

INTERNAL GUIDELINES ON
CORPORATE GOVERNANCE

I. PREAMBLE AND COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE:

National Housing Bank ("NHB") vide notification no. NHB.HFC.CG-DIR.1/MD&CEO/2016 dated 9th February, 2017, has notified Housing Finance Companies – Corporate Governance (National Housing Bank) Directions, 2016, which, *inter-alia*, requires every non deposit accepting Housing Finance Company having asset size of Rs. 50 Crores or more to frame "Internal guidelines on Corporate Governance".

Pursuant to the same, the Board of Directors of the Company at their meeting held on 18th July, 2017, have approved and adopted the Internal Guidelines on Corporate Governance ["CG Guidelines"].

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 and the community within which it operates. These Corporate Governance Guidelines will help the Company in attaining its objectives/goals, since it encompasses every sphere of operations, management, action plans, internal controls and regulatory disclosure.

II. DEFINITIONS

In this CG Guidelines, unless repugnant to the meaning or context thereof, the following expressions, wherever used in this CG Guidelines, shall have the meaning as defined below:

1. **"Act"** shall mean the provisions of the Companies Act, 2013 and rules made thereunder and shall include the statutory amendment(s), modification(s) or re-enactment(s) thereof.
2. **"Board"** shall mean the Board of Directors of the Company, as constituted from time to time.
3. **"Company"** means Hero Housing Finance Limited.
4. **"Committee"** shall mean committee of the Board of Directors or such other Committee constituted from time to time.
5. **"KMP"** shall mean Key Managerial Personnel as defined in sub section (51) of Section 2 of the Companies Act, 2013.
6. **"NHB CG Directions"** refers to the Housing Finance Companies – Corporate Governance (National Housing Bank) Directions, 2016 issued by NHB vide notification no. NHB.HFC.CG-DIR.1/MD&CEO/2016 on 9th February, 2017.
7. **"SMP"** shall mean Senior Management Personnel of the company who are members of the core management team excluding Board of Directors. Normally, this shall comprise of all members of management one level below the Executive Directors, including all functional heads and all employees at Vice President Position and above.

Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013 or any other applicable law/regulation/rules prescribed by National Housing Bank or such other authority.

III. GOVERNANCE STRUCTURE

1. Composition and Size

The Board of Directors (“the Board”) along with its Committees shall provide leadership and guidance to the Company's management and direct, supervise and control the performance of the Company.

The Board of the Company shall have an optimum combination of Executive and Non-Executive directors in compliance with the Companies Act, 2013 and other regulatory guidelines, if any.

2. Committees of the Board:

The Board functions as a full Board and also through various Committees constituted to oversee specific areas. The Committees have oversight of operational issues assigned to them by the Board. Accordingly, the core Committees constituted by the Board in this connection are as follows:

i. Audit Committee:

The Company has in place an Audit Committee constituted under the provisions of Section 177 of the Companies Act, 2013 and rules framed thereunder.

The Audit Committee shall have the powers and duties conferred upon it in compliance with the provisions of Section 177 of the Act and such other applicable statutory regulations and duties, obligations and powers as may be prescribed by the Board of the Company from time to time.

ii. Nomination and Remuneration Committee:

The Company has constituted a ‘Nomination and Remuneration Committee’ in compliance with the provisions of Section 178 of the Companies Act, 2013 and rules framed thereunder.

The Nomination and Remuneration Committee shall have the powers and duties conferred upon it in compliance with the provisions of Section 178 of the Act and such other applicable statutory regulations and duties, obligations and powers as may be prescribed by the Board of the Company from time to time.

iii. Risk Management Committee:

The Company has in place a Risk Management Committee constituted in accordance with the NHB CG guidelines in this regard. The Risk Management Committee is responsible for managing, inter alia the integrated risk which includes liquidity risk, interest rate risk, currency risk and such other functions as may be assigned to it by the Board of the Company. Further, the Risk Management Committee shall ensure that progressive risk management system and risk management policy and strategy followed by the Company are put in place.

3. Fit & Proper Criteria:

In terms of NHB Notification No. NHB.HFC.CG-DIR.1/MD&CEO/2016 on NHB Corporate Governance Directions dated February 09, 2017, the Company has in place a Board approved policy on 'Fit and Proper Criteria for Directors' ("the Policy"). Pursuant to the Policy, the Company obtains necessary disclosures from Directors from time to time. Further, the Company ensures compliance with the provisions laid down in the said Policy.

Further as required under the above referred NHB CG Directions, the Company shall ensure to furnish to the NHB on a quarterly basis, statement on change of directors and a certificate confirming that fit and proper criteria in selection of the directors has been followed. The same should be submitted to the National Housing Bank, New Delhi within 15 days of the close of the respective quarter and the statement for the quarter ending March 31, should be certified by the auditors.

4. Vigil Mechanism:

Pursuant to Rule 7 of the Companies (Meetings of Board and its Powers) Rules 2014 read with Section 177(9) of the Act, the Company has framed and adopted "Vigil Mechanism" to enable directors and employees to report genuine concerns about unethical behaviour, actual or suspected fraud or violation of Code of Conduct. The objective of this mechanism is to maintain a redressal system which can process all complaints concerning questionable accounting practices, internal controls, or fraudulent reporting of financial information.

5. Disclosure and Transparency:

- a) The Company shall put up to the Board of Directors, at regular intervals, as may be prescribed by the Board in this regard, the following:
 - (i) the progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the Company;
 - (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.
- b) The Company shall also disclose the following in their Annual Financial Statements:
 - (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 prescribed by NHB from time to time.

6. Statutory Auditors:

The appointment of Statutory auditors and the partner/s of the Chartered Accountant Firm conducting the Statutory Audit of the Company, shall be in terms of the provisions of Section 139 and 141 of the Companies Act, 2013 and rules framed thereunder.

The Audit Committee shall review the independence and performance of the Statutory Auditors and the effectiveness of the audit process periodically.

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.

7. Policies Adopted by the Company

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

- Nomination and Remuneration Policy
- Policy on Related Party Transactions
- Policy on Fit and Proper criteria for Directors
- Vigil Mechanism Policy
- KYC & AML Policy
- Evaluation Policy and Procedure

8. Review

These guidelines shall be reviewed by the Board of Directors at such intervals as and when deemed necessary, in order to align the same with the prevalent regulatory and business requirements.
