

# **GUIDELINES ON CORPORATE GOVERNANCE**

**Nuvama Wealth Finance Limited**

## Document Control

<b>Item</b>	<b>Description</b>
<b>Document Title</b>	Guidelines on Corporate Governance
<b>Document Owner</b>	Compliance & Secretarial department
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<b>Document Classification</b>	<b>Regulatory</b>
<b>Last Approved/Review Authority and Year</b>	Board of Directors- July 23, 2024
<b>Periodicity of review</b>	Annual

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## 1) Purpose and Scope

Corporate governance is a set of processes, practices, policies, procedures, rules, and laws that affect the way of business is conducted. It is a set of systems and processes aimed to ensure that a company is managed to suit the best interests of all. Corporate governance brings about a right balance between the expectations of the owners, employees, customers, and all other stakeholders. With the help of sound corporate governance frameworks, an organization can achieve excellence in everything that that they do.

At Nuvama Wealth Finance Limited we believe that sound governance practices are the bedrock for the functioning of the Company and for creation of value for its stakeholders on a sustainable and long-term basis. This philosophy guides us in maintaining an ethical framework within which we operate.

In order to adopt best practices and greater transparency in the operations of the Company and in compliance with the Chapter IX of Master Direction – Reserve Bank of India (Non-Banking Financial Company –Scale Based Regulation) Directions, 2023 dated October 19, 2023 updated from time to time, the Company has framed these Internal Guidelines on Corporate Governance and have published the same on the Company’s website on <https://nuvamafinance.com>.

## 2) Governance Structure

### 2.1 Board of Directors

The Board of Directors alongwith its Committees shall provide leadership and guidance to the Company’s Management and direct, supervise and control the performance of the Company.

Unless otherwise determined by the Company in general meeting, the number of the Directors shall not be less than 3 (three) and shall not be more than 15 (Fifteen) unless increased in accordance with the provisions of the Companies Act, 2013.

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

A Director shall not hold the office of Director in more than 20 companies and the maximum number of directorships in public companies shall not be more than 10.

Further, pursuant to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirement) Regulations, 2015 (“SEBI LODR”):

- A director shall not be a director/independent director in more than seven equity listed entities
- A whole-time director / managing director shall serve as an independent director in not more than three equity listed entities.

All the Directors shall make the necessary annual disclosure regarding their change in concern or interest in any company or companies or bodies corporate, firms, or other association of individuals including shareholding, directorships and committee positions and shall intimate changes as and when they take place.

Within the permissible limits in terms of Companies Act, 2013, an Independent director shall not be on the Board of more than three NBFCs (NBFCs-ML or NBFCs-UL) at the same time. Further, the Board of the Company shall ensure that there is no conflict arising out of their independent directors being on the Board of another NBFC at the same time. There shall be no restriction to directorship on the Boards of NBFCs-BL, subject to provisions of Companies Act, 2013.

The Directors shall act in accordance with the duties as provided under the Act and the Independent Directors shall abide by the Code for Independent Directors under Schedule IV of the Act and SEBI LODR.

The Board shall periodically review Compliance Reports of all laws applicable to the Company prepared by the Company as well as steps taken by the Company to rectify instances of noncompliance.

### **Board Meetings**

Meetings of the Board of Directors shall be held atleast four times a year, such that not more than one hundred and twenty days shall intervene between two consecutive meetings.

### **2.2. Committees of the Board**

To focus effectively on the issues and ensure expedient resolution of diverse matters, the Board shall constitute a set of Committees with specific terms of reference / scope. The Committees shall operate as empowered agents of the Board as per their Charter / terms of reference. The minutes of the meetings of all Committees of the Board shall be placed before the Board for discussions / noting.

### **Details of the Board Committees are as under:**

#### **(i) Audit Committee**

The Company has constituted a qualified and independent Audit Committee in accordance with Chapter XI of the Master Direction - Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, the Companies Act and the Rules framed thereunder and SEBI LODR.

The Audit Committee shall consist of a minimum of three directors of which at least 2/3rd directors shall be independent directors.

Explanation I: The Audit Committee constituted by a non-banking financial company as required under Section 177 of the Companies Act, 2013 and Regulation 18 of the Securities and Exchange Board of India (Listing Obligations and Disclosures Requirements) Regulations, 2015 (the Regulations) shall be the Audit Committee for the purposes of this paragraph.

#### **Frequency of Meetings**

The Audit Committee shall meet as and when required but shall meet at least four times in a year not more than 120 days shall elapse between two meetings.

