OUTSOURCING POLICY OF KREON FINNANCIAL SERVICES LIMITED

TABLE OF CONTENTS

SUMMARY OF POLICY

Policy Name	Outsourcing Policy
Issue and Effective Date	06.01.2025
Periodicity of Review	Annual
Owner/Contact	Company Secretary and Compliance Officer
Approver	Board of Directors

VERSION/REVISION CONTROL

Version	Date of Approval	Approver	Comments / Remarks / Changes
1.	06.01.2025	Board of Directors	Adoption of Policy

1. PREAMBLE

As per the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulations) Directions, 2023 dated October 19, 2023 (RBI/DoR/2023-24/106 DoR.FIN.REC.No.45/03.10.119/2023-24) issued by the Reserve Bank of India (the "**RBI**"), all Non-Banking Financial Companies (the "**NBFCs**") are required to have a Board of Directors (the "**Board**") approved Outsourcing Policy.

In line with the same requirement, the Kreon Finnancial Services Limited (the "**Company**" or "**KFSL**") has adopted this Board approved Outsourcing Policy (the "**Policy**").

2. OBJECTIVE

The objective of this Policy is to identify the criteria for selection of such activities that may be outsourced as well as selection of service provider(s), delegation of authority depending on risks arising out of outsourcing, materiality and systems to monitor, review the operations and management of these risks.

Another objective of this Policy is to protect the interest of the customers and investors of KFSL and to ensure that the Company and the RBI have access to all relevant books, records and information available with service provider and to ensure that outsourcing arrangements neither diminish its ability to fulfil its obligations to customers and RBI nor impede effective supervision by RBI.

3. APPLICABILITY

The instructions contained in this Policy shall be applicable to material outsourcing arrangements as explained in paragraph 8 which may be entered into by the Company with a service provider located in India or elsewhere. The service provider may either be a member of the group/conglomerate of the Company, or an unrelated party.

These instructions are concerned with managing risks in outsourcing of financial services and are not applicable to technology-related issues and activities not related to financial services, such as usage of courier, catering of staff, housekeeping and janitorial services, security of the premises, movement and archiving of records, etc.

The Company shall not require any prior approval from the RBI to outsource any financial services. However, such arrangements would be subject to on-site/off-site monitoring and inspection/scrutiny by the RBI.

4. IMPLEMENTATION

This Policy shall be effective from the date of adoption by the Board. The Board of Directors of KFSL shall oversee this Policy and ensure its effective implementation. Further, the Board may delegate the responsibility for the implementation of this Policy and other functioning aspects to any Director and/or Company Secretary as it deems fit.

5. DEFINITIONS

a) **Outsourcing** is defined as the NBFC's use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the NBFC itself, now or in the future.

b) **Continuing basis** includes agreements for a limited period.

6. ACTIVITIES NOT TO BE OUTSOURCED

The Company, if chooses to outsource financial services, shall not outsource following services:

- **Core management functions** including internal audit, strategic and compliance functions.
- **Decision-making functions** such as determining compliance with KYC norms, sanction of loans (including retail loans).
- **Management of investment portfolio**.

However, these functions may be outsourced within the Company's group subject to compliance with instructions elaborated below in outsourcing within the group.

Further, while internal audit function itself is a management process, the internal auditors can be on contract.

7. RISK INVOLVED IN OUTSOURCING

Outsourcing of any activity by the Company exposes the Company to number of risks which needs to be evaluated and effectively managed and mitigated.

The key risks that may arise due to outsourcing are:

- **Strategic Risk** – the service provider may conduct business on its own behalf, which can be inconsistent with the overall strategic goals of the Company.
- **Reputation Risk** – poor service from the service provider and its customer interaction does not remain consistent with the overall standards of the Company.
- **Compliance Risk** – privacy, consumer and prudential laws are not adequately complied with by the service provider.
- **Operational Risk** – arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/or to provide remedies.
- **Legal Risk** – the Company is subjected to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements due to omissions and commissions of the service provider.

