

KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LTD

Corporate Governance Policy

DECEMBER 2023

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PREAMBLE

The Corporation believes that a good corporate governance system is necessary to ensure its long-term success. KSIDC 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.

The policy's purpose is to guarantee adherence to legal mandates and establish Corporate Governance standards, crucial at both Board and Senior Management levels. When making policy choices, the Board and senior officers are anticipated to familiarize themselves with these guidelines, ensuring the maintenance of these standards in daily operations and compliance with all relevant policies and procedures.

The purpose of this policy is to frame internal guidelines on Corporate Governance. This policy shall lay down the detailed procedures for the implementation of the said guidelines in order to comply with the directions issued by the Reserve Bank of India in this regard.

As a developmental agency, the Corporation's philosophy on Corporate Governance refers to the blends of laws, regulations and voluntary practices by which companies are directed and controlled to meet the major objectives of the Corporation whereby stakeholders' aspiration and societal expectations are met. It is the application of best management practices, compliance of laws and adherence to ethical standards to achieve the organizational goal of enhancing stakeholder value. The cardinal principles such as independence, accountability, responsibility, transparency, trusteeship & disclosures serve as means of implementing the philosophy of corporate governance. The Corporate Governance philosophy of the company is structured to institutionalize policies and procedures that enhance the efficacy of the Board and inculcate a culture of accountability, self-discipline, transparency and integrity across the Company, while we go beyond the mandatory provisions of corporate laws.

CONTEXT AND PURPOSE

RBI in the year 2021 had issued a circular (RBI/2021-22/112 DOR.CRE.REC. No.60/03.10.001/2021-22 dated October 22, 2021) wherein NBFC's shall be classified based on their size, activity and perceived riskiness based on the asset size. As per the present Scale Based Regulations of RBI, KSIDC is in the Middle Layer and shall be subject to various compliances and regulations applicable to Middle Layer NBFCs. This Policy on Corporate Governance ("Policy") draws reference to the Reserve Bank of India (Non-Banking Financial Company –Scale Based Regulation) Directions, 2023 (RBI/DoR/2023-24/105-DoR.FIN.REC. No.45/03.10.119/2023-24 dated October 19, 2023).

As per the Directions, KSIDC 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.

This Policy is to be read in conjunction with Applicable Laws; accordingly, this Policy enhances the provisions of Applicable Laws.

DEFINITIONS

In this Policy, unless the context otherwise requires:

- a) **"Applicable Laws"** means the Companies Act, 2013 and the rules made there under, Reserve Bank of India (Non-Banking Financial Company –Scale Based Regulation) Directions, 2023 (RBI/DoR/2023-24/105-DoR.FIN.REC. No.45/03.10.119/2023-24 dated

October 19, 2023), Listing Agreement for Debt Securities, applicable Accounting/ Secretarial Standards issued by The Institute of Chartered Accountants of India and The Institute of Company Secretaries of India, respectively, from time to time and includes any other statute, law, standards, regulations or other governmental instruction relating to Corporate Governance Guidelines;

