

Swarna Pragati Housing Microfinance Pvt. Ltd.



SWARNA PRAGATI HOUSING

Internal Guidelines on Corporate Governance

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1. Introduction

Swarna Pragati Housing Microfinance Private Limited (“SPHM” or “the Company”) endeavors to provide financial services to the bottom of the pyramid segment to help build a society where everyone has a conducive habitat to live and work in with dignity and to be the preferred provider of innovative financial solutions for housing, particularly to Economically Weaker Section (EWS) and Low Income Groups (LIG) in rural and semi-urban areas. The vision of SPHM is to be the leader in the housing microfinance in the country, to create a decent habitat for all, to create value for all stakeholders by building a profitable business providing financial access for housing in hitherto underserved areas. SPHM aims to achieve its mission and vision through the following values:

- To place the customer’s interest first
- To be transparent and ethical in approach in all dealings
- To be sensitive towards social and environmental concerns
- To encourage teamwork, professionalism and a culture of learning & innovation

Corporate Governance plays a pivotal role in building SPHM and providing the right direction to achieve the mission and vision of SPHM through the values set by itself. SPHM recognizes its role as a corporate citizen and endeavors to adopt the best practices and the highest standards of Corporate Governance through transparency in business ethics, accountability to its customers, government, investors, lenders and all other stakeholders. The Company’s activities shall be carried out in accordance with good corporate practices and the Company.

2. RBI Guidelines on Corporate Governance

The Reserve Bank of India vide Circular No. RBI/2020-21/60, DOR.NBFC (HFC).CC.No.118/03.10.136/2020-21 dated 22 October 2022, issued the Directions, in supersession of relevant regulations issued by National Housing Bank (NHB) to be complied with by the Housing Finance Companies.

The Reserve Bank of India has also issued Master Direction on Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021, dated 17th February, 2021 (herein after referred as “RBI Master Directions”) and para 55 of the said RBI Master Directions has prescribed to frame Internal Guidelines on Corporate Governance by Housing Finance Companies.

These Guidelines outline the current Corporate Governance practices of the Company.

3. Board of Directors

The Board of Directors along with its Committees shall provide leadership and guidance to the Company’s management and direct, supervise and control the performance of SPHM.

The Board shall meet a minimum of four (4) times in a calendar year in such a manner that not more than one hundred and twenty days shall intervene between two consecutive meetings of the Board.

The Board has a vital role to play in the matters relating to policy formulation, implementation and strategic issues which are crucial for the long term development of the organization.

In Compliance with Section 165 of the Companies Act, 2013 (‘the Act’), a Director shall not hold the office of a Director in more than 20 companies. Provided that the maximum number of public companies in which a person can be appointed as a Director shall not exceed 10.

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 non-compliance.

4. Duties and Responsibilities of Board of Directors

In accordance with the provisions of Section 166 of the Companies Act, 2013 and as a matter of good Corporate

governance, the Directors of the Company have the following duties:-

- (1) Subject to the provisions of the Companies Act, 2013, a Director of the Company shall act in accordance with the Articles of Association of the Company.
- (2) A Director of the company shall act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment.
- (3) A Director of the company shall exercise his duties with due and reasonable care, skill and diligence and shall exercise independent judgment.
- (4) A Director of the company shall not involve in a situation in which he may have a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the company.
- (5) A Director of the company shall not achieve or attempt to achieve any undue gain or advantage either to himself or to his relatives, partners, or associates and if such Director is found guilty of making any undue gain, he shall be liable to pay an amount equal to that gain to the company.
- (6) A Director of the company shall not assign his office and any assignment so made shall be void.
- (7) The Board shall be required to uphold ethical standards of integrity and probity, act objectively & constructively and exercise responsibilities in a bona fide manner in the interest of the Company and its stakeholders.
- (8) Every Director holds a fiduciary position and shall be required to attend and actively participate in the Board and its Committee Meetings in which they are a Member and conscientiously fulfill his/her obligations as Director of the Company.
- (9) The Board shall be responsible for overall compliance and monitoring the effectiveness of the Corporate Governance practices and suggest changes, if required. The Board shall also periodically review compliance under various laws applicable to the Company.
- (10) The Board shall scrutinize and monitor the performance of management to ascertain the achievement of agreed goals and objectives.
- (11) The Board of Directors shall provide strategic guidance to the Company.
- (12) The Board shall ensure that the integrity of the financial information and that financial controls and the systems of risk management are robust and defensible;
- (13) The Board of Directors shall exercise objective independent judgment on corporate affairs, board deliberations on issues relating to strategy, performance, risk management, resources, key appointments and standards of conduct. However, Independent Directors shall moderate and arbitrate in the interest of the company as a whole, in situations of conflict between the management and shareholder's interest.
- (14) The Board shall bring an objective view in the evaluation of the performance of board and management.

