

MAHINDRA RURAL HOUSING FINANCE LIMITED

INTERNAL GUIDELINES ON CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PHILOSOPHY

The Company practices a culture that is built on core values and ethical governance practices and is committed to transparency in all its dealings.

The Company believes that sound Corporate Governance is essential for enhancing long-term shareholder value and retaining investor trust.

The Company manages its affairs with diligence, transparency, responsibility and accountability to generate long term value for its stakeholders on a continuous and sustainable basis thus ensuring ethical and responsible leadership both at the Board and at the Management levels.

The Company's Governance processes and practices ensure that the interest of all stakeholders are taken into account in a balanced and transparent manner and are firmly embedded into the culture and ethos of the organization.

The Company has an active, experienced and a well-informed Board. The Board along with its Committees undertakes its fiduciary duties towards all its stakeholders with the Corporate Governance mechanism in place.

NATIONAL HOUSING BANK GUIDELINES ON CORPORATE GOVERNANCE

These Guidelines on Corporate Governance are applicable to Mahindra Rural Housing Finance Limited ("the Company") and are formulated to comply with the "Housing Finance Companies – Corporate Governance (National Housing Bank) Directions, 2016" notified by the National Housing Bank (NHB) vide Notification No. NHB.HFC.CG-DIR.1/MD&CEO/2016 dated 9th February, 2017.

The Internal Guidelines on Corporate Governance will be reviewed, as and when necessary, by the Board in the context of changing regulations and emerging best practices with a view to improving the Company's governance standards on an ongoing basis.

BOARD OF DIRECTORS

As per Article 142 of the Articles of Association of the Company, the Board of Directors shall comprise of minimum of three Directors and a maximum of fifteen Directors.

The Board of Directors of the Company shall have an optimum combination of Executive, Non-Executive, Independent and Woman Directors, as per the Guidelines/Regulations applicable to the Company.

The Directors shall possess the requisite qualifications and experience in general corporate management, banking, finance, marketing and other allied fields which enable them to enhance their contribution effectively to the Company in their capacity as Directors of the Company.

A Director shall not hold the office of Director in more than 20 companies and the maximum number of directorships in public companies shall not be more than 10. All the Directors shall make the necessary annual disclosure regarding their change in concern or interest in any company or companies or bodies corporate, firms, or other association of individuals including shareholding, directorships and committee positions and shall intimate changes as and when they take place.

The Directors shall act in accordance with the duties as provided under the Companies Act, 2013 ("the Act") and the Independent Directors shall abide by the Code for Independent Directors under Schedule IV of the Act.

The Board shall provide the overall strategic direction and periodically review strategy and business plans, annual operating and capital expenditure budgets and oversee the actions and results of the management to ensure that the long-term objectives of enhancing stakeholders' value are met. The Board shall also, *inter-alia*, review and consider the investment and exposure limits, compliance report(s) of all laws applicable to the Company, as well as steps taken to rectify instances of non-compliances if any, review major legal issues, approval and adoption of quarterly/half-yearly/annual results, transactions pertaining to purchase/disposal of property, major accounting provisions and write-offs, corporate restructuring, minutes of Meetings of the Committees of the Board and information on recruitment of Officers just below the Board level including the Company Secretary and Compliance Officer.

The Board shall satisfy itself that plans are in place for orderly succession for appointment to the Board of Directors and Senior Management.

BOARD MEETINGS

At least four Board Meetings shall be held in a year. The maximum time gap between any two meetings shall not be more than one hundred and twenty days. The minimum information to be statutorily made available to the Board pursuant to the applicable

provisions and relevant mandatory Secretarial Standards shall be furnished to the Directors before or at the Board Meeting.

CODE OF CONDUCT

The Board has laid down Code of Conduct for Board Members and for Senior Management and Employees of the Company ("Codes").

The Code of Conduct for Independent Directors pursuant to section 149(8) read with Schedule IV of the Act, which is a guide to professional conduct for Independent Directors of the Company, is also applicable to Independent Directors of the Company.

COMMITTEES OF THE BOARD

For operational convenience and to focus effectively on the issues and ensure expedient resolution of diverse matters, the Board has constituted various Committees with specific terms of reference.

