



COMPLIANCE POLICY

Approved by Board in their Meeting held on 18-10-2023

1.0 INTRODUCTION

1. **Muthoottu Mini Financiers Ltd (MMFL)** is committed to follow best practices and market standards in areas of accountability, transparency and business ethics in order to promote sustainability. Good governance and compliance with laws and standards form an integral part of market standards. At the core of these efforts are integrity issues and the reputation risk the MMFL faces in its activities which forms the basic principles on which this compliance policy is based on. This policy is intended to present how **MMFL** defines compliance and the Compliance function's role and responsibilities regarding the management of compliance risks.
2. In order to preserve the integrity of its organization and the reputation for professional and ethical conduct that **MMFL** has in the environment, it requires of all businesses:
 - i) good understanding of and strict compliance with applicable laws, regulations and standards in each of the markets and jurisdictions in which MMFL operates;
 - ii) the on-going implementation of and adherence to this Policy.

2.0 COMPLIANCE AND COMPLIANCE RISK

3. Compliance can be defined as the adherence to laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities (together 'Compliance laws, rules and standards') in matters concerning observing proper standards of market conduct, managing conflicts of interest and specifically dealing with matters such as prevention of money laundering and terrorist financing, and investigations of alleged corrupt and fraudulent behavior.
4. Compliance risk is defined as the risk of impairment of MMFL's integrity leading to damage of the MMFL's reputation, to the risk of legal or regulatory sanctions, or material financial loss, the MMFL may suffer as a result of its failure to comply with compliance laws, rules and standards.
5. Compliance risk is also often referred to as integrity risk, as the integrity risk is the key focus of Compliance, and also as reputation risk. However, it shall be noted that reputation damage is only one of the possible effects of compliance risk, in addition to sanctions and financial loss. Compliance risk is therefore a broader concept than just reputation risk. Reputation damage or risk is a secondary effect or consequence of compliance risk. Effective compliance risk management means our compliance obligations and protecting MMFL from loss or damage, which is vital for sustainable business.

3.0 COMPLIANCE FUNCTION

6. The Compliance Function is an independent function that identifies, assesses, advises on, monitors and reports on the MMFL's Compliance Risk. Along with internal control and the risk management process, therefore, the Compliance Function is one of the key elements in the MMFL's corporate governance structure.

4.0 SCOPE OF COMPLIANCE FUNCTION

7. The Compliance Laws, Rules and Standards have various sources including primary legislation, rules and standards issued by legislators and supervisors, market conventions, codes of practice promoted by industry associations and internal codes of conduct applicable to the staff members of MMFL.
8. In addition, the Compliance Laws, Rules and Standards generally cover matters such as the observing of proper standards of market conduct, managing conflicts of interest, and treating customers fairly and ensuring the suitability of advice given to customer(s). For these reasons, the sources will in all likelihood go beyond those set mentioned above in terms of what is legally binding and will include broader standards relating to integrity and ethical conduct. It is, however, reiterated that compliance is a shared responsibility of the business units and the compliance function. Therefore, adherence to applicable statutory provisions and regulations needs to be the responsibility of each staff member of MMFL and it is the work of the compliance function to ensure the same.
9. The Compliance Function in MMFL will rely and review the following:
 - i) The statutory requirements as per prevailing (law) legislation and practice as applicable to the MMFL
 - ii) The requirements spelt out by the Reserve Bank of India through its various directives, circulars etc.
 - iii) The requirements spelt out by other regulators in so far as these are applicable to MMFL in relation to the business lines MMFL is engaged.
 - iv) The requirements set out by agencies and bodies that are binding on the MMFL.
 - v) The MMFL's own internal operating policy guidelines, procedures and controls as reflected in the various detailed policy and procedures manuals that continue to be in effect including the various codes that may have been laid down by the MMFL from time to time.
 - vi) The internal codes of conduct applicable to the staff members of the MMFL.
 - vii) The MMFL's own experience with the review and control over Risk and Risk Management.
 - viii) Applicable Fair Practice(s) Code(s)

5.0 CHIEF COMPLIANCE OFFICER (CCO)

10. The CCO shall be a senior executive of the NBFC, preferably in the rank of a General Manager or an equivalent position (not below two levels from the CEO). However, in the case of NBFC -ML, this requirement can be relaxed by one level further. If the NBFC considers necessary, the CCO can also be recruited from the market.

