

INTERNAL GUIDELINES ON CORPORATE GOVERNANCE



**MICRO UNITS DEVELOPMENT & REFINANCE
AGENCY LIMITED**

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

Micro Units Development & Refinance Agency Limited (MUDRA) incorporated as a wholly owned subsidiary company of SIDBI and registered with the Reserve Bank of India ('RBI') as a Non-Banking Financial Institution (NBFI), was launched to "fund the unfunded" by extending refinance assistance to various lending institutions, which finance for micro enterprise activities with loan amount up to 10 lakhs. MUDRA's objective is to create an inclusive, sustainable and value based entrepreneurial culture, creating employment and sustainable income to millions, in collaboration with various partner institutions, thereby achieving economic prosperity and financial security.

MUDRA envisions Corporate Governance as a continuous process and a commitment towards values and ethical business conduct. The Company believes that it not only has legal, contractual and social responsibilities, but also has obligations towards its non-shareholder stakeholders such as bankers, regulators, government agencies, employees, investors, creditors and customers, among others. The structure should be such that it adopts sound and prudent principles and practices for the governance of the company and should have the ability to quickly address issues of noncompliance or weak oversight and controls.

MUDRA recognizes its role as a corporate citizen and endeavors to adopt the best practices and the highest standards of Corporate Governance through transparency in business ethics, accountability to its customers, regulators and others.

2. RBI GUIDELINES ON CORPORATE GOVERNANCE:

The Company is a Non-Banking Financial Institution - Non Deposit accepting - Systemically Important (NBFI-ND-SI) registered with Reserve Bank of India (RBI).

In order to enable NBFCs to adopt best practices and greater transparency in their operations, RBI has, vide its Notification No. DNBR.019/CGM (CDS)-2015 dated April 10, 2015 (as updated from time to time) advised all the Non-Banking Financial Companies with asset size of Rs. 500 crores and above (NBFC-ND-SI) to frame internal guidelines on Corporate Governance. Pursuant to the said circular the following internal guidelines have been laid down:

3. GOVERNANCE STRUCTURE:

A. BOARD OF DIRECTORS

One of the most important functions of the Board of Directors is to provide guidance and direction to the functioning of the Company, as per its mandate.

Towards this goal, the Board members individually and collectively will have to play their role in a most efficient manner.

Further the Board of Directors along with its various Committees shall provide leadership and strategic guidance to the Company's management. The Company's management shall act in accordance with the supervision, control and direction by the Board of Directors of the Company.

The Board has 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 Company. In performing its duties, the Board meets regularly and act in the best interests of the Company including its shareholders, employees, customers and creditors. The Board is constituted as per the provisions of the Companies Act, 2013.

Composition

The Composition of the Board shall be governed by the Articles of Association of the Company read with the applicable provisions of Companies Act, 2013 (the Act) and the rules framed thereunder.

SIDBI being the 100% shareholder of MUDRA's equity capital, shall have a right to nominate upto three persons, including Chairperson, as its nominees on the Board of the Company. CMD, SIDBI or in his absence any Whole Time Director /any other person nominated by SIDBI in this regard, will be Chairperson of the Company and its Board of Directors. The Chairperson shall hold the office at the discretion of SIDBI and shall not be liable to retire by rotation.

The Department of Financial Services of Government of India may nominate one person from Department of Financial Services or any other department of Government of India, as its nominee on the Board of the Company, who shall hold office at the discretion of Department of Financial Services and shall not be liable to retire by rotation.

Retirement by Rotation

Directors comprising Chairperson of the Board / Company appointed by SIDBI or its successor and assign, and Government Nominee Director appointed by DFS, GOI shall be non-retiring Directors. The remaining Directors including other SIDBI Nominee Directors, Managing Director, Executive Directors and Non Independent Non-Executive Director(s) shall be persons whose period of office shall be liable to determination by rotation and subject to the provisions of the Act be appointed by the Company in the General Meeting.

Meetings

The Company shall be required to hold at least one Board meeting in a calendar quarter with a maximum interval not exceeding one hundred and twenty days between two meetings, and at least four meetings to be held in a year.

Quorum

The Quorum for a Meeting of the Board shall be one-third of the total strength of the Board, or two Directors, whichever is higher and the same shall be maintained for the entire meeting

B. COMMITTEES OF THE BOARD

The Board of Directors shall constitute various Committees which will enable the Board to deal with specific areas / activities that need a closer review and to have an appropriate structure to assist in the discharge of its duties and responsibilities.

