



Internal guidelines on Corporate Governance

Company Philosophy and Corporate Governance:

Kotak Mahindra Prime Limited (the Company) being a subsidiary of the Kotak Mahindra Bank Limited draws its philosophy from its parent, which is a Bank and whose shares are listed on the stock exchange. 'Kotak Group' is a financial conglomerate of immense repute and of high regard.

Corporate Governance is about maximizing shareholders' value on a sustainable basis and ensuring fairness to all other stakeholders of the Company.

Corporate Governance for the Company is the 'way of the life' in the Company as is across 'Kotak Group' and there exists evidence enough through the policies, and procedures laid down by the Company, about its commitment to the same.

The Company ensures good governance through the implementation of effective policies and procedures, which is mandated and regularly reviewed by the Board or the committees of the members of the Board.

RBI Master Direction on Corporate Governance

The following Framework on Corporate Governance ("Framework") draws reference to the Master Direction – "Non-Banking Financial Company –Systematically Important Non- Deposit taking Non-Banking Financial Company (NBFC-ND-SI) and Deposit taking Non-Banking Financial Company (NBFC-D) issued by the Reserve Bank of India ("RBI") vide its notification no. DNBR.PD.008/03.10.119/2016-17 dated September 01, 2016.

As per the said Directions, non-deposit accepting Non-Banking Financial Company with asset size of Rs.500 crore and above (NBFCs-ND-SI), as per its last audited balance sheet, should frame internal guidelines on corporate governance with the approval of the Board of Directors, enhancing the scope of the guidelines without sacrificing the spirit underlying the Directions and it shall be published on the Company's website, if any, for the information of various stakeholders. The Company being an NBFC-ND-SI, is accordingly covered by these Directions.

Governance Structure

A. BOARD OF DIRECTORS

The Company's Board has a primary role to protect and enhance stakeholder's value through supervision and strategic inputs. The Board along with its Committees provides supervision and exercises appropriate controls and in addition to basic governance issues, the Board lays strong emphasis on transparency, accountability and integrity.

Composition:

As per the Company's Articles of Association, the Board's strength is required to be a minimum of three to a maximum of fifteen directors.

The Board of Directors of the Company shall have an optimum combination of Executive, Non-Executive, Independent and Woman Directors, as per the Guidelines / Regulations applicable to the Company.

Meetings of Board:

The Company shall hold at least four meetings of the Board in every calendar year and at least one meeting will be held every calendar quarter, with a maximum time gap of one hundred and twenty days between two consecutive Board meetings.

Quorum:

One-third of the total strength of the Board or two directors whichever is higher shall form the quorum for a meeting

B. COMMITTEES

The Board has constituted several committees to deal with specific matters and for operational convenience, delegated powers for different functional areas to different Committees in accordance with the applicable laws.

The composition, terms of reference and functioning of the Committee(s) shall be decided by the Board of Directors in accordance with the provisions of the applicable laws. Minutes of meetings of Board Committees and other Committee(s) as specified by the Board shall be placed before the Board for its perusal, discussion and noting.-

The various committees constituted by the Board are as follows:

1. Operating Committee

The Company has constituted operating committee pursuant to internal requirement.

Composition:

The Committee shall comprise of at least four members as may be decided by Board of Directors

Periodicity of Meetings:

The Committee shall meet as and when any matter for consideration of the Committee is required.

Quorum:

At least 3 members shall constitute a quorum for a meeting.

Terms of Reference:

To approve policies and procedures and other routine matters for proper functioning and operations.

2. Audit Committee

The Company has constituted the Audit Committee pursuant to the provisions of Chapter XI of Master Direction No. DNBR. PD.008/03.10.119/2016-17 dated September 01, 2016 issued by Reserve Bank of India and section 177 of the Companies Act, 2013.

There shall be two level of Audit Committees:

First Tier Audit Committee
Audit Committee of the Board

A. First Tier Audit Committee

Composition:

The First Tier Audit Committee shall comprise of at least three members as may be decided by the Board of Directors.

