

Corporate Governance Policy

Edelweiss Retail Finance Limited
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Corporate Governance Policy

Edelweiss Retail Finance Limited (“ERFL/the Company”) is non-deposit accepting Systemically Important Non-Banking Financial Company (NBFC-ND-SI) registered with the Reserve Bank of India under Section 45-IA of the Reserve Bank of India Act, 1934.

The Company believes that the philosophy of maintaining high corporate governance is the key to ensure its long term success and maximizing it’s stake-holders interests. The Company ensures good governance through effective policies and procedures conforming to the applicable laws and their periodic review by the Board or the Committee/s of the Board.

The objective of the policy is to ensure compliance with legal requirements and set standards for Governance so that concerned officer/s act in accordance with the highest standards of governance while working for and on behalf of the Company. All the concerned are expected to read and understand these guidelines to uphold these standards in day-to-day activities and comply with all applicable policies and procedures.

1. BOARD OF DIRECTORS

The Board is responsible to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its shareholders. The Board of Directors along with its constituted Committees provide direction and guidance to the Company’s Leadership Team and further direct, supervise as well as review the performance of the Company.

Size of Board: As per Article of Association of the Company, the Board shall consist of minimum 3 Directors.

Composition: The Company’s Board shall have an optimum combination of executive, non-executive and Independent directors in line with the requirements of the provisions of the Companies Act, 2013 and Articles of Association of the Company, as amended from time to time.

The Board shall periodically review the compliances of all applicable laws in the Company as well as steps taken by the Company to rectify the instances of non-compliance, if any.

The Board shall meet at least four times in a year, with a maximum time gap of one hundred and twenty days between two consecutive meetings of the Board.

QUALIFICATIONS FOR DIRECTOR CANDIDATURE

One of the Board's most important responsibilities is identifying, evaluating and selecting candidates for the Board of Directors. The Nomination and Remuneration Committee reviews the qualifications of potential director candidate and makes recommendations to the Board. The factors considered by the Committee and the Board in its review of potential candidates include:

- Whether the candidate has exhibited behavior that indicates he or she is committed to the highest ethical standards and our shared responsibilities.
- Whether the candidate has special skills, expertise and background that would complement the attributes of the existing Directors, taking into consideration the diverse communities and geographies in which the Company operates.
- Whether the candidate has the financial expertise required to provide effective oversight of a diversified financial services business that operates on a global scale.
- Whether the candidate has achieved prominence in his or her business, governmental or professional activities, and has built a reputation that demonstrates the ability to make the kind of important and sensitive judgments that the Board is called upon to make.
- Whether the candidate possesses a willingness to challenge management while working constructively as part of a team in an environment of collegiality and trust.
- Whether the candidate will be able to devote sufficient time and energy to the performance of his or her duties as a Director.

CHANGE IN STATUS OR RESPONSIBILITIES

If a Director has a substantial change in professional responsibilities, occupation or business association he or she should notify the Nomination and Remuneration Committee and offer his or her resignation to the Board. The Nomination and Remuneration Committee will evaluate the facts and circumstances and make a recommendation to the Board whether to accept the resignation or request that the Director continue to serve on the Board.

2. COMMITTEES

To focus effectively on the issues and ensure expedient resolution of diverse matters, the Board shall constitute a set of Committees with specific terms of reference / scope. The Committees shall operate as per the guidelines approved by the Board. The minutes of the meetings of all Committees of the Board shall be placed before the Board for approval/ noting in subsequent meeting.

The Board has formed the following committees.

I. Audit Committee

The Company has in place the Audit Committee in accordance with the provisions of the Section 177 of the Companies Act, 2013.

Audit Committee shall constitute of not less than three members of its Board of Directors of which two-thirds of the total number of members shall be the director other than managing or whole-time directors.

Audit Committee meeting shall be held at least 4 times in a year.

The members of the Audit Committee shall elect a chairman amongst themselves.

The recommendations of the Audit Committee on any matter shall be binding on the Board and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in the Directors Report along with reasons therefore.