- **Exit Strategy Risk** – This could arise from over-reliance on one firm, the loss of relevant skills in the Company itself preventing it from bringing the activity back in-house and contracts entered into wherein exits would be prohibitively expensive.
- **Counterparty Risk** – due to inappropriate underwriting or credit assessments.
- **Contractual Risk** – arising from whether the Company have the ability to enforce the contract.
- **Concentration and System Risk** – due to lack of control of the Company over the service provider, more so when overall industry has considerable exposure to that same service provider.
- **Country Risk** – this may arise due to political, social or legal climate creating added risk.

8. MATERIAL OUTSOURCING ARRANGEMENTS

Material outsourcing arrangements are those which, if disrupted, have the potential to significantly impact the business operations, reputation, profitability or customer service.

Materiality of outsourcing shall be based on following but not limited to:

- The level of importance of the activity being outsourced to the Company.
- The level of significance of the risk posed by the outsourced activity to the Company.
- The potential impact of the outsourcing on the Company, on various parameters such as, earnings, solvency, liquidity, funding capital and risk profile.
- The likely impact on the Company's reputation and brand value, and ability to achieve its business objectives, strategy and plans, should the service provider fail to perform the service.
- The cost of the outsourcing as a proportion of the total operating costs of the Company.
- The aggregate exposure to that particular service provider, in case where the Company outsources various functions to the same service provider.
- The significance of activities outsourced in context of customer service and protection.

9. CENTRAL RECORD OF MATERIAL OUTSOURCING

A central record of all material outsourcing that is readily accessible for review by the Board and Senior Management of the Company shall be maintained. The records shall be updated promptly, and the Board of Directors shall be responsible for performing a half-yearly review of such central record.

10. ROLES AND RESPONSIBILITIES

a) **The Board** – the Board of the Company or Committee of the Board to which powers are delegated, shall be responsible inter alia, for the following:

   - Approval of framework to evaluate the risks and materiality of all existing and prospective outsourcing activities and the policies that apply to such arrangements.

- Deciding on business activities of a material nature to be outsourced and approving of such arrangements.
- Laying down appropriate authorities for outsourcing depending on risks and materiality.
- Setting up suitable administrative framework of Senior Management for the purpose of these directions.
- Undertaking regular reviews of outsourcing strategies and arrangements for their continued relevance, safety and soundness.
- Undertaking responsibility for the actions of service providers.
- Undertaking responsibility to maintain the confidentiality of information pertaining to the customers that is available with the service provider.
- Performing half-yearly review of the central record of material outsourcing maintained by the Company.
- Undertake to ensure that the service provider, if not a group company of the Company, shall not be owned or controlled by any Director of the Company or their relatives. These terms have the same meaning as assigned under Companies Act, 2013.

b) The Audit Committee and Senior Management

- Evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board.
- Developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope and complexity of the outsourcing activity.
- Reviewing periodically the effectiveness of policies and procedures.
- Communicating information pertaining to material outsourcing risks in the Board in a timely manner.
- Ensuring that contingency plans, based on realistic and probable disruptive scenarios of service provider, are in place and tested.
- Ensuring that there is independent review and audit for compliance with set policies.
- Undertaking periodic reviews of outsourcing arrangements to identify new material outsourcing risks as they arise.
- Ensuring a robust grievance redressal mechanism, which in no way shall be compromised on account of outsourcing.

11. EVALUATION AND SELECTION OF SERVICE PROVIDER

In considering or renewing an outsourcing arrangement, the Company shall consider:

- all relevant laws, regulations, guidelines and conditions of approval, licensing or registration.
- qualitative, quantitative, financial, operational and reputational factors.
- whether the service provider’s systems are compatible with the Company’s systems.

- whether their standards of performance, including in the area of customer service are acceptable to the Company.
- issues relating to undue concentration of outsourcing arrangements with a single service provider.
- Independent reviews and market feedback on the service provider.