Periodicity of Meetings:

The First Tier Audit Committee shall meet at least twice during a year.

Quorum:

At least two members shall constitute a quorum for a meeting.

Terms of Reference:

- To review the Audit Reports prepared by Internal Audit Department
- To ensure timely closure of open issues

B. Audit Committee of the Board:

Composition:

The Audit Committee of the Board shall comprise of at least three directors with independent directors forming a majority. Majority of the members of the Committee including its Chairperson shall be persons with ability to read and understand the financial statements.

Periodicity of Meetings:

The Audit Committee of the Board shall meet atleast once in a quarter during a year.

Quorum:

At least 3 members shall constitute a quorum for a meeting.

Terms of Reference:

The terms of reference, the powers and role of the Committee encompass accounting matters, financial reporting and internal controls. They primarily include the review of systems and procedures of internal control, review financial operating systems, ensure compliance with regulatory guidelines, review accounting policies, review pending litigation, etc.

Its responsibilities shall inter alia include:

- To recommend appointment, remuneration and terms of appointment of auditors of the company;
- To review and monitor the auditor's independence and performance, and effectiveness of audit process;
- To examine financial statement and the auditors' report thereon;
- To approve related party transactions of the Company or any subsequent modification thereon;
- To scrutinize inter-corporate loans and investments;
- The Valuation of undertakings or assets of the company, wherever it is necessary;
- To evaluate internal financial controls and risk management systems;
- To monitor the end use of funds raised through public offers and related matters;
- To call for the comments of the auditors about internal control systems, scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and also discuss any related issues with the internal and statutory auditors and the management of the company;
- To establish a vigil mechanism for directors and employees to report genuine concerns in such manner as may be prescribed and oversee the effective implementation of the vigil mechanism of the Company;
- To ensure that an Information System Audit of the internal systems and processes is conducted, at least once in two years to assess operational risks faced by the Company.
- To review the Audit Reports released by Internal Auditors
- To Review compliance of the SEBI (PIT) Regulations, 2015 at least once in a financial year and shall verify that the systems for internal control are operating effectively.
- To Review inspection conducted by the Regulators and approve action plans for corrective actions
- To approve, review and monitor the Risk Based Internal Audit Plan each year.
- To look into the reasons for substantial defaults in the payment to debenture holders etc.

3. Nomination & Remuneration Committee

The Company has constituted the Nomination and Remuneration Committee pursuant to the provisions of Chapter XI of Master Direction No. DNBR.PD.008/03.10.119/2016-17 dated September 01, 2016 and section 178 of the Companies Act, 2013.

Composition:

The Committee shall consist of at least three directors out of which not less than one-half shall be independent directors.

Periodicity of meetings:

The Committee shall meet atleast once during a year.

Quorum:

At least 3 members shall constitute a quorum for a meeting.

Terms of reference:

- To ensure fit and proper criteria for the appointment of the Directors and Key Managerial Personnel.
- To recommend to the Board, appointment/removal of Directors and Key Managerial Personnel after examining various criteria such as qualifications, positive attributes and independence of a director
- To determine remuneration payable to the Director and Key Managerial Personnel of the company, as required by the law.
- To formulate the manner/criteria for effective evaluation of performance of Board, Committees and individual directors.

4. Risk Management Committee

The Company has constituted risk management committee pursuant to the provisions of Chapter XI of Master Direction No. DNBR. PD.008/03.10.119/2016-17 dated September 01, 2016

There shall be two level of Risk Management Committees:

Risk Management Committee (Operations)

Risk Management Committee (Board)

A. Risk Management Committee (Operations)

Composition:

The Risk Management Committee (Operations) shall comprise of at least three members as may be decided by the Board of Directors

Periodicity of Meetings:

The Committee shall meet atleast once in a quarter during a year.

