

INTERNAL GUIDELINES ON CORPORATE GOVERNANCE

**Hiranandani Financial Services Private
Limited**

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Policy Control

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1. **PREAMBLE**

Hiranandani Financial Services Private Limited ("**HFS/ the Company**") is a Non Deposit Taking – Systemically Important, Non- Banking Finance Company (**NBFC-ND-SI**) and is registered with the Reserve Bank of India ("**RBI**") as an Investment and Credit Company – Non Deposit Taking.

The Company believes that good corporate governance results from sound processes that ensure that the Directors are well supported by accurate and timely information, sufficient time and resources and unrestricted access to management. The business judgment of the Board must be exercised independently and in the long-term interests of shareholders. It is the Company's endeavor to excel through better Corporate Governances and fair and transparent practices.

2. **RBI GUIDELINES ON CORPORATE GOVERNANCE :**

Reserve Bank of India ("**RBI**") in order to enable NBFCs to adopt best practices and greater transparency in their operations has, vide Master Direction- Non Banking Financial Company – Systematically Important Non- Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 dated September 1, 2016 as amended from time to time ("**RBI Directions**"), directed all NBFC-ND-SI to frame internal guidelines on corporate governance which shall be duly approved by the Board of Directors.

3. **GOVERNANCE STRUCTURE**

A. **Board of Directors**

- **Composition:** The Board of Directors ("the Board/BOD") shall have an optimum combination of Executive and Non- executive directors in Compliances with the Companies Act, 2013 and other regulatory guidelines, if any.
- **Meetings:** At least 4 meetings of the BOD of the Company shall be held each year and the gap between two board meetings shall not exceed one hundred and twenty days.
- **Quorum:** Quorum for the BOD meeting shall be one-third of its total strength or two directors, whichever is higher.
- **Power of Board:** The BOD shall be entitled to exercise all such powers as the Company is authorised to exercise in accordance with and subject to applicable law and regulations including the Companies Act, 2013

B. **Committees of Board**

The functioning of the Board shall be further supplemented by its various committees. The Directors, Management and Auditors deal with matters relating to financial reporting obligations, internal controls, review of accounting policies and management of financial risks. As per RBI Directions, the Board has constituted the following Committees.

i. **Audit Committee**

The Audit Committee constituted by the Company as required under Section 177 of the Companies Act, 2013 shall be the Audit Committee for the purposes of Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and

Deposit taking Company (Reserve Bank) Directions, 2016 and the Audit Committee thus constituted shall have the same powers, functions and duties as laid down in Section 177 of the Companies Act, 2013 and/or RBI guidelines.

- **Composition:** Shall comprise of the following Directors :

Name	Designation
Mr. Utpal Sheth - Independent Director	Member
Mr. Prem Kumar Chophla - Independent Director	Member
Mr. G. S. Lodha - Non-Executive Director	Member

Company Secretary shall act as a Secretary to the committee and provide such assistance as may be required by the Committee from time to time.

- **Meetings:** the Audit Committee shall meet at such other interval as it may deem fit subject to the minimum requirement as prescribed under applicable laws;
- The terms of reference of the Audit Committee will be as under:
 - a. Recommendation for appointment, remuneration and terms of appointment of auditors of the Company;
 - b. Review and monitor the auditor's independence and performance, and effectiveness of audit process;
 - c. Examining the financial statement and the auditors' report thereon;
 - d. Approval or any subsequent modification of transactions of the Company with related parties;
 - e. Scrutiny of inter-corporate loans and investments;
 - f. Valuation of undertakings or assets of the Company, wherever it is necessary;
 - g. Evaluation of internal financial controls and risk management systems;
 - h. Monitoring the end use of funds raised through public offers and other related matters;
 - i. Functioning of the Vigil Mechanism Framework of the Company;
 - j. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
 - k. Reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
 - i. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (c) of sub-section 3 of Section 134 of the Companies Act, 2013;
 - ii. Changes, if any, in accounting policies and practices and reasons for the same;
 - iii. Major accounting entries involving estimates based on the exercise of judgment by management;
 - iv. Significant adjustments made in the financial statements arising out of audit findings;
 - v. Compliance with listing and other legal requirements relating to financial statements;