- b) **“Audit Committee”** means the Audit Committee formed under Section 177 of the Companies Act, 2013, as well as such Committee of the Board formed for the purpose of adherence to this Policy in accordance with the Directions;
- c) **“Board of Directors”** or **“Board”** means the collective body of the directors of the Company;
- d) **“Company”** means Kerala State Industrial Development Corporation Limited;
- e) **“Committees”** means Committees of Board of Directors constituted by virtue of Directions 2023 or other Applicable Laws;
- f) **“Companies Act, 2013”** includes any statutory modification(s), enactment(s) or reenactment(s) thereof for the time being in force;
- g) **“Corporate Governance”** means a set of relationships between the Company’s management, its Board, its shareholders and other stakeholders which provide the structure through which the objectives of the Company are set, and the means of attaining those objectives and monitoring performance. It helps to define the way authority is allocated and the way corporate decisions are arrived at and executed;
- h) **“Directions”** means Master Direction – Reserve Bank of India (Non-Banking Financial Company –Scale Based Regulation) Directions, 2023 and shall include any amendment thereto;
- i) **“Director”** means a director appointed to the Board of the Company;
- j) **“Independent Director”** means an independent director defined in Section 2(47) of Companies Act, 2013 or any modification or re-enactment made there under for the time being in force;
- k) **“Nomination Committee”** means the Nomination & Remuneration Committee (“NRC”) formed under Section 178 of the Companies Act, 2013, as well as such Committee of the Board formed for the purpose of adherence to this Policy in accordance with the Directions;
- l) **“Risk management”** means the process established to ensure that all material risks and associated risk concentrations are identified, measured, limited, controlled, mitigated and reported on a timely and comprehensive basis;
- m) **“Risk Management Committee”** means the Risk Committee or any such Committee of the Board formed for the purpose of adherence to this Policy in accordance with the Directions;
- n) **“Senior Management”** shall mean personnel of the Company who are members of its core management team excluding the Board of Directors. This would also include all members of management one level below the executive directors including all functional heads and Key Managerial Personnel (KMPs) as defined under the Companies Act, 2013.

GUIDELINES ON CORPORATE GOVERNANCE

In pursuance of the guidelines issued by the Reserve Bank of India, the Company has framed the following internal guidelines on Corporate Governance.

BOARD OF DIRECTORS

The constitution of the Board aims at ensuring Director's commitment to participate in the affairs of the Company with understanding and competence to deal with current and emerging business issues. The primary role of the Board is that of trusteeship to protect and enhance shareholder's value through supervision. The Board of Directors of the Company represents the interests of the Company's shareholders in optimizing long term value by guiding the management. As trustees, the Board ensures that the Company has clear goals relating to shareholders value and its growth. The Board sets strategic goals and seeks accountability for their fulfillment. The Board also provides directions and exercises appropriate control to ensure that the Company is managed in a manner that fulfils stakeholder's aspirations as well as societal expectations. The responsibilities of the Board include formation of policies, new initiatives, performance review, control and to take commercial as well as administrative decisions falling beyond the powers delegated to functionaries of the Company. The Board has also constituted committees and delegated powers for different functional areas.

The Board shall be responsible for exercising its business judgments to act in what it reasonably believes to be in the best interests of the Company, its shareholders and society in general. The Board of Directors along with its constituted Committees shall provide direction and guidance for the Company and shall further supervise and review the performance of the Company.

The Company should follow a structured process of decision making by the Board and its Committees. The notice and detailed agenda along with the relevant notes and other material information may be sent in advance separately to each Director/Committee member and in exceptional cases tabled at the Meeting with the approval of the Board/Committee member. This ensures timely and informed decisions by the Board. The Board reviews the performance of the Company vis-à-vis the budgets/targets.

The Board shall be responsible for overall compliance with the Corporate Governance of the Company and oversee the business affairs including responsibility for the Company's business strategy and financial soundness, key personnel decisions, internal organization and governance structure and practices, Risk Management and compliance obligations and in doing so the Board must act honestly, in good faith and in the best interests of the Company.

The Board should ensure that the Company's organizational structure enables the Board and Senior Management to carry out their responsibilities and facilitates effective decision making and good governance. This includes clearly laying out the key responsibilities and authorities of the Board itself, Senior Management and those responsible for the control functions.

The Board should ensure that transactions with related parties are reviewed to assess risk and are subject to appropriate resolutions/approval, as required under various applicable laws and that corporate or business resources of the Company are not misappropriated or misapplied.

The Board should review this Policy periodically so that it remains appropriate in the light of material changes in regulatory requirement with respect to the Company's size, complexity, geographic reach, business strategy, market and best governance practices.