5. Information to be placed before the Board of Directors

- (1) Annual operating plans and budgets and any updates.
- (2) Capital budgets and any updates.
- (3) Quarterly results of its operating divisions or business segments.
- (4) Minutes of meetings of audit committee and other committees of the Board of Directors.
- (5) The information on recruitment and remuneration of senior officers just below the level of Board of Directors, including appointment or removal of Chief Financial Officer and the Company Secretary.
- (6) Show cause, demand, prosecution notices and penalty notices, which are materially important.
- (7) Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems.
- (8) Any material default in financial obligations to and by the listed entity, or substantial non-payment for goods sold by the listed entity.
- (9) Any issue, which involves possible public or product liability claims of substantial nature, including any judgement or order which, may have passed strictures on the conduct of the listed entity or taken an adverse view regarding another enterprise that may have negative implications on the listed entity.
- (10) Details of any joint venture or collaboration agreement.
- (11) Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property.
- (12) Significant labour problems and their proposed solutions. Any significant development in Human Resources/ Industrial Relations front like signing of wage agreement, implementation of Voluntary Retirement Scheme etc.
- (13) Sale of investments, subsidiaries, assets which are material in nature and not in normal course of business.
- (14) Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.
- (15) Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as nonpayment of dividend, delay in share transfer etc.
- (16) The progress made in putting in place a progressive risk management system and risk management policy

and strategy followed by the Company;

(17) 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. Committees of the Board

To focus effectively on the issues and ensure expedient resolution of diverse matters, the Board constitutes 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 RBI/NHB Directions require the setting up of an Audit Committee, Nomination Committee and Risk Management Committee. In compliance with the applicable provisions of the Act, RBI and NHB guidelines on Corporate Governance and in order to meet business exigencies, SPHM has constituted its Board committees.

The terms of reference, roles and responsibilities of the aforesaid Committees will be further aligned based on the changes in the regulations and business requirements with the approval of Board. SPHM complies with the above requirements of committee constitution and have the following committees of the Board:

1. Audit Committee
2. Risk Management Committee
3. Asset Liability Management Committee (ALCO)
4. Nomination and Remuneration Committee

6.1 Audit Committee

The Company has in place the Audit Committee in accordance with the RBI and NHB directions on Corporate Governance.

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| Chairperson | The members of the Committee present at the meeting shall choose one amongst them to act as Chairperson. |
| Composition | Audit committee shall consist of at least three members of the Board of Directors and will preferably be headed by an Independent Director. All members of the Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise. The Audit Committee may invite such of the executives, as it considers appropriate to be present at the meetings of the Committee. |
| Secretary | The Company Secretary of the Company shall act as the Secretary to the Committee. |
| Meetings and Quorum | The Audit Committee shall meet at least four times in a calendar year and not more than 120 days shall elapse between two meetings. The Quorum for the meeting of the Committee shall be as per the Articles of Association of the Company. |
| Terms of reference | The Audit Committee constituted shall have the same powers, functions and duties as laid down in Section 177 of the Companies Act, 2013. The Audit Committee must ensure that an Information System Audit of the internal systems and processes is conducted at least once in two years to assess operational risks faced by SPHM. As per the Master directions issued by RBI dated 17 th February 2012 by RBI, the HFCs are necessarily required to carry out an Information System Audit separately through a Certified Information System Auditor (CISA), in compliance with the provisions of the Directions. |

6.2 Nomination and Remuneration Committee

The Company has Nomination Committee in accordance with the RBI and NHB guidelines on Corporate Governance.

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| Chairperson | The members of the Committee present at the meeting shall choose one amongst them to act as Chairperson. |
| Composition | i. The Committee shall consist of such members as may be appointed by the Board ii. Chairperson of the Company may be appointed as a member of the Committee but shall not be a Chairman of the Committee. |
| Secretary | The Company Secretary of the Company shall act as the Secretary to the Committee. |
| Meetings and Quorum | i. The Committee shall meet as and when necessary. ii) The Quorum for the meeting of the Committee shall be as per the Articles of Association of the Company |
| Terms of reference | The Nomination Committee constituted under this paragraph shall have the same powers, functions and duties as laid down in Section 178 of the Companies Act, 2013. |

6.3 Risk Management Committee

The Company has in place the Risk Management Committee in accordance with RBI and NHB directions on Corporate Governance for the purpose of monitoring the risk and to make suitable strategies to control it.