#### **Terms of Reference**

The Audit Committee constituted under this paragraph shall have in addition to the powers, functions and duties as laid down in Section 177 of the Companies Act, 2013, LODR and RBI regulations shall mandatorily include the functions specified in Schedule II of the Regulations The Board had approved below terms of reference of the Audit Committee

- i. 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;
- ii. recommendation for appointment, remuneration and terms of appointment of auditors of the Company;
- iii. examination of the financial statement and the auditors' report thereon;
- iv. monitoring the end use of funds raised through public offers and related matters
- v. approval of payment to the statutory auditors for any other services rendered by the statutory auditors;
- vi. reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
  - a) 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;
  - b) changes, if any, in accounting policies and practices and reasons for the same;
  - c) major accounting entries involving estimates based on the exercise of judgment by management;
  - d) significant adjustments made in the financial statements arising out of audit findings;
  - e) compliance with listing and other legal requirements relating to financial statements;
  - f) disclosure of any related party transactions;
  - g) modified opinion(s) in the draft audit report.
- vii. reviewing, with the management, the quarterly financial statements before submission to the board for approval;
- viii. reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the board to take up steps in this matter;
- ix. reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;
- x. approval or any subsequent modification of transactions of the listed entity with related parties and omnibus approval for related party transactions proposed to be entered into by the Company subject to such conditions as may be prescribed;
- xi. scrutiny of inter-corporate loans and investments;
- xii. valuation of undertakings or assets of the listed entity, wherever it is necessary;
- xiii. evaluation of internal financial controls and risk management systems;
- xiv. reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
- xv. 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; and reviewing with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
- xvi. discussion with internal auditors of any significant findings and follow up there on;
- xvii. reviewing the findings of any internal investigations by the auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;
- xviii. discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;

- xix. 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;
- xx. to review the functioning of the whistle blower mechanism;
- xxi. approval of appointment of chief financial officer after assessing the qualifications, experience and background, etc. of the candidate;
- xxii. carry out any other functions as mentioned in the terms of reference of the Audit Committee and roles as required/mandated and/or delegated /by the Board as per the Companies Act, the SEBI Listing Regulations, each as amended and other applicable laws or by any regulatory authority and performing such other functions as may be necessary or appropriate for the performance of its duties;
- xxiii. review the utilization of loans and/ or advances from/investment by the holding company in the subsidiary exceeding rupees 100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans / advances / investments existing as on the date of coming into force of this provision;
- xxiv. consider and comment on rationale, cost-benefits and impact of schemes involving merger, demerger, amalgamation etc., on the listed entity and its shareholders;
- xxv. review the management discussion and analysis of financial condition and results of operations, management letters / letters of internal control weaknesses issued by the statutory auditors;
- xxvi. review the internal audit reports relating to internal control weaknesses;
- xxvii. statement of significant (material) related party transactions (as defined by the audit committee), submitted by management;
- xxviii. management letters / letters of internal control weaknesses issued by the statutory auditors;
- xxix. the appointment, removal and terms of remuneration of the chief internal auditor;
- xxx. review the following statement of deviations:
  - xxxi. quarterly statement of deviation(s) including report of monitoring agency, if applicable, submitted to stock exchange(s) in terms of Regulation 52(7A); and
  - xxxii. annual statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice in terms of Regulation 52(7).
- xxxiii. formulating a policy on related party transactions, which shall include materiality of related party transactions;
- xxxiv. monitoring the end use of funds raised through public offers and related matters;
- xxxv. recommendation for appointment, remuneration and terms of appointment of registered valuer for valuation is required to be made in respect of any property, stocks, shares, debenture, securities or goodwill or any other asset or net worth of a company or its liabilities under the provision of the Companies Act or any other applicable law;
- xxxvi. prior approval of a related party transaction to which the subsidiary of the Company is a party but the Company is not a party, if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds ten per cent of the annual consolidated turnover, as per the last audited financial statements of the Company;
- xxxvii. the Audit Committee shall have powers, which should include the following:
  - a) To investigate any activity within its terms of reference;
  - b) To seek information from any employee of the Company;
  - c) To obtain outside legal or other professional advice; and
  - d) To secure attendance of outsiders with relevant expertise, if it considers necessary.
- xxxviii. oversight of Information System (IS) Audit of the Company:
  - a. approve and annually review IS Audit Policy;
  - b. review critical issues highlighted related to Information Technology / Information Security / Cyber Security; and

- c. review of internal systems and processes at least once in two years to assess operational risks.
- xxxix. review Internal Audit Policy for approval by Board and wide dissemination within company;
  - xl. approve Audit plan / RBIA plan as may be applicable and review performance thereof;
  - xli. review all pending high and medium risk and persisting irregularities reported along with status of its compliance;
  - xlii. carry out such other functions as may be mandated/ prescribed under Companies Act, 2013, RBI Master Directions and SEBI Listing Regulations or any applicable regulations and/or specifically referred to the Committee by the Company's Board of Directors from time to time."

### **(ii) Nomination and Remuneration Committee**

The importance of appointment of directors with 'fit and proper' credentials is well recognised in the financial sector. In terms of Section 45-IA (4) (c) of the RBI Act, 1934, RBI while considering the application for grant of Certificate of Registration to undertake the business of non-banking financial institution it is necessary to ensure that the general character of the management or the proposed management of the non-banking financial company shall not be prejudicial to the interest of its present and future shareholders, clients, etc. Accordingly, a Nomination Committee to ensure 'fit and proper' status of proposed/existing Directors should be formed.