Additionally, the management of the Corporations should also ensure that employees should be encouraged and be able to communicate, confidentially and without the risk of victimization, legitimate concerns about illegal, unethical or questionable practices. This will be facilitated through the existing Whistle Blower Policy including any modification(s) or revision(s) thereto.

Overseeing of senior management functions

The Board should delegate proper authority to the Managing Director who is responsible for the day-to-day affairs of the Company to oversee the Senior Management who should hold members of Senior Management accountable for their actions and enumerate the consequences if those actions are not aligned with the Board's performance expectations. This includes adhering to the Company's values, risk appetite and risk culture, regardless of financial gain or loss to the Company. In doing so, the Board should through the Managing Director:

- i. Monitor that Senior Management's actions are consistent with the strategies and policies approved by the Board;
- ii. Meet regularly with Senior Management;
- iii. Critically review and evaluate the reply and information provided by Senior Management;
- iv. Ensure that Senior Management's knowledge and expertise remain appropriate and is in line with the nature of the business and the Company's risk profile;
- v. Ensure that appropriate succession plans are in place for Senior Management positions.

Size of the Board

The Board's strength shall be as per the limits specified in the Companies Act, 2013 and the Articles of Association of the Company. In the case of KSIDC, the order issued by the Government of Kerala shall be applicable as well.

Board Composition

The composition of the Board of KSIDC shall be on the basis of Government order, Articles of Association, and the Companies Act, 2013.

Board Meetings and Quorum

The Board Meetings of the Company shall be held as per the requirements prescribed under the Companies Act, 2013, other Applicable Laws, Articles of Association and as decided by the Board of Directors. The meetings of the Board shall generally be held at the Company's Head office unless otherwise decided by the Board of Directors. The dates of the meetings shall be fixed well in advance. The quorum shall be as per the requirements of the Companies Act, 2013, other Applicable Laws and Articles of Association of the Company.

Important decisions of the Board may also be taken through Circular Resolution in compliance with the provisions of the Companies Act, 2013, where expediency calls for such a resolution

Information to be placed before Board and its Committees

To enable the Board members to discharge their responsibilities effectively and take informed decisions, detailed agenda papers, with explanations on each item, shall be sent to each Director 7 days in advance of the Board and its Committee meetings as per Companies Act, 2013, other Applicable Laws and Articles of Association of the Company. All the items on the agenda shall be discussed in detail, during the Board and its Committee meetings. The Board members shall have complete access to any information, within the Company. At the meetings, the Board members shall be provided with all the relevant information on important matters affecting the

working of the Company as well as the related details that require deliberation by the members of the Board. The Board may also call for the presence of senior officials to seek clarifications/inputs when deemed necessary.

Agenda for the Meeting

The agenda for the Board and its Committee meetings shall be sent to the Board members and the Committee members respectively at least 7 days in advance of the meeting. Each Board member and Committee member as the case may be is free to suggest inclusion of items in the agenda with the permission of the Chair.

Attendance at Board Meetings

The Directors shall strive to attend all meetings of the Board and its Committees where they are members.

Minutes

The minutes of all meetings of the Board and the Committees shall be circulated to the members of the Board and the Committee respectively and shall be confirmed within 30 days from the date of the meeting. Minutes of meetings of Committees of Board shall also be placed before the Board.

BOARD COMMITTEES

In order to focus on the critical functions of the Company, the Board may constitute such Committees as and when required to ensure smooth functioning of the Company. Presently, the Board have the following Sub-Committees constituted:

- Executive Committee
- Audit Committee
- Risk Management Committee
- Corporate Social Responsibility (CSR) Committee
- IT Strategy Committee
- Nomination and Remuneration Committee

The terms of reference of the above-mentioned Committees shall be determined by the Board from time to time as per Companies Act, 2013 and other Applicable Laws. Apart from the above Committees, the Board shall constitute such other Committees as may be deemed fit by it and, if required by any applicable law/directions of RBI from time to time.

