

**ASIRVAD MICRO FINANCE LIMITED**

**INTERNAL GUIDELINES ON CORPORATE GOVERNANCE**

**Approval Details:**

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<b>Recommended by</b>	<b>Managing Director</b>
<b>Approved by</b>	<b>Board of Directors</b>

## 1. **OBJECTIVE OF GUIDELINES ON CORPORATE GOVERNANCE:**

A **Good Corporate Governance** practice is a key factor of sustainable corporate growth and maintains a long term relationship with the stakeholders of the Company. Asirvad Micro Finance Limited (“the Company”) is committed to highest level of Corporate Governance practices and emphasizes the need for full transparency and accountability in all transactions, in order to protect interests of its stakeholders. This enables the Company to attract high quality financial and human capital.

The Company believes that a strong professionally balanced Board of Directors is necessary to ensure the highest standards of Corporate Governance; we have an appropriate mix of executive /non-executive and independent directors in our Board. Board of Directors represent the shareholder’s interest in perpetuating a successful business and optimizing long term financial returns in a manner consistent with applicable regulatory and legal requirements and ethical considerations.

In order to enable NBFCs to adopt best practices and greater transparency in their operations, RBI has stipulated all NBFCs to frame an internal guideline on Corporate Governance. In pursuance to the Master Direction on Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, the Company has framed an internal guideline on Corporate Governance and the same shall be uploaded on the website of the Company.

## 2. **Governance Structure:**

### A. **Board of Directors (“Board”)**

The Directors are responsible to set strategic objectives for the management and to ensure that the long term interests of all stakeholders are served by adhering to and enforcing the principles of sound Corporate Governance.

The role of the Board is to determine the overall strategic direction and management of the Company, including monitoring its performance. The Board is responsible to the shareholders and its conduct is determined by applicable laws and the Articles of Association of the Company. In performing its duties, the Board meets regularly and acts in the best interests of the Company including shareholders, employees & clients. The Board is independent of the Management.

**Composition:**

The Company's Board shall have an optimum combination of Executive, Non-Executive and Independent Directors in line with the requirements of the provisions of the Companies Act, 2013, SEBI (Listed Obligations & Disclosure Requirements) Regulations, 2015 ("LODR") and the Articles of Association of the Company.

**Board Meetings:**

The Board Meeting shall be held at least four times a year in such a manner that not more than one hundred and twenty days shall intervene between two consecutive meetings of the Board. The minimum information made available to the Board shall be furnished to the Directors. The Company shall also adhere to the Secretarial Standards on Board/ Committee Meetings as well as General Meetings as issued by the ICSI and approved by the Central Government.

**B. Committees of the Board:**

The Board has constituted various Committees to deal with specific matters and for operational convenience, delegated powers for different functional areas to different Committees in accordance with applicable laws. The Audit Committee, Risk Management Committee, Nomination & Remuneration Committee, Corporate Social Responsibility Committee, IT Strategy Committee, Stakeholders Relationship Committee and Asset Liability Management Committee have been constituted in accordance with the provisions of the Companies Act, 2013, Guidelines issued by

Reserve Bank of India as applicable to the Company for internal and operational convenience. The composition, terms of reference and functioning of the Committee(s) shall be decided by the Board of Directors in accordance with the provisions of the applicable laws. The Minutes of the Board Level Committee(s) as specified by the Board are placed before Board for its perusal, discussion and noting.

**1. Audit Committee:**

The Company shall have in place Audit Committee of the Company constituted in accordance with the provisions of the Section 177 of the Companies Act, 2013 read with Rules framed there under, Regulation 18 of LODR and applicable provisions of the RBI Directions. The Audit Committee's constitution and functioning shall be in compliance with the provisions of the Companies Act, 2013 and LODR.

**Composition:**

The Audit Committee of the Company shall be constituted as per the provisions of Section 177 of the Companies Act, 2013 read with rules made thereunder and Regulation 18 of LODR. They shall meet all applicable legal requirements with respect to independence, financial literacy, accounting or related financial expertise, etc. The members of the Audit Committee shall be appointed by the Board of Directors.

**Meetings:**

The audit committee shall meet at least four times in a year and not more than one hundred and twenty days shall elapse between two meetings.

## **Quorum**

The quorum for any meeting of the Committee shall either be two members or one third of the members of the audit committee, whichever is greater, with at least two independent directors.

