

**INTERNAL GUIDELINES**

**FOR**

**CORPORATE GOVERNANCE**

**OF**

**SHRI RAM FINANCE CORPORATION PRIVATE LIMITED**



**SHRI RAM FINANCE**  
**CORPORATION PVT. LTD.**

EMPOWERING FINANCIAL STRENGTH

## 1. BACKGROUND AND OBJECTIVE

### 1.1 Background

Shri Ram Finance Corporation Private Limited (“the Company”), as a responsible corporate entity, endeavors to ensure that its activities are carried out in accordance with highest standards of corporate governance and best practices.

In order to enable NBFCs to adopt best practices and greater transparency in their operations, Reserve Bank of India (“RBI”) has issued Master Direction, dated October 19, 2023, titled ‘Master Direction – Reserve Bank of India (Non-Banking Financial Company –Scale Based Regulation) Directions, 2023’, bearing reference number RBI/DoR/2023-24/106 DoR.FIN.REC.No.45/03.10.119/2023-24 (“**RBI Master Directions**”).

### 1.2 Objective of the Guidelines

The objective of the Internal Guidelines on Corporate Governance (“Guidelines”) to adopt the best standards of Corporate Governance through transparency in business ethics, accountability & required disclosure to its customers, the government/ regulatory authorities and other stakeholders.

### 1.3 Approval and Review of the Policy

The Guidelines and any amendment therein shall be approved by the Board of Directors. The Policy shall be reviewed as and when required by the applicable rules and regulations.

## 2. GOVERNANCE STRUCTURE

### 2.1 BOARD OF DIRECTORS

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.

#### 2.1.1 The Board's major responsibilities will be as under:

- (a) **Strategic Planning:** Development of company's overall strategic direction and ensuring that management is implementing effective strategies to achieve the company's goals.;
- (b) **Policy formation and implementation:** Designing and implementation of robust policies and procedures;
- (c) **Risk Management:** Oversee the identification and management of risks that could impact the company.
- (d) **Corporate Performance Monitoring:** Boards are responsible for monitoring the company's financial performance and ensuring that financial reports accurately reflect the company's financial condition.
- (e) **Executive Compensation:** Boards are responsible for determining the compensation of top executives, including salary, bonuses, and stock options, to align their interests with those of shareholders and ensure fair and competitive compensation.
- (f) **Compliance and Legal Oversight:** Boards must ensure that the company complies with all relevant laws and regulations. This includes overseeing legal and regulatory compliance, as well as establishing and maintaining an effective system of internal controls.

(g) **Ethical and Responsible Decision-Making:** Boards are responsible for fostering an ethical culture within the organization and making decisions that are in the best interest of the company and its stakeholders.

(h) **Succession Planning:** Boards should plan for the orderly succession of senior executives and ensure that there is a pipeline of talent within the organization.

The Directors shall act in accordance with the duties as provided under the Companies Act, 2013 (hereinafter referred as the "CA, 2013") and the Independent Directors shall abide by the Code for Independent Directors under the CA, 2013. Further, the Board shall periodically review Compliance Reports of all laws applicable to the Company prepared by the Company as well as steps taken by the Company to rectify instances of non-compliance.

### **2.1.2 Composition**

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

### **2.1.3 The Board's strength**

The board's strength shall be as per the constitutional documents of the Company. The Composition of the Board shall be in compliance with the applicable provisions of the Companies Act, 2013 & rules thereunder and the RBI Directions.

**2.1.4 Meetings of the Board of Directors-** The Board meetings shall be held at least 4 times in a year, such that not more than 120 days shall intervene between 2 consecutive meetings.

## **2.2 COMMITTEES OF THE BOARD**

To focus effectively on the issues and ensure expedient resolution of diverse matters, the Board shall constitute a set of Committees with specific terms of reference/scope. The Committees shall operate as per the terms of reference approved by the Board.

In compliance with applicable laws and regulations and its constitution documents, the company has formed following committees:

- (i) Audit Committee
- (ii) Nomination and Remuneration Committee
- (iii) Risk Management Committee
- (iv) Asset Liability Management Committee (ALCO)
- (v) Information Technology (IT) Committee
- (vi) Corporate Social Responsibility (CSR) committee

The board of directors, may, from time to time, constitute such other committees as may be required under extant the company policies, legal regulations or for the purpose of ease of governance.

## **3. RESPONSIBILITIES OF THE COMMITTEES**

Each committee has defined responsibility and operates within its terms of reference as approved by the board from time to time. 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 the committees formed by the board of directors are given herein:

### 3.1 Audit Committee

The Company shall have in place the Audit Committee in accordance with the Corporate Governance guidelines promulgated by the Reserve Bank of India which shall have the same powers, functions and duties as laid down in section 177 of the CA, 2013.

