

ECL FINANCE LIMITED

Internal Guidelines on Corporate Governance

Guidelines on Corporate Governance

The Reserve Bank of India (RBI) vide its Circular No. RBI/2006-2007/385 DNBS.PD/CC 94/03.10.042/2006-07 dated May 8, 2007 and RBI/2014-15/299 DNBR (PD) CC. NO. 002/03.10.001/2014-15 dated November 10, 2014 read with DNBR (PD) CC.No. 024/ 03.10.001/ 2014-15 dated March 27, 2015 on Revised regulatory Framework for NBFCs has advised all the Non Banking Financial Companies with asset size of Rs. 500 crores and above (NBFC-ND-SI) to frame internal guidelines on Corporate Governance. Pursuant to the said circular the following has been laid down:-

Audit Committee

The Board of Directors of the Company should constitute an Audit Committee, consisting of not less than three members of its Board of Directors.

Explanation I : The Audit Committee constituted by a non-banking financial company as required under Section 177 of the Companies Act, 2013 shall be the Audit Committee for the purposes of this paragraph.

Members:-

The current constitution of the Audit Committee of the Board of Directors of the Company are :-

- i. Mr. P. N. Venkatachalam - Independent Director*
- ii. Mr. Raviprakash R. Bubna*
- iii. Mr. Rujan Panjwani.*

Frequency of Meetings

A meeting of the Committee will be held atleast 4 times in a year.

Terms of Reference

The Audit Committee constituted under this paragraph shall have the same powers, functions and duties as laid down in Section 177 of the Companies Act, 2013 including the following -

- i. the recommendation for appointment, remuneration and terms of appointment of auditors of the company;*
- ii. review and monitor the auditor's independence and performance, and effectiveness of audit process;*

- i. Mr. Sunil Mitra – Independent Director
- ii. Mr. Rujan Panjwani.

Frequency of Meetings

A meeting of the Committee will be held atleast once in a year and on ad hoc basis, as required.

Terms of Reference

- i. identify the persons who can become directors;
- ii. to ensure 'fit and proper' status and credentials of proposed/existing directors;
- iii. formulate the criteria for determining the qualifications, positive attributes etc. and independence of a director;
- iv. recommend to the Board a policy relating to the remuneration for the directors, key managerial personnel, for the approval of the Board.

Risk Management Committee

The Board shall constitute a Risk Management Committee to manage the integrated risk

Members:-

Mr. Raviprakash R. Bubna
Mr. Rujan Panjwani
Mr. Mayank Soti

Frequency of Meetings

A meeting of the Committee will be held atleast once in every quarter and on ad hoc basis, as required.

Terms of Reference

- i. to ensures that all the risk associated with the functioning of the Company are identified, controlled and mitigated;
- ii. to lay down procedures regarding managing and mitigating the risk through Integrated Risk Management Systems, Strategies and Mechanisms ;
- iii. to deal with issues relating to credit policies and procedure and manage the credit risk, operational risk, management of policies and process ;

- iv. 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;*
- v. to monitor the the progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the NBFC;*
- vi. to have oversight over implementation of risk and other policies including Anti Money Laundering and KYC (Know your Customer) Policies*

Asset Liability and Risk Management Committee

The market risk for NBFCs with asset size of Rs. 500 crore or above as on the date of last audited balance sheet is addressed by the Asset Liability Management Committee (ALCO) constituted to monitor the asset liability gap and strategize action to mitigate the risk associated. Accordingly, to manage the integrated risk a Risk Management Committee and to monitor the asset liability gap, etc. an Asset Liability Management Committee should be formed.

Asset - Liability Management Committee

Members:-

Mr. Raviprakash R. Bubna

Mr. Rujan Panjwani

Mr. S. Ranganathan

Mr. Mayank Soti

Frequency of Meetings

A meeting of the Committee is recommended to be held on monthly basis, however, meetings should be held atleast once in every two months.

Terms of Reference

- i. monitoring the asset liability gap*
- ii. strategizing action to mitigate risk associated with the asset liability gap*
- iii. Developing risk policies and procedures and verifying adherence to various risk parameters and prudential limits*
- iv. reviewing the risk monitoring system*
- v. ensure that credit exposure to any one group does not exceed the internally set limits as well as statutory limits set by RBI.*

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 would be applicable to ascertain the fit and proper criteria of the directors at the time of appointment, and on a continuing basis,
- ii. 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);
- iii. 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);
- iv. 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.

Disclosure and transparency

- I. 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.
- II. The Company shall disclose the following in their Annual Financial Statements, with effect from March 31, 2015 and onwards, such information as prescribed under circular no. DNBR (PD) CC. NO. 002/03.10.001/2014-15 dated November 10, 2014 read with DNBR (PD) CC.No. 024/ 03.10.001/ 2014-15

dated March 27, 2015 and such other guidelines and RBI directions as applicable from time to time

Rotation of partners of the Statutory Auditors Audit Firm

The Company rotate the partner/s of the Chartered Accountant firm conducting the audit, every three years so that same partner does not conduct audit of the company continuously for more than a period of three years.

However, the partner so rotated will be eligible for conducting the audit of the Company after an interval of three years, if the Company so decides. Company shall incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.

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 format given at Annex- 2 (as amended by RBI from time to time).
- ii. The process of due diligence should be undertaken by the Company at the time of appointment / renewal of appointment.
- iii. The constituted Nomination & Remuneration Committee to scrutinize the declarations.
- iv. 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.
- v. 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.
- vi. The Company must ensure that the nominated/ elected directors execute the deeds of covenants in the format given in **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.