

SF3-IN Internal Guidelines on Corporate Governance

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S. No	Reviewer	Reviewer Contact (Email)
1.	Mohit Sharma	mohit.sharma@bmw.in

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1 Objective

The objective of the Internal Guidelines on Corporate Governance (Policy) is to ensure that the structure, responsibilities and functions of Board of Directors and of the Senior Management of the Company, fully recognize and embrace the expectations of all stakeholders of the Company including of the Regulator. 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 non-compliance or weak oversight and controls.

This Policy has been approved by the Board of Directors and is effective from its approval in the Board meeting held on 29th October 2010.

2 Company's Philosophy on Corporate Governance

The Company 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 other stakeholders. The Company's activities are carried out in accordance with good corporate practices and the Company is constantly striving to better them and adopt the best practices. As part of the BMW Group, the Company's philosophy on Corporate Governance is embedded with rich legacy of fair, ethical, and transparent governance practices.

3 RBI Guidelines on Corporate Governance

In order to enable NBFCs to adopt best practices and greater transparency in their operations the Reserve Bank of India (RBI) has issued guidelines on Corporate Governance vide Chapter - XI of the RBI Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 dated September 01, 2016, as amended from time to time, . In pursuance of the aforesaid Guidelines, the Company has framed the following Internal Guidelines on Corporate Governance.

4 Governance Framework, instruments, and monitoring

a) Governance Framework

The Governance Framework as described in this Policy is the fundament for all governance related activities within the Company. It highlights the key governance areas and thereby defines the target picture for the Company by also referring to the necessary governance processes and instruments of Company.

b) Regulation Landscape

The Regulation Landscape is based upon the Governance framework and contains all relevant Company written rules that provide further guidance in the corresponding governance areas. The guidelines and instructions of the Regulation Landscape also enable a common understanding on the necessary focus areas, the adequate processes, and

instruments, and support the implementation of Company-wide common standards by respecting the limits of the local legal and regulatory environment.

5. Culture

a) Values

“Responsibility”, “Appreciation”, “Transparency”, “Trust” and “Openness” are the five core values of the Company and define the collaboration and interaction within the Company.

The Company management shall develop, adopt, adhere to, and promote high ethical and professional standards, taking into account these core values and the specific needs and characteristics of the Company segment especially in relation to customers (individual consumers and corporates), and shall ensure the implementation of such standards. It shall also oversee adherence to these standards by staff. The implemented standards shall aim to reduce the risks to which the Company is exposed, in particular operational and reputational risks, which can have a considerable adverse impact on the Company’s profitability and sustainability, and can lead to fines, litigation costs, restrictions imposed by competent authorities, other financial and criminal penalties, and the loss of brand value and consumer confidence.

The Company’s management shall have clear and documented policies for how these standards shall be met. These policies should:

- a) remind readers that all the entity’s activities should be conducted in compliance with the applicable laws and with the corporate values.
- b) promote risk awareness through a strong risk culture conveying the Company’s expectation that no activity of the Company shall go beyond the defined risk appetite and limits defined and the respective responsibilities of staff.
- c) set out principles on and provide examples of acceptable and unacceptable behaviors linked in particular to financial misreporting and misconduct, economic and financial crime, and customer treatment (including fraud, money laundering and anti-trust practices, financial sanctions, bribery and corruption, market manipulation, miss-selling, fair lending and other violations of consumer protection and privacy laws).
- d) clarify that in addition to complying with legal and regulatory requirements and internal policies, staff are expected to conduct themselves with honesty and integrity and perform their duties with due skill, care, and diligence.
- e) ensure that staff is aware of the potential internal and external disciplinary actions, legal actions and sanctions that may follow misconduct and/ or unacceptable behaviors.

