

**PIRAMAL ENTERPRISES LIMITED**

**Policy:** **Internal guidelines on Corporate Governance**

**Approving Authority:** **Board of Directors**

**Approved Date:** **August 26, 2022**

**Version:** **1.0**

## **Internal Guidelines on Corporate Governance**

### **I. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE**

Piramal Enterprises Limited has a strong legacy of fair, transparent and ethical governance practices. The Company recognizes its role as a corporate citizen and endeavours to adopt the best practices and the highest standards of Corporate Governance through transparency in business ethics, accountability to its customers, government and others.

Corporate Governance is a journey for constantly improving sustainable value creation and is an upward moving target. As a part of its growth strategy, the Company believes in adopting the 'best practices' that are followed in the area of Corporate Governance. The Company believes in ensuring corporate fairness, transparency, professionalism, accountability and propriety in total functioning of the Company, which are pre-requisites for attaining sustainable growth in this competitive corporate world.

Obeying the law, both in letter and in spirit, is the foundation on which the Company's ethical standards are built. The Company would constantly endeavour to improve on these aspects.

The Company ensures good governance through the implementation of effective policies and procedures, which is mandated and reviewed by the Board and the Committees of the Members of the Board.

### **II. RBI GUIDELINES ON CORPORATE GOVERNANCE**

In order to adopt best practices and greater transparency in the operations of the Company and in compliance with the Guidelines on the Corporate Governance issued by the Reserve Bank of India (RBI) vide Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 1, 2016, as amended from time to time, the Company has framed the following internal Guidelines on Corporate Governance.

### **III. BOARD OF DIRECTORS**

The Company's Board has a primary role of trusteeship to protect and enhance stakeholders' value through supervision and strategic inputs. The Board of Directors along with the Committee of Directors shall provide leadership and guidance to the Company's management and direct, supervise and control the performance of the Company.

The Board shall have a suitable combination of executive and non-executive Directors and all the Directors shall meet the "fit and proper" criteria as prescribed by the RBI. The Directors bring to the Board a wide range of experience and skills, and have 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.

As per the Company's Articles of Association, the Board's strength is required to be a minimum of not less than 2 directors and a maximum of 15 directors and all directors are liable to retire by rotation except Independent Director. At present, the Board comprises of an optimum combination of Executive and Non- Executive Directors.

Independent Directors are expected to play key role in the decision making process of the Board by participating in the process of framing the overall strategy of the Company. Independent Directors appointed on the Board of the Company shall fulfill the criteria of independence as set out under the provisions of the Companies Act, 2013 and other applicable provisions in this regard. They shall submit an annual declaration affirming compliance with the criteria of independence every financial year and such declaration shall be submitted whenever there is any change in circumstances which may affect their independence.

The Board shall meet at least four (4) times in a year, with a maximum time-gap between any two consecutive meetings of the Board not exceeding 120 days. The minimum information to be statutorily made available to the Board shall be furnished to the Directors before the Meeting.

The Company, in consultation with the Directors, prepares and circulates a tentative annual calendar for meetings of the committees / board in order to assist the Directors for planning their schedules well in advance to participate in the meetings.

The remuneration, when payable to the Director(s) shall be determined by the Nomination and Remuneration Committee and shall be recommended to the Board for its consideration and approval.

#### **IV. 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 terms of reference.

While the RBI Guidelines require setting up of an Audit Committee, Asset Liability Management Committee, Risk Management Committee, Nomination Committee, IT Strategy Committee whereas the Companies Act, 2013 requires the Company to constitute an Audit Committee, Nomination and Remuneration Committee and Corporate Social Responsibility Committee.

In compliance with the applicable provisions of the Companies Act, 2013, RBI guidelines on Corporate Governance and in order to meet business exigencies, the Company has constituted the aforementioned 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. Minutes of the meetings of the Board Committees shall be placed before the Board for its perusal and noting.

The Company complies with the above requirements of committee constitution and has the following committees of the Board:

**i. Audit Committee**

**Constitution:**

Audit Committee shall comprise of at least 3 Directors with at least two-thirds of the members being Independent Directors. All members of Audit Committee shall be financially literate and at least one member shall have accounting or relevant financial management expertise. Chairman shall be appointed by the Board. Company Secretary shall act as the Secretary to the Committee.

