



**ART HOUSING FINANCE (INDIA) LIMITED
DEPARTMENT NAME: SECRETARIAL & LEGAL**

INTERNAL GUIDELINES ON CORPORATE GOVERNANCE

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INTERNAL GUIDELINES ON CORPORATE GOVERNANCE

1) INTRODUCTION AND SCOPE

At **ART Housing Finance (India) Company Limited** (“the Company” or “AHFL”), we believe that sound governance practices are the bedrock for the functioning of the Company and for creation of value for its stakeholders on a sustainable and long term basis. This philosophy guides us in maintaining an ethical framework within which we operate.

In order to adopt best practices and greater transparency in the operations of the Company and in compliance with the Directions issued by National Housing Bank i.e. “Housing Finance Companies - Corporate Governance (National Housing Bank) Directions, 2016” (“NHB Directions”), the Board of Directors of the Company approved and adopted the “Internal Guidelines on Corporate Governance”. This Policy shall be published on the company's website, for the information of various stakeholders.

2) BOARD OF DIRECTORS

The Company’s Board has a fiduciary role to protect and enhance stakeholders’ value through strategic supervision. The Board along with its Committees provides direction and exercises appropriate controls. In addition to basic governance practices, the Board lays strong emphasis on accountability and integrity.

The Board of Directors of the Company have suitable combination of Executive, Non-Executive, Independent Directors, and its composition shall be in compliance with the requirements of the Companies Act, 2013 read with the Rules framed thereunder (“the Act”) and NHB Directions. At present the Board comprises of 3 (three) Independent Directors, 2 (two) Non-Executive Directors and 1 (One) Executive Director.

All the Directors shall meet the eligibility criteria including the ‘fit and proper criteria’, for appointment on the Board of the Company, as prescribed under applicable laws. The Directors shall submit adequate disclosures / declarations as required under the provisions of applicable laws and the codes and policies adopted by the Company from time to time.

Meetings of the Board

At least 4 meetings of the Board shall be held in each calendar year in such manner that not more than 120 days shall intervene between two Board Meetings. The information for agenda of the Board Meetings along with the notes shall be circulated to the Board well in advance pursuant to the applicable provisions and relevant mandatory Secretarial Standards, for facilitating meaningful and focused discussions at the meetings.

Board Independence

Independent Directors are expected to play a key role in the decision-making process of the Board by participating in the process of framing the overall strategy of the Company. The Independent Directors should strive to bring in an independent, impartial and objective view to discussions at the meetings of the Board and its Committees and they shall act in a way that is in the best interest of the Company and its stakeholders.

Independent Directors appointed on the Board of the Company shall fulfil the criteria of independence as set out under the provisions of Companies Act, 2013 and other applicable laws in this regard.

They shall submit a declaration affirming compliance with the criteria of independence for every financial year and such declaration shall be submitted whenever there is any change in circumstances which may affect their independence.

An Independent Director may hold office for a term of up to five consecutive years and shall be eligible for reappointment for another term of up to five consecutive years on passing of a special resolution by the members of the Company and disclosure of such Director in the Director's Report. Provided that an Independent Director, who completes two consecutive term(s) shall be eligible for appointment as Independent Director in the Company only after the expiration of three years of ceasing to be an Independent Director in the Company only after the expiration of three years of ceasing to be an Independent Director in the Company.

Board Compensation Review

The remuneration payable to the Director(s) shall be determined by the Nomination & Remuneration Committee in compliance with the applicable laws and approved by the Board and Shareholders, as the case may be. Further, Non-Executive Directors of the Company may be paid remuneration by way of sitting fees for attending Meetings of the Board and its Committees in accordance with the provisions of Companies Act, 2013.

3) COMMITTEES OF THE BOARD

The Board has constituted several Committees as required under relevant statutes/rules/regulations, as mandated by the relevant authorities, for operational convenience, to focus effectively on the issues and to ensure expedient resolution of diverse matters. The Board may re-constitute or dissolve such Committees from time to time, as deemed expedient or necessary. The Board may specify terms of reference of such Committees and other incidental matters.

The Committees shall operate as empowered arm of the Board as per their terms of reference. The minutes of the meetings of all Committees of the Board shall be placed before the Board for noting. All decisions pertaining to the constitution/re-constitution/dissolution of Committees, appointment of members and fixing/modification of terms of reference of the various Committees shall be made by the Board of Directors. As and when the Board so stipulates, the Committees shall periodically report to the Board on various matters that have been referred to the respective Committees.

