

**AVANSE FINANCIAL SERVICES LIMITED**  
**CORPORATE GOVERNANCE CODE**

**1. CORPORATE GOVERNANCE**

Corporate Governance means the system of rules, practices and processes by which a company is administered and controlled. It involves balancing the interests of the various stakeholders of the company including shareholders, employees, customers, suppliers, financiers, government and the community within which it operates. This corporate governance code will help the Company in attaining its objectives/goals, since it encompasses every sphere of operations, management, action plans, internal controls, performance measurement and regulatory disclosure.

**2. OBJECTIVE**

The Company's philosophy of Corporate Governance is aimed at assisting the Management of the Company in the efficient conduct of its business and meeting its obligations to stakeholders. The philosophy has strong emphasis on transparency, accountability and integrity.

Reserve Bank of India (RBI) vide its master circular no. RBI/2015-16/12 DNBR (PD) CC.No.053/03.10.119/2015-16 dated July 01, 2015 directed NBFCs to frame internal guidelines on corporate governance approved by the Board of Directors. Accordingly, this Corporate Governance Code of Avanse Financial Services Limited (Company) is framed in the spirit of the said circular of RBI and is approved by the Board of Directors of Company.

**3. BOARD OF DIRECTORS**

**a) Composition of the Board**

<b>Sr. No.</b>	<b>Name of Director</b>	<b>Designation</b>
1	Mr. Neeraj Swaroop	Chairperson and Independent Director
2	Ms. Savita Mahajan	Independent Director
3	Ms. Vijayalakshmi Iyer	Independent Director
4	Mr. Ravi Venkatraman	Independent Director
5	Mr. Narendra Ostawal	Non-executive Director

**b) Board Diversity**

- i. The Board of Directors of the Company should have a fair combination of directors.
- ii. The company shall maintain the strength of independent directors on its Board keeping in mind the regulatory requirements of Companies Act 2013, RBI regulations or NBFC's and other applicable regulations.

- iii. The Board shall have at least one woman director.
- iv. The company shall appoint directors keeping in mind an ideal diversity in knowledge or expertise that could add value to the overall performance of the Board and of the Company.

The desired diversity may be fixed by the Nomination Committee based on the nature of business of the company from time to time.

#### **4) CONSTITUTION OF COMMITTEES**

- a) **AUDIT COMMITTEE:** The constitution of this Committee is in compliance with the provisions of Section 177 of the Companies Act, 2013 and RBI Master circular no. RBI/2015-16/12 DNBR (PD) CC.No.053/03.10.119/2015-16 dated July 01, 2015 on Corporate Governance. The details of its terms of reference as approved by the Board of Directors of the Company are given below:

##### **Composition and Criteria of Audit Committee**

- i. The Audit Committee shall have minimum three directors as Members.
- ii. Majority of Directors of Audit Committee should be Independent Directors.
- iii. Majority of the Members of Audit Committee, including its Chairperson shall be financially literate.

Explanation (1).- For this specific purpose, “financially literate” shall mean the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

##### **Conduct and Quorum of Audit Committee Meetings**

- i) 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.
- ii) The quorum for Audit Committee Meeting shall either be presence of atleast one-third or two members of the audit committee either physically or through Audio video conference, subject to applicable provisions of Companies Act 2013 and amendments thereof.

##### **Powers of Audit Committee**

The Audit Committee shall have powers to investigate any activity within its terms of reference, seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

## **Terms of Reference of Audit Committee**

**The terms of reference of the Audit Committee inter alia includes the following;**

1. Reviewing, with the management, the quarterly financial statements before submission of the same to the board for approval;
2. Reviewing, with the management, the annual financial statements before submission of the same to the Board for approval, with particular reference to:
  - a) Matters required to be included in the Directors Responsibility Statement to be incorporated 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) Significant adjustment made in the financial statement arising out of audit findings.
  - d) Compliance with listing and other legal requirements relating to the financial statements.
  - e) Disclosure of any related party transactions.
  - f) Qualifications in the draft audit report.
3. Recommending to the Board the appointment, reappointment along with terms of appointment, and if required, the replacement or removal of the statutory auditor and the fixation of audit fee;
4. 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 utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter;
5. Review and monitor the auditor's independence and performance, and effectiveness of audit process;
6. Approval or any subsequent modification of transactions of the company with related parties;
7. Scrutiny of inter-corporate loans and investments;
8. Valuation of undertakings or assets of the company, wherever it is necessary;

9. Evaluation of Internal Financial Controls and Risk Management Systems;
10. Discussion with internal auditors of any significant findings and follow up there on;
11. 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;
12. To review the functioning of the whistle blower mechanism;
13. To 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 the applicable NBFCs.