Terms of Reference

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

- i. the recommendation for appointment, remuneration and terms of appointment of auditors of our Company;
- ii. review and monitor the auditor's independence and performance, and effectiveness of audit process;
- iii. examination of the financial statement and the auditors' report thereon;
- iv. grant omnibus approval for related party transactions including any subsequent modifications from time to time;
- v. approval or any subsequent modification of transactions of the company with related parties
- vi. scrutiny of inter-corporate loans and investments;
- vii. valuation of undertakings or assets of the company, wherever it is necessary;
- viii. evaluation of internal financial controls and risk management systems;
- ix. monitoring the end use of funds and any deviation/ variations in the use of proceeds, raised through issuance of listed securities from the objects stated in the

Offer Document/Information Memorandum and related matters;

- x. to oversee the vigil mechanism;
- xii. calling for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company;
- xiii. to monitor fraud;
- xiv. consider and take on record the periodic report of related party transactions;
- xv. oversee implementation of regulatory policies including Anti Money Laundering and KYC (Know your Customer) Policies; and
- xvi. to review and approve such activities as may be stipulated under various statutes /laws/regulations including amendments thereof from time to time, to be performed by the Committee.
- xvii. investigate into any matter in relation to the items specified in the relevant section of the Companies act, 2013 or referred to it by the Board and for this purpose the Committee shall have full access to information contained in the records of the company and external professional advice, if necessary;
- xviii. ensure that an Information System Audit of the internal systems and processes is conducted at least once in a year to assess operational risks faced by the NBFCs; and
- xviiii. any other terms of reference as may be specified by the Board from time to time.

II. Risk Management Committee

The Risk Management Committee will consist of at least three members which will be either Directors or the persons from senior management.

The position of all perceived risks is periodically put up to the Risk Management Committee which critically evaluates the same and provides operational and policy guidance to the Company which paves the way for an effective risk management so as to safe guard the interest of the Company.

The quorum of the meeting shall be at least two of the Risk Committee members personally present. The members of the Committee shall elect among themselves the

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

Terms of Reference:

- i. Identifying, measuring and monitoring the various risks faced by the Company;
- ii. Mitigating various risks associated with functioning of the Company through Integrated Risk Management Systems, Strategies and Mechanisms;
- iii. To deal with issues relating to credit policies and procedure and manage the credit risk, operational risk, management of policies and process;
- iv. To assist in developing the Policies and verifying the Models that are used for risk measurement from time to time;
- v. To have oversight over implementation of risk and related policies;
- vi. Promoting an enterprise risk management competence throughout the organisation, including facilitating development of IT-related enterprise risk management expertise; and
- vii. Establishing a common risk management language that includes measures around likelihood and impact and risk categories.

III. Asset Liability Management Committee (ALCO)

The Asset Liability Management Committee has been formed with the objective to monitor the asset liability gap and strategize action to mitigate the risk associated with the Company. The ALCO may comprise of Directors and Senior Officials of various functions of the Company.

A meeting of the Committee will be held at least once in every quarter and also on ad hoc basis, may be monthly, as Board deems fit.

The members of the Committee shall elect among themselves the Chairman of the meeting. The Committee may invite any other officer/ employee of the Company in the meeting on need basis.

Terms of Reference:

- i. Review of macro-economic scenario, impact of industry and regulatory changes monitoring the asset liability gap

- ii. Strategizing action to mitigate liquidity and other risks associated with the asset liability gap. Review and suggest corrective actions on liquidity mismatch, negative gaps and interest rate sensitivities. Formulate a contingency funding plan (CFP) for responding to severe disruptions and develop alternate strategies as deemed appropriate, which take into account changes in:
 - Interest rate levels and trends
 - Loan products and related markets
 - Monetary and fiscal policy
- iii. Articulating and monitoring liquidity risk tolerance that is appropriate for its business strategy and its role in the financial system, and verifying adherence to various risk parameters and prudential limits
- iv. Implementation of liquidity risk management strategy of the Company and reviewing the risk monitoring system
- v. Ensure that credit exposure to any one group does not exceed the internally set limits as well as statutory limits set by RBI
- vi. Decide the strategy on the source, tenor and mix of assets & liabilities, in line with its business plans, taking into account the future direction of interest rates. Establish a funding strategy that provides effective diversification in the sources and tenor of funding. Consider product pricing for advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by peer NBFCs for similar services/products, etc. Discuss and report on the impact of major funding shifts and changes in overall investment and lending strategies.
- vii. Endeavour to develop a process to quantify liquidity costs, benefits & risk in the internal product pricing.
- viii. Review behavioural assumptions and validate models for study of assets & liabilities in preparation of Liquidity and Interest Rate Sensitivity Statements and ALM analysis.
- ix. Review stress test scenarios including the assumptions and results.
- x. Review and approve the capital allocation methodology.
- xi. Analyse and deliberate at meetings, issues involving interest rate and liquidity risk, including capital allocation, liquidity cost, off balance sheet exposures, contingent liabilities, management of collateral position and intra-group transfers.