The Nomination and Remuneration Committee ('the NRC Committee') is constituted in accordance with Section 178 of the Act and shall be the NRC for the purpose Chapter XI of the Master Direction - Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 and Regulation 19 of SEBI LODR.

The Committee shall consist of three or more non-executive directors out of which two-thirds shall be Independent Directors. Further, the composition shall also be in accordance with the requirements specified in the Articles of Association of the Company, the Act and SEBI LODR, as applicable. The terms of reference and the constitution of the Committee, in accordance with the provisions of the Act are as follows:-

### **Frequency of Meetings**

The Committee shall meet as and when required but shall meet at least once in a year.

### **Terms of Reference**

- i. formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the board of directors a policy relating to, the remuneration of the directors, key managerial personnel, and other employees;
- ii. for every appointment of an independent director, the Nomination and Remuneration Committee shall evaluate the balance of skills, knowledge, and experience on the Board and on the basis of such evaluation, prepare a description of the role and capabilities required of an independent director. The person recommended to the Board for appointment as an independent director shall have the capabilities identified in such description. For the purpose of identifying suitable candidates, the Committee may:
  - a. use the services of an external agencies, if required;
  - b. consider candidates from a wide range of backgrounds, having due regard to diversity; and
  - c. consider the time commitments of the candidates.
- iii. formulation of criteria for evaluation of performance of independent directors and the board of directors;
- iv. devising a policy on diversity of board of directors;



- v. identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down and recommend to the board of directors their appointment and removal and shall carry out evaluation of every director 's performance;
- vi. whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors;
- vii. recommend to the Board, all remuneration, in whatever form, payable to senior management;
- viii. to act as the Compensation Committee under the applicable SEBI (Share Based Employee Benefits and Sweat Equity), Regulations, 2021 and any statutory amendment or modification thereto;
- ix. to ensure 'fit and proper' status of proposed/existing directors as required;
- x. to perform such other functions as may be entrusted to it by the Board of Directors from time to time."
- xi. to ensure there is no conflict of interest in the appointment of directors on Board of the company, KMPs and senior management;
- xii. to work in coordination with Risk Management Committee (RMC) of the company to achieve effective alignment between compensation and risks;
- xiii. to ensure that compensation levels are supported by the need to retain earnings of the company and the need to maintain adequate capital based on Internal Capital Adequacy Assessment Process (ICAAP)."

A separate policy on 'Fit and Proper' criteria for Nuvama Wealth Finance Limited is also formulated and the same is attached to these guidelines as Annex 1.

### **(iii) Risk Management Committee**

The Company has in place Risk Management Committee in accordance with the provisions of the Master Direction - Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023RBI Master Directions, SEBI LODR and any other applicable act. The Risk Management Committee shall have minimum 3 members with majority of them being members of the board of directors, including at least one independent director

#### **Frequency of Meetings**

The Committee shall meet as and when required but shall meet at least once in a quarter and not more than 120 days shall elapse between two meetings.

#### **Terms of Reference**

- a. to lay down procedures regarding managing and mitigating the risk through Integrated Risk Management Systems, Strategies and Mechanisms;
- b. to deal with issues relating to credit policies and procedure and manage the credit risk, operational risk, management of policies and process ;
- c. identifying, measuring and monitoring the various risk faced by the Company, assist in developing the Policies and verifying the Models that are used for risk measurement from time to time;
- d. to monitor the progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the NBFC;
- e. Promoting an enterprise risk management competence throughout the organisation, including facilitating development of IT-related enterprise risk management expertise;

- f. Establishing a common risk management language that includes measures around likelihood and impact and risk categories;
- g. To evaluate and oversee the liquidity risk of the Company;
- h. to ensure that appropriate methodology, processes and systems are in place to identify, monitor, control, mitigate and evaluate risks associated with the business of the Company and functioning of the Company;
- i. to have oversight over implementation of risk Management Policy, including evaluating the adequacy of risk management systems and other policies including Anti Money Laundering and KYC (Know Your Customer) Policies;
- j. To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;
- k. To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;
- l. The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) shall be subject to review by the Risk Management Committee;
- m. To institute effective governance mechanism and risk management process for all outsourced operations/activities; and
- n. To review and approve the activities pertaining to the Outsourcing activities as required under RBI regulations including review of financial and operational condition of the service provider to assess its ability to meet its obligations on an annual basis.
- o. To review in consultation with IT Strategy Committee on IT related risk including Cyber Security and data protection related risks on an annual basis
- p. Carry out such other functions as may be mandated under RBI/SEBI or any applicable regulations and/or specifically referred to the Committee by the Company's Board of Directors from time to time.

#### **(iv) Asset Liability Management Committee**

The Asset Liability Management Committee (ALM Committee) is constituted in accordance with Guidelines on Liquidity Risk Management Framework under Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 as amended from time to time to monitor the asset liability gap and strategize action to mitigate the risk associated. Accordingly, Asset Liability Management Committee is formed.