The Management should ensure staff awareness and monitor the conduct and compliance of standards e.g., by providing training(s), communication(s) etc. The Company should have defined function responsible for monitoring such compliances and for evaluating any breach with respect to the Code of Conduct or similar instruments and a process for dealing with issues of non-compliance. The results should be reported to the Management periodically .

b) Risk Culture

A sound and consistent risk culture should be a key element of the Company's culture for effective risk management and to enable the Company to make sound and informed decisions. The Company should develop an integrated and segment-wide risk culture, based on a full understanding and holistic view of the risks that may be faced and how they will be managed, taking into account the segment's risk appetite. The Company should develop a risk culture through policies, communication(s) and staff training regarding the risk-taking activities, strategy, and risk profile.

Risk management should not be confined to risk specialists or internal control functions. Business units (First Line of Defense) should be primarily responsible for managing risks on a day-to-day basis in line with the Company's policies, procedures and controls by taking consideration of the risk appetite and risk capacity.

A strong risk culture should include but is not necessarily limited to:

- **Tone from the Top:** The Management should be responsible for setting and communicating the Company's core values and expectations. The behavior of Management, including key function holders, should reflect the values being espoused and should contribute to the internal communication to the staff. The Management should, on an ongoing basis, promote, monitor, and assess the risk culture of the Company; consider and monitor the impact of the risk culture on the financial stability, risk profile and robust governance and make changes wherever and whenever necessary.

- **Accountability:** Relevant staff at all levels should know and understand the core values of the Company and should act in accordance with all applicable laws, regulations, internal guidelines and in compliance within the desired risk appetite. More importantly, the staff should be aware of their accountability for the Company's risk-taking behavior and capacity.

- **Effective communication and challenge:** A sound risk culture should promote an environment of open and effective communication in which decision-making processes encourage a broad range of views, allow for testing of current practices, stimulate a constructive critical attitude among staff, and promote an environment of open and constructive engagement throughout the entire organization.

- **Incentives:** Appropriate incentives should play a key role in aligning risk-taking behavior with the Company's risk profile and its long-term interest.

c) Conflicts of interest

The Company's Management shall be responsible for establishing, approving and overseeing the implementation and maintenance of effective policies to identify, assess, manage and mitigate or prevent actual and potential conflicts of interest at institutional level, e.g., as a result of the various activities and roles of the Company or of different business lines within the Company, or with regard to external stakeholders.

Potential conflicts between the interest of the entity and the private interest of staff, including members of the Management, which could adversely influence the performance of their duties and responsibilities, must also be analyzed and adequately handled.

6. Board of Directors

The Board of Directors 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 role of the Board is to determine the overall strategic direction and management of the Company, including monitoring its performance. The Board is responsible to the shareholders and its conduct is determined and governed by various provisions of the laws and the Articles of Association of the Company. For and during the performance and execution of its duties, the Board shall meet regularly and act in the best interests of the Company as well as its shareholders, employees, customers, and creditors.

The Board of Directors shall direct the Company affairs and be responsible for the operative business of the Company. The Board shall play a key role in governance within the Company. It shall act as a role model for the Company's employees and have an overall strategic governance responsibility. The Board of Directors shall be responsible for the sustainable overall Company result and performance, and ensure adherence to the Company's legal compliance. In addition, the Board of Directors shall also ensure financial compliance by adhering to the financial rules and regulations. The Board will oversight roles which include reviewing the performance of the local management function and the achievement of objectives, challenging the local strategy, monitoring, and scrutinizing the finance and risk situation as well as the systems that ensure the integrity of financial information. The Board furthermore will challenge the soundness and effectiveness of risk management and internal controls.

The Board of Directors of the Company shall be constituted as per the provisions of the Companies Act, 2013 and Rules made thereunder. The constitution should also be in compliance of the applicable Master Directions / Framework(s) issued by the Reserve Bank of India from time to time.

The Company's Board shall consist of executive and non-executive directors. Non-executive directors are expected to play a critical role in imparting balance to the Board processes by bringing an independent approach on matters of strategy, performance, resources, standards of Company conduct, etc.