## **Role of Audit Committee:**

- The recommendation for appointment, remuneration and terms of appointment of Auditors of the Company;
- Review and monitor the Auditor's independence and performance, and effectiveness of Audit process;
- Approval of payment to statutory auditors for any other services rendered by the statutory auditors;
- Oversight of financial reporting process and disclosures of financial information to ensure that the Financial Statement is correct, sufficient and credible;
- Examining/ Reviewing with management the annual Financial Statement and the Auditors' 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
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- Reviewing, with the management, the quarterly financial statements before submission to the board for approval;
  - Approval or any subsequent modification of transactions of the Company with related parties;
  - Security of inter-corporate Loans and Investments;
  - Valuation of undertakings or Assets of the Company, wherever it is necessary;
  - Evaluation of internal financial controls and risk management systems;
  - Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
  - 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;

- Discussion with internal auditors of any significant findings and follow up there on;
- Reviewing the findings of any internal investigations by the internal 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;
- 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;
- 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;
- To review the functioning of the whistle blower mechanism;
- Approval of appointment of chief financial officer after assessing the qualifications, experience and background, etc. of the candidate;
- Carrying out any other function as is mentioned in the terms of reference of the audit committee;
- Reviewing 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;

- consider and comment on rationale, cost-benefits and impact of schemes involving merger, demerger, amalgamation etc., on the Company and its shareholders;
- 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 utilization of proceeds of a public or rights issue, and making appropriate recommendations to the board to take up steps in this matter;

2. **Risk Management Committee:**

The risk management framework is perhaps one of the most important parameters that define the success of a financial services organization. A risk management programme establishes a process of identifying and assessing the major risks covering all areas of the institution's activities risk. The board of directors is responsible to ensure that management has implemented a risk management programme, that resources are allocated for risk management and internal controls, and that there is adequate oversight of the audit function as one of the board of director's responsibilities.

**Composition:**

The Committee should have such members as approved by the Board as per the provisions of LODR and Reserve Bank of India Master Direction. The Committee shall appoint one of its members as the Chairman of the Committee, which shall be a member of Board of Directors. Further, the Chief Risk Officer ("CRO") of the Company shall be the Member cum Secretary of the Committee.



### **Meetings:**

The Committee shall meet as and when required and further, based on the reporting authority of CRO the Committee meetings can be convened as per the guidelines issued by Reserve Bank of India in this regard.

In adherence to LODR, the Committee shall meet at least twice in a year and not more than one hundred and eighty days shall elapse between two consecutive meetings.

### **Quorum:**

The quorum for a meeting of the Committee shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance.

### **Role of the Committee:**

The role of the Risk Management Committee, inter-alia, shall include the following:

- To formulate a detailed Risk Management Policy, which shall cover the following:
  - a. A framework for identification of internal and external risks specifically faced by the Company, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee;
  - b. Measures for risk mitigation including systems and processes for internal control of identified risks;
  - c. Business continuity plan

- To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;
- To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;
- To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;
- To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;
- The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) shall be subject to review by the Risk Management Committee;
- Identification, monitoring and measurement of the risk profile of the Company (including market risk, operational risk, compliance risk, credit risk, transactional risk etc.);
- overseeing its integrated risk measurement system;
- to analyze the critical decision for investments and corporate lending;
- Perform such other act, including the acts and functions stipulated by RBI and any other regulatory authority, as prescribed from time to time.

### 3. **Nomination & Remuneration Committee**

The Company shall have in place a Nomination & Remuneration Committee in adherence to Section 178 of the Companies Act, 2013 read with the Rules framed there under and LODR. The Committee shall apart from other things review the appointments and removals of directors and senior management, the compensation related matters of the directors and senior management, evaluation of Directors performance, etc.

**Composition:**

The Nomination & Remuneration Committee of the Board shall be constituted in accordance with the provisions of Section 178 of the Companies Act, 2013 read with rules made thereunder and LODR. The Committee shall appoint Independent Director as the Chairman of the Committee.

**Meetings:**

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

**Quorum:**

The quorum for a meeting of the committee shall be either two members or one third of the members of the committee, whichever is greater, including at least one independent director in attendance.

**Role of the Committee:**

The role of the Nomination & Remuneration Committee, inter-alia, shall include the following:

- To formulate 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;

- For every appointment of an independent director, the 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.
- To identify persons who are qualified to become Directors, Key Managerial Personnel and also who may be appointed in senior management positions in accordance with the criteria laid down and recommend to the Board their appointment and removal;
- To formulate the criteria for performance evaluation of Independent Directors and the Board;
- To carry out performance evaluation of Independent Directors along with the Board as a whole;
- 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;
- Devising a policy on diversity of board of directors

- To determine remuneration for Directors, Key Managerial Personnel, Senior Management Personnel and others employees and recommend the same to the Board of Directors.
- To recommend sitting fees for Directors.
- To evaluate the level and composition of remuneration to be reasonable and sufficient to attract, retain and motivate Directors.

A Policy for ensuring the fit and proper criteria for appointment of Directors is forming part of the Nomination and Remuneration Committee criteria and the said Committee approves and recommends to the Board appointment and reappointment of Directors.