Due diligence shall involve an evaluation of all available information about the service provider, including but not limited to the following:

- Past experience and competence of the service provider to implement and support the proposed activity over the contracted period.
- Service provider's financial soundness.
- Ability of the service provider to service commitments even under adverse conditions.
- Business reputation of the service provider.
- Culture and compliance status of the service provider.
- Complaints and outstanding/pending or potential litigations against the service provider.
- Security and internal control, audit coverage, reporting and monitoring environment and business continuity management.
- Due diligence performed by the service provider of its own employees.
- The service provider, if not a group company of the Company, shall not be owned or controlled by any Director of the Company or their relatives.
- Service provider's resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed.
- Compatibility of the practices and systems of the service provider with the Company's requirements and objectives.
- Market feedback on the prospective service provider's business reputation and track record of their services rendered in the past.
- Level of concentration of the outsourced arrangements with a single party.

12. <u>OUTSOURCING AGREEMENT/CONTRACT</u>

The Company shall ensure the terms and conditions governing the contract between the Company and the service provider are carefully defined in a legally binding written agreements and vetted by the Company's legal team on their legal effect and enforceability. Every such agreement shall address the risks and risk mitigation strategies. The agreement shall be sufficiently flexible to allow the Company to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations. The agreement shall also bring out the nature of legal relationship between the parties i.e. whether agent, principal or otherwise.

The Company shall ensure below mentioned key provisions to be inserted in the contract with the service provider:

- Clearly define the activities outsourced including appropriate service and performance standards.
- Provides for mutual rights, obligations and responsibilities of the Company and the service provider, including indemnity by the parties.
- Provision enabling the Company to access all books, records and information relevant to the outsourced activity available with the service provider.
- Provision for continuous monitoring and assessment by the Company of the service provider so that any necessary corrective measure can be taken immediately i.e., the contract shall enable the Company to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations.
- A well-defined and inclusive termination clause and minimum period to execute a termination provision, if deemed necessary.
- Clearly mention about the kind of controls which shall be implemented by the service provider to ensure customer data confidentiality and the extent of service provider's liability in case of breach of security and leakage of confidential customer related information.
- The contingency plans to ensure business continuity shall be made available in the contract.
- Clause to obtain prior approval/consent of the Company for the use of subcontractors by the Service Provider for all or part of an outsourced activity.
- It shall provide the Company with the right to conduct audits on the service provider whether by its internal or external auditors, or by agents appointed to act on its behalf and to obtain copies of any audit or review reports and findings made on the service provider in conjunction with the services performed for the Company.
- Clause to allow the RBI or persons authorized by it to access the Company's documents, records of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time.
- Clause to recognize the right of the RBI to cause an inspection to be made of a service provider of the Company and its books and accounts by one or more of its officers or employees or other persons.
- Clause to retain confidentiality of customer's information by the service provider even after the contract expires or gets terminated.
- Provisions to ensure that the service provider preserves documents as required by law and take suitable steps to ensure that the Company's interests are protected in this regard even post termination of the services.
- Provisions address the monitoring and control of outsourced activity by the Company.
- Provides for the liability of the service provider to the Company for unsatisfactory performance/other breach of the contract.
- It shall specify the responsibilities of the service provider with respect to the information technology security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.
- All statutory obligations shall be fulfilled by the service provider.

- Non-disclosure and non-compete clause.
- Provides mechanisms to resolve disputes arising from implementation of the outsourcing contract.
- Addresses additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when Company outsources its activities to foreign service provider. For example, the agreement shall include choice-of-law provisions and agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction.
- It shall neither prevent nor impedes the Company from meeting its respective regulatory obligations, nor the RBI from exercising its regulatory powers.

13. CONFIDENTIALITY AND SECURITY OF CUSTOMER-RELATED INFORMATION

Public confidence and customer trust are pre-requisites for the stability and reputation of the Company. Hence while outsourcing any activity, the Company shall be expected to take appropriate steps to protect its proprietary and confidential customer-related information to avoid any misuse or misappropriation of such information.