The Committees shall operate as empowered agents 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.

The Committees shall periodically report to the Board on various matters that have been referred to the respective Committees.

DETAILS OF THE VARIOUS COMMITTEES ARE AS UNDER:

1. Audit Committee

- The Company has in place an Audit Committee in accordance with the provisions of Section 177 of the Companies Act, 2013 and the Rules framed thereunder, as envisaged in clause 3 (l) of Housing Finance Companies – Corporate Governance (National Housing Bank) Directions, 2016 and clause 40 of the Master Circular - The Housing Finance Companies (NHB) Directions, 2010
- the Audit Committee shall consist of a minimum of three directors with Independent Directors forming a majority, provided that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.

- The quorum for the Audit Committee Meetings shall be any two Directors present.

Role and Responsibilities (Terms of Reference):

- a) To recommend appointment, remuneration and terms of appointment of auditors and internal auditors of the Company;
- b) To review and monitor the auditor's independence and performance, and effectiveness of audit process;
- c) To examine the quarterly and annual financial statement and the auditors' report thereon;
- d) To approve transactions of the Company with related parties or subsequent modifications to such transactions
- e) To scrutinize inter-corporate loans and investments;
- f) To undertake valuation of undertakings or assets of the Company, wherever it is necessary;
- g) To evaluate internal financial controls and risk management systems;
- h) To monitor the end use of funds raised through public offers and related matters;
- i) To formulate the scope, functioning, periodicity and methodology for conducting the internal audit in consultation with the Internal Auditor.
- j) To discharge from time to time such other acts, duties and functions as may be assigned by the Board of Directors or prescribed under the Companies Act, 2013 or any other applicable law and Rules made thereunder."

2. Nomination and Remuneration Committee

- The constitution and the terms of reference of the Nomination and Remuneration Committee shall be in compliance with the provisions of section 178(1) of the Companies Act, 2013 and the Rules framed thereunder.
- The Chairman of the Board (whether Executive or Non-Executive) may be appointed as a Member of the Committee but shall not chair the Committee.
- The Nomination and Remuneration Committee shall meet as and when required to discuss matters. It is however, recommended that the Committee meet at least twice during the year.
- the quorum shall comprise of any two Directors.

- The Nomination and Remuneration Committee may invite such executives, as it considers appropriate to be present at the meetings of the Committees.

Role and Responsibilities (Terms of Reference):

- a) To identify persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria to be laid down, recommend to the Board their appointment and removal;
- b) To carry out evaluation of every director's performance;
- c) To formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration for the directors, key managerial personnel and other employees. While formulating the policy, the Committee shall 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 and senior management 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.
- d) To look into the entire gamut of remuneration package for the working Director(s) and revise their remuneration suitably within the limits prescribed under the Companies Act, 2013 with power to consider fixing/re-fixing salaries, perquisites and other terms of remuneration of the working Director(s) of the Company subject to approvals of shareholders, where necessary;
- e) To decide on the commission payable to the Directors within the prescribed limits and as approved by the shareholders of the Company;
- f) To formulate and administer ESOP Schemes as may be formulated from time to time in future and take appropriate decisions in terms of the concerned schemes;
- g) To discharge from time to time such other acts, duties and functions as may be assigned by the Board of Directors or prescribed under the Companies Act, 2013 or any other applicable law and Rules made thereunder.

- h) The Nomination and Remuneration Committee shall perform such other duties, as are required to be performed by the Committee, under the applicable laws, Guidelines, standards and Regulations.

3. Corporate Social Responsibility Committee

- The constitution and the terms of reference of the Corporate Social Responsibility Committee shall be in compliance with the provisions of section 135(1) of the Companies Act, 2013 ("the Act") and the Rules framed thereunder and Schedule VII of the Act.
- The quorum for the Meeting of Corporate Social Responsibility Committee shall be any two Directors.

Role and Responsibilities (Terms of Reference):

The terms of reference and role of the Corporate Social Responsibility Committee shall be as under:

- i) Formulate and recommend to the Board, a CSR policy indicating the activity or activities to be undertaken by the Company as specified in Schedule VII of the Companies Act 2013;
- ii) Recommend the amount to be spent on these activities;
- iii) Institute a transparent monitoring mechanism for implementation of CSR projects and monitor the Company's CSR policy periodically and monitor the Company's CSR policy periodically.
- iv) Attend to such other matters and functions as may be prescribed from time to time.