The broad objectives of forming the ALCO for Nuvama Wealth Finance Limited are as follows:

- Liquidity Management
  - Ensuring availability of adequate liquid resources with a view to keep maturity mismatches in the Balance Sheet of the Entity within desired levels; and

- Interest Rate Risk Management in the Institution
  - Reviewing Interest Rates Scenario and decide on the desired composition of various portfolios;
  - Capture the sensitivity of Market Value of its Equity (MVE) to interest rate movements
- Profit Planning
  - Positioning in order to maximize shareholder value while protecting the company from any adverse consequences arising from liquidity and interest rate risk.

### **Frequency of Meetings**

The Committee shall meet as and when required but shall meet at least four times in a financial year.

### **Terms of Reference**

- i. Review of macro-economic scenario, impact of industry and regulatory changes monitoring the asset liability gap
- ii. strategizing action to mitigate risk associated with the asset liability gap Review and suggest corrective actions on liquidity mismatch, negative gaps and interest rate sensitivities
- iii. Developing risk policies and procedures and verifying adherence to various risk parameters and prudential limits
- iv. reviewing the risk monitoring system
- v. decide on desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity positions
- vi. ensure that credit exposure to any one group does not exceed the internally set limits as well as statutory limits set by RBI.
- vii. Decide the strategy on the source, tenor and mix of assets & liabilities, in line with its business plans, taking into account on the future direction of interest rates.
- viii. Review and endorse various behavioural assumptions for study of assets & liabilities in preparation of Liquidity and Interest Rate Sensitivity Statements.
- ix. Review stress test scenarios including the assumptions and results.
- x. Review and approve the capital allocation methodology.
- xi. Formulate ALM policy for the Company
- xii. Ensure validation of behavioural models on a periodic basis to ensure accuracy of assumptions and data used for ALM analysis
- xiii. Analyse and deliberate at meetings, issues involving interest rate and liquidity risk, including capital allocation

- xiv. Such other functions as may be entrusted to it by the Board and the regulators as applicable from time to time.

### **(v) Information Technology Strategy Committee**

The Information Technology Strategy Committee (IT Strategy Committee) is constituted in accordance with Master Direction on Information Technology Governance, Risk, Controls and Assurance Practices, as amended from time to time to monitor areas of IT Governance which shall include strategic alignment, risk management, resource management, performance management and Business Continuity/ Disaster Recovery Management, Cyber Security, etc. Accordingly, Information Technology Strategy Committee is formed.

### **Frequency of Meetings**

The Committee shall meet as and when required but shall meet at least once in every quarter.

### **Terms of Reference**

- i. To put an effective IT strategic planning process;
- ii. To guide in preparation of IT Strategy and ensure that the IT Strategy aligns with the overall strategy towards accomplishment of its business objectives;
- iii. To ensure that IT Governance and Information Security Governance structure fosters accountability, is effective and efficient, has adequate skilled resources, well defined objectives and unambiguous responsibilities for each level in the organisation;
- iv. To put in place processes for assessing and managing IT and cybersecurity risks;
- v. To ensure that the budgetary allocations for the IT function (including for IT security), cyber security are commensurate with the IT maturity, digital depth, threat environment and industry standards and are utilised in a manner intended for meeting the stated objectives;
- vi. To review, at least on annual basis, the adequacy and effectiveness of the Business Continuity Planning and Disaster Recovery Management;
- vii. To review the assessment of IT capacity requirements and measures taken to address the issues;
- viii. To approve and review the Access management policy/procedure;
- ix. To decide on the constitution of the Information Security Committee (ISC), with Chief Information Security Officer (CISO) and other representatives from business and IT functions;
- x. To oversee the Information Security Committee;
- xi. To carry out such other functions as may be mandated under RBI or any applicable regulations and/or specifically referred to the Committee by the Company's Board of Directors;
- xii. To approve IT strategy and policy documents, within the framework approved by the Board, and ensuring that the management has put an effective strategic planning process in place;
- xiii. To ascertain that management has implemented processes and practices that ensure that the IT delivers value to the business;
- xiv. To ensure IT investments represent a balance of risks and benefits and that budgets are acceptable;
- xv. 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;
- xvi. To ensure proper balance of IT investments for sustaining NBFC's growth and becoming aware about exposure towards IT risks and controls;
- xvii. To review the functioning of IT Steering Committee;
- xviii. To apprise/report to the Board periodically and also report on particular matters to Audit Committee or Risk Management Committee, as required;
- xix. To discharge any other roles and responsibilities stipulated under the regulatory directives as amended from time to time.

## **Other Board level Committees under Companies Act / LODR**

### **(vi) Corporate Social Responsibility Committee**

The Company has in place Corporate Social Responsibility Committee in accordance with the provisions of the Companies Act, 2013. The Corporate Social Responsibility Committee shall have minimum 3 Directors out of which at least one should be an Independent Director.

### **Frequency of Meetings**

The Committee shall meet as and when required but shall meet at least once in every year.