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| Chairperson | The members of the Committee present at the meeting shall choose one amongst them to act as Chairperson. |
| Composition | The Committee shall consist of such number of members as may be determined by the Board. |
| Secretary | The Company Secretary of the Company shall act as the Secretary to the Committee. |
| Meetings and Quorum | The Committee shall meet minimum twice and as and when necessary to review and monitor the risk associated with business of the Company. ii) The Quorum for the meeting of the Committee shall be as per the Articles of Association of the Company. |
| Terms of reference | i. To monitor and review the risk management plan; ii. To review operational risk (including sub risk for operational risk), information technology risk and integrity risk; iii. To take strategic actions to mitigate the risk associated with the nature of the business; iv. To appraise the Board of Directors at regular intervals regarding the process of putting in place a progressive risk management system, risk management policy and strategy; v. To do such other acts, deeds and things as may be directed by the Board and required to comply with the applicable laws; and vi. To lay down procedure to inform Board members about the risk assessment and minimization procedures. vii. To hold such risk reviews to ensure adequate monitoring as may be felt necessary by the internal as well as external stakeholders and to appraise the Board of the Company on a periodic basis. |

6.4 Asset Liability Management Committee (ALCO)

As per the guidelines of Asset Liability Management (ALM) system for Housing Finance Companies issued by NHB, vide its circular No. NHB/ND/DRS/Pol-No. 35/2010-11 and as updated from time to time, the Company has in place the Asset Liability Management Committee (ALCO) for the purpose of managing liquidity and interest rate risk.

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| Chairperson | The members of the Committee present at the meeting shall choose one amongst them to act as Chairperson. |
| Composition | The Committee shall consist of such number of members as may be determined by the Board. |
| Secretary | The Company Secretary of the Company shall act as the Secretary to the Committee. |
| Meetings and Quorum | The ALCO shall meet at least four times in a calendar year and not more than 120 days shall elapse between two meetings. The Quorum for the meeting of the Committee shall be as per the Articles of Association of |

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| | the Company. |
| Terms of reference | <ol style="list-style-type: none"> 1. Responsible for 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. 2. Liquidity risk management 3. Management of market risks 4. Funding and capital planning 5. Profit planning and growth projection 6. Forecasting and analysing 'what if scenario' and preparation of contingency plans. 7. Review outlook for interest rates and economy at local, regional and international levels. 8. Develop parameters for the product pricing 9. Closely monitoring the regulatory ratios & profitability on monthly basis & report to Board members for timely decision making. 10. Also, the ALCO will ensure that it is aware of the overall financial performance of the Company and, therefore, will keep abreast of significant changes/trends in its financial results. 11. Monitoring mismatches in the maturity profile at regular intervals. 12. Regularly conducting a stress analysis of it's liquidity position which should be verified by way of Back Testing in the next ALCO meeting. 13. Contingency plan for funding arrangements should be examined at each ALCO meeting. 14. In each ALCO meeting there should be a review of the loans taken from Banks and their servicing. ALCO should examine whether all the loans are standard accounts and instances of overdue, if any, should be thoroughly analysed. |

7. Fit and Proper Criteria

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 Housing Finance Companies also. Therefore, SPHM has put in place Fit and Proper Criteria Policy for its Directors

8. Reporting to NHB

The Company shall report to NHB as per the extant directions issued by RBI and NHB from time to time. As per the current directions, the Company shall furnish to the NHB

- a. a quarterly statement on change of Directors
- b. a certificate from the Managing Director fit and proper criteria in selection of the directors has been followed.
- c. The statement submitted by the Company for the quarter ending March 31 shall be certified by the auditors.

The statement shall reach the National Housing Bank within 15 days of the close of the respective quarter.

The National Housing Bank, if it deems fit and in public interest, reserves the right to examine the fit and proper criteria of directors of any HFC irrespective of the asset size of such HFC.

