



Edel Finance Company Limited

Guidelines On Corporate Governance

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1) Purpose

Corporate governance is a way of life and not a set of rules. Corporate governance is a set of process, 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. It is a necessary condition, and not a sufficient condition for succeeding. 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 they do.

2) Policy

Professionals associated with Edel Finance Company Limited have a challenging period ahead keeping track of legislative reforms and technological developments, understanding their impact on one's duties and responsibilities. The employees of Edel Finance Company Limited bind themselves by a code of conduct to ensure highest level of independence, integrity, innovation and excellence. They are expected to use their capacity, knowledge and resources towards maximization of stakeholders' value and well-being and progress of humankind through transparency, accountability and truthful disclosure of state of affairs.

This document contains Edel Finance Company Limited's internal guidelines relating to Corporate Governance and is by no means comprehensive in terms of applicability. It is understood by all that Corporate Governance is a fast evolving subject and we will need to upscale ourselves every time new facts and situations come up. The guidelines are the bare minimum requirement relating to functioning of the Committees.

3) Administration

The initial guideline document as placed before the Board of Directors of Edel Finance Company Limited, is approved by them. The Governance team of Edel Finance Company Limited is primarily responsible for administrating these Guidelines. The Administrator is also authorized to make modifications to the guidelines from time to time to ensure that it is in compliance with statutory laws, amendments or regulations.

4) Regulatory Framework

Reserve Bank of India (RBI) 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.

5) Applicability

This Guideline applies to all employees and persons associated with Edel Finance Company Limited. This also applies to Directors (including Independent Directors) of Edel Finance Company Limited. To the extent it relates to the Rotation of Auditors, the same shall apply to the Statutory Auditors of the Company.

Pursuant to the said circular the following has been laid down:-

AUDIT COMMITTEE

The Board of Directors of the Company shall 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.

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. 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. Approval of payment to statutory auditors for any other services rendered by the statutory auditors;*

- iv. *Reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:*
- v. *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;*
- vi. *Changes, if any, in accounting policies and practices and reasons for the same*
- vii. *Major accounting entries involving estimates based on the exercise of judgment by management*
- viii. *Significant adjustments made in the financial statements arising out of audit findings*
- ix. *Compliance with listing and other legal requirements relating to financial statements*
- x. *Disclosure of any related party transactions*
- xi. *Qualifications in the draft audit report.*
- xii. *Reviewing, with the management, the quarterly financial statements before submission to the board for approval;*
- 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. *Discussion with internal auditors of any significant findings and follow up thereon;*
- xvi. *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;*
- xvii. *To review the functioning of the Whistle Blower/Vigil Mechanism; and*
- xviii. *Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.*

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.

In accordance with the provisions of Section 178 of the Companies Act, 2013 ("the Act") and the Companies (Meetings of Board and its Powers) Rules, 2014 ("the Rules"), the Company is required to constitute the Nomination and Remuneration Committee comprising minimum of 3 Non-Executive Directors with half of the members being Independent Directors. Hence, the Nomination Committee of the Company was rechristened as Nomination and Remuneration Committee by the Board of Directors on May 16, 2014. The terms of reference and the constitution of the Committee, in accordance with the provisions of the Act are as follows:-

The Company has in place nomination and remuneration Committee in accordance with the provisions of the Companies Act, 2013 and applicable provisions of the RBI Directions

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.*

A separate policy on 'Fit and Proper' criteria for Edelweiss is also formulated and the same is attached to these guidelines as Annex-1

These internal guidelines on corporate governance, as approved by the Board of Directors, shall be published on the company's web-site, if any, for the information of various stakeholder

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 provided.
- 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-2**. Notwithstanding, formats as prescribed by RBI, as applicable from time to time to be used for execution
- vii. 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.

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:

Name:

Title:

In the presence of:

1.

2.