Tenure: The CCO shall be appointed for a minimum fixed tenure of not less than 3 years. However, in exceptional cases, the Board may relax the minimum tenure by one year, provided appropriate succession planning is put on place.

Removal: The CCO shall be transferred/removed before completion of the tenure in exceptional circumstances, with the explicit prior approval of the Board, after following a well-defined and transparent internal administrative procedure.

Skills: The CCO shall have a good understanding of the industry and risk management practices, knowledge of regulations, legal requirements and have sensitivity to Supervisory expectations.

Stature: The CCO shall have the ability to exercise judgement independently. He /She shall have the freedom and authority to interact with regulators/supervisors directly and ensure compliance.

Conduct: CCO shall have a clean track record and unquestionable integrity.

Selection Process: Selection of the candidate for the post of the CCO shall be made based on a well-defined selection process and recommendations made by a committee constituted by the Board for the purpose. The Board shall take final decision in the appointment of CCO.

Reporting Requirements: A prior intimation to the Senior Supervisory Manager, Department of Supervision, Reserve Bank of India , shall be provided before appointment, premature transfer, resignation, early retirement or removal of the CCO. Such information shall be supported by a detailed profile of the candidate along with the “Fit and Proper” certification by the MD & CEO of the NBFC, confirming that the person meets the prescribed supervisory requirements and rationale of changes, if any. Fit and Proper criteria may be examined.

Reporting Line: The CCO shall have direct reporting line to the MD & CEO and /or Board / Board Committee. In case the CCO reports to the MD & CEO, the Board /Board Committee shall meet the CCO at quarterly intervals on a one-to -one basis, without the presence of the senior management, including MD & CEO. The CCO shall not have any reporting relationship with the business verticals. Further, the performance appraisal of the CCO shall be reviewed by the Board/Board Committee.

11. Duties of Chief Compliance Officer:

- i) Identify and evaluate the compliance risk(s) facing the organization along and across product lines, business lines and functional areas within the MMFL.
- ii) Suggest procedures and guidelines to address Compliance Risks including the Legal and Reputational Risks faced by MMFL.

- iii) Spread the compliance culture with emphasis on good governance and adherence to codes of conduct including integrity and honesty.
 - iv) Act as the focal or reference point for the MMFL's staff in Zone/ Region / Corporate office that seek clarification(s) or interpretation(s) of various regulatory and statutory guidelines.
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12. The CCO shall not be given any responsibility which brings elements of conflict of interest, especially the role relating to business and shall not be member of any committee which brings his/ her role in conflict with responsibility as member of the committee, including any committee dealing with purchases/ sanctions. In case the CCO is member of a committee, he/ she may have only advisory role.
 13. The Chief Compliance Officer shall: -
 1. Assist the Board and the Senior Management on overseeing the implementation of Compliance Policy, including policies and procedures, prescriptions in Compliance Manuals, internal codes of conduct etc.
 2. Play the central role in identifying the level of Compliance Risk in the Organization. The Compliance risks in existing / new products and processes shall be analyzed and appropriate risk mitigants put in place. The Chief Compliance Officer (CCO) shall be a member of the "new product" committee/s. All new products shall be subjected to intensive monitoring for at least the first six months of introduction to ensure that the indicative parameters of compliance risk are adequately monitored.
 3. Compliance Function shall monitor and test Compliance by performing sufficient and representative compliance testing and the results of such Compliance testing shall be reported to the Senior Management. It shall periodically circulate the instances of compliance failures among staff, along with the required preventive instructions. Staff accountability shall be examined for major compliance failures.
 4. Ensure compliance of regulatory/supervisory directions given by RBI in both letter and spirit in a time bound and sustainable manner. RBI will continue to expect an effective Compliance Program where all Risk Mitigation Plan (RMP)/Monitorable Action Plan (MAP) points are complied with within the timelines prescribed.
 5. Attend to compliance with directions from other regulators in cases where the activities of the entity are not limited to the regulation/supervision of RBI. Further, discomfort conveyed to the NBFC on any issue by other regulators, and action taken by any other authorities / law enforcement agencies, shall be brought to the notice of RBI.
 6. The Compliance team shall be a reference point for the staff from operations departments for seeking clarifications/interpretation of various regulatory and statutory guidelines.
 7. The CCO shall be the nodal point of contact between the NBFC and the regulators/supervisors and shall necessarily through the office of the Compliance Function.
 8. Divisions looking after compliance with different statutory and other requirements, shall hold the prime responsibility for their respective areas, which shall be clearly outlined. Adherence to applicable statutory provisions and regulations is the responsibility of each staff member. However, the compliance function would need to ensure overall oversight.