### **Terms of Reference**

- a. To identify the areas of CSR activities to be undertaken in line with Schedule VII of the Act;
- b. To recommend the amount of expenditure to be incurred on the identified “CSR activities” (which could include projects, programs or other permitted activities) and the annual budget;
- c. To implement and monitor the CSR policy from time to time;
- d. To formulate a CSR annual action plan;
- e. To formulate and recommend to the board, a corporate social responsibility framework stipulating, amongst others, the guiding principles for selection, implementation and monitoring the CSR activities;
- f. To recommend the amount of expenditure to be incurred for the corporate social responsibility activities subject to the provisions of the Act;
- g. To formulate and recommend to the Board, an annual action plan in pursuance to the corporate social responsibility policy, which shall include the following, namely:
  - i. the list of corporate social responsibility projects or programmes that are approved to be undertaken in areas or subjects specified in the Schedule VII of the Companies Act, 2013;
  - ii. the manner of execution of such projects or programmes as specified in Rule 4 of the Companies (Corporate Social Responsibility Policy) Rules, 2014;
  - iii. the modalities of utilisation of funds and implementation schedules for the projects or programmes;
  - iv. monitoring and reporting mechanism for the projects or programmes; and
  - v. details of need and impact assessment, if any, for the projects undertaken by the Company.
- h. To review and monitor the implementation of corporate social responsibility programmes;
- i. To take note of the compliances made by implementing agency (if any) appointed for the corporate social responsibility of the Company;
- j. To perform such other duties and functions as the Board may require the corporate social responsibility committee to undertake to promote the corporate social responsibility activities of the Company and exercise such other powers as may be conferred upon or perform such responsibilities as may be required by the Committee in terms of the provisions of the Act; and
- k. Such terms of reference as may be prescribed under the Act and any other statute from time to time.

#### **(vi) Stakeholders Relationship Committee**

The Company has in place Stakeholder Relationship Committee in accordance with the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The Stakeholder Relationship Committee shall specifically look into various aspects of interest of the debenture holders. The Committee shall have minimum 3 Directors out of which at least one should be an Independent Director.

#### **Frequency of Meetings**

The Committee shall meet as and when required but shall meet at least once in every year.

#### **Terms of Reference**

- i. resolving the grievances of the security holders of the Company including complaints related to transfer/transmission of shares, non-receipt of annual report, non-receipt of declared dividends, issue of new/duplicate certificates, general meetings etc.
- ii. review of measures taken for effective exercise of voting rights by shareholders.
- iii. review of adherence to the service standards adopted by the listed entity in respect of various services being rendered by the Registrar & Share Transfer Agent.
- iv. review of the various measures and initiatives taken by the listed entity for reducing the quantum of unclaimed dividends and ensuring timely receipt of as may be specified by the Board from time to time.

### **3) AUDITORS**

#### **Statutory Auditors**

The Board and the Audit Committee of the Company shall be responsible for appointing the Statutory Auditors who demonstrate professional ability and independence. The Company shall review the independence and performance of the Statutory Auditors and the effectiveness of the audit process periodically. Declaration in the prescribed regulatory format shall be obtained from the Auditors affirming their eligibility for being appointed as the Statutory Auditors of the Company.

The appointment of the Statutory Auditors shall be as per the provisions of the contained in RBI circular vide no. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, on 'Guidelines for Appointment of Statutory Auditors (SAs)', as amended from time to time and Policy for Appointment of Statutory Auditors framed by the Company under these guidelines.

#### **Internal Auditors**

The Board and the Audit Committee of the Company shall appoint Internal Auditors in accordance with the provisions of applicable laws and regulations who shall perform independent and objective assessment of the internal controls, processes and procedures instituted by the management and accordingly monitor its adequacy and effectiveness.

#### **Secretarial Auditors**

The Board shall appoint an independent company secretary in practice, in accordance with the provisions of the Companies Act, 2013 and Rules made thereunder to conduct a secretarial audit of the Company for every financial year. The Secretarial Auditor shall provide its report in the form and manner prescribed under the applicable laws / regulations. The Secretarial Audit Report shall be placed before the Board for its noting and records and the same be annexed to the Board's Report which shall be circulated to the members of the Company in accordance with the applicable laws / regulations.

#### **4) Fit and Proper Criteria**

- i. The policy on the fit and proper criteria, on the lines of the Guidelines issued by RBI (as amended by RBI from time to time), contained in Annex 1
- ii. Ascertain the fit and proper criteria of the directors at the time of appointment, and on a continuing basis,
- iii. The Company shall obtain a declaration and undertaking from the directors giving additional information on the directors. The declaration and undertaking shall be on the lines of the format given in Annex 2 (as amended by RBI from time to time);
- iv. The Company shall obtain a Deed of Covenant signed by the directors, which shall be in the format as given in Annex 3 (as amended by RBI from time to time); and
- v. Furnish to the Reserve Bank a quarterly statement on change of directors, and a certificate from the Managing Director of the NBFC that fit and proper criteria in selection of the directors has been followed. The statement must reach the Regional Office of the Reserve Bank within 15 days of the close of the respective quarter. The statement submitted for the quarter ending March 31, should be certified by the auditors. Provided that RBI, if it deems fit and in public interest, reserves the right to examine the fit and proper criteria of directors of the Company irrespective of the asset size of the Company.

