



## **Internal Guidelines on Corporate Governance**

### **1. Corporate Governance**

The Company believes that good Corporate Governance emerges from the application of the best and sound Management practices. The Company strives to ensure sound governance practices in the functioning of the Company and create value for its stakeholders on a sustainable and long term basis.

The Company is always committed towards high standards in corporate ethics, transparency, disclosures, accountability & integrity. The Corporate Governance framework encompasses practically every sphere of management from action plans and internal controls to performance measurement and corporate disclosure.

### **2. Definitions**

In these Internal Guidelines on corporate governance, unless repugnant to the meaning or context thereof, the following expressions, wherever used, shall have the meaning as defined below:

- a. **"Act"** shall mean the provisions of the Companies Act, 2013 and rules made thereunder and shall include the statutory amendment(s) or any modification thereof.
- b. **"Board"** shall mean the Board of Directors of the Company, as constituted from time to time.
- c. **"Company"** means The National Small Industries Corporation Limited (NSIC).
- d. **"Board Sub-Committee"** shall mean sub-committee of the Board of Directors constituted from time to time.
- e. **"Independent Director"** shall mean a Director who satisfies the criteria of independence as laid down under Section 149 (6) of the Companies Act, 2013.

### **3. Company**

The Company is a Non Deposit taking Non-Banking Financial Company (“**NBFCs**”) registered with the Reserve Bank of India.

In order to adopt best practices and greater transparency in the operations of the Company and in compliance with the guidelines on Corporate Governance issued by Reserve Bank of India vide Master Direction DNBR. (PD). 008/03.10.119/2016-17 latest updated on 17<sup>th</sup> February, 2020. The Company hereby issues the Internal Guidelines on Corporate Governance.

### **4. Board of Directors (“Board”)**

The Board of Directors play a pivotal role in ensuring that the good corporate governance practices are followed within the Company. The Board of Directors oversees the functioning of the Company and that of its management; and ensures that every decision taken is in the best interest of the stakeholders of the Company.

The Board of Directors of the company shall have an optimum combination of Functional, Nominee and Independent Directors. The number of Functional Directors (including CMD/MD) should not exceed 50% of the actual strength of the Board. The number of Nominee Directors appointed by Government/other CPSEs shall be restricted to a maximum of two as stipulated in DPE guidelines.

Presently, the sanctioned strength of Board of Directors is eight members comprising of a Chairman-cum- Managing Director, two Functional Directors, two Government nominee Directors and three non-official part-time Directors.

### **5. Board Meetings**

The Company shall be required to hold atleast one Board meeting in a quarter with a maximum interval of one hundred and twenty days between two consecutive meetings, such that atleast four meetings are held in a year.

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.

#### **Minimum Information to be placed before the Board**

- To enable the Board members to discharge their responsibilities effectively and take informed decisions, detailed agenda papers, with explanations on each item, shall be sent to each Director well

in advance of the Board/Committee meetings as per the Act and other applicable laws.

- The Company shall place all statutory and other significant matter as required by law before the Board to enable it to discharge its duty effectively.
- The Minutes of all Board Meetings and its Committee Meetings shall be circulated to the Board members as per the applicable provisions of the Act and secretarial standards -1. Minutes of the previous Board /Committee Meetings are placed in the subsequent Board/Committee Meeting for noting.

## **6. Sub-Committees of the Board**

The following Sub-Committee(s) of the Board are constituted as per the statutory requirements consisting of executive and non-executive members. Consequent to the changes in the Board, these sub-committee(s) of the Board are re-constituted by the Board of Directors time to time.

### **A. Audit Committee**

The Company shall have in place an Audit Committee constituted in accordance with the provisions of Section 177 of the Companies Act, 2013 read with the DPE guidelines. The Audit Committee shall consist of minimum of three directors and at least two third of the members shall be independent directors.

All the Members of the Audit Committee shall be financially literate and at least one Member shall have an accounting or related financial management expertise. The Chairperson of the Audit Committee shall be an Independent Director.

The Audit Committee shall meet at least four times in a year and not more than four months shall elapse between two meetings.

The terms of reference of Audit Committee are as follows:

- i. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

To take note for the appointment and terms of appointment of the auditors of the Company.