**Meetings:**

The Committee shall meet at least four times in a year and not more than one hundred and twenty days shall elapse between two meetings.

The quorum shall be either two members or one third of the total strength of the members of the Committee, whichever is greater, with at least two independent directors.

**Roles & Responsibilities:**

Terms of reference as set out in Section 177 of the Companies Act, 2013 and any Rules as may be framed thereunder, Regulation 18 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations') and RBI Guidelines issued from time to time.

An Information System Audit of the internal systems and processes will be conducted at least once in two years to assess operational risks faced by the NBFCs.

**ii. Financial Services Advisory Committee**

**Constitution:**

Financial Services Advisory Committee ('FSAC') shall comprise of Directors, as may be identified by the Board from time to time.

**Meetings:**

The Committee may meet as often as may be required.

The quorum shall be 50% of the committee members to be present for all the committees.

**Role & Responsibilities:**

The terms of reference of FSAC shall include consideration, evaluation and sanction of credit proposals pertaining to real estate, infrastructure funding, loan against shares, senior debt and other sectors as per NBFC Norms.

**iii. Asset Liability Management Committee**

**Constitution:**

The Asset Liability Management Committee ('ALCO') shall comprise of members as may be identified by the Board from time to time. The CEO/ MD or the Executive Director (ED) should head the Committee.

**Meetings:**

The Committee may meet as often as may be required.

**Role & Responsibilities:**

The terms of reference of ALCO are as below:

- a) Monitor implementation of Asset Liability Management Policy and review of the same from time to time
- b) Monitoring liquidity risk 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
- c) Responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the liquidity risk management strategy of the Company.
- d) Monitor the Liquidity and Funding Risk
- e) Monitor the Interest Rate Risk
- f) Review and advise on issues relating to Pricing of lending and borrowing rates
- g) Review and advise on issues relating to Pricing Risk in relation to interest rate fluctuations
- h) Review and advise on issues relating to Allocation of resources

#### **iv. Nomination & Remuneration Committee (NRC)**

##### **Constitution:**

Nomination and Remuneration Committee ('NRC') shall consist of three or more non-executive directors out of which not less than two-third shall be Independent Directors.

##### **Meetings:**

The Committee shall meet at least once in a year.

##### **Role & Responsibilities:**

The terms of reference of NRC are as below:

The terms of reference as set out in Section 178 of the Companies Act, 2013 and any Rules as may be framed thereunder, Regulation 19 of Listing Regulations and Master Direction - Reserve Bank of India ('Fit and Proper' Criteria for Elected Directors on the Boards of PSBs) Directions, 2019.

#### **v. Corporate Social Responsibility Committee**

##### **Constitution:**

Corporate Social Responsibility Committee ('CSR') of the Board shall consist of three or more directors, out of which one director shall be independent Director.

##### **Meetings:**

The Committee may meet as often as may be required.

##### **Role & Responsibilities:**

The terms of reference as set out in Section 135 of the Companies Act, 2013 and any Rules as may be framed thereunder.

#### **vi. IT Strategy Committee**

##### **Constitution**

IT Strategy Committee of the Board shall consist of three or more directors and the chairman of the committee shall be an independent director and CIO & CTO should be a part of the committee.

### **Meetings:**

The Committee may meet as often as may be required but a period of six months should not elapse between two meetings

### **Role & Responsibilities:**

- a. Approving IT strategy and policy documents and ensuring that the management has put an effective strategic planning process in place;
- b. Ascertaining that management has implemented processes and practices that ensure that the IT delivers value to the business;
- c. Ensuring IT investments represent a balance of risks and benefits and that budgets are acceptable;
- d. 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;
- e. Ensuring proper balance of IT investments for sustaining Company's growth and becoming aware about exposure towards IT risks and controls;
- f. Review 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.

## **V. PERFORMANCE EVALUATION**

The Nomination and Remuneration Committee of the Company shall evaluate the performance of every director in accordance with the applicable law.

## **VI. STATUTORY AUDITORS**

The Board and the Audit Committee shall be responsible for the appointment of the Statutory Auditors who demonstrate professional eligibility and independence as per the Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) bearing reference no. RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021. Declaration to be obtained every year from the Statutory Auditors affirming their eligibility for being appointed as Statutory Auditors of the Company.