EXECUTIVE COMMITTEE

The Committee shall comprise of five directors and the quorum for the meeting shall be minimum four Members present including the Managing Director. The functions of the Committee shall be as follows:

- a. To approve proposals for financial assistance over and above Rs. 5 crores up to Rs. 25 crores per case/project proposal.
- b. To evaluate and recommend proposals for financial assistance above per Rs. 25 crores case/project proposal to the Board for approval
- c. To approve reschedulement, restructuring of loans as per the credit policy approved by the Board.
- d. To approve changes in the terms and conditions of loan, if any, subsequent to sanction.

- e. Such other matters as may be delegated by the Board from time to time

The Committee shall meet as and when required. The presence of Managing Director shall be mandatory for convening the meetings of the Committee

AUDIT COMMITTEE

Composition of the Audit Committee

The Committee is to include at least 3 Directors, all of whom are non-executive directors and a majority of which are independent. The Chair of the Committee is to be independent and not the Chair of the Board. At least one member shall be competent in areas of finance, accounting, taxation, legal compliances & finance management. From time to time, non-Committee members may be invited to attend meetings of the Committee, if it is considered appropriate.

Roles and Responsibilities of the Committee

- a. Examination of the financial statement and the auditors' report and to consider the external audit of the financial statements and the external/internal auditor's report thereon including an assessment of whether external/internal reporting is consistent with Committee members' information and knowledge
- b. Assessment of the consistency of the external reporting with the Committee members' information and knowledge and its adequacy;
- c. Assessment of the management processes supporting external reporting;
- d. Recommendations for amending the Company's Procedures for the Selection and Appointment of the External/ Internal Auditor and procedures for the rotation of audit engagement partners, if applicable
- e. Evaluation of Variance analysis and disclosures as mandated by RBI
- f. Assessment of the performance and independence of the external/internal auditors.
- g. Consider and deliberate over the internal audit reports
- h. The Audit Committee must 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

RISK MANAGEMENT COMMITTEE (RMCB):

A sub-committee of the Board of Directors, is vested with the responsibility of monitoring and managing enterprise-wise risk at apex level in the Institutions and apprising the Board at periodic intervals. The Risk Management Committee of Directors (RMCB) comprises of 6 directors including the Managing Director of KSIDC. The Committee shall meet on annual basis or as and when required with the broad responsibilities as laid down in the Credit Risk Management Policy.

CSR COMMITTEE

- Formulate and recommend a CSR policy to the Board
- Recommend activities and the amount of expenditure to be incurred
- Monitor the CSR policy from time to time
- To consider CSR proposals and sanction & approve expenditures.

IT STRATEGY COMMITTEE

The Committee shall comprise of five directors and Minimum 3 directors present including Committee Chairman shall be the quorum for the Meeting. The mandate of Committee shall be to devise IT Strategy & IT policy for the Corporation commensurate with its scale of operations, alignment of IT with the activities of the Corporation, set up systems and procedure for availability of suitable IT resources with required skill sets to meet the strategic objectives of the Corporation, devise strategies for IT disaster management system in the Corporation and such other matters as may be required as per the RBI Master Directions. The proceedings of the Committee shall be placed before the Board.

NOMINATION AND REMUNERATION COMMITTEE (NRC)

Reserve Bank of India, vide master directions “Non-Banking Financial Company –Scale Based Regulation” updated on 19th October 2023 has clarified that Government NBFCs shall form a Nomination Committee to ensure ‘fit and proper’ status of proposed/ existing directors. Nomination Committee so constituted shall have the same powers, functions and duties as laid down in section 178 of the Companies Act, 2013.