**b) NOMINATION REMUNERATION AND COMPENSATION (NRC) COMMITTEE :** This Committee is constituted in compliance with the provisions of Section 178 of the Companies Act, 2013 and RBI/2015-16/12 DNBR (PD) CC.No.053/03.10.119/2015-16 dated July 01, 2015 on Corporate Governance.

#### **Composition and Criteria of NRC**

- i. The NRC shall have three or more Non-Executive Directors as Members.
- ii. Not less than one half of Directors of the NRC should be Independent Directors.

#### **Conduct and Quorum of NRC Meetings**

- a) The committee may meet as and when necessary to discuss the business under consideration. Minimum of one such meeting shall be held in each financial year for review of performance of directors, key managerial personnel and senior management persons.
- b) The quorum for NRC meeting shall either be two members or one third of the members of the NRC, whichever is greater.

#### **Terms of Reference of NRC**

The committee shall effectively discharge its roles and responsibilities in the following manner.

##### **I. Role of Nomination**

- a) The Committee shall put in place a broader policy describing the qualification, experience and other positive attributes for selection of Executive/Whole time

Directors including their age of retirement.

- b) The committee shall formulate and put in place guiding principles to determine the qualities, qualifications, and the parameters to determine the 'fit and proper' criteria for appointment of independent Directors keeping in mind the diversity quotient

the company's board shall maintain from time to time and subject to the applicable regulatory requirements.

- c) Filling in a timely manner vacancies on the board of the company including the position of executive/whole time directors.
- d) Selection of directors, key management personnel and persons to be appointed in senior management positions as defined by the board and recommend to the board for their appointment and removal thereof.

## **II. Role of Fixing Remuneration and Evaluation of performance**

- a) The committee shall formulate and recommend to the Board for its approval a policy relating to the remuneration for the directors, key managerial personnel and other employees from time to time.
- b) The policy as aforesaid shall be formulated to ensure that:-
  - i. the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully;
  - ii. relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
  - iii. remuneration to directors, key managerial personnel involves a balance between fixed and incentive pay reflecting short and long term performance objectives appropriate to the working of the company and its goals;
- c) The committee shall review the performance of individual directors of the company on a yearly basis at the end of each financial year or at such periodicity as the committee deem fit and recommend to the board on the basis of such review, whether a director to be recommended for re-appointment or not.
- d) The committee shall review the performance of the Executive/Whole time Directors of the company and fix suitable compensation packages in consideration of their performance, contributions, the general business environment in which the company operates and financial position of the company. The remuneration package may be a combination of fixed and performance based bonus/incentives for the period under review.

- e) The committee shall along with the management review the performance of Key managerial personnel on a periodical basis and fix their remuneration packages in accordance with the policies approved by the Board. The period of gap between two such reviews shall not elapse fifteen months.

### **III. Role on ensuring Compliance on governance standards**

- a) The committee shall ensure that at all times, the board of the company has a fair combination of independent, nonexecutive and executive directors meeting the governance standards set by the board and in compliance with regulatory requirements, listing regulations.etc. prevailing from time to time.
- b) Ensure that the organization structure and flow of command meets the governance standard set for the internal management of the company.
- c) The committee may evaluate and put in place proper mechanism for refreshment trainings for directors on relevant subject.
- d) The committee shall evaluate and put in place a proper mechanism to ensure that the independence of independent directors are always maintained and to ensure that there are no situations which suggest the existence of circumstances resulting in the loss of independence of any directors of the company.
- e) The committee shall put in place subject to the provisions of applicable laws, policies and procedure for determining the retirement and re-appointment of independent and other directors on the board of the company.
- f) Committee shall ensure that at all times the sub committees of the Board is functioning and are constituted according to the regulatory requirement and governance policies of the company.
- g) The committee shall oversee the overall governance standards and policies of the company and delegation of authorities to match with the best practices in relation to the size of the company and the level of its operations to protect the interest of all stake holders.

### **Other Powers of NRC**

The NRC shall have powers to investigate any activity within its terms of reference, seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

- c) **CORPORATE SOCIAL RESPONSIBILITY (CSR) COMMITTEE:** This Committee is constituted in compliance with the provisions of Section 135 of the Companies Act, 2013 and rules made there under.