Quorum:

At least 2 members shall constitute a quorum for a meeting

Terms of Reference:

- Portfolio and Placement Trends & Analysis
- NPA Product wise Analysis
- Unusual Events risk analysis and process to mitigate such events
- Internal Controls Update

B. Risk Management Committee (Board)

Composition:

The Risk Management Committee (Board) shall comprise of at least three Directors.

Periodicity of meetings:

The Committee shall meet atleast once in a quarter during a year.

Quorum:

At least 3 members shall constitute a quorum for meeting

Terms of reference:

- To identify, control and mitigate the risk associated with the functioning of the Company
- To lay down procedures for managing and mitigating the risk through integrated risk management systems, strategies and mechanisms.

5. Asset Liability Committee (ALCO):

The Company has constituted ALCO committee pursuant Chapter XIII of Master Direction No. DNBR. PD.008/03.10.119/2016-17 dated September 01, 2016

Composition:

The Committee shall comprise of at least three members as may be decided by Board of Directors.

Periodicity of meetings:

The members of the ALCO Committee shall meet atleast once in a month during a year.

Quorum:

At least 2 members shall constitute a quorum for a meeting.

Terms of reference:

To ensure the limits set by the Board for deciding the business strategy of the Company (on the assets and liabilities sides) are in line with the Company's budget and decided risk management objectives.

6. Credit Committee:

The Company has constituted credit committee pursuant to internal requirement

There shall be two level of credit committee:

Credit Committee
Credit Committee of the Board

The decision to be taken by the Credit Committee shall be by simple majority and the decision to be taken by the Credit Committee of the Board shall be unanimously.

A. Credit Committee:

Composition:

The Credit Committee shall comprise of at least three members as may be decided by the Board of Directors'

Periodicity of Meetings:

The members of the Credit Committee shall meet atleast once in a quarter during a year.

Quorum:

At least 2 members shall constitute a quorum for a meeting

Terms of reference:

To critically analyse the financials of the various loan proposals placed before it for their approval.

B. Credit Committee of the Board:**Composition:**

The Credit Committee of the Board shall comprise of at least two Directors.

Periodicity of meetings:

The members of the Credit Committee of the Board shall meet atleast once in a six months during a year.

Quorum:

At least 3 members shall constitute a quorum for a Meeting.

Terms of reference:

To critically analyse the financials of the various loan proposals placed before it for their approval.

7. Capital Market Investment Committee:

The Company has constituted capital market investment committee pursuant to internal requirement

Composition:

The Committee shall comprise of at least three members as may be decided by Board of Directors.

Periodicity of meetings:

The Committee shall meet as and when any investment in capital market (Equity) is proposed.

Quorum:

At least 2 members shall constitute a quorum for a meeting.

Terms of reference:

To look into investment related matters.

8. Corporate Social Responsibility Committee

The Company has constituted the Committee pursuant to section 135 of the Companies Act, 2013

Composition:

The Committee shall comprise of at least three directors out of which at least one shall be independent director.

Periodicity of meetings:

The Committee shall meet atleast twice during a year.

Quorum:

At least 3 members shall constitute a quorum for a meeting.

Terms of reference:

- To formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII of the Companies Act, 2013;
- To recommend the amount of expenditure to be incurred on the activities referred to in above clause;
- To review and recommend any amendments to be made in the CSR policy of the Company;
- To institute a transparent monitoring mechanism for implementation of the CSR Projects or programs or activities undertaken by the Company.

9. Board Committee

The Company has constituted Board Committee pursuant to internal requirement

Composition:

The Committee shall consist of at least three directors as may be decided by the Board of Directors of the Company

Periodicity of meetings:

The Committee shall meet atleast once in a quarter during a year.

Quorum:

At least 3 members shall constitute a quorum for a meeting.

Terms of reference:

To look into the routine transactions of Company which inter alia include authorizing opening, operation & closure of bank accounts of the Company, authorizing officials of the Company to execute various documents/agreements, issuing power of attorney for representing the Company in various Courts of Law and before various Statutory Authorities, etc.

