



## **Internal Guidelines on Corporate Governance**

### **Registered Office**

MUTHOOT CAPITAL SERVICES LIMITED

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## Revision/Change History

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1.	Internal Guidelines on Corporate Governance	v1.0	23.01.2024	Adopted the Internal Guidelines on Corporate Governance

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## **1. Philosophy on Corporate Governances**

Muthoot Capital Services Limited (“MCSL” or “the Company”) recognizes its role as a corporate citizen and endeavours to adopt the best practices and the highest standards of Corporate Governance through transparency in business conduct. The Company has articulated and adopted this set of internal guidelines on corporate governance in alignment with the Reserve Bank of India (“RBI”) guidelines to enable the Company to adhere to the highest standards of corporate governance.

## **2. Objective**

Being a regulated entity in the Non-Banking Financial Sector, establishing and adopting minimum standards of corporate governance has implications not only from the perspective of ensuring adherence to regulatory prescriptions but also from the reputational standpoint. Accordingly, these internal guidelines seek to codify and explicitly affirm MCSL’s commitment and resolve to adhere to the highest standards of corporate governance.

## **3. RBI Guidelines on Corporate Governance**

RBI vide its Master Circular no. RBI/2015-16/12 DNBR (PD) CC.No.053/03.10.119/2015-16 (“RBI circular”) as amended from time to time and Master Direction -Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (the Directions) issued by RBI, directed NBFCS to frame “Internal Guidelines on Corporate Governance (“the Guidelines”)” which is to be approved by its Board of Directors.

Pursuant to any subsequent amendments or any statutory modifications or reenactments in the above stated guidelines / norms / clarifications or in any other applicable acts / regulations, if there is any change in any of the parameter(s) framed by the Board, then the act / regulation will have overriding effect on the parameter(s).

## **4. Governance Structure:**

### **(a) Board of Directors**

The Board of Directors (“the Board”) shall provide leadership and guidance to the Company’s management and direct, supervise and control the performance of the Company. The Board plays a vital role in matters relating to formulation of various policies, its implementation and strategic issues which are crucial for the company’s long-term development, success, and growth.

### **Composition of Board:**

- i. The Board shall be constituted in accordance with SEBI (LODR) Regulations, 2015, Companies Act, 2013, applicable RBI regulations and all other relevant rules and regulations.

- ii. While appointing directors, the Company shall ensure that the procedures prescribed by the RBI are followed and that the 'fit and proper' criteria is fulfilled by the proposed Director before he/she is appointed on the Board.
- iii. Within the permissible limits in terms of Companies Act, 2013 and SEBI (LODR) Regulations, 2015, an independent director shall not be on the Board of more than three NBFCs (NBFC-Middle Layer or NBFC-Upper Layer) at the same time. The Board of Company will ensure that there is no conflict arising out of their independent directors being on the Board of another NBFC at the same time. This restriction shall not apply for directorships on the Boards of NBFC Base Layer, subject to applicable provisions of Companies Act, 2013.

### **Roles and responsibilities**

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 regulated by various provisions of the laws and the Articles of Association of the Company. In performing its duties, the Board meets regularly and acts in the best interests of the Company including its shareholders, customers and creditors.

The Board's primary responsibility is to articulate and commit to a corporate philosophy and governance that will shape the level of risk adoption, standards of business conduct and ethical behaviour on the part of the Company and its functionaries.

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. Some of the major functions of the Board of Directors are as given below:

1. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and disinvestments
2. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning
3. Reviewing key executive and board remuneration and ensuring a formal and transparent board nomination process.
4. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.
5. Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law.
6. Monitoring the effectiveness of the governance practices under which it operates and making changes as needed.

## 7. Overseeing the process of disclosure and communications

### **Board Meetings**

The company shall hold at least four Meetings of its Board in each Year with a maximum interval of one hundred and twenty days between any two consecutive Meetings.

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.

Every Company shall maintain attendance register for the Meetings of the Board and Meetings of the Committee.

### **Code of Conduct:**

The Company has framed a Code of Conduct for the Board of Directors and Senior Management Personnel. This Code is intended to focus the Board and senior management on areas of ethical risk; provide guidance to directors and senior management to help them recognize and deal with ethical issues; provide mechanisms to report unethical conduct; and help foster a culture of honesty and accountability.

### **(b) Committees**

The Board has constituted several committees to deal with specific matters and delegated powers for different functional areas. The Committees have oversight of operational issues assigned to them by the Board. The Committees have been constituted in accordance with the provisions of the Companies Act, 2013 as amended from time to time; the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time and the Guidelines issued by the Reserve Bank of India from time to time. The terms of references and functioning of all committees shall be decided by the Board in accordance with the provisions of the Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and Guidelines issued by the Reserve Bank of India.