**Composition:**

The CSR Committee shall have three or more Non-Executive Directors (including one Independent Director) as Members. The members shall elect a Chairperson from amongst themselves or as elected by the Board of Directors of the Company. The quorum for transacting business at a meeting of the Committee shall be at least two or one-third of the members of the Committee, whichever is higher.

**Terms of Reference:**

The details of its terms of reference as approved by the Board of Directors of the Company are given below:

- ✓ To formulate and recommend to the Board, a CSR policy which shall indicate the activities to be undertaken by the Company as per the Companies Act, 2013.
- ✓ To review and recommend the amount of expenditure to be incurred on the activities to be undertaken by the Company.
- ✓ To monitor the CSR policy of the Company.
- ✓ Any other matter as the CSR Committee may deem appropriate after the approval of the Board or as may be directed by the Board from time to time.

- d) **RISK MANAGEMENT COMMITTEE:** This Committee is constituted in compliance with RBI Master circular no. RBI/2015-16/12 DNBR (PD) CC.No.053/03.10.119/2015-16 dated July 01, 2015 on Corporate Governance. The Company has a Board approved Risk Management Policy in place and required disclosures to the effect are made from time to time. The details of its terms of reference as approved by the Board of Directors of the Company are given below:

**Composition**

The Risk Management Committee shall consist of minimum of two directors including one member shall be an Independent director. Senior Executives of the Company may be appointed as Members of this Committee. The Chairman of the Committee shall be a Director of the Company. This Committee shall meet on quarterly basis and minimum four such meetings be held in a financial year. The Company Secretary shall act as the Secretary to the Committee Meeting.

## **Responsibilities**

Risk Management Policy framework has been formulated to ensure that there is a formal process for risk identification, risk assessment and risk mitigation. It provides a way for the managers to make informed business decisions. Effective Risk Management affects everyone in the organization. All the employees of the Company shall adhere to this policy.

This Policy has been prepared to safeguard the Company's assets – employees, finance, property, information and reputation; create an environment where all executives assume responsibility for risk management and critically identify potential risks, measure their potential impact on the Company and formulate risk management strategies to mitigate potential loss from the risks.

To formulate and review the processes for management of NPAs, provisioning requirements and delinquencies.

- e) **ASSET-LIABILITY COMMITTEE (ALCO):** This Committee is constituted in compliance with the provisions of RBI/2015-16/12 DNBR (PD) CC.No.053/03.10.119/2015-16 dated July 01, 2015 on Corporate Governance. The Company has a Board approved Asset Liability Management Policy in place and required disclosures to the effect are made from time to time. The details of its terms of reference as approved by the Board of Directors of the Company are given below:

## **Composition**

The macro-level management of Risk will be done by the Asset Liability Management Committee (ALCO). ALCO shall not consider individual cases for decision making. The role of ALCO is, thus, to formulate and oversee the function of ALM in the company without getting into the day to day decision making process for raising, or deployment, of resources. Heads of Risk and Information Technology functions should be permanent invitees to the meetings of this Committee.

## **Quorum and Frequency**

CEO of the Company shall Chair this Committee. The Committee should meet at least once in a quarter and at least two members including CEO should be present in all the meetings. The frequency may be increased as per the business requirements in terms of increased level of operation and when specific issues arise. The Company Secretary shall act as the Secretary to the Committee Meetings.



The responsibilities of ALCO include:

- a) To review and approve the ALM Policy of the Company
  - b) developing an asset/liability management process and related procedures;
  - c) developing asset/liability strategies and tactics;
  - d) establishing a monitoring and reporting system;
  - e) Submitting a written report to the Board at least quarterly; and overseeing the maintenance of a management information system that supplies, on a timely basis, the information and data necessary for the ALCO to fulfill its role as asset/liability manager of the institution.
- f) **IT STRATEGY COMMITTEE:** This committee is constituted in compliance with RBI Master Directions on Information Technology Framework for the NBFC dated June 8, 2017.

**Composition:**

The Committee is composed as per the requirement of the RBI Master Directions.

**Terms of Reference:**

- a) To frame and approve IT Strategy and Policy documents.
- b) To ensure that Management has implemented processes and practices that ensures that the IT delivers value to the business.
- c) To ensure IT investments represent a balance of risks and benefits and that budgets are acceptable.
- d) To monitor 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 sources.
- e) Any other matter as the Committee may deem appropriate after the approval of the Board or as may be directed by the Board from time to time or as per the applicable RBI directions, circulars etc.