9. Disclosure and Transparency

(1) The Company shall put up to the Board of Directors, at regular intervals, as may be prescribed by the Board in this regard, the following:

- i. the progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the Company;
- ii. Conformity with corporate governance standards viz., in composition of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

(2) The Company shall also disclose the following in its Annual Financial Statements,

- i. registration/ licence/ authorisation, by whatever name called, obtained from other financial sector regulators;

- ii. ratings assigned by credit rating agencies and migration of ratings during the year;
- iii. penalties, if any, levied by any regulator;
- iv. information namely, area, country of operation and joint venture partners with regard to Joint ventures and overseas subsidiaries and
- v. Asset-Liability profile, NPAs and movement of NPAs, details of all off-balance sheet exposures, exposure to real estate, exposure to capital market, disclosure of complaints as also securitization/ assignment transactions and other disclosures as specified by RBI/NHB

10. Rotation of partners of the Statutory Auditors Audit Firm

The Company shall follow the circular issued by RBI vide circular no. RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27th April 2021 along with its addendum if any and Master Directions as issued by RBI, for appointment of statutory auditors for HFCs. The Company shall incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.

11. Exemptions

The National Housing Bank may, if it considers it necessary for avoiding any hardship or for any other just and sufficient reason, grant extensions of time to comply with or exempt any housing finance company or class of housing finance companies, from all or any of the provisions of these Directions either generally or for any specified period subject to such conditions as the National Housing Bank may impose. While it is the endeavor of the company to comply with all the directions of the RBI and NHB, it shall seek, in writing, from RBI or NHB if it wants any exemption from the guidelines.

12. Codes and Policies

In accordance with the provisions of the Companies Act, Directions/ Guidelines issued by The Reserve Bank of India and National Housing Bank (NHB) and other applicable laws, the Company has formulated various Codes and Policies to ensure high ethical standards in the overall functioning of the Company. The policies adopted may be reviewed by Board from time to time

The key codes and policies as approved by the Board of Directors inter-alia include the following:

1. Code of Conduct for the Board of Directors and Senior Management

This Code sets forth the guiding principles on which the Company, Board and the Senior Management shall operate and conduct themselves with multitudinous stakeholders, government and regulatory agencies, media and anyone else with whom it is connected.

2. Policy on Preservation of Documents and Records

This Policy ensures that the Company complies with the applicable document retention laws, preservation of various statutory documents and also lays down minimum retention period for the documents/records in respect of which no retention period has been specified by any law/regulation.

3. Whistle Blower Policy

The Company has established a vigil mechanism by way of 'Whistle Blower Policy', to report to the management instances of unethical practices, illegal activities and/or actual or suspected fraud or violation of the company's code of conduct or ethics policy. It also provides for direct access to the Chairman of the Audit Committee in exceptional cases and ensures that the Whistleblower is provided with adequate safeguards against victimization.

4. Fair Practice Code

This Code includes guidelines in appropriate staff conduct when dealing with the customers and on the Company's policies vis-à-vis client protection. It captures the spirit of National Housing Bank guidelines on fair practices for Housing Finance Companies.

5. Comprehensive Risk Management Policy

The Company remains committed to manage its risk in a proactive manner and adopts a structured and disciplined approach to risk management by developing and implementing risk management program. This policy has been formulated inter-alia to ensure that there is a formal process for risk identification, risk assessment and risk mitigation.

6. Policy on Fit and Proper Criteria for the Directors

This Policy lays down the process and procedure of due diligence of Director(s) to ensure that they fulfil the 'fit and proper' criteria and to determine their suitability for appointment/ re-appointment as a Director(s) on the Board of the Company. It also aims to ensure that each Director on the Board of the Company continues to meet the fit and proper criteria on an on-going basis.

7. Policy on “Know Your Customer and Anti Money Laundering Measures”

This Policy has been formulated in line with the Know Your Customer and Anti Money Laundering guidelines prescribed by RBI and NHB for the Company's lending/credit operations/ financial dealings.

8. Policy on “Prevention , Prohibition & Redressal of Sexual Harassment of Women at workplace”

The primary objective of this Policy is to protect the women employees from sexual harassment at the place of work and also to provide punishment incase of false and malicious representations.

9. Customer Grievance redressal Policy

This policy is aimed at minimizing instances of customer complaints & grievances through proper service delivery & review mechanism & to ensure prompt Redressal of customer complaints & grievances.

10. Information Technology Policy

Over the years, the Housing Finance Company has grown in size and complexity. As the HFC industry matures and achieves scale, its Information Technology /Information Security (IT/IS) framework, Business Continuity Planning (BCP), Disaster Recovery (DR) Management, IT audit, etc. must also be benchmarked to best practices. This policy was primarily to protect information security of the data and assets. Necessary objectives are met by implementation of controls as defined by guidelines, to achieve confidentiality, integrity and availability of the information security for all assets.

13. Review

The Board of Directors of the Company reserves the right to add, amend, modify this Corporate Governance Guidelines, as and when it deems appropriate.