14. A Compliance team shall be constituted to support the Chief Compliance Officer comprising a representative from the Finance and Accounts, Secretarial, audit and Vigilance, systems, HR and Legal Departments
15. The Compliance team shall in consultation and under the guidance of the CCO develop a Compliance Chart which describes and analyses in terms of compliance risk those laws, regulations and standards which are material and relevant to the business and fall within the generic scope of the Compliance function

6.0 REPORTS/RETURNS/REVIEWS TO BE SUBMITTED BY THE CCO

- i) The CCO must prepare a report on the discussions held with the RBI and submit the same to the Board.
- ii) The CCO will at the end of each calendar month prepare a report on the position of compliance and submit the same to the Chairman / MD & CEO. If there are no matters of significance to be reported a 'nil' report shall be submitted.
- iii) At the end of each quarter, the CCO will prepare a brief report on the compliance position and place the same before the Board, as the case may be, for the purposes of review. The quarterly reports must convey adequate information to assist/enable the Board to make an informed judgment on whether the MMFL is managing its compliance risk effectively.
- iv) CCO will in consultation with the Senior Management of the MMFL identify and assess the main compliance risk or risks pertaining to MMFL and formulate the plans necessary to address the same. This analysis and plan will be incorporated in the Annual Compliance Report.

The Board should ensure that compliance issues, if any, identified after the review or otherwise are resolved effectively and expeditiously by the Senior Management

7.0 COMPLIANCE CULTURE

16. The compliance policy is framed with the objective of ensuring compliance culture across the MMFL by encapsulating the compliance philosophies detailed in the policy. Compliance starts at the top wherein the board of directors along with the senior management should set the tone at the top and usher in a strong compliance culture in MMFLs. The compliance culture should be integrated in the overall business strategy of the MMFL and should be taken into consideration in various decision-making process. Accountability of senior management, functional head and operational head should be clearly defined. Compliance should be an integral part of the culture of the organization and should not just be the responsibility of staff working in compliance function. Employees of the MMFL should also be educated on the importance of ensuring a robust compliance culture within the MMFL through training etc. An adequate incentive structure should be in-built in the MMFL's decision making systems and processes to achieve the desired compliance culture. They should be made aware about the various compliance issues identified and the consequences of

non-compliance with internal and regulatory instructions. Deviations in compliance should be taken with seriousness and staff accountability should be examined and disciplinary action should be taken wherever necessary. The focus of the compliance function should be preventive compliance. Strong compliance culture is a pre-requisite for an effective compliance function.

8.0 REVIEW OF COMPLIANCE POLICY

17. The Board will review the Compliance Policy once a year, and as and when required in order to keep it updated. The outcome of such review will be communicated in terms of sections to be added, sections to be deleted and/or sections to be updated/ amended to the Board. The amendments to the Policy once approved by the appropriate authority will form part of the Compliance policy and will then publish a New version of the compliance policy incorporating the modifications.
18. In any event, a review of the Policy must be carried out whenever the Reserve Bank of India introduces any requirement of a Policy nature in order that the relevant policy section can be duly updated for the same. As part of the annual review, a review of the compliance manual (see various sections in which sets out the basic principles to be followed by the management and staff and explains the processes by which compliance risk will be identified and managed through all levels of the organization) will also be undertaken. This review can be on a staggered basis and carried throughout the year.

ANNEXURE I

19. List of Compliance laws, rules and standards that have a binding effect on the conduct of the MMFL's business shall include but shall not be limited to the following:

List of Regulators and Regulations: -

- i) Reserve Bank of India (RBI)
 - a) RBI master Directions for NBFC-NDSI and amendments made to it .
 - b)Circulars and Notifications issued from time to time
- ii) Insurance Regulatory and Development Authority (IRDA)
 - a)Agency Norms
- iii) Securities & Exchange Board of India (SEBI)
 - a) SEBI (LODR) Regulations 2015
 - b) SEBI (ILNCS) Regulations 2021
- iv) Ministry of corporate affairs through RoC
- v) Labour regulations
- vi) Tax regulations