## **VII. INTERNAL AUDITORS**

The Company shall comply with Risk-Based Internal Audit (RBIA) Guidelines as prescribed by RBI from time to time and with the applicable provisions under Companies Act, 2013 for appointment of Internal Auditors who shall perform independent and objective assessment of internal controls, processes and procedures instituted by the Company.

## **VIII. SECRETARIAL AUDITORS**

The Board shall appoint independent Company Secretary in Practice, in accordance with the provisions of the Companies Act, 2013 and Rules made thereunder to conduct the Secretarial Audit of the Company.

## **IX. Appointment of Chief Risk Officer**

Pursuant to the guidelines the Company has appointed a CRO with clearly specified role and responsibilities and in terms of CRO Policy of the Company. Following are the terms of reference:

### **Appointment of CRO**

- The CRO shall be a senior official in the hierarchy of the Company and shall possess adequate professional qualification/ experience in the area of risk management.
- The CRO shall be appointed for a fixed tenure with the approval of the Board.

### **Reporting Line**

- CRO shall have direct reporting lines to the MD & CEO/ Risk Management Committee (RMC) of the Board.
- In case the CRO reports to the MD & CEO, the RMC/ Board shall meet the CRO on one-to-one basis without the presence of the MD & CEO, at least on a quarterly basis.
- The CRO shall not have any reporting relationship with the business verticals of the Company and shall not be given any business targets.
- There shall not be any 'dual hatting' i.e. the CRO shall not be given any other responsibility.

### **Role of CRO**

- The CRO is required to function independently so as to ensure highest standards of risk management.
- The CRO shall be involved in the process of identification, measurement and mitigation of risks.
- All credit products (retail or wholesale) shall be vetted by the CRO from the angle of inherent and control risks.



- The CRO's role in deciding credit proposals shall be limited to being an advisor.
- In case the credit committee approach is followed for sanction and if the CRO is one of the decision makers in the credit sanction process, the CRO shall have voting power and all members who are part of the credit sanction process, shall individually and severally be liable for all the aspects, including risk perspective related to the credit proposal.

## **Responsibilities of CRO**

- Setting the vision and strategy for the enterprise risk function and building a robust risk management framework and architecture for the company. Ensuring an effective risk management program is in place within the company, by establishing the framework for risk management activities and driving consistent standards across the organization and managing the enterprise wide risk.
- Identify various risk(s); assess enterprise effectiveness in managing these risks through appropriate internal controls; and build awareness of the business implications of such risk, and how to manage the same, as part of the leadership culture.
- Understand the business and evaluate, improve, and monitor it, including assisting in reporting to the Board and Board Committees and providing leadership in the effectiveness of credit risk management controls, systems, and processes across the organization.
- Responsible for ensuring the overall quality of the lending portfolio by planning and directing all aspects of risk including credit risk. Provide regular review and analysis of portfolio trends to detect deterioration in portfolio quality. This includes the monitoring and control of the portfolio by ensuring that all credit exposure is properly approved, reported and reviewed.
- Ensuring a system-wide view and understanding of the combined risks of the business and their inter-relationships (interest rate risk, liquidity risk, operating risk, credit risk, reputational risk, regulatory risk, IT risk etc).
- Partnering effectively with third parties, regulatory bodies and others, as appropriate and serving as a role model for high personal and corporate ethical values and standards of integrity.
- Establish and manage all departmental policies and procedures. Being abreast with the latest regulatory changes with respect to effective risk management to ensure compliance thereof.
- Design sustainable processes to mitigate various risk(s) by framing the breadth and depth of control testing, evaluating business operations, participating in the evaluation of new products and business opportunities, and providing aggregated and detailed reports on risk management in line with risk appetite and limits.

## **Removal of CRO**

- The CRO can be transferred/ removed from his post before completion of the tenure only with the approval of the Board
- Any such premature transfer/ removal shall be reported to the Department of Non-Banking Supervision of the regional office of the RBI under whose jurisdiction the Company is registered.

## **X. 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 shall ensure and make necessary disclosures to the Company, Regulators, Statutory Authorities, Shareholders or other stakeholders as may be required by the applicable laws/ Policies of the Company.

The following information shall be put to the Board of Directors at regular intervals:

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

## **XI. REVIEW OF THE POLICY**

The Policy shall be reviewed by the Board as and when required.

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