- ii. Recommending to the Board the fixation of audit fees.
- iii. Approval for payment to statutory auditors for any other services rendered by the statutory auditors.

- iv. Reviewing with management the annual financial statements before submission to the Board, focusing primarily on:
- v. Matters which are required to be included in the Directors' Responsibility Statement of Board's report and any change in accounting policies and practices.
  - Major accounting entries based on exercise of judgement by management;
  - Significant adjustments made in the financial statements arising out of audit findings;
  - Compliance with legal requirements relating to financial statements;
  - Disclosures of any related party transaction
  - Qualifications in draft audit report
- vi. Review the following with the management:
  - a) Review the quarterly and half-yearly financial statement;
  - b) Company's financial and risk management policies;
  - c) Follow-up action on the audit observations of the C&AG audit;
  - d) Follow-up action taken on the recommendations of Committee on Public Undertakings (COPU) of the Parliament;
  - e) All related party transactions in the company. For this purpose, the Audit Committee may designate a member who shall be responsible for reviewing related party transactions.
- vii. Reviewing with the management performance of the external and internal auditors, and the adequacy of internal control systems.
- viii. Discussion with statutory auditors / agencies before the audit commences, nature and scope of audit as well as have post-audit discussion to ascertain any area of concern.
- ix. Review with the independent auditor the coordination of audit efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of all audit resources.
- x. Consider and review the following with the independent auditor and the management:

- The adequacy of internal controls including computerized information system controls and security; and
  - Related findings and recommendations of the independent audit or internal auditor, together with the management responses.
- xii. Reviewing the adequacy of internal audit functions, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
  - xiii. Discussions with internal auditors regarding any significant findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature & reporting the matter to the Board and follow up thereon.
  - xiv. Provide sufficient opportunity for the internal and statutory auditors to meet with the members of audit committee with and / or without the members of management present.
  - xv. Provide an open avenue of communication between the independent auditor, internal auditor and the Board of Directors.
  - xvi. Consider and review the following with the management, internal auditor and the independent auditor:
    - Significant findings during the year, including the status of previous audit recommendations;
    - Any difficulties encountered during audit work including any restrictions on the scope of activities or access to required information.
  - xvii. To look into the reasons for substantial defaults in the payment to the shareholders (in case of non-payment of declared dividends) and creditors.
  - xviii. Review and monitor the auditor's independence & performance and effectiveness of audit process;
  - xix. Examination of the financial statement and the auditor's report thereon;
  - xx. Approval or any subsequent modification of transactions of the Company with related parties;

- xx. Scrutiny of inter-corporate loans and investments;
- xxi. Valuation of undertaking or assets of the company, wherever it is necessary;
- xxii. Evaluation of internal financial controls and risk management systems;
- xxiii. Monitoring the end use of funds raised through public offers and related matters.
- xxiv. Carrying out any other function as mentioned in the terms of reference of the Audit Committee.

### **Power of the Audit Committee**

The Audit Committee derives its powers from the authorization of the Board. Hence, these would include power:-

- i. To investigate any activity within its terms of reference
- ii. To seek information on & from any employee
- iii. To obtain outside legal or other professional advice, subject to the approval of Board of Directors
- iv. To secure attendance of outsiders with relevant expertise, if it consider necessary.
- v. To review the functioning of the Whistle Blower Mechanism and protect whistle blowers.
- vi. To mitigate conflict of interest by strengthening auditor independence.

### **Review of information by Audit Committee**

The Audit Committee shall review the following information:

- Management discussion and analysis of financial condition and results of operations;
- Statement of related party transactions submitted by management;
- Management letters / letters of internal control weaknesses issued by the statutory auditors;
- Internal audit reports relating to internal control weaknesses;
- The appointment and removal of the Chief Internal Auditor shall be placed before the Audit Committee; and
- Certification/declaration of financial statements by the Chief Executive/Chief Finance Officer.