**In addition to the aforesaid Committees, the Company has constituted following Committees:**

- i. Borrowing Committee
- ii. Investment Committee
- iii. Share Transfer Committee
- iv. IT Strategy Committee

## 5) FIT & PROPER CRITERIA

The Board of Directors of Avanse has adopted the “Policy on Directors Fit and Proper Criteria” with regard to ascertaining the Fit and Proper criteria of Directors at the time of their appointment and on continuing basis.

This Policy has been framed as required under ‘Revised Regulatory Framework for NBFC’ issued by the Reserve Bank of India (“RBI”) vide its circular no. RBI/2014-15/299 DNBR (PD) CC.No.002/03.10.001/2014-15 dated November 10, 2014 (“RBI Circular”) and its amendment thereafter (“RBI Circular”). This Policy intends to establish a system/process in place for undertaking due diligence of persons before appointing them on the Board and on continuing basis by ascertaining their suitability for the post on basis their qualifications, technical expertise, track record, integrity etc.

- ✓ Every individual at the time of his / her appointment / re-appointment and on annual basis, as Director of Company, provides a Fit & Proper declaration in the manner and format as may be prescribed by RBI from time to time.
- ✓ In case there is no change to the information already provided by the director, declaration to that effect shall be furnished to the Company
- ✓ Nomination and Remuneration Committee (NRC) of the Board of Directors of the Company scrutinizes the aforesaid declarations as given by the individuals. The said declarations are scrutinized by the NRC on the following basis:
  - ii. Suitability of the individual to be appointed as Director of the Company
  - iii. Qualification of the director
  - iv. Age of the Director
  - v. Expertise of the Director vis-a-vis business of the Company
  - vi. Track record of the Director
  - vii. Integrity of the Director
  - viii. Directorship in other entities
  - ix. Relationship with or substantial interest in other entities
- ✓ Based on the information provided in the signed declarations, the NRC decides on the acceptance or otherwise of the Directors.
- ✓ Every Individual, once appointed as Director of the Company shall enter into a Deed of Covenant, as prescribed by RBI, with the Company.
- ✓ The Company shall ensure to furnish to the Reserve Bank a quarterly statement on change

of directors and a certificate from the CEO of the Company that fit and proper criteria in selection of the directors has been followed. The statement will be submitted to the Regional Office of the Department of Non- Banking Supervision of RBI where the company is registered within 15 days of the close of the respective quarter. The statement submitted by the Company for the quarter ending March 31, would be certified by the auditors.

## **6) PERFORMANCE EVALUATION**

The corner stone of best governance practices is the board composition. The Company believes that the synergy of versatile individuals with diversified skill sets at the board level has contributed a lot in bringing this company into its present heights. In line with the statutory requirement under sections 149 and 178 of the Companies Act, 2013 and the regulatory frame work for Non-Banking Financial Companies (NBFC's) issued by Reserve Bank of India (RBI) the Company has adopted for the following guiding principles in the evaluation of directors and the matters connected therewith:

### **a) Evaluation criteria for the Board of Directors**

#### **I. Executive Director**

The evaluation of the Executive Director shall be carried out on the basis of the present performance (financial/non-financial) and the achievements of the said Director against various key performance parameters at the end of every financial year. On the basis of the future growth aspects of the Company the performance parameters of the Executive Director shall be for the subsequent years.

The broad parameters for reviewing the performance of Managing Director/Executive Director are:

- ✓ Achievement of financial/business targets prescribed by the Board;
- ✓ Developing and managing / executing business plans, operational plans, risk management, and financial affairs of the organization;
- ✓ Display of leadership qualities i.e. correctly anticipating business trends, opportunities, and priorities affecting the Company's prosperity and operations;
- ✓ Development of policies, and strategic plans aligned with the vision and mission of Company and which harmoniously balance the needs of shareholders, clients, employees, and other stakeholders;
- ✓ Establishment of an effective organization structure to ensure that there is management focus on key functions necessary for the organization to align with its mission; and
- ✓ Managing relationships with the Board, management team, regulators, bankers, industry representatives and other stakeholders.

*Presently, there is no Executive Director on the Board of the Company.*

## **II. Independent Director**

The performance evaluation of independent directors shall be done by the entire Board of Directors, excluding the director being evaluated. The evaluation should be carried out as per Schedule IV (Code for Independent Directors) of the Companies Act 2013, as amended from time to time.