#### 4. **Asset Liability Management Committee**

Asset Liability Management Committee is constituted to monitor the asset liability gap, strategize action to mitigate the risk associated, ensuring adherence to the limits set by the Board as well as for deciding the business strategy of the Company (on the assets and liabilities sides) in line with the Company's budget and decided risk management objectives.

##### **Composition:**

The Committee should have such members as approved by the Board. The Committee shall appoint one of its members as the Chairman of the Committee. Further, Chief Financial Officer of the Company shall be the part of the Committee and he will be the secretary for the said committee.

##### **Meetings:**

The Committee shall meet every month

### **Role of the Committee:**

The role of the Asset Liability Management Committee, inter-alia, shall include the following:

- Management of the balance sheet of the Company;
- Review of the asset-liability profile of the Company with a view to manage the market exposure assumed by the Company
- Safeguarding the recovery positions at any point of time;
- Review of risk monitoring system, ensure payment of liability on its due dates, liquidity risk management, funding and capital planning, profit planning and growth projections, forecasting and analyzing different scenarios and preparation of contingency plans; and
- Perform such other allied functions as may be required from time to time.

### 5. **CORPORATE SOCIAL RESPONSIBILITY COMMITTEE**

The Board shall constitute a Corporate Social Responsibility (“CSR”) Committee in adherence to the provisions of Section 135 of the Companies Act, 2013 read with rules made thereunder. The Committee will be vested with necessary powers, as laid down in its charter/ policy to achieve its objectives.

#### **Composition**

The CSR Committee shall be constituted as per the provisions of Section 135 of the Companies Act, 2013 and rules made thereunder. The members of the CSR Committee shall be appointed by the Board of Directors. The Board shall elect the Chairman of the Committee.

### **Meetings:**

The Committee shall meet as and when required in pursuant to the requirement of the Companies Act, 2013.

### **Role of the Committee:**

The role of the CSR Committee, inter-alia, shall include the following:

- Formulate and recommend to the Board, a CSR Policy which shall indicate the activities to be undertaken by the Company as specified in Schedule VII;
- Recommend the amount of expenditure to be incurred on the activities referred to in clause (a);
- Monitor the CSR Policy of the Company from time to time;
- Formulation of Annual Action Plan in accordance with CSR Policy

## **6. BORROWING & SECURITIES ALLOTMENT COMMITTEE**

The Borrowing & Securities Allotment Committee of the Board is constituted pursuant to Section 179 of the Companies Act, 2013, which empower them to raise funds in any form including term loan, debentures, Commercial Paper, securitization etc. from banks and financial institutions and also to empower designated individuals in the senior management to finalize the terms and conditions relating to the proposal under consideration.

### **Composition:**

The members of the Committee shall be appointed by the Board of Directors.  
The Board shall elect the Chairman of the Committee.

**Meetings:**

The Committee shall meet as and when required.

**Role of the Committee:**

The role of the Borrowing & Securities Allotment Committee, inter-alia, shall include the following:

- To approve the borrowings/ loans/ financial assistance to be availed by the Company from any Bank/ Financial Institutions/ firms/ bodies corporate/ Company(ies)/ Mutual Fund(s)/ any such other entity within the overall limit as approved by the Board of Directors as well as Members of the Company from time to time;
- To consider and approve any modification(s)/ renewals in the existing borrowings/ loans/ financial assistance as availed by the Company from any such above mentioned entity;
- To approve creation of any mortgages / charge or other encumbrance over the Company properties or assets for the above purpose;
- To raise funds in any form including term loan, issue of debentures, Commercial Paper, securitization etc., within the overall borrowing limit of the Company as set from time to time;
- To approve the allotment of securities to any identified investors as proposed by the Company from time to time except allotment of equity under ESOP;
- To authorize any officer(s) of the Company to sign /execute loan documents and other papers, documents ancillary to it;



- To appoint/ authorize any individual as Authorized Signatory(ies) with limit or without limit in respect of bank accounts maintained by the Company with any banks and other financial institutions
- To authorize any officer/ staff for opening, Operations and closing of bank accounts in different centers for different branches.
- To authorize any officer/ employee to apply for net banking facilities and operate the same for online transaction.
- To affix the Common Seal of the Company on any one or all documents/ instruments on behalf of the Company
- To appoint Debenture trustee(s), RTA, Credit Rating Agency (ies) and Legal counsel
- For opening/ closing and operating of lockers as may be required from time to time
- To appoint new auctioneer(s) for Auction of the pledged securities of the Company

## 7. IT STRATEGY COMMITTEE

IT Strategic Committee was constituted as per the RBI Master Directions on IT Framework for NBFC Sector. The Constitution of IT Strategy Committee is mandatory for the Company.