The Committees shall operate as per the terms of reference approved by the Board. The minutes of the meetings of all Committees of the Board shall be placed before the Board for noting in subsequent meeting. The details of some of the important Committees of the Company are as under:

i. AUDIT COMMITTEE

The Company shall have in place the Audit Committee in accordance with the Section 177 of the Companies Act, 2013 and the Rules framed thereunder and the provisions of Para 3 of the Non- Banking Financial Corporate Governance (Reserve Bank) Directions, 2015.

The Audit Committee shall have the powers and duties conferred upon it in compliance with the provisions of Section 177 of the Act, RBI guidelines and such other duties, obligations and powers as may be prescribed by the Audit Charter. The Company has a Board approved Audit Committee Charter in place and required disclosures to the effect are made from time to time.

Chairman	The Committee shall appoint one of its members as the Chairman of the Committee. However, as a matter of good governance, one of the Independent Directors may be appointed as the Chairman of the Committee.
Composition	The Audit Committee shall comprise of at least three directors as members of the Committee and majority shall be independent directors (<i>more than 50% of the members of audit committee shall be independent directors</i>) All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
Meetings	The Committee shall meet at least 4 times in a year and not more than 4 months shall elapse between two meetings. The Committee shall meet with management, the internal auditor and the statutory auditor as deemed fit by it.

Quorum	The quorum necessary for transacting business at a meeting of the Committee shall be two members or one-third of the members of the Audit Committee; whichever is greater.
Terms of reference	As per the Board approved Audit Charter

ii. NOMINATION AND REMUNERATION COMMITTEE

The Company shall have in place the Nomination and Remuneration Committee in accordance with the provisions of Para 3 of the Non- Banking Financial Corporate Governance (Reserve Bank) Directions, 2015 and Section 178 of the Companies Act, 2013 and the 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, RBI guidelines and such other duties, obligations and powers as may be prescribed by the Nomination and Remuneration Charter. The Company has a Board approved Nomination and Remuneration Charter in place and required disclosures to the effect are made from time to time.

Chairman	One of the members of Nomination and Remuneration Committee shall be appointed as the Chairman of Nomination and Remuneration Committee. In the absence of the Chairman, the members of the Committee present at the meeting shall choose one amongst them to act as Chairman.
Composition	The Committee shall consist of three or more Non-Executive Directors out of which not less than one-half shall be Independent Directors.
Meetings	The meeting of the Committee shall be held at such regular intervals as may be required but atleast once in a financial year to review and evaluate the performance of directors of the Company. The Committee may meet in person or through other methods like video conferencing, audio conferencing etc. as may be permitted under the Act from time to time.
Quorum	Minimum two (2) members, of which one shall be Independent Director, present in person or by using any technology, shall constitute a quorum. The quorum must be present at all times during the meeting.
Terms of reference	As per the Board approved Nomination and Remuneration Charter

iii. CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Company shall have in place the Corporate Social Responsibility Committee in accordance with the provisions of Section 135 of the Companies Act, 2013 read with Companies (Corporate Social Responsibility) Rules, 2014. The Company shall have a Board approved CSR Policy in place and required disclosures to the effect

will be made from time to time.

CSR Committee shall formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII of the Companies Act, 2013, recommend the amount of expenditure to be incurred on the activities referred to in above clause and review and recommend any amendments to be made in the CSR policy of the Company.

Chairman	The Committee shall appoint one of its members as the Chairman of the Committee.
Composition	The Committee shall consist of three or more directors, out of which at least one director shall be an Independent Director.
Meetings	The CSR Committee of the Board would meet as and when required, with atleast one meeting in a year
Quorum	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	As per the Board approved Corporate Social Responsibility Policy

iv. RISK MANAGEMENT COMMITTEE

The Company shall have in place the Risk Management Committee in accordance with the provisions of Para 3 of the Non- Banking Financial Corporate Governance (Reserve Bank) Directions, 2015.

The Risk Management Committee shall ensure that the risks associated with the business/functioning of the Company are identified, controlled and mitigated and shall also lay down procedures regarding managing and mitigating the risks through integrated risk management systems, strategies and mechanisms.

Chairman	The Chairman of the Committee shall be one of the Committee members to be appointed by the members
Composition	The Risk Management Committee of the Board shall be decided by the Board from time to time. MD & CEO and an Independent Director may also be included as members of the Committee. The present Members of Committee are: i. Chairman, MUDRA ii. One Independent Director iii. MD & CEO, MUDRA
Meetings	The Risk Management Committee of the Board would meet periodically at least once in a year to review the risk management policies and practices of MUDRA.
Quorum	Two members

Terms of reference	As per the Board approved Risk Management Framework
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v. ASSET LIABILITY MANAGEMENT COMMITTEE

The Asset Liability Management Committee (ALM Committee) shall be a sub committee appointed by Board to monitor the asset liability gap and strategise action to mitigate the risks associated with the business of the Company.