- **Others**

- a) The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries; provided that in case the Chairman is unable to attend due to unavoidable reasons, he may nominate any member of the Audit Committee.
- b) The Audit Committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the Committee. The Audit Committee may also meet without the presence of any executives of the company. The Director Finance, Head of Internal Audit and a representative of the Statutory Auditor may be specifically invited to be present as invitees for the meetings of the Audit Committee as may be decided by the Chairman of the Audit Committee.
- c) The Company Secretary shall act as the Secretary to the Audit Committee.

**B. Nomination & Remuneration Committee**

The Company shall have in place a Nomination and Remuneration Committee. Our Corporation being a Government Company, the appointment, tenure and remuneration of Directors is decided by the President of India. The remuneration paid to Chairman-cum-Managing Director and Functional Directors is as per terms and conditions of their appointment. Independent Directors are paid only sitting fee as approved by the Board within the ceiling fixed under the Companies Act, 2013 and also in accordance with the Government guidelines for attending the Board Meetings as well as Committee Meetings. The Government Nominee Directors do not draw any remuneration / sitting fee for Board / Committee Meetings from the Corporation. The Committee shall consist of three or more non-executive directors out of which not less than one half shall be independent directors.

The terms of references of Nomination & Remuneration committee is as follows;

- Performance Related Pay
- Annual Bonus / variable pay and policy for its distribution across the Executives and non-unionized supervisors, within the prescribed limits.

**C. Corporate Social Responsibility Committee**

The Company shall have in place a Corporate Social Responsibility Committee constituted in accordance with the provisions of Section 135 of the Companies Act, 2013 and rules framed thereunder. The CSR

Committee shall consist of three or more directors, out of which at least one would be the Independent Director.

*The terms of references of Corporate Social Responsibility Committee*

The Corporate Social Responsibility Committee shall-

- a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the Company in areas or subject, specified in Schedule VII;
- b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a) ;
- c) approve the projects within the overall expenditure as approved by the Board and
- d) monitor the Corporate Social Responsibility Policy of the company from time to time.

**D. Risk Management Committee**

The Company shall have in place a Risk Management Committee constituted by the Board. Risk management committee consists of Chairman as head of the Committee with functional directors as members.

The terms of reference for the Risk Management Committee will be as follows:

The Risk Management Committee shall be responsible for setting up and reviewing Risk Management Policies of the Company from time to time. The Risk Management Committee shall be primarily responsible for identifying, monitoring, reviewing and mitigating the key risks associated with the nature of business of the Company, for achieving the performance and profitability targets of the Company.

The integration and alignment of risk management system shall be ensured with the corporate and operational objectives and not as a separate task.

**E. Asset Liability Management Committee (ALMCO)**

The Company shall have ALMCO committee pursuant to guidelines issued by Reserve Bank of India. As per RBI directives, the ALMCO is a decision making unit responsible for balance sheet planning from risk-return perspective including the strategic management of interest rate and liquidity risk. The Company will have to decide on the role of its ALMCO, its responsibility as also the decisions to be taken by it. The business and risk management strategy of the company shall ensure that the company operates within the limits/ parameters set by the Board. The business issues that an ALMCO shall consider, inter alia,



shall include product pricing for both deposits and advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by other peer NBFCs for the similar services / product, etc. In addition to monitoring the risk levels of the company, the ALMCO shall review the results of and progress in implementation of the decisions made in the previous meetings. The Company NBFCs shall decide the frequency of holding their ALMCO meetings.

### **Terms of Reference**

The scope of ALMCO function can be described as follows:

- Liquidity risk management
- Management of market risks
- Funding and capital planning
- Profit planning and growth projection
- Forecasting and analyzing 'What if scenario' and preparation of contingency plans.

### **Composition of ALMCO**

The size (number of members) of ALMCO shall depend on the size of each institution, business mix and organizational complexity. To ensure commitment of the Top Management and timely response to market dynamics, the CMD shall head the Committee. The Chiefs of Investment, Credit, Resources Management or Planning, Funds Management/ Treasury, Internal Business and Economic Research can be members of the Committee. In addition, the Head of the Technology Division shall also be an invitee for building up of MIS and related computerization.

As per RBI guidelines, the size (number of members) of ALMCO shall depend on the size of each institution, business mix and organizational complexity. To ensure commitment of the Top Management and timely response to market dynamics, the Chairman-cum-Managing Director shall head the Committee.