### Composition:

The Committee should have such members as approved by the Board. The Chairman of the Committee shall be an Independent director. Further, Chief Information Officer & Chief Technology Officer of the Company should be part of the Committee.

### Meetings:

The Committee shall meet as and when required, however, the gap between the two meetings shall not exceed 6 months.

**Role of the Committee:**

The role of the IT Strategy Committee, inter-alia, shall include the following:

- To approve IT strategy and policy documents;
- To ensure that Management has placed an effective strategic planning process;
- To ensure that Management has implemented processes and practices to ensure that the IT delivers value to the business;
- To ensure IT investments represent a balance of risks and benefits and that budgets are acceptable.
- To monitor the method adopted by the Management to determine the IT resources needed to achieve strategic goals and provide high level direction for sourcing and use of IT resources.
- To ensure proper balance of IT investments for sustaining the Company growth and becoming aware about exposure towards IT risks and controls.

8. **MANAGEMENT COMMITTEE**

For ensuring effective management of overall operations of the Company, the Management Committee of the Board is constituted. The said Committee meets from time to time for monitoring the activities of various departments of the Company in order to ascertain that procedures/ codes of the Company are adhered effectively.

**Composition:**

The Committee should have such members as approved by the Board. The Chairman of the Committee shall be appointed by the Board.

**Meetings:**

The Committee shall meet as and when required.

**Role of the Committee:**

The role of the Committee, inter-alia, shall include the following:

- To overview the governance norms followed by the Company and ascertain proper management;
- To monitor the workings of various divisions/ departments of the Company;
- To ensure the adherence of various procedures/ processes by the Company;

9. **STAKEHOLDERS RELATIONSHIP COMMITTEE**

The Stakeholders Relationship Committee is constituted pursuant to Section 178 of the Companies Act, 2013 read with rules made thereunder and LODR.

**Composition:**

The Committee should have such members as approved by the Board in adherence to Companies Act, 2013 and LODR. The Chairperson who shall be a non-executive director and such other members as may be decided by the Board.

**Meetings:**

The Committee shall meet half-yearly.

**Quorum:**

The quorum of the meeting shall be fixed by the Board of Directors.

**Role of the Committee:**

The role of the Committee, inter-alia, shall include the following:

- 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.
- Review of measures taken for effective exercise of voting rights by shareholders
- Review of adherence to the service standards adopted by the Company in respect of various services being rendered by the Registrar & Share Transfer Agent
- Review of the various measures and initiatives taken by the Company for ensuring timely receipt of annual reports/statutory notices by the security holders of the Company.
- Review of all communications to security holders mandated by LODR and Companies Act, 2013

**STATUTORY AUDITORS**

As per the Section 141 of the Companies Act, 2013, the Company shall have Statutory Auditors. The appointment of Auditor shall be recommended by Audit Committee to the Board for consideration, and thereafter Board shall recommend the same to the members, for their approval in General Meeting.

**Internal Auditors:**

As per Section 138 of the Companies Act, 2013 and rules made thereunder, the Company shall have an Internal Auditor. The appointment of Auditor shall be recommend by Audit Committee and subsequently approved by the Board. The Internal Auditor 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 Company shall appoint an Independent Company Secretary or a firm of Company Secretaries 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 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 Shareholders of the Company in accordance with the applicable laws / regulations.

**CODE OF CONDUCT FOR DIRECTORS & SENIOR MANAGERIAL PERSONNEL**

The Company has laid down the Code of Conduct for Directors and Senior Managerial personnel. The Code is applicable to Executive/ Non-Executive Directors including Independent Directors and Senior Managerial Personnel of the Company.

## **WHISTLE BLOWER POLICY/ VIGIL MECHANISM**

The Vigil (Whistle Blower) Mechanism is to ensure highest ethical, moral and business standards in the course of functioning and to build a lasting and strong culture of Corporate Governance within the Company. In terms of policy, an internal mechanism is established for Directors and employees to report to the management, concerns about unethical behavior, actual or suspected fraud or violation of Company's code of conduct. The policy is intended to encourage all Directors and employees of the Company to report suspected or actual occurrence of illegal, unethical or inappropriate actions, behaviors or practices by Directors/employees without fear of retribution. The Directors/ employees can voice their concerns on irregularities, malpractices and other misdemeanors through this Policy. It also provides necessary safeguards and protection to the Directors/employees who disclose the instances of unethical practices/ behavior observed in the Company. The mechanism also provides for direct access to the Chairman of the Audit Committee in exceptional cases.

## **DISCLOSURE TO THE BOARD**

The following disclosures shall be made to the Board of Directors at intervals as may be prescribed by the Board in this regard:

- progress made in putting in place a progressive risk management system, and risk management policy and strategy followed;
- 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.