Brief details of the various statutory Committees of the Company are as under:-

- 1) Audit Committee
- 2) Nomination & Remuneration Committee
- 3) Risk Management Committee
- 4) Corporate Social Responsibility Committee
- 5) Asset Liability Management Committee

6) IT Strategy Committee

3.1 Audit Committee

The Audit Committee of the Company has been constituted under the pursuance of Section 177 of the Companies Act, 2013 and rules framed thereunder.

Terms of Reference

- Periodical discussion with the auditors about internal control systems, scope of audit, which include observations of the auditors.
- Ensure the compliance of internal control system.
- Power to recommend on any matter relating to financial management including the Auditors' Report and such recommendation shall be binding on the Company, failing which, the Board shall accord the reasons thereof and communicate the same to the shareholders.
- Make request to the statutory auditors, the internal auditors and the Chief Financial Officer of the Company to attend and the aforesaid shall participate at meetings of the Audit Committee, without right to vote.
- Review with Management the half-yearly/annual financial statement before submission to the Board, focusing primarily on;
 - a. Any changes in accounting policies and practices,
 - b. Major accounting entries based on exercise of judgment by the management,
 - c. Qualifications in draft audit report,
 - d. Significant adjustment arising out of audit,
 - e. The going concern assumption.
- Compliance with accounting standards and legal requirement relating to financial statements.
- Any related party transactions i.e. transactions of the Company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of Company at large.
- Matters to be included in Director's Responsibility Statement as per Companies Act.
- Discuss with external auditors before the audit commences nature and scope of audit as well as have post-audit discussion to ascertain any area of concern.
- Power to investigate within the terms of reference and shall have full access to the information contained in the records of the Company and external professional advice, if necessary.
- Approval of payment to statutory auditors for any other services rendered by them.
- Reviewing with the Management, performance of statutory and internal auditors, adequacy of the internal control systems and 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 any significant findings & follow up thereon and findings of any internal investigations by the internal auditors into matters where there is suspected fraud/ irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
- 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 Management letters issued by the statutory auditors and internal audit reports relating to internal control weaknesses.
- To review appointment, removal and terms of remuneration of the Head of Internal Audit.

3.2 Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Company has been constituted under the pursuance of Section 178 of the Companies Act, 2013 and rules framed thereunder.

Terms of Reference

- Carrying out evaluation of performance of Key Managerial Personnel.
- Recommendation to the Board a policy, relating to the remuneration for the Directors, key managerial personnel and other employees; reviewing the company's overall compensation structure.
- Reviewing related policies with a view to attract, motivate and retain employees and review compensation levels vis-à-vis other Housing Finance Companies and the industry in general; ensuring the following while formulating the policy on the aforesaid matters:
 - (a) The level and composition of remuneration is reasonable and sufficient to attract, retain and motivate Directors, key managerial personnel of the quality required to run the company successfully;
 - (b) Relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
 - (c) Remuneration to Directors and key managerial personnel reflects a balance between fixed and incentive pay inter - alia based on short and long-term performance objectives appropriate to the working of the Company and its goals, formulating and determining the company's policies on remuneration packages payable to the Directors and key managerial personnel including performance/ achievement bonus, perquisites, retirals, sitting fees, etc.; considering grant of Stock Options to employees including employees of Subsidiaries and administer and supervise the Employee Stock Option Plans; functioning as the Compensation Committee as prescribed under the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and be authorised to allot shares pursuant to exercise of Stock Options by employees; and to perform any other function or duty as stipulated by the Companies Act, Reserve Bank of India, National Housing Bank, Securities and Exchange Board of India, Stock Exchanges and any other regulatory authority or under any applicable laws as may be prescribed from time to time.

3.3 Risk Management Committee

The Risk Management Committee of the Company has been constituted in pursuance under the Corporate Governance (National Housing Bank) Directions, 2016, issued by the National Housing Bank.

Terms of Reference

- Reviewing the risk profile of the Company (including market risk, operational risk, transactional risk and credit risk);

- Approval and review of the risk measurement policies, models and measurement systems;
- Approval and review of the broad Credit underwriting policies and process. Set broad framework by setting of quantitative prudential limits on various products and segments of the Company's operations;
- Review risk, credit and collections triggers/ parameters;
- Determining implications on quality and review of returns and reports to the NHB pertaining to the Risk Monitoring function.
- To review and discuss the cases relating to willful defaulters of the Company.