KSIDC’s Nomination and Remuneration Committee, consist of three directors and the functions of the Committee shall cover the following;

- i. Evolve policy for appointment of Key Managerial Personnel and other senior management, covering qualifications, positive attributes and their remuneration and other perquisites. The Committee shall ensure that the Policy so evolved is also placed in the website of the Corporation.
- ii. To ensure balance between fixed and incentive pay reflecting short- and long-term performance objectives appropriate to the working of the Corporation and its goals.
- iii. To ensure relationship of remuneration to performance is clear and meets appropriate performance benchmarks.

Fit and proper criteria for directors

The Company’s standards on ‘fit and proper’ criteria shall be in line with the RBI guidelines at the time of appointment of Directors and on a continuing basis. The NRC shall review the appointment/re-appointment of Directors considering their qualifications, expertise, track record, integrity and other ‘fit and proper’ criteria.

The NRC should obtain such declarations/undertakings, deed of covenant from the Directors and ensure furnishing such statement and certificates as may be prescribed by the Policy for determining Fit and Proper Criteria in line with the Guidelines issued by the RBI for the time being in force. The process of due diligence shall be undertaken by the NRC at the time of appointment/ renewal of appointment.

A quarterly statement on change of directors 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 should be furnished to the Regional Office of the RBI in terms of the Guidelines issued by the RBI for the time being in force.

Additionally, NRC shall also obtain annually as on 31st March a simple declaration from the Directors that the information already provided has not undergone change and where there is any change, requisite details are furnished by them forthwith.

CHIEF RISK OFFICER

As per the Scale Based regulations, issued by RBI, NBFCs with asset size of more than ₹5,000 crores shall appoint a Chief Risk Officer (CRO) with clearly specified role and responsibilities. As on 31st March 2023, the AUM of KSIDC is approximately Rs. 1350 crores and hence KSIDC is not mandatorily required to appoint CRO.

POLICIES OF THE COMPANY

Presently the Company has adopted and revised from time to time the following Policies as approved by the Board and various Committees of the Company subject to provisions contained in the RBI Regulations / Directions, the Companies Act, 2013 and other Applicable Laws –

- i. Loan Credit Policy
- ii. Fair Practices Code
- iii. Interest Rate Policy
- iv. IT Policy
- v. Cyber Security Policy
- vi. Asset Liability Management (ALM) Policy

In addition to the above policies already in force, the following policies, concurrently placed for consideration, shall also come into effect once the same are recommended by the RMCB and approved by the Board:

- i. Compliance Policy and Framework for Compliance Function
- ii. Credit Risk Management Policy
- iii. Know Your Customer and Anti-Money Laundering Policy
- iv. Whistle Blower Policy
- v. Compromise settlement and technical write-off
- vi. Corporate Governance Policy

The Company shall also adopt such Policies as approved by the Board and/or its various Committees from time to time as may be required by any Direction of RBI and Applicable Laws.

DISCLOSURE TO THE BOARD

The following disclosures shall be made to the Board of Directors at regular intervals (preferably once in a year) as may be prescribed by the Board in this regard:

- a. progress made in putting in place a progressive risk management system, and risk management policy and strategy followed;
- b. conformity with Corporate Governance standards viz. in composition of various Committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

DISCLOSURE IN THE FINANCIAL STATEMENTS

The Company shall put up to the Board of Directors, at regular intervals, as may be prescribed by the Board in this regard, the following:

- the progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the Company;
- Conformity with corporate governance standards viz., in composition of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

In addition to the disclosures required to be made as per the Applicable Laws, the following additional disclosures shall be made in the annual financial statements in terms of the RBI Directions:

- registration / license / authorization 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, Non-Performing Assets (NPA) and movement of NPAs, details of all off-balance sheet exposures, structured products issued by them as also securitization/ assignment transactions and other disclosures.

Requisite disclosures as may be required under any Applicable Laws from time to time shall also be made in the Financial Statements.

REVIEW OF POLICY

The Board or its Committee may review the policy from time to time as may be required. The Corporate Governance Policy shall become effective from the date of its approval by the Board /Committee. This Policy shall remain in force till the next revision is carried out and disseminated.