10. Expense Committee

The Company has constituted expense committee pursuant to internal requirement

Composition:

The Committee shall comprise of at least two directors as may be decided by the Board of Directors of the Company

Periodicity of meetings:

The Committee shall meet as and when any expense above the specified limit as per the Approval Authority policy is to be approved during a year.

Quorum:

Atleast 2 members shall constitute a quorum for a meeting.

Terms of reference:

To review and approve the expenses as per the grid mentioned in Approval Authorities policy.

11. IT Strategy Committee

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

Composition:

The Committee shall comprise of at least three directors out of which one shall be independent director

Periodicity of meetings:

The Committee shall meet at an appropriate frequency but not more than six months shall elapse between two meetings

Quorum:

At least 3 members shall constitute a quorum for a meeting.

Terms of reference:

- To approve IT strategy and policy documents and ensuring that the management has put an effective strategic planning process in place
- To ascertain that management has implemented processes and practices that ensure that the IT delivers value to the business
- To ensure that IT investments represent a balance of risks and benefits and that budgets are acceptable
- To monitor 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
- To ensure that proper balance of IT investments for sustaining NBFC's growth and becoming aware about exposure towards IT risks and controls

12. Senior Management Committee – KYC Compliance

The Company has constituted senior management committee pursuant to Direction (DBR.AML.BC.No.81/14.01.001/2015-16) issued by RBI on Know Your Customer dated February 25, 2016

Composition:

The Committee shall comprise of two members comprising of Designated Director & Principal Officer of the Company.

Periodicity of meetings:

The Committee shall meet at an appropriate frequency but not more than six months shall elapse between two meetings

Quorum:

All members shall constitute a quorum for a meeting.

Terms of reference

To ensure compliance with KYC /AML policies & procedures

13. High Level Monitoring Committee- FATCA Compliance:

The Company has constituted high level monitoring committee pursuant to Direction (DBR.AML.BC.No.81/14.01.001/2015-16) issued by RBI on Know Your Customer dated February 25, 2016

Composition:

The Committee shall comprise of three members comprising of CFO, Head - Treasury & CRO.

Periodicity of meetings:

The Committee shall meet at an appropriate frequency but not more than six months shall elapse between two meetings

Quorum:

All members shall constitute a quorum for a meeting.

Terms of reference

To ensure compliance with FATCA regulations

C. Fit and Proper Criteria

The Company has a Board approved Fit & Proper Policy in place and required disclosures to the effect are made from time to time.

In terms of Chapter XI of Master Direction No. DNBR. PD.008/03.10.119/2016-17 dated September 01, 2016 issued by Reserve Bank of India, the Nomination and Remuneration Committee of the Company shall ensure the 'Fit & Proper' status of existing / proposed Directors of the Company as well as Key Managerial Personnel

Every individual at the time of his / her appointment / re-appointment and on annual basis, as Director of Company / Key Managerial Personnel, provides a Fit & Proper declaration in the manner and format as may be prescribed by RBI from time to time.

In case there is no change to the information already provided by the director, declaration to that effect shall be furnished to the Company.

Every Individual, once appointed as Director of the Company shall enter into a Deed of Covenant, as prescribed by RBI, with the Company.

The Company shall ensure to furnish to the Reserve Bank a quarterly statement on change of directors and in case of change a certificate from the Managing Director of the NBFC that fit and proper criteria in selection of the directors has been followed. The statement submitted by the Company for the quarter ending March 31, should be certified by the auditors.

D. Vigil Mechanism/Whistle Blower Policy

Pursuant to Rule 7 of the Companies (Meetings of Board and its Powers) Rules 2014 read with Section 177(9) of the Act, the Company has framed and adopted Vigil Mechanism Framework (“the framework”) to enable directors and employees to report genuine concerns about unethical behavior, actual or suspected fraud.