- vi. Disclosure of any related party transactions;
 - vii. Modified opinion(s) in the draft audit report.
 - l. Approval of payment to Statutory Auditors for any other services rendered by the Statutory Auditors;
 - m. Discussion with the auditors periodically on internal control systems, scope of audit including observations of the auditors, and reviewing the financial statements before submission to the Board and ensuring compliance of internal control system;
 - n. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
 - o. Ensuring Information system audit of the internal systems and processes to assess operational risks faced by the Company in accordance with the requirements stipulated by RBI;
 - p. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure or internal control systems or a material nature and reporting the matter to the board;
 - q. To look into the reasons for substantial defaults in the payment to the depositors, debenture-holders, shareholders (in case of non-payment of declared dividends) and creditors;
 - r. Recommendation on financial management including audit report which shall be binding on the Board;
 - s. Investigation into any matter in relation to the items given above or referred to it by the Board and power to seek information from an employee or seek professional advice from external sources and have full access to information contained in the records of the Company;
 - t. Right to call for the comments of the auditors about internal control systems, the scope of audit and discuss any related issues with the internal and statutory auditors and the management of the Company;
 - u. Carrying out any other function as prescribed by Board from time to time or as required under any applicable Regulation.
- ii. Nomination and Remuneration Committee
The Company shall constitute a Nomination Committee to ensure 'fit and proper' status of proposed/ existing directors as contained in Annexure IX to the Master Direction – Non Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016. The Nomination Committee shall have the same powers, functions and duties as laid down in Section 178 of the Companies Act, 2013.
- **Composition:** Shall comprise of the following Directors :

Name	Designation
Mr. Utpal Sheth - Independent Director	Member

Mr. Prem Kumar Chopla - Independent Director	Member
Mr. Harsh S. Hiranandani - Non-Executive Director	Member

Company Secretary shall act as a Secretary to the committee and provide such assistance as may be required by the Committee from time to time.

- **Meetings:** NRC shall meet at such other interval as it may deem fit or as prescribed under applicable laws;
 - The terms of reference of the NRC will be as under:
 - a. To formulate the criteria for determining qualifications, positive attributes and independence of a director and recommending to the Board a policy, relating to the remuneration of the directors, key managerial personnel and other employees;
 - b. To Formulate the Criteria for evaluation of the performance of the Board, its Committee and individual Director including Independent Director;
 - c. To identify persons who are qualified to become Director and persons who may be appointed in Key Managerial and Senior Management positions in accordance with the criteria laid down in this policy;
 - d. To ensure 'fit and proper' status of existing / proposed reference directors by obtaining necessary information and declaration from them and undertake a process of due diligence to determine suitability of the person for appointment / continuing to hold appointment as Director on the Board based upon qualification, expertise, track record, integrity and other relevant factors;
 - e. To undertake process of due diligence at the time of initial appointment and also prior to reappointment;
 - f. To recommend to the Board, appointment and removal of Director, Key Managerial Personnel ("KMP") and Senior Management Personnel("SMP");
 - g. To determine and recommend to the Board the remuneration payable to the directors
 - h. To recommend the compensation for the CEO & MD, and each of the Leadership Team members, which will be further ratified by the Board of the Company;
 - i. To formulate and implement one or more Employees' Stock Option Scheme(s) for the benefit of the employees including Directors of the Company;
 - j. To Administer employee stock option schemes, employee stock purchase schemes, stock appreciation rights schemes, general employee benefits scheme and retirement benefit schemes;
 - k. To obtain annual declaration confirming that the information already provided had not undergone change and if there is any change requisite details would be furnished by the directors forthwith;
 - l. To decide based on the information provided in the declaration, the acceptance (and / or otherwise) and make references where considered necessary to the appropriate person / authority to ensure their compliance with the requirements indicated;
 - m. Carrying out any other function as prescribed by Board from time to time or as required under any applicable Regulation.
- iii. Risk Management Committee
To manage the integrated risk, the Company shall form a Risk Management Committee, besides the Asset Liability Management Committee.

- **Composition:** Shall comprise of the following personnel:

Name	Designation
2 Directors	Member
Chief Executive Officer	Member
Chief Risk Officer	Member
Chief Business Officer	Member
Chief Financial Officer	Member
Chief Operating Officer	Member

Company Secretary shall act as a Secretary to the committee and provide such assistance as may be required by the Committee from time to time.