4. Asset Liability Committee

The constitution and the terms of reference of the Asset Liability Committee shall be in compliance with the Guidelines issued by National Housing Bank.

- The Asset Liability Committee shall meet Half Yearly to review the working of ALCO Operating Committee.
- The quorum for the Meeting of Asset Liability Committee shall be any two Directors.

Role and Responsibilities (Terms of Reference)

The Asset Liability Committee shall review/oversee the working of the Asset Liability Operating Committee, its findings and reports in accordance with the Guidelines of the National Housing Bank (NHB).

The Asset Liability Committee shall perform such other duties, as are required to be performed by the Committee, under the applicable laws, Regulations and Guidelines issued by the NHB.

5. Risk Management Committee

- The constitution and the terms of reference of the Risk Management Committee shall be in compliance with the provisions of Guidelines on Corporate Governance issued by National Housing Bank and such other applicable laws.
- The quorum for the meetings of the Risk Management Committee shall be any two Directors personally present.
- The Risk Management Committee shall meet quarterly.
- The Risk Management Committee may invite such executives, as it considers appropriate to be present at its meetings.

Role and Responsibilities (Terms of Reference):

- The Risk Management Committee shall manage the integrated risk, inform the Board about the progress made in implementing a risk management system and review periodically the Risk Management Policy and strategy followed by the Company.
- The Chief Financial Officer of the Company shall apprise the Risk Management Committee and the Board of the major risks as well as the movement in the profile of the high risk category, the root causes of risks and their impact, key performance indicators, risk management measures and the current controls being exercised to mitigate these risks.
- The Risk Management Committee shall perform such other duties, as are required to be performed by the Committee, under the applicable laws, Guidelines and NHB Directions.”

SHAREHOLDERS

Shareholders shall be informed of details regarding the appointment or re-appointment of a Director.

FIT AND PROPER CRITERIA

The Company has in place a Board approved Policy for ascertaining the Fit and Proper criteria of the Directors at the time of appointment and on a continuing basis. The Policy on the Fit and Proper Criteria is in accordance with the Directions issued by the National Housing Bank in this regard.

All the Directors shall meet the 'Fit and Proper' criteria as prescribed by the National Housing Bank.

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 as per the requirement of the Companies Act, 2013, and the Guidelines issued by the National Housing Bank on Corporate Governance of Housing Finance Companies put up to the Board of Directors, at regular intervals, the following:

1. the progress made in putting in place a progressive risk management system, risk management policy and strategy followed by the Company;
2. 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.

ROTATION OF PARTNER(S) OF THE STATUTORY AUDITORS

The Board and the Audit Committee of the Company shall be responsible to appoint Statutory Auditors who demonstrate professional ability and independence. The Company shall review the independence and performance of the Statutory Auditors and the effectiveness of the audit process periodically. Declaration shall be obtained

from the Auditors affirming their eligibility for being appointed as the Statutory Auditors of the Company.

Further, the Company shall rotate the partner(s) of the Chartered Accountant firm(s) conducting the statutory audit of the Company every three years or such other earlier period as may be decided by the Board, so that the same partner does not conduct audit of the Company continuously for more than a period of three years. However, the partner so rotated shall be eligible for conducting the audit of the Company after an interval of three years. The Company shall incorporate appropriate terms to this effect in the letter of appointment of the firm of auditors and ensure its compliance.

CEO/CFO CERTIFICATION

The CEO i.e. the Managing Director and the CFO i.e. the Chief Financial Officer shall make the necessary certifications regarding the Financial Statements, internal controls, etc., to the Board.

COMPLIANCE OFFICER

The Board of Directors shall designate a Compliance Officer to ensure compliance with applicable laws.

POLICIES ADOPTED BY THE COMPANY

The Company shall adopt such policies, as may be required to adopt under the Companies Act, 2013, the Listing Regulations, the National Housing Bank Guidelines applicable to the Company and such other laws and regulations as may be applicable.

The Policies adopted may be reviewed by the Board from time to time.
