credit risk, liquidity risk, market risk etc.

The Company needs to identify the risks that it faces in trying to achieve the objectives. Once these risks are identified, the Company would need to evaluate these risks to see which of them will have critical impact on the Company and which of them are not significant enough to deserve further attention.
The interpretation of the word Risk can determine the approach to Risk Management.

The word risk can be interpreted as hazard which is the most commonly used meaning of risk and it means likely financial losses arising from negative events such as control failures, bad publicity and loss of reputation. Risk management in this context would mean eliminating possibilities of losses from such negative events by putting in place adequate control systems. This is the approach taken to frame this policy

2. Objective

The objective of this policy is to lay down the practices and the controls built for identification, assessment, monitoring and mitigation of various risks inherent to the business we are in. This policy will seek to minimize the impact of the unfavorable conditions on the business objectives, by ensuring that the requisite controls and mitigants are put for the various risks thus identified

3. Risk management framework & principles

We recognize that the risk is an integral and unavoidable component of business and thus endeavor to manage risk in a proactive and effective manner. For the risk management to be effective the following principles are kept in mind while applying it, in the context of the business and its objectives

3.1 Risk management must create and protect value
3.2 Risk management is integrated into the organizational processes
3.3 Explicit risk management helps decision makers make informed choices.
3.4 Risk management is dynamic, iterative and responsive to the changes

In principle, risk always results as a consequence of activities or as a consequence of non-activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks. Risk mitigation is also an exercise aiming to reduce the loss or injury arising out of various risk exposures.

4. Approach towards risk management

While developing the risk management policy the following two elements have been followed.

4.1 Regulatory Risk Compliance:

The company needs to comply and report on regulatory requirements on portfolio characteristics. It will also need to comply with the requirement as set out by RBI from time to time or by any other regulator as applicable. 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

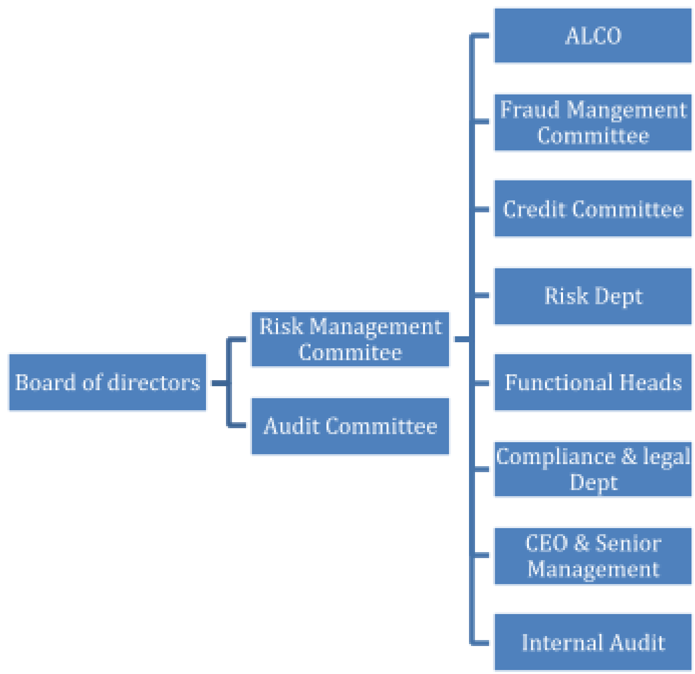
4.2 Overall Risk Management policy & guidelines:

The overall policy has also been developed 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.

5. Organization structure for Risk Management

The board of directors of the company through its committees and subcommittees will manage the risk faced by the organization.

The risk organization for the company is laid down below



6. Roles & Responsibilities

Board of directors through their risk oversight role, will ensure that the risk management policies and procedures designed and implemented by the company's management and risk managers are consistent with the company's strategies and goals. They will also ensure that these policies and procedures are functioning as directed and that the necessary steps are taken to foster an enterprise wide culture that supports appropriate risk awareness, behaviors, and judgements about risks.

In accordance with the corporate governance rules, the board has created the sub committees, namely Risk Management Committee, ALCO and Audit Committee. Risk Management Committee will have atleast quarterly review of the activities associated with the effectiveness of risk management and internal control processes.

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.