<b>Composition</b>	The Committee must consist of Not less than three members.
<b>Meetings and Quorum</b>	Meetings shall be held as and when required but shall meet once in every quarter in a year. The quorum shall be either two members or one third of the members of the Committee whichever is higher.
<b>Terms of Reference</b>	<p>The Committee will provide assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders, potential shareholders, the investment community and others relating to:</p> <ol style="list-style-type: none"><li>(1) the integrity of the Company's financial statements,</li><li>(2) the effectiveness of the Company's internal control over financial reporting,</li><li>(3) the Company's compliance with legal and regulatory requirements,</li><li>(4) the independent auditor's qualifications and independence, and</li><li>(5) the external auditor's qualifications and independence, and</li><li>(6) the performance of the company's audit and risk management function and independent auditors.</li></ol> <p>The Committee is responsible for maintaining free and open communication between itself, independent auditor, the internal auditors, and management of the Company, and for determining that all parties are aware of their responsibilities.</p>

### 3.2 Nomination and remuneration Committee

The Nomination and Remuneration Committee shall be constituted in accordance with the Corporate Governance guidelines promulgated by the Reserve Bank of India and shall have the same powers, functions and duties as laid down in section 178 of the CA, 2013.

<b>Composition</b>	The Committee must consist of Not less than three members.
<b>Meetings and Quorum</b>	<p>Meetings shall be held as and when required.</p> <p>Quorum shall be two members or one-third of the composition of the Committee whichever is higher.</p>
<b>Terms of Reference</b>	<ul style="list-style-type: none"><li>• To lay down criteria and terms and conditions with regard to identifying persons who are qualified to become Directors (Executive and Non-Executive) and persons who may be appointed in Key Managerial positions and Senior Management and to determine their remuneration.</li><li>• To scrutinize the declarations. from the proposed / existing directors and decide on the acceptance or otherwise of the Directors,</li></ul>

	<ul style="list-style-type: none"> <li>• To determine remuneration based on the Company's size and financial position and trends and practices on remuneration prevailing in peer companies, in the finance industry</li> <li>• To carry out evaluation of the performance of Directors, as well as Key Managerial Personnel and Senior Management.</li> <li>• To provide reward linked directly to their effort, performance, dedication and achievement relating to the Company's operations.</li> <li>• To retain, motivate and promote talent and also to ensure long term sustainability of talented managerial persons to create competitive advantage.</li> </ul>
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### 3.3 Risk Management Committee

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.

<b>Composition</b>	The committee shall consist of such members as the Board of Directors of the Company decides from time to time;
<b>Meetings and Quorum</b>	Meetings shall be held as and when required. Quorum shall be two members or one-third of the composition of the Committee whichever is higher.
<b>Terms of Reference</b>	<p>The purpose of the Risk Management committee of the Board of Directors (the "Board") of the Company shall be to assist the Board in fulfilling its corporate governance oversight responsibilities with regard to the identification, evaluation and mitigation of strategic, operational, and external environment risks. The Committee has overall responsibility for monitoring and approving the risk management framework and associated practices of the Company.</p> <p>The risk management committee is also responsible for reviewing and approving risk disclosure statements in any public documents or disclosures.</p>

### 3.4 Asset Liability Management Committee

The Asset Liability Management Committee (ALCO) shall monitor the asset liability gap and strategize action to mitigate the risks associated with the business of the Company.

<b>Composition</b>	ALCO shall consist of such members as the Board of Directors of the Company decides from time to time;
<b>Meetings and Quorum</b>	Meetings shall be held as and when required. The Chairman along with one of the members will constitute a quorum.
<b>Terms of Reference</b>	<p>The key objectives of the Committee are to assist the Board and the Managing Director in fulfilling the following responsibilities:</p> <ol style="list-style-type: none"> <li>To formulate the assets liability management policy</li> <li>To ensure that the assets and liabilities of the Company are appropriately managed;</li> <li>To approve funding policies and ensure proper and economic funding;</li> <li>To manage inter alia, all market risks, profit rate risk and liquidity risk;</li> </ol>

	<p>e. To monitor the cash flows of the company;</p> <p>f. Ensure Capital adequacy and compliance with relevant legislations;</p> <p>g. Monitor the investing activities of the Company and provide adequate guidelines.</p>
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### 3.5 Information Technology (IT) Committee

<b>Composition</b>	The Committee shall have such number of members as may be decided by the committee from time to time and shall include Chief Technology Officer (CTO) as a part of the Committee.
<b>Meetings and Quorum</b>	Meetings shall be held as and when required. The quorum shall be two members.
<b>Terms of Reference</b>	The key objective of the Committee is to carry out review and amend the IT strategies in line with the corporate strategies, Board Policy, cyber security arrangements and any other matter related to IT Governance.

### 3.6 Corporate Social Responsibility (CSR) Committee

The Corporate Social Responsibility Committee (CSR Committee) is constituted to undertake and monitor CSR activities of the Company.