Chairman	The Committee shall appoint one of its members as the Chairman of the Committee.
Composition	The Committee shall consist of such number of members as may be determined by the Board comprising of at least four officials, including CEO and CFO of MUDRA. The Board may authorise the Chairman, MUDRA to nominate more officials of MUDRA, SIDBI and Associates as per need.
Meetings	The ALCO would meet at such intervals depending on the business requirements, but at least once in every quarter
Quorum	The quorum for holding the meetings of ALCO would be 50% of the strength of the ALCO at any point of time, including the Chairman of the Committee. In case 50% works out to a fraction it would be rounded-off to the next higher number.
Terms of reference	As per the Board approved Asset Liability Management Policy

In addition to above the Board shall constitute the following Committees of the Company or such other committees, as may be required for effective functioning of the Company:

SR.NO.	COMMITTEE
1.	Executive Committee
2.	Investment Committee
3.	Central Credit Committee - CEO
4.	Enterprise Risk Management Committee
5.	Technical Evaluation Procedural Committee
6.	IT Strategy Committee

C. BOARD EVALUATION

The evaluation of Board and its members shall be carried out by the Board members as indicated in the Companies Act, 2013 and the Board evaluation policy approved by the Company.

Separate Meeting of the Independent Directors

Independent Directors are required to evaluate the performance of Non-Independent Directors, Chairman and Board as a whole. The Independent Directors of MUDRA shall hold at least one meeting in a financial year or on any other

frequency as Board may decide or prescribed under the applicable laws, to review the performance of Non-Independent Directors, performance of the Chairperson of MUDRA and Board & Committees of the Board, as a whole, taking into account the views of Executive Directors and Non-Executive Directors.

The Independent Directors at their separate meetings shall:

- review the performance of Non-Independent Directors and the Board as a whole;
- review the performance of the Chairperson of MUDRA, taking into account the views of Executive and Non-Executive Directors;
- assess the quality, quantity and timeliness of flow of information between the company management and the Board that is necessary for the Board to effectively and reasonably perform their duties.

Similarly, the Board other than the member being evaluated shall evaluate the Independent Directors. Nomination Remuneration Committee shall co-ordinate the evaluation process

4. FAIR PRACTICES CODE:

Pursuant to the guidelines on Fair Practices Code issued by Reserve Bank of India, the Company shall adopt a policy on Fair Practices Code which is posted on the website of the Company and also a regular review on the implementation of the same is conducted by Board.

5. FIT AND PROPER CRITERIA

The Company shall have 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 as per RBI Circular. Further, the Company ensures compliance with the provisions laid down in the said Policy. The Board shall review the suitability of the members based on the Fit and Proper criteria on a regular basis.

6. DISCLOSURE AND TRANSPARENCY

In order to practice the policy of Disclosure and Transparency, the following information shall be put to the Board of Directors at regular intervals in this regard:

- The progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the Company;
- 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.;
- Updates of the various committee meetings at from time to time;
- Disclosures in the Annual Financial Statements information as may be prescribed

under the RBI Regulatory Framework from time to time.

In addition, the Company will also be governed by the RTI Act, 2005.

7. ROTATION OF STATUTORY AUDITORS/AUDIT PARTNER(S)

MUDRA is a public limited company incorporated under Companies Act, 2013, registered as a Non-Banking Financial Institution. Being a wholly owned subsidiary of Small Industries Development Bank of India the statutory Auditors for MUDRA will be appointed by the Comptroller and Auditor-General of India under the provisions of section 139 (5) of Companies Act, 2013.

8. POLICIES ADOPTED BY THE COMPANY

The Company, in line with the requirement of the Companies Act, 2013, the guidelines issued by the Reserve Bank of India and others acts, rules, and regulations applicable to the Company, shall frame and adopt following policies or any other policies as required from time to time which shall form part and parcel of the overall corporate governance framework of the Company. These policies are reviewed and updated at regular intervals based statutory requirement or on modification or amendments of various acts, rules, regulations, statues applicable to the Company.

SR.NO.	POLICY ADOPTED
1.	Procurement Policy
2.	Loan Policy
3.	Investment Policy
4.	Fair Practices Code
5.	Guidelines on Know Your Customer
6.	Guidelines on Anti-Money Laundering measures
7.	Board Evaluation policy
8.	Delegation of Powers

The policies will be reviewed as and when required, to ensure compliance and also reflects the changes in the regulations/ corporate governance environment.