#### **5) Disclosure and transparency**

The Company shall put up to the Board of Directors, at regular intervals or atleast on an annual basis, the following:

- i. the progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the NBFC;
- 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.

#### **6) Review of Policy**

The Company may review or amend the Policy, through the Board and/or a designated committee, to comply with regulatory requirements or to make any necessary modifications to meet business needs.

However, Policy shall be reviewed at least annually and approved by the Board.



In case, any amendments, clarifications, circulars or guidelines is issued by the regulatory body(ies)/authority(ies) and is immediately effective, then provisions of such amendments, clarifications, circulars and the guidelines shall prevail over the existing policy from the effective date as referred in the notification.

## Annex-1

### Policy on 'Fit and Proper' Criteria for directors

Reserve Bank had issued a Directive in June 2004 to banks on undertaking due diligence on the persons before appointing them on the Boards of banks based on the 'Report of the Consultative Group of directors of Banks / Financial Institutions'. Specific 'fit and proper' criteria to be fulfilled by the directors were also advised.

The importance of due diligence of directors to ascertain suitability for the post by way of qualifications, technical expertise, track record, integrity, etc. needs no emphasis for any financial institution. It is proposed to follow the same guidelines mutatis mutandis in case of Company also. While the Reserve Bank does carry out due diligence on directors before issuing Certificate of Registration to an NBFC, it is necessary that Company put in place an internal supervisory process on a continuing basis. Further, in order to streamline and bring in uniformity in the process of due diligence, while appointing directors, Company is advised to ensure that the procedures mentioned below are followed and minimum criteria fulfilled by the persons before they are appointed on the Boards:

- i. Company should undertake a process of due diligence to determine the suitability of the person for appointment / continuing to hold appointment as a director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria. Company should obtain necessary information and declaration from the proposed / existing directors for the purpose in the prescribed format (as amended by RBI from time to time).
- i. The process of due diligence should be undertaken by the Company at the time of appointment / renewal of appointment.
- ii. The constituted Nomination & Remuneration Committee to scrutinize the declarations.
- iii. Based on the information provided in the signed declaration, Nomination & Remuneration Committee should decide on the acceptance or otherwise of the directors, where considered necessary.
- iv. Company should 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.
- ii. The Company must ensure that the nominated/ elected directors execute the deeds of covenants in the format given in **Annex-2**.
- iii. Furnish to the Reserve Bank a quarterly statement on change of directors, and a certificate from the Managing Director of the NBFC that fit and proper criteria in selection of the directors has been followed. The statement must reach the Regional Office of the Reserve Bank within 15 days of the close of the respective quarter. The statement submitted for the quarter ending March 31, should be certified by the auditors.

Provided that RBI, if it deems fit and in public interest, reserves the right to examine the fit and proper criteria of directors of the Company irrespective of the asset size of the Company.

**Annex-2**

**Declaration and Undertaking by Director**

Name of NBFC: \_\_\_\_\_

Declaration and Undertaking by Director (with enclosures as appropriate as on _____)	
<b>I. Personal details of director</b>	
a. Full name	
b. Date of Birth	
c. Educational Qualifications	
d. Relevant Background and Experience	
e. Permanent Address	
f. Present Address	
g. E-mail Address / Telephone Number	
h. Permanent Account Number under the Income Tax Act and name and address of Income Tax Circle	
i. Relevant knowledge and experience	
j. Any other information relevant to Directorship of the NBFC	
<b>II Relevant Relationships of director</b>	
a. List of Relatives if any who are connected with the NBFC (Refer Section 6 and Schedule 1A of the Companies Act, 1956 and corresponding provisions of New Companies Act, 2013)	
b. List of entities if any in which he/she is considered as being interested (Refer Section 299(3)(a) and Section 300 of the Companies Act, 1956 and corresponding provisions of New Companies Act, 2013)	
c. List of entities in which he/she is considered as holding substantial interest within the meaning of NBFC Prudential Norms Directions, 2007	
d. Name of NBFC in which he/she is or has been a member of the board (giving details of period during which such office was held)	
e. Fund and non-fund facilities, if any, presently availed of by him/her and/or by entities listed in II (b) and (c) above from the NBFC	
f. Cases, if any, where the director or entities listed in II (b) and (c) above are in default or have been in default in the past in respect of credit facilities obtained from the NBFC or any other NBFC / bank.	
<b>III Records of professional achievements</b>	
a. Relevant professional achievements	
<b>IV. Proceedings, if any, against the director</b>	
a. If the director is a member of a professional association/body, details of disciplinary action, if any,	