- xii. Review the results of and progress in implementation of the decisions made in the previous meetings. Report the minutes of its meeting to the Board of Directors on quarterly basis.
- xiii. Formulate ALM policy for the Company
- xiv. In respect of liquidity risk oversight would include, inter alia, decision on desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities and controls for managing liquidity risk, and overseeing the liquidity positions of the Company.

ALM Support Group

The ALM Support Groups consisting of operating staff should be responsible for analyzing, monitoring and reporting the risk profiles to the ALCO. The staff should also prepare forecasts (simulations) reflecting the impact of various possible changes in market conditions on the balance sheet and recommend the action needed to adhere to the Company's internal limits. The ALM support group consists of officials from Treasury, Finance & Accounts, Risk Management, Business & Credit. The support group shall meet on a periodic basis, at minimum once a quarter.

IV. Nomination and Remuneration Committee

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 has constituted the Nomination and Remuneration Committee comprising three or more Non-Executive Directors of which not less than one-half members being Independent Directors and meet on need basis.

The members of the Nomination and Remuneration Committee shall elect a chairman amongst themselves.

Terms of Reference:

- i. to identify persons who are qualified to become Directors and who may be appointed in Senior Management in accordance with the criteria laid down or as defined under the policy and / or job description proposed by the HR;
- ii. to recommend the Board of Directors, the appointment & removal of Directors of the Company;
- iii. specify manner for effective evaluation of performance of the Board, its Committees and individual Directors and review its implementation and Compliance;

- iv. to formulate the criteria for determining qualifications, positive attributes and independence of a Director;
- v. to recommend to the Board a policy relating to the remuneration for the Directors, Key Managerial Personnel (“KMP”) and other employees of the Company;
- vi. to review the Remuneration Policy for Directors and KMPs and/ or any other policies/manuals as may be framed under the Act from time to time;
- vii. to ensure ‘fit and proper’ status of proposed and existing directors;
- viii. To ensure that reporting disclosures relating to remuneration meet all relevant statutory requirements;
- ix. review and approve such activities as may be stipulated under various statutes /laws/regulations including amendments thereof from time to time, to be performed by the Committee; and
- x. such other functions as may be prescribed by the Board from time to time.

CHIEF RISK OFFICER (CRO)

The Company shall appoint a CRO with clearly specified role and responsibilities and in terms of CRO Policy of the Company, as applicable from time to time.

The CRO shall be required to function independently so as to ensure highest standards of risk management.

3. FIT AND PROPER CRITERIA FOR DIRECTORS

- i. The policy on the fit and proper criteria, on the lines of the Guidelines issued by (as amended RBI by from time to time), would be applicable to ascertain the fit and proper criteria of the directors at the time of appointment, and on a continuing basis;
- ii. The Company shall obtain a declaration and undertaking from the directors giving additional information on the directors. The declaration and undertaking shall be on the lines of the format given in RBI Guidelines (as amended by RBI from time to time);
- iii. The Company shall obtain a Deed of Covenant signed by the directors, which shall be in the format as given in RBI Guidelines (as amended by RBI from time to time); and

- iv. Submission to the Reserve Bank, a quarterly statement on change of directors, and a certificate from the Director of the Company of the that fit and proper criteria in selection of the Directors has been followed. The statement shall reach the Regional Office of the Reserve Bank within 15 days of the close of the respective quarter. The statement submitted for the quarter ending March 31, should be certified by the auditors.

Provided that RBI, if it deems fit and in public interest, reserves the right to examine the fit and proper criteria of directors of the Company irrespective of the asset size of the Company.

- **Disclosure and transparency**

- I. The Company shall put up to the Board of Directors, at regular intervals or at least on an annual basis, the following:
 - i) the progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the NBFC; and
 - ii) conformity with corporate governance standards viz., in composition of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.
- II. The Company shall also disclose the following in their Annual Financial Statements, with effect from March 31, 2017:
 - 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 given in RBI Circular.

- **Rotation of partners of the Statutory Auditors Audit Firm**

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

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

4. ADOPTION

This Policy Document and any changes made during the annual/mid-term (if any) reviews shall be adopted by the Board of Directors.

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

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