The Company shall take all reasonable steps including but not limited to the following:

- Access to customer information by the staff of the service provider shall be on 'need to know' basis i.e. limited to those areas where the information is required to perform the outsourced function.
- The service provider can isolate and clearly identify the Company’s customer information, documents, records and assets to protect the confidentiality of the information.
- In cases where the service provider is providing similar services to multiple NBFCs, the Company shall ensure that adequate care shall be taken by the service provider to build strong safeguards so that there is no comingling of information, documents, records and assets of the Company.
- Regular review and monitoring of the security practices and control processes of the service provider and requiring the service provider to disclose security breaches.
- The Company shall immediately notify the RBI in the event of any breach of security and leakage of confidential customer-related information.
- No information (including personal information or data of the borrowers) shall be collected by LSP/DLA without the prior explicit consent of the borrowers.
- All data collection by the Company is stored in the servers located in India.

Nothing stated above shall preclude the Company from adhering to the mandate of disclosing/reporting borrowers to the Credit Information Companies (the “**CICs**”) in accordance with the Digital Lending Guidelines and/or the Outsourcing Policies and/or other extant instructions/ guidelines/ directions/ circulars issued by the RBI.

14. BUSINESS CONTINUITY AND MANAGEMENT OF A DISASTER RECOVERY PLAN

The Company shall require its service provider(s) to develop and establish a robust framework for documenting, maintaining and testing business continuity and recovery procedures. The Company shall ensure that the service provider periodically tests the Business Continuity and Disaster Recovery Plan and may also consider occasional joint testing and recovery exercises with its service provider.

To mitigate the risk of unexpected termination of the outsourcing agreement or liquidation of the service provider, the Company shall retain an appropriate level of control over their outsourcing and the right to intervene with appropriate measures to continue its business operations in such cases without incurring prohibitive expenses and without any break in the operations of the Company and its services to the customers.

In establishing a viable contingency plan, the Company shall consider the availability of alternative service providers or the possibility of bringing the outsourced activity back in-house in an emergency and the costs, time and resources that would be involved.

The Company will make sure that service provider(s) are able to isolate the Company's information, documents and records, and other assets so that in appropriate situations, all documents, records of transactions and information given to the service provider, and assets of the Company, can be removed from the possession of the service provider in order to continue its business operations, or deleted, destroyed or rendered unusable.

15. MONITORING AND CONTROL OF OUTSOURCED ACTIVITIES

- The Company shall have in place a management structure to monitor and control its outsourcing activities.
- Regular audits by either the internal auditors or external auditors of the Company shall assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, the Company's compliance with its risk management framework and the requirements of these directions.
- The Company shall, at least on an annual basis, review the financial and operational condition of the service provider to assess its ability to continue to meet its outsourcing obligations. Such due diligence reviews, which can be based on all available information about the service provider, shall highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.
- In the event of termination of the outsourcing agreement for any reason in cases where the service provider deals with the customers, the same shall be publicized by displaying at a prominent place in the branch, posting it on the website, and informing the customers to ensure that the customers do not continue to deal with the service provider.
- A robust system of internal audit of all outsourced activities shall also be put in place and monitored by the Audit Committee of the Board.

16. REDRESSAL OF GRIEVANCES RELATED TO OUTSOURCING

The Company Secretary and Compliance Officer of the Company shall be considered as Nodal Grievance Redressal Officer for the purpose of redressal of grievances in relation to the outsourced activity.

The Designated Officer shall ensure that genuine grievances of the customers are forwarded to concerned department and redressed promptly without any delay.

Generally, a time limit of 30 days shall be given to the customers for resolving their complaints/grievances. The grievance redressal procedure of the Company and the time frame fixed for responding to the complaints shall also be well defined in the Company's Grievance Redressal Policy.

17. OUTSOURCING WITHIN THE GROUP

In a group structure, the Company may have back-office and service arrangements/ agreements with group entities e.g. sharing of premises, legal and other professional services, and hardware and software applications, centralized back-office functions, outsourcing certain financial services to other group entities etc.

Before entering into such arrangements with group entities, the Company shall have an arrangement with their group entities which shall also cover demarcation of sharing resources i.e. premises, personnel, etc. Moreover, the customers shall be informed specifically about the Company which is offering the product/service, wherever there are multiple group entities involved, or any cross-selling observed.