While evaluating the Independent Director, the contribution made by the Director in the decision taken at the board level and its impact on the performance of the Company shall be considered. The time devoted including the attendance of the Independent Director at various Committee/Board Meetings shall also be considered while evaluating an Independent Director.

On the basis of the report of performance evaluation, it shall be determined whether to extend or continue the term of appointment of an Independent Director.

## **III. Performance Evaluation of all Directors**

The broad parameters for reviewing the performance of the Board are:-

- ✓ Participation at the Board / Committee meetings;
- ✓ Commitment (including guidance provided to senior management outside of Board/ Committee meetings);
- ✓ Effective deployment of knowledge and expertise;
- ✓ Effective management of relationship with stakeholders;
- ✓ Integrity and maintaining of confidentiality;
- ✓ Independence of behaviour and judgment; and
- ✓ Impact and influence

The Performance evaluation exercise of Non-Independent Directors and Board as a whole would be carried out at a separate meeting of the Independent Directors once in a year, preferably at the beginning of the Financial Year.

In determining the re-election of a director, the Board shall consider the performance review carried out by Board, Director's past attendance at meetings and participation in and contributions to the activities of the Board.

## 7) CODE OF CONDUCT FOR BOARD AND SENIOR MANAGERIAL PERSONNEL

This Code is intended to provide guidance to Board of Directors and the Senior Management Personnel to manage the affairs of the company in an ethical manner. The purpose of this code is to recognize and emphasis upon the ethical behavior and to develop a culture of honesty and accountability.

This Code of Conduct attempts to set forth the guiding principles on which the Company and its Board and Senior Management shall operate and conduct themselves with various stakeholders, government and regulatory agencies, media and anyone else with whom it is connected. It recognizes that the company is a trustee and custodian of public money and in order to fulfill its fiduciary obligations and responsibilities, it has to maintain and continue to enjoy the trust and confidence of its stakeholders and public at large.

The basic principles of this code are as follows

- ✓ The Board of Directors and the Senior Management Personnel shall act honestly, ethically, in good faith and in the best interest of the Company and to fulfill their fiduciary obligations.
- ✓ Whilst carrying out the duties, the Board of Directors and the Senior Management Personnel shall ensure that it is executed in terms of the authorizations granted and within the limits prescribed under the relevant policies, codes, guidelines and other directives issued by the Board of directors or Committee of Directors of the Company, from time to time.
- ✓ The Board of Directors and the Senior Management Personnel shall neither receive nor offer or make, directly or indirectly, any illegal payments, remuneration, gifts, donations, or comparable benefits which are intended to or perceived to obtain business or uncompetitive favours for the conduct of its business except accepting gifts or entertainment if warranted by accepted ethical customs and practices.
- ✓ The Board of Directors and the Senior Management Personnel shall refrain from indulging in any discriminatory practice or behavior based on race, color, sex, age, religion, ethnic or national origin, disability or any other unlawful basis. The ethical conduct, performance and skills shall be the qualifying indicatives for an employee's performance.
- ✓ The Board of Directors and the Senior Management Personnel shall conduct themselves in a professional, courteous and respectful manner and shall not take any improper advantage of their position.
- ✓ The Board of Directors and the Senior Management Personnel shall use the Company's asset, property, proprietary information and intellectual rights for business purposes of the Company and not for any personal benefits or gains.
- ✓ The Board of Directors and the Senior Management Personnel shall maintain confidentiality of the information that is entrusted upon them for carrying on their respective responsibilities and duties and shall not use the same for personal benefits or gains.

## **8) ROTATION OF PARTNERS OF THE STATUTORY AUDITORS AUDIT FIRM**

The Company shall 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. These terms shall be incorporated appropriately in the letter of appointment of the firm of auditors.

## **9) OTHER POLICIES**

The following policies have been framed and adopted by the Board of the Company, and shall form part and parcel of the overall corporate governance framework of the Company:

- i. Fair Practice Code
- ii. AML / KYC Policy
- iii. Whistle Blower Policy
- iv. Related Party Transactions Policy
- v. Prevention of Sexual Harassment Policy
- vi. Disclosure of Information Policy
- vii. Preservation of Documents and Archival Policy

## **10) REVIEW**

This Code shall be reviewed by the Board of Directors on an annual basis, in order to align with the prevalent regulatory and business requirements.