The Company has adopted the Whistle Blower Policy of its holding Company Kotak Mahindra Bank Limited. The purpose of the policy is to provide framework to promote responsible vigil mechanism. The policy protects an employee and a director from discharge or retaliation or discrimination when the employee or director reports in good faith the existence of any of the aforesaid activity.

The objective of this mechanism is to maintain a redressal system which can process all complaints concerning questionable accounting practices, internal controls or fraudulent reporting of financial information, unethical business conduct, instance of corporate fraud, any unlawful act whether criminal or civil, to enable employees to report instances of leak of unpublished price sensitive information, etc.

E. Disclosures and transparency

The Management Discussion & Analysis Report of the Company is duly included in the Directors’ Report covering necessary matters of concern as a part published by the Company and the Segment – wise reporting as per the Indian Accounting Standard 108 (IND AS 108) is duly included in the Annual Report of the Company.

With compliance of the requirements of the ‘Listing Agreement for Privately Placed Debentures’, which are listed on the ‘BSE Limited, Mumbai’ the Company ensures transparent good governance.

The Company has in keeping with proper responsibility and authority matrix inculcated in the structure of certification to ensure compliance from diversified and various locations

The following shall be disclosed in the Company’s Annual Financial Statements pursuant to Master Direction – “Non-Banking Financial Company –Systematically Important Non-Deposit taking Non-Banking Financial Company (NBFC-ND-SI) and Deposit taking Non-Banking Financial Company (NBFC-D) issued by the Reserve Bank of India (“RBI”) vide its notification no. DNBR.PD.008/03.10.119/2016-17 dated September 01, 2016.

- Registration/ licence/ authorisation, by whatever name called, obtained from other financial sector regulators;
- Ratings assigned by credit rating agencies and migration of ratings during the year;
- Penalties, if any, levied by any regulator;
- Information namely, area, country of operation and joint venture partners with regard to Joint ventures and overseas subsidiaries and
- Asset-liability profile, extent of financing of parent company products, NPAs and movement of NPAs, details of all off-balance sheet exposures, structured products issued

by the Company as also securitization/ assignment transactions and other disclosures, as may be prescribed by Indian Accounting Standard (Ind AS) and RBI from time to time.

F. 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.

G. Fair Practices Code

Pursuant to Chapter VI of Master Direction No. DNBR. PD.008/03.10.119/2016-17 dated September 01, 2016 issued by Reserve Bank of India on Fair Practices Code, the Company has adopted a policy on Fair Practices Code which is placed on the website of the Company and also a regular review on the implementation of the same is conducted by operating committee members and the board of directors.

H. Code of conduct

The Company has adopted a code of conduct for employees of the Company and due care is taken that the employees adhere to it.

I. Trading Code of Conduct

The Company endeavours to preserve the confidentiality of un-published price sensitive information and to prevent misuse of such information. The designated employees of the Company are required to ensure adherence to the 'Trading Code of Conduct'.

J. 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 important 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.

- 1) Fair Practices Code
- 2) Whistle Blower Policy
- 3) Policy on single party/group exposure norms
- 4) Know Your Customer & ISA Policy
- 5) Record Retention Policy
- 6) Investment policy

- 7) NPA Provision Policy
- 8) Policy on Purchase and sale of NPA
- 9) Related Party Policy
- 10) Fit and Proper Policy
- 11) CSR Policy
- 12) Trading Code of Conduct
- 13) Fraud Reporting Policy
- 14) Policy on Demand Loan
- 15) Policy on CRILC Reporting, SMA Classification, Joint Lenders Forum, Dissemination of Information
- 16) Outsourcing policy
- 17) Group wide Enterprises Policy
- 18) Intragroup Transaction policy
- 19) Policy on Statutory Auditor Appointment
- 20) Policy on Sharing of Unpublished Price Sensitive Information
- 21) Policy on Effective Interest Rate, Expected Credit Loss and Fair Valuation

Review of Guidelines

The Board or any of its Committee may review the Framework from time to time as may be required. Changes, if any, shall be effective only upon approval by the Board.