<b>Composition</b>	The Committee shall consist of such members as the Board of Directors of the Company decides from time to time;
<b>Meetings and Quorum</b>	Meetings shall be held as and when required. The quorum shall be either two members or one third of the members of the Committee whichever is higher
<b>Terms of Reference</b>	<p>The key objectives of the Committee are to assist the Board and the Managing Director in fulfilling the following responsibilities:</p> <ul style="list-style-type: none"> <li>• Compliance of provisions of the CA' 2013 with respect to CSR</li> <li>• Recommending the amount of expenditure to be incurred on activities undertaken.</li> <li>• Reviewing performance of the Company in the areas of CSR.</li> <li>• Monitoring and Reviewing CSR Policy from time to time</li> </ul>

## 4. FIT AND PROPER CRITERIA FOR BOARD OF DIRECTORS

The Company shall ensure that a policy is put in place with the approval of the Board of Directors for ascertaining the fit and proper criteria of the directors at the time of appointment, and on a continuing basis. Further, in order to streamline and bring in uniformity in the process of due diligence, while appointing Directors, company shall ensure that the procedures mentioned below are followed and minimum criteria are fulfilled by the persons before they are appointed on the Boards:

- a. Company shall undertake a process of due diligence to determine the suitability of the person for appointment/continuing to hold appointment as a director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria. Company shall obtain necessary information and declaration from the proposed / existing directors for the purpose in the prescribed format.

- b. The process of due diligence shall be undertaken by the NBFCs at the time of appointment/ renewal of appointment.
- c. The Nomination and Remuneration Committees of the Board shall scrutinize the declarations.
- d. Based on the information provided in the signed declaration, Nomination and Remuneration Committees shall decide on the acceptance or otherwise of the Directors, where considered necessary.
- e. Company shall obtain annually as on 31st March a simple declaration from the Directors that the information already provided has not undergone change and where there is any change, requisite details are furnished by them forthwith
- f. The Board must ensure in public interest that the nominated/elected Directors execute the Deeds of Covenants in the prescribed format.
- g. The company shall furnish to the Reserve Bank a quarterly statement on change of directors, and a certificate from the Director of the company that 'fit and proper criteria' in selection of the directors has been followed. The statement will be submitted to the Regional Office of the Department of Supervision of the Reserve Bank where the company is registered, within 15 days of the close of the respective quarter. The statement submitted by company for the quarter ending March 31, shall be certified by the auditors.

#### **5. KEY MANAGERIAL PERSONNEL**

It shall be ensured that except for directorship in a subsidiary, Key Managerial Personnel shall not hold any office (including directorships) in any other NBFC-ML or NBFC-UL.

#### **6. INDEPENDENT DIRECTOR**

Within the permissible limits in terms of Companies Act, 2013, It shall be ensured that an independent director shall not be on the Board of more than three NBFCs (NBFCs-ML or NBFCs-UL) at the same time. Further, the Board shall ensure that there is no conflict arising out of their independent directors being on the Board of another NBFC at the same time

#### **7. COMPENSATION OF KEY MANAGERIAL PERSONNEL (KMP) AND SENIOR MANAGEMENT IN NBFCs**

In order to address issues arising out of excessive risk taking caused by misaligned compensation packages, Company shall put in place a Board approved compensation policy. The policy shall at the minimum include:

- (i) constitution of a Remuneration Committee,
- (ii) principles for fixed/variable pay structures, and
- (iii) malus/clawback provisions.

#### **8. 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:

- 8.1** The progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the Company;
- 8.2** 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.
- 8.3** Disclosures in the Annual Financial Statements information-
  - Registration/ licence/ authorisation, by whatever name called, obtained from other financial sector regulators;

- ratings assigned by credit rating agencies and migration of ratings during the year;
- penalties, if any, levied by any regulator;
- information namely, area, country of operation and joint venture partners with regard to joint ventures and overseas subsidiaries; if applicable
- Asset-Liability profile, extent of financing of parent company products, NPAs and movement of NPAs, details of all off-balance sheet exposures, structured products issued and other disclosures as per RBI master directions

#### **9. ROTATION OF STATUTORY AUDITORS/AUDIT PARTNER(S)**

For the purpose of adopting best corporate practices and to strengthen the governance mechanism, the Company shall appoint the SAs as per the RBI guideline. Auditor can be appointed for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. The Company cannot reappoint the same audit firm for six years after the completion of full or part of one term of the audit tenure. RBI being the sectoral regulator and its guidelines being more stringent, must be adopted.

The provisions of this para may be read with the provisions contained in circular, DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 on 'Guidelines for Appointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs)', as amended from time to time.

The Company shall incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.

#### **10. AMENDMENT**

This policy may be amended or modified in whole or in part, at any time without assigning any reason, whatsoever with the approval of the Board.

#### **11. REVIEW**

This policy shall be reviewed as an when required for incorporating regulatory updates and changes, if any.