<p>pending or commenced or resulting in conviction in the past against him/her or whether he/she has been banned from entry into any profession/ occupation at any time.</p>	
<p>b. Details of prosecution, if any, pending or commenced or resulting in conviction in the past against the director and/or against any of the entities listed in II (b) and (c) above for violation of economic laws and regulations</p>	
<p>c. Details of criminal prosecution, if any, pending or commenced or resulting in conviction in the last five years against the director</p>	
<p>d. Whether the director attracts any of the disqualifications envisaged under Section 274 of the Companies Act 1956 and corresponding provisions of New Companies Act, 2013?</p>	
<p>e. Has the director or any of the entities at II (b) and (c) above been subject to any investigation at the instance of Government department or agency?</p>	
<p>f. Has the director at any time been found guilty of violation of rules/regulations/ legislative requirements by customs/ excise /income tax/foreign exchange /other revenue authorities, if so give particulars</p>	
<p>g. Whether the director has at any time come to the adverse notice of a regulator such as SEBI, IRDA, MCA.</p>	
<p>(Though it shall not be necessary for a candidate to mention in the column about orders and findings made by the regulators which have been later on reversed/set aside in toto, it would be necessary to make a mention of the same, in case the reversal/setting aside is on technical reasons like limitation or lack of jurisdiction, etc and not on merit, If the order of the regulator is temporarily stayed and the appellate/ court proceedings are pending, the same also should be mentioned.)</p>	
<p>V. Any other explanation / information in regard to items I to III and other information considered relevant for judging fit and proper Undertaking</p>	

**UNDERTAKING:**

I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the NBFC fully informed, as soon as possible, of all events which take place subsequent to my appointment which are relevant to the information provided above.

I also undertake to execute the deed of covenant required to be executed by all directors of the NBFC.

Place:

Date: \_\_\_\_\_,

Signature

**VI. Remarks of Chairman of Nomination Committee/ Board of Directors of NBFC**

Place:

Date: \_\_\_\_\_,

Signature

### Annex - 3

#### Form of Deed of Covenants with a Director

**THIS DEED OF COVENANTS** is made this \_\_\_\_\_ day of \_\_\_\_\_ Two thousand \_\_\_\_\_ **BETWEEN** \_\_\_\_\_, having its Registered Office at \_\_\_\_\_ (hereinafter called the "NBFC") of the one part and Mr. /Ms. \_\_\_\_\_ of \_\_\_\_\_ (hereinafter called the "Director") of the other part.

#### **WHEREAS**

- A. The Director has been appointed as a Director on the Board of Directors of the NBFC (hereinafter called "the Board") and is required as a term of his / her appointment to enter into a Deed of Covenants with the NBFC.
- B. The Director has agreed to enter into this Deed of Covenants, which has been approved by the Board, pursuant to his said terms of appointment.

#### **NOW IT IS HEREBY AGREED AND THIS DEED OF COVENANTS WITNESSETH AS FOLLOWS:**

- 1. The Director acknowledges that his / her appointment as Director on the Board of the NBFC is subject to applicable laws and regulations including the Memorandum and Articles of Association of the NBFC and the provisions of this Deed of Covenants.
- 2. The Director covenants with the NBFC that:
  - (i) The Director shall disclose to the Board the nature of his / her interest, direct or indirect, if he / she has any interest in or is concerned with a contract or arrangement or any proposed contract or arrangement entered into or to be entered into between the NBFC and any other person, immediately upon becoming aware of the same or at meeting of the Board at which the question of entering into such contract or arrangement is taken into consideration or if the Director was not at the date of that meeting concerned or interested in such proposed contract or arrangement, then at the first meeting of the Board held after he / she becomes so concerned or interested and in case of any other contract or arrangement, the required disclosure shall be made at the first meeting of the Board held after the Director becomes concerned or interested in the contract or arrangement.
  - (ii) The Director shall disclose by general notice to the Board his / her other Directorships, his / her memberships of bodies corporate, his / her interest in other entities and his / her interest as a partner or proprietor of firms and shall keep the Board apprised of all changes therein.
  - (iii) The Director shall provide to the NBFC a list of his / her relatives as defined in the Companies Act, 1956 or 2013 and to the extent the Director is aware of Directorships and interests of such relatives in other bodies corporate, firms and other entities.
  - (iv) The Director shall in carrying on his / her duties as Director of the NBFC:
    - (a) use such degree of skill as may be reasonable to expect from a person with his / her knowledge or experience;