Risk Management Committee (RMC)

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

While the entire management, risk function, functional heads are responsible for the implementation of the effective risk management, some of the functions which are specifically responsible for a certain type of risks, those departments and their heads are specifically responsible for managing those processes and risks associated thereon.

7. Identification, measurement and assessment of risk

In discharge of the management's responsibility as delegated by board, the company has identified various risks inherent to the business the company is operational in. The exercise to measure the risk was executed considering both qualitative and quantitative means with inputs from the representatives across the business, in accordance with the likelihood and its impact on the business

Following Risks have been identified by the company

- Regulatory & Compliance Risk
- Credit Risk
- Operational Risk
- Reputational Risk
- Liquidity Risk
- Contagion Risk
- Financial Risk

8. Risk Categorization and Mitigants

The following broad category of risks as have been identified along with their possible mitigants.

8.1. 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. These risks can be

- Non-Compliance with RBI Regulations
- Non-Compliance with statutory regulations
- Non-Compliance with covenants laid down by lenders

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

- Internal Audit also conducts audit of compliance function on an annual basis wherein all regulatory compliances are reviewed in detail.

- Secretarial audit is also conducted to ensure the compliance with all the statutory requirements

8.2 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 policies to address the risk.

- There is a structured and standardized underwriting norms and approval processes put in place

- For SME loans the loan origination system (LOS) with the controls to ensure policy adherence, has been put in place

- 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.

- Credit committees have been formed to take decisions of certain type of credit exposures

- The Board of the Company shall also take note of any deviations and monitor the operational risk

- Company has put Fraud Risk Management policy which lays down the controls in the processes to avoid credit risk due to frauds, by customers, vendors or employees.

- The company shall put in place the internal rating mechanism for better credit assessment of the borrowers

8.3. 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.

Mitigations

- Documenting the major processes – all the major processes are documented with controls built -in and by following the maker- checker concept.

- Decisioning powers in all processes given as per the complexity of the process, at the appropriate levels.

- Any important decision within a department, can not be taken without the department head’s approval.

- Technology infrastructure has been created to leverage the cloud – based options. Business applications are hosted in secure data centers with back-ups created such that in the event of any system going down, an alternate system is made operational within hours.

- The Company has established an Outsourcing policy in accordance with RBI guidelines wherein a detailed check is done for all the outside vendors before any work is outsourced.

- Whistleblower policy has been created to report any non-compliance with any stated processes or policies. This can be reported without fear by any employee and the policy lays down the process to be followed to handle such complaints.

- All the documents related to a loan exposure are scanned for easy retrieval.

- All the physical documents are stored in specialized storage capacity, for which the company has entered into a contract with an established record management company.

- Through Internal Audit the company will be getting the processes audit at the predefined periodicity. The findings of the audit are placed before the Audit Committee.

- Company has developed detail IT policy to protect the data and take care of BCP/DRP.

- 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.

- AFL 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.

8.4. **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. Reputational risk is related to adverse perception or the negative image of the company, on the part of customers, counterparties, shareholders, investors and regulators. It refers to the potential adverse effects, which can arise from the company's reputation getting tarnished due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints leading to negative publicity. Presence in a regulated and socially sensitive industry can result in significant impact on Company's reputation and brand equity as perceived by multiple entities like the RBI, Central/State/Local authorities, banking industry and the customers

Mitigations

- AFL has formed HR Policy in order to address any concerns of the employees internally.

- AFL 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.

- The management carries out a reference check for all the vendors from the market before having them on Board so as to ensure utmost integrity while carrying out their duties.

- Vendors, employees and other associates of the Company are selected after confirming to the strict guidelines prescribed by the management.

- The Company does not resort to any coercive recovery practices and all recoveries are made in accordance with the Recovery policy and Fair Practice Code of the Company.

- All employees, vendors and associates are required to sign legal contracts wherein specific clauses related to non-disclosure are entered so as to ensure the Company from any reputational risks.

- 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 AFL

8.5 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

8.6 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. Measuring and managing liquidity are vital for effective operations of an NBFC. The importance of maintaining liquidity is not only important for the particular institution, as liquidity shortfall in one institution can have repercussions on the entire system as has been seen in the recent past. Board/ALM Committee should measure not only the liquidity positions of company on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions.

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.

- Company targets to maintain a healthy level of capital adequecy

8.7. 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.

9. 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

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