While entering into such arrangements, the Company shall ensure that:

- Arrangements are appropriately documented in written agreements with details like scope of services, charges for the services and maintaining confidentiality of the customer's data.
- Such an arrangement does not lead to any confusion to the customers on whose products/services they are availing by clear physical demarcation of the space where the activities of the Company and those of its other group entities are undertaken.
- Incorporate a clause under the written agreements that there is a clear obligation for any service provider to comply with directions given by the RBI in relation to the activities of the Company.
- The Company shall ensure that their ability to carry out their operations in a sound fashion will not be affected if premises or other services (such as information technology systems, support staff) provided by the group entities become unavailable.
- If the premises of the Company are shared with the group entities for the purpose of cross-selling, the Company shall take measures to ensure that the Company's identification is distinctly visible and clear to the customers. The marketing brochure used by the group entity and verbal communication by its staff/agent in the Company premises shall mention the nature of arrangement of the entity with the Company so that the customers are clear on the seller of the product.
-

- The Company shall not publish any advertisement or enter into any agreement stating or suggesting or giving the tacit impression that they are in any way responsible for the obligations of its group entities.

18. OFF-SHORE OUTSOURCING

The engagement of service providers in a foreign country exposes the Company to country risk-economic, social and political conditions and events in a foreign country that may adversely affect the Company. Such conditions and events could prevent the service provider from carrying out the terms of its agreement with the Company. To manage the country risk involved in such outsourcing activities, the Company shall take into account and closely monitor government policies and political, social, economic and legal conditions in countries where the service provider is based, both during the risk assessment process and on a continuous basis and establish sound procedures for dealing with country risk problems. This includes having appropriate contingency and exit strategies. In principle, arrangements shall only be entered into with parties operating in jurisdictions generally upholding confidentiality clauses and agreements. The governing law of the arrangement shall also be clearly specified.

The activities outsourced outside India shall be conducted in a manner so as not to hinder efforts to supervise or reconstruct the India activities of the Company in a timely manner.

As regards the off-shore outsourcing of financial services relating to Indian Operations, the Company shall additionally ensure that:

- Where the off-shore service provider is a regulated entity, the relevant off-shore regulator will neither obstruct the arrangement nor object to RBI inspection visits/ visits of Company's internal and external auditors.
- The availability of records to Management and the RBI will withstand the liquidation of either the off-shore custodian or the Company in India.
- The regulatory authority of the off-shore location does not have access to the data relating to Indian operations of the Company simply on the ground that the processing is being undertaken there.
- The jurisdiction of the courts in the off-shore location where data is maintained does not extend to the operations of the Company in India on the strength of the fact that the data is being processed there even though the actual transactions are undertaken in India.
- All original records continue to be maintained in India.

19. REPORTING TO FIU-INDIA

The Company shall be responsible for making Currency Transactions Reports and Suspicious Transactions Reports to FIU or any other competent authority in respect of the Company's customer-related activities carried out by the Service Providers.

20. POLICY REVIEW

The Policy shall be amended or modified with approval of the Board. The Policy shall be reviewed by the Board on an annual basis. Consequent upon any amendments in RBI guidelines or any change in the position of the Company, necessary changes in this Policy shall be incorporated and approved by the Board.

Notwithstanding anything contained in this Policy, in case of any contradiction of the provision of this Policy with any existing legislations, rules, regulations, laws or modification thereof or enactment of a new applicable law, the provisions under such law, legislation, rules, regulation or enactment shall prevail over this Policy.

21. POLICY DISCLOSURE

This Policy shall be made available on the website of the Company in accordance with the Company's Fair Practices Code and the RBI guidelines.

KREON FINNANCIAL SERVICES LIMITED
#26, 22nd Street, Rathinam Nagar,
Thiruvanmiyur, Chennai - 600041

CIN:L65921TN1994PLC029317
(Office) 044-42696634
info@kreon.in
www.kreon.in