Presently, Asset Liability Management Committee consists of Chairman as head of the Committee with functional directors as members. Head of Finance and Head of Technology shall be invitee for the meeting. GM(Fin.) shall be the convenor of the meeting.

### **F. Board " Sub-Committee for write-Off"**

The Company shall have in place a Sub-Committee for write off constituted by the Board.

The Committee shall have minimum three non-executive members in this Committee with majority of Independent Directors.

### **Terms of Reference**

The Board – Sub Committee for write-off shall have powers to write off the non-recoverable portion of the dues under all commercial/financial activities.

## **7. Role of Independent Directors**

Independent Directors appointed on the Board of the Company shall fulfill the criteria of independence as set out under the provisions of Companies Act, 2013 and other applicable laws in this regard. They shall submit an annual declaration affirming compliance with the criteria of independence for every financial year and such declaration shall be submitted whenever there is any change in circumstance which may affect their independence.

## **8. Part-time Directors' compensation and disclosures**

All fees/compensation, if any, paid to part-time Directors, including Independent Directors, shall be fixed by the Board of Directors subject to the provisions in the DPE guidelines and the Companies Act, 1956.

A Director shall not be a member in more than 10 committees or act as Chairman of more than five committees across all companies in which he is a Director. Furthermore it should be a mandatory annual requirement for every Director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place. Explanation:

- a. For the purpose of considering the limit of the committees on which a Director can serve, all public limited companies, whether listed or not, shall be included.
- b. For the purpose of reckoning the limit under this sub-clause, Chairmanship/membership of the Audit Committee and the Shareholders' Grievance Committee alone shall be considered.

## **9. Separate Meeting of the Independent Directors**

The Independent Directors of the Company (being a Government Company) shall meet at least once in a year without the presence of Non-executive Directors and the Management in terms of Schedule IV of the Act. The meeting shall be held to assess the quality, quantity and timeliness of flow of information between the company

management and the Board and its members that is necessary for the Board to effectively and reasonably perform their duties.

#### **10. Code of Conduct for Directors & Senior Managerial Personnel**

The Company shall lay down the Code of Conduct for Directors and Senior Managerial personnel. The Code is applicable to Executive/ Non-Executive Directors including Independent Directors and Senior Managerial Personnel of the Company.

#### **11. Conflict of Interest**

All the Directors and key managerial personnel shall be required to disclose to the Board of directors whether they, directly or indirectly, or on behalf of third parties, have any material interest in any transaction or matter directly affecting the Company.

#### **12. Disclosures**

The Corporation 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 NBFC;
- 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.

#### **13. Vigil Mechanism / Whistle Blower Policy**

The Corporation has implemented a vigil mechanism through adoption of Whistle Blower Policy as per the compliance of section 177 of the Companies Act, 2013 with an objective to enable any employees to raise concerns about any or un-expectable practice and any event of misconduct. The Whistle Blower Policy is available on the website of the Company.

#### **14. Confidentiality of Information**

The principle of honesty extends to issues of confidentiality of information. All Board Members therefore, shall maintain the confidentiality of all confidential information of all stakeholders at all times and should not disclose to any person unless discharged from such obligation by requirements of the law or other principles of this Code.

## **15. Statutory Auditors**

NSIC being Government Company, the Statutory Auditors are appointed by the Comptroller & Auditor General of India (C&AG).

## **16. Internal Auditors**

The Internal Auditors shall perform Independent and objective assessment of the internal controls, processes and procedures instituted by the Management and accordingly monitor its adequacy and effectiveness. The status of Internal Audit shall be placed before the Board members time to time.

## **17. Secretarial Auditors**

The Company shall appoint a Company Secretary in practice in terms of Section 204 of the Act who shall be responsible to conduct audit of the secretarial and related records of the Company.

## **18. Website**

The internal guidelines on corporate governance shall be published on the company's website, for information of various stakeholders.

## **19. Annual Report**

The Annual Report of the Company shall contain a separate Report on Corporate Governance detailing the activities undertaken by the Company as part of its efforts towards good Corporate Governance.

## **20. Review**

This policy shall be reviewed periodically and may be amended with the approval of Chairman-cum-Managing Director of the Company.