- **Meetings:** the RMC shall meet once in a quarter or such other interval as Board may deem fit.
- **Quorum:** three members present in person or through video conference will form a quorum.
- The terms of reference of the RMC will be as under:
 - Identifying, measuring and monitoring the various risks faced by the Company;
 - Mitigating various risks associated with functioning of the Company.
 - To deal with issues relating to credit policies and procedure and manage the credit risk, operational risk, management of policies and process;
 - Developing the Policies and verifying the Models that are used for risk measurement from time to time; and
 - To ensure the Risk Management Policy and the other policies including Know Your Customer & Anti Money Laundering Policy (KYC Policy) are properly implemented and followed.
 - Such other functions as delegated by the Board from time to time.

iv. **Asset-Liability Management Committee**

The Company has in place the Asset-Liability Management Committee (“ALCO”) constituted in accordance with the RBI guidelines. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. The Company has a Board approved Asset Liability Management Policy in place and required disclosures to the effect are made from time to time.

- **Composition:** Shall comprise of the following Members:

Name	Designation
Chief Executive Officer	Member
Chief Business Officer	Member
Chief Financial Officer	Member
Chief Operating Officer	Member

- **Meetings:** the ALCO shall meet once in a quarter or such other interval as Board may deem fit.
 - **Quorum:** three members present in person or through video conference will form a quorum.
 - The terms of reference of the ALCO will be as under:
 - a. Liquidity Risk Management
 - b. Management of interest Rate Risk
 - c. Funding & Capital Planning
 - d. Forecasting and analysing 'What If' scenarios relating to liquidity
 - e. Preparation of contingency plans
 - f. Review and approval of Benchmark Rate
- v. **Other Committee**
- In addition to the aforesaid Committees, the Company has also constituted the following Committees:
- IT Strategy Committee
 - Finance Committee

4. PRINCIPLES OF CORPORATE GOVERNANCE

i. Fit & Proper Criteria

The Company has in place a Board approved policy on 'Fit and Proper Criteria for Directors' ("the Policy"). Pursuant to the Policy, the Company obtains necessary disclosures from Directors from time to time. Further, the Company ensures compliance with the provisions laid down in the said Policy.

Further as required under the above referred RBI Directions, the Company shall ensure to furnish to the RBI on a quarterly basis, statement on change of directors and a certificate confirming that fit and proper criteria in selection of the directors has been followed. The same should be submitted to the Regional Office of RBI within 15 days of the close of the respective quarter and the statement for the quarter ending March 31, should be certified by the auditors.

ii. Fair Practice Code

Pursuant to the guidelines on Fair Practices Code issued by the Reserve Bank of India, 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 committee members.

iii. Vigil Mechanism

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 Policy to enable directors and employees to report genuine concerns about unethical behaviour, actual or suspected fraud or violation of the Policy.

Under the Policy, the Company has designated a “Vigilant Officer” to receive Protected Disclosures from Whistle Blower, maintaining records thereof, placing the same before the Board of Directors of the Company for its disposal and informing the Whistle Blower the result thereof.

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.

iv. **Disclosure & Transparency**

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:

- (i) Minutes of the meeting of the Risk Management Committee, comprising of three Directors, wherein the Committee reviews that the Credit & Investment is done within the norms prescribed by the Board, risk parameters associated and risk monitoring mechanism of the company.
- (ii) 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.

The Company shall also disclose the following in its Annual Financial Statement, if applicable:

- i. registration/ licence/ authorization, by whatever name called, obtained from other financial sector regulators;
- ii. ratings assigned by credit rating agencies and migration of ratings during the year, if any;
- iii. penalties, if any, levied by any regulator;
- iv. information namely, area, country of operation and joint venture partners with regard to Joint ventures and overseas subsidiaries, if any and
- v. Asset-Liability profile, NPAs and movement of NPAs, details of all off-balance sheet exposures, structured products issued by it as also securitization/ assignment transactions and other disclosures, as directed by RBI or any other Regulatory Authority from time to time.

5. **STATUTORY AUDITOR**

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.

6. **OTHER KEY APPOINTMENTS**

The Company shall in compliance with the RBI guidelines as applicable to it appoint such other key personnel (Chief Risk Officer, Chief Technology Officer, Chief Information Security Officer, Head of Internal Audit), with roles and responsibilities aligned to the RBI Guidelines.

7. POLICIES ADOPTION

The Company shall adopt such policies, as may be required to adopt under the Companies Act, 2013, the RBI Guidelines and such other laws, regulations and Guidelines as may be applicable. The policies adopted may be reviewed by the Board from time to time.

8. REVIEW

This Policy will be reviewed on an annual basis or as and when deem necessary by the Board in the context of changing regulation and emerging best practices with a view to enhancing the Company's governance.