The Board of Directors at present comprises of the following members:

Particulars
Mr. Jaejoon lee, Managing Director & Chief Executive Officer
Ms. Ekaterina Ruperti, Wholetime Director and Chief Financial Officer
Mr. Michael James Wetherell, Non-Executive Director
Mr. Amit Kumar, Director

The Company shall have a Company Secretary appointed pursuant to Section 203 of the Companies Act, 2013. Also, the Company shall have a Chief Compliance Officer (CCO) as required under the Reserve Bank's guidelines on 'Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs,

The Board shall periodically review Compliance Reports of all the laws applicable to the Company as well as steps taken by the Company to rectify instances of non-compliance.

7. Fit and Proper Criteria

The Company has in place a Fit and Proper Criteria Policy and carries out a due diligence exercise before the appointment of any candidate as Director in the Company or for the continuance of the existing directors.

The Company shall obtain a declaration of being “Fit and Proper” from the proposed/ existing Directors at the time of their appointment/ re-appointment and also on continuing basis. The Company shall also obtain a declaration of being “Fit and Proper” from the proposed Principal Officer under the Insurance Regulatory and Development Authority of India (Registration of Corporate Agents) Regulations, 2015.

The Company shall not appoint a person as the Director, if he/ she does not fulfil the criteria mentioned below:

- a. Such person should be professionally qualified to be a Director or occupy any key position in the Company as per internal guidelines and policies of the Company.
- b. Such person must have relevant experience and track record to occupy the position of a director or any key position in the Company.
- c. The person must be competent, capable, honest, fair and ethical in the conduct of day-to-day affairs of the Company. In determining these criteria, skills like satisfactory past performance, range of skill set, technical knowledge and understanding and management of the affairs of the Company shall be taken into account.
- d. The person must be eligible and suitable as per the conditions stipulated in the Declaration, the Deed of Covenant, the Declaration for Integrity and undertaking of Director.
- e. Such person must be qualified to be appointed as a Director under Section 149, 152, 164 and 165 of the Companies Act, 2013.
- f. The person must qualify as fit and proper to be appointed as a Director under the Insurance Regulatory and Development Authority of India (Registration of Corporate Agents) Regulations, 2015.

8 Board Meetings

The Meetings of the Board of Directors shall be held at least four times a year in such a manner that not more than one hundred and twenty days (120) shall intervene between two consecutive meetings of the Board.

The minimum information to be statutorily made available to the Board shall be furnished to the Directors. The Board shall constitute a set of Committees with specific Terms of Reference / scope to focus effectively on the issues and ensure expedient resolution of diverse matters. 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 discussions / noting. The draft minutes shall be circulated to the Board of Directors within Fifteen (15) days after completion of the Board meeting as prescribed in Secretarial Standard 1 or within such other time as may be prescribed under the Companies Act, 2013.

9 Board Committees

The Board in exercise of its powers has set out clear roles and responsibilities, including those powers, which the Board wishes to exercise by itself or through a formally constituted committee of the Board to ensure the good governance.

The Company has following Board Committees with terms of reference determined by the Board:

- i. **Audit Committee (AC):** The Committee will be responsible for review of internal financial controls and audit finding, review of financial statements, approval of audit plan and appointment of auditors, amongst other responsibilities as stated in its Terms of Reference.
- ii. **Assets Liability Management Committee (ALCO):** The ALCO will be responsible for setting the risk/ reward objectives, formulating, implementing, and monitoring ALM strategies, setting the risk tolerance limits, reviewing/ monitoring of mismatch between assets and liabilities and reviewing the solvency position of the Company on a regular basis, amongst other responsibilities as stated in its Terms of Reference.
- iii. **Risk Management Committee (RMC):** This Committee shall identify risks associated with business of the Company and to devise mitigation plans. The Committee shall frame and implement policies and procedures and ensure adherence to the same in accordance to the Terms of Reference.
- iv. **Nomination and Remuneration Committee (NRC):** This Committee shall determine the criteria for appointment of Key Managerial Personnel, Directors and Senior Management. The Committee shall formulate policy for determining criteria for appointments and removals, conduct evaluation of performance and recommend remuneration for the Directors, Key Managerial Personnel and other employees in accordance to the Terms of Reference.
- v. **Corporate Social Responsibility (CSR) Committee:** The CSR Committee will be responsible for undertaking activities for contribution towards social and economic development of the community at large and frame policies for execution of the objective. The Committee shall recommend CSR activities/projects and the amount to be expended and monitor the implementation thereof in accordance to the Terms of Reference.
- vi. **Shares and Debenture Allotment and Transfer Committee (SDATC):** The Committee shall be responsible to manage the matters and procedures relating allotment and transfer of the shares and debentures of the Company. It shall primarily deal with allotment, dematerialization, rematerialization and any matter related to shares and/ or debentures.

- vii. **IT Strategy Committee:** The Committee shall carry out review and amend the IT strategies in line with the corporate strategies, Board Policy reviews, cyber security arrangements and any other matter related to IT Governance. The Committee shall work in partnership with other Board committees and Senior Management to provide input to them.

The Terms of Reference shall outline the responsibilities of the above mentioned Committees and in particular, include the following:

- Constitution
- Composition
- Frequency of meeting / quorum requirements
- Objectives
- Responsibilities/Duties

10 Management Committees

In addition to the aforesaid Board level Committees, the Company has few management level committees inter-alia including as under:

- a. National Risk Committee
- b. Internal Committee (POSH)
- c. Local Credit Committee (LCC)
- d. Projects and IT Steering Committee (PISC)

11 Policies adopted by the Company

The Company has framed various policies for local governance as required under various laws and regulations applicable to the company from time to time. Such policies are adopted/approved by the Board/ Committees.

The policies will be reviewed, from time to time, to ensure compliance and to also reflect the changes in the regulations/ corporate governance environment.

12 Disclosures and transparency

The RBI Regulatory Framework for Non-Banking Financial Companies (NBFC) and other applicable regulations impose certain compliance requirements on the Company to apprise and inform the Directors about all the relevant information about the NBFC.

In order to facilitate easy reference of these compliances, it has been thought fit to put together a ready reckoner of information in the form of a handbook so that Directors are well informed and updated about the policies and strategies followed by the Company and general information about various committees, their roles and functions, periodicity of the meetings and general conformity with corporate governance standards.

The Company shall put up to the Board of Directors, at regular intervals at least on an annual basis, 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.

The Company shall additionally disclose in its Annual Financial Statements all such information as may be prescribed and required under the RBI Regulatory Framework, from time to time.

13 Appointment of Statutory Auditors

The Company has put in place Policy for Appointment of Statutory Auditors which governs various aspects including the appointment and rotation of Statutory Auditors of the Company. The Company shall adhere to the said Policy, RBI Regulations and the Companies Act, 2013 while following the practices and procedures for the appointment (including re-appointment) of the Statutory Auditors.

14 Shareholders

The Board is responsible for effective management of relationship with the shareholders. The Company will comply with various reporting requirements towards the shareholders as stipulated in the Act and its Articles. The Company will seek approval of the shareholders on matters as stipulated under the regulations and Company's governance requirements. The Managing Director shall be the primary person responsible for interaction with the shareholders. The Managing Director may authorize other senior officials of the Company for interaction and reporting to the shareholders.

15 Interaction with the Regulator

The Company shall maintain good working relationship with the Regulators and with other external bodies and authorities. It is also part of the role and objectives of the Compliance function to foster good relations with regulators and to work proactively with the Regulator.

In order to ensure effective management of those relationships, contact between business units and regulators should only be made through lines of communication agreed by line management of the Company.