- (b) in the performance of his / her duties take such care as he / she might be reasonably expected to take on his / her own behalf and exercise any power vested in him / her in good faith and in the interests of the NBFC;
  - (c) shall keep himself / herself informed about the business, activities and financial status of the NBFC to the extent disclosed to him / her;
  - (d) attend meetings of the Board and Committees thereof (collectively for the sake of brevity hereinafter referred to as "Board") with fair regularity and conscientiously fulfil his / her obligations as Director of the NBFC;
  - (e) shall not seek to influence any decision of the Board for any consideration other than in the interests of the NBFC;
  - (f) shall bring independent judgment to bear on all matters affecting the NBFC brought before the Board including but not limited to statutory compliances, performance reviews, compliances with internal control systems and procedures, key executive appointments and standards of conduct;
  - (g) shall in exercise of his / her judgement in matters brought before the Board or entrusted to him / her by the Board be free from any business or other relationship which could materially interfere with the exercise of his / her independent judgement; and
  - (h) shall express his / her views and opinions at Board meetings without any fear or favour and without any influence on exercise of his / her independent judgement;
- (v) The Director shall have:
- (a) fiduciary duty to act in good faith and in the interests of the NBFC and not for any collateral purpose;
  - (b) duty to act only within the powers as laid down by the NBFC's Memorandum and Articles of Association and by applicable laws and regulations; and
  - (c) duty to acquire proper understanding of the business of the NBFC.
- (vi) The Director shall:
- (a) not evade responsibility in regard to matters entrusted to him / her by the Board;
  - (b) not interfere in the performance of their duties by the whole-time Directors and other officers of the NBFC and wherever the Director has reasons to believe otherwise, he / she shall forthwith disclose his / her concerns to the Board; and
  - (c) not make improper use of information disclosed to him / her as a member of the Board for his / her or someone else's advantage or benefit and shall use the information disclosed to him / her by the NBFC in his / her capacity as Director of the NBFC only

for the purposes of performance of his / her duties as a Director and not for any other purpose.

3. The NBFC covenants with the Director that:

- (i) the NBFC shall apprise the Director about:
  - (a) Board procedures including identification of legal and other duties of Director and required compliances with statutory obligations;
  - (b) control systems and procedures;
  - (c) voting rights at Board meetings including matters in which Director should not participate because of his / her interest, direct or indirect therein;
  - (d) qualification requirements and provide copies of Memorandum and Articles of Association;
  - (e) corporate policies and procedures;
  - (f) insider dealing restrictions;
  - (g) constitution of, delegation of authority to and terms of reference of various committees constituted by the Board;
  - (h) appointments of Senior Executives and their authority;
  - (i) remuneration policy,
  - (j) deliberations of committees of the Board, and
  - (k) communicate any changes in policies, procedures, control systems, applicable regulations including Memorandum and Articles of Association of the NBFC, delegation of authority, Senior Executives, etc. and appoint the compliance officer who shall be responsible for all statutory and legal compliance.
- (ii) the NBFC shall disclose and provide to the Board including the Director all information which is reasonably required for them to carry out their functions and duties as a Director of the NBFC and to take informed decisions in respect of matters brought before the Board for its consideration or entrusted to the Director by the Board or any committee thereof;
- (iii) the disclosures to be made by the NBFC to the Directors shall include but not be limited to the following:
  - (a) all relevant information for taking informed decisions in respect of matters brought before the Board;
  - (b) NBFC's strategic and business plans and forecasts;



- (c) organisational structure of the NBFC and delegation of authority;
  - (d) corporate and management controls and systems including procedures;
  - (e) economic features and marketing environment;
  - (f) information and updates as appropriate on NBFC's products;
  - (g) information and updates on major expenditure;
  - (h) periodic reviews of performance of the NBFC; and
  - (i) report periodically about implementation of strategic initiatives and plans;
- (iv) the NBFC shall communicate outcome of Board deliberations to Directors and concerned personnel and prepare and circulate minutes of the meeting of Board to Directors in a timely manner and to the extent possible within two business days of the date of conclusion of the Board meeting; and
- (v) advise the Director about the levels of authority delegated in matters placed before the Board.
4. The NBFC shall provide to the Director periodic reports on the functioning of internal control system including effectiveness thereof.
5. The NBFC shall appoint a compliance officer who shall be a Senior executive reporting to the Board and be responsible for setting forth policies and procedures and shall monitor adherence to the applicable laws and regulations and policies and procedures including but not limited to directions of Reserve Bank of India and other concerned statutory and governmental authorities.
6. The Director shall not assign, transfer, sublet or encumber his / her office and his / her rights and obligations as Director of the NBFC to any third party provided that nothing herein contained shall be construed to prohibit delegation of any authority, power, function or delegation by the Board or any committee thereof subject to applicable laws and regulations including Memorandum and Articles of Association of the NBFC.
7. The failure on the part of either party hereto to perform, discharge, observe or comply with any obligation or duty shall not be deemed to be a waiver thereof nor shall it operate as a bar to the performance, observance, discharge or compliance thereof at any time or times thereafter.
8. Any and all amendments and / or supplements and / or alterations to this Deed of Covenants shall be valid and effectual only if in writing and signed by the Director and the duly authorised representative of the NBFC.

9. This Deed of Covenants has been executed in duplicate and both the copies shall be deemed to be originals.

**IN WITNESS WHEREOF THE PARTIES HAVE DULY EXECUTED THIS AGREEMENT ON THE DAY, MONTH AND YEAR FIRST ABOVE WRITTEN.**

For the NBFC

Director

By .....

Name:  
Title:

Name:

In the presence of:

1. ....

2. ....