3.4 Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee of the Company has been constituted in pursuance under Section 135 of the Companies Act, 2013 and rules framed thereunder.

Terms of Reference

- To formulate and recommend the Board, a Corporate Social Responsibility Policy in compliance with Section 135 of the Companies Act, 2013.
 - To identify the activities to be undertaken as per Schedule VII of the Companies Act, 2013.
 - To institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the Company.
 - To recommend the amount of CSR expenditure to be incurred on the earmarked CSR activities.
 - To monitor the implementation of the CSR Policy through periodic reviews of the CSR activities from time to time.
- Such other functions as the Board may deem fit.

3.5 Asset Liability Management Committee (ALCO)

The Asset Liability Management Committee of the Company has been constituted in pursuance under Guidelines issued by the National Housing Bank.

Terms of Reference

- To review the treasury operations of the Company at least once a quarter.
- To ensure 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 budget and pre-decided risk management objectives of the Company.
- Responsible for integrated balance sheet management from risk return perspective including the strategic management of interest rate and liquidity risk.
- To consider, inter- alia, product pricing for both deposits and advances, desired maturity profile and mix of the incremental asset and liabilities, prevailing interest rates offered by other peer housing finance companies for similar services/ product, etc.
- To review the results of and progress in implementation of the decisions made in its previous Meetings.
- To articulate the current interest rate view of the Company and to base its decision for future business strategy on this.

- To develop a view on future direction of interest rate movements and decide on funding mixes between fixed vs. floating rate funds, wholesale vs. retail funds, money market vs. capital market funding, domestic vs. foreign currency funding, etc.
- To work under the overall supervision and guidance of the Board and to submit its report, observations, views, etc. to the Board from time to time. It may form one or more support working group of such compositions, as it deems necessary for analysing, monitoring and reporting the risk profiles to it time to time.

3.6 IT Strategy Committee

The IT Strategy Committee of the Company has been constituted in pursuance under Guidelines issued by the National Housing Bank.

Terms of Reference

- Reviewing and amending the IT strategies in line with the corporate strategies, Board Policy reviews, cyber security arrangements and any other matter related to IT Governance;
- The Committee shall work in partnership with other Board Committees and Key Management to provide input to them.
- Approving IT strategy and policy documents and ensuring that the management has put an effective strategic planning process in place;
- Ascertaining that Management has implemented processes and practices that ensure that the IT delivers value to the business;
- Ensuring that IT investments represent a balance of risks and benefits and that budgets are acceptable;
- Monitoring the method that management uses to determine the IT resources needed to achieve strategic goals and provide high level direction for sourcing and use of IT resources;
- Ensuring proper balance of IT investments for sustaining HFC's growth and becoming aware about exposure towards IT risks and controls.

4) DISCLOSURES AND TRANSPARENCY

The Company is committed to make adequate disclosures based on the principles of transparency, timeliness, fairness and continuity. The Board of Directors and employees of the Company shall ensure and make necessary disclosures to the Company, the Regulator(s) / Statutory Authorities, the Shareholders, Investors, Members or other stakeholders as may be required by the applicable laws and the Codes / Policies of the Company.

The Board of Directors of the Company or such other person authorised by the Board or under any law/ regulations, shall ensure that all the disclosures statutorily required to be made on behalf of the Company are duly made to the Regulatory / Statutory authorities or such other persons as may be required under applicable laws/ regulations.

The Company shall maintain a functional website; wherein important information / disclosures / documents of the Company shall be hosted.

5) POLICIES ADOPTED BY THE COMPANY

In accordance with the provisions of the Act, NHB Directions and various other applicable laws to the Company and as a part of good corporate governance, and also to ensure strong internal controls, the Board of Directors has adopted several codes / policies / guidelines which amongst others includes the following:

- 1) Board's Performance Evaluation Policy and Fit and Proper Person Criteria
- 2) Whistle Blower Policy
- 3) Code of Conduct
- 4) Fair Practice Code
- 5) Corporate Social Responsibility Policy
- 6) Policy on "Know Your Customer and Anti Money Laundering Measures"
- 7) Policy on "Prevention of Sexual Harassment Policy"
- 8) Policy on "Asset Liability Management"

6) FRAMING OF INTERNAL GUIDELINES

This policy has been framed as internal guidelines of the company on corporate governance with the approval of the Board of Directors, enhancing the scope of the guidelines without sacrificing the spirit underlying the above guidelines and it shall be published on the company's web-site for the information of various stakeholders.