The Board shall delineate the role of various committees (Audit Committee (AC), Nomination and Remuneration Committee (NRC), Risk Management Committee (RMC) or any other Committee). The Board will lay out and oversee a whistle blower mechanism for directors and employees to report genuine concerns.

Committees shall meet as often as necessary subject to the minimum number and frequency prescribed by any law or any authority or as stipulated by the Board.

Accordingly, the core Committees constituted by the Board in this connection are as follows:

### **(i). Audit Committee (AC)**

The audit committee shall have minimum three directors as members. At least two-thirds of the members of audit committee shall be independent directors and in case the Company has outstanding SR equity shares, the audit committee shall only comprise of independent directors. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

The Audit Committee shall have the same powers, functions and duties as laid down in section 177 of the Companies Act, 2013.

Some of the major functions of the Audit Committee are as given below:

1. Oversight of the listed entity's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommendation for appointment, remuneration and terms of appointment of auditors of the listed entity.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors. evaluation of internal financial controls and risk management systems;
4. Reviewing, with the management, performance of statutory and internal auditors and the adequacy of the internal control systems;

The Committee shall meet at least 4 (four) times in a year. The Committee shall meet with management, the internal auditor and the statutory auditor as deemed fit by it.

The Audit Committee must ensure that an Information System Audit of the internal systems and processes is conducted at least once in two years to assess operational risks faced by the Company.

The Audit Committee shall have the powers and duties conferred upon it in compliance with the provisions of Section 177 of the Companies Act, 2013, Regulation 18 of the SEBI (LODR) Regulations 2015, RBI guidelines 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 ("NRC")**

The Nomination and Remuneration Committee shall comprise of at least three directors and all directors of the committee shall be non-executive directors. At least two-thirds of the directors shall be independent directors. The Chairperson of the nomination and remuneration committee shall be an independent director. Provided that the Chairperson of the listed entity, whether executive or non-executive, maybe appointed as a member of the Nomination and Remuneration Committee and shall not chair such Committee.

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, Regulation 19 of the SEBI (LODR) Regulations 2015, RBI guidelines 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. The nomination and remuneration committee shall meet at least once in a year.

Some of the functions of the Nomination and Remuneration Committee are as given below:

- (i). Formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the board of directors a policy relating to, the remuneration of the directors, key managerial personnel and other employees.
- (ii). Devising a policy on diversity of Board of Directors.
- (iii). Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the board of directors their appointment and removal.

**(iii). Risk Management Committee (RMC)**

The Company has in place a Risk Management Committee constituted in accordance with the RBI guidelines in this regard. The Risk Management Committee is responsible for managing, inter alia the integrated risk which includes credit risk, liquidity risk, operational 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.

The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least one independent director and in case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise independent directors. The Chairperson of the Risk management committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee. The risk management committee shall meet quarterly.

The role of the Risk Management committee shall, inter alia, include the following:

- a) Oversee the development, implementation and maintenance of the Company's overall risk management framework and its appetite, strategy, principles and policies, to ensure they are in line with emerging regulatory, corporate governance and industry best practice;
- b) Oversee the Company's risk exposures, risk/return and proposed improvements to the Group's risk management framework and its risk appetite, strategy, principles, policies and standards;
- c) Provide formal sign-off for the Board Risk Report and other risk related sections within the Annual Reports & Accounts.



- d) Facilitate effective contribution and involvement of non-executives and aid their understanding of risk issues and the Company's risk management framework.
- e) Provide input to the Remuneration Committee on the alignment of remuneration to risk performance.
- f) Review new risk principles and policy and material amendments to risk principles and policy recommended by the Chief Risk Officer ('CRO'), for approval by the Board;
- g) Oversee adherence to Company's risk principles, policies and standards and any action taken resulting from material policy breaches, based upon reports from the CRO;
- h) i) Review the appointment, resignation or dismissal of the CRO and make appropriate recommendation to the Board;  
 ii) Review and discuss with the CRO the scope of work of the Company's Risk Division, its plans, the issues identified as a result of its work, how management is addressing these issues and the effectiveness of systems of risk management;  
 iii) Review the adequacy of the Company's Risk Division's resources, and its authority and  
 iv) Review co-ordination between the Company's Risk Division and the external auditors; and standing within the company; and
- i) Periodically review and update its own terms of reference to reflect best practice, requesting Board approval for all proposed changes and, at appropriate intervals, evaluate its own performance against the terms of reference.
- j) Review periodically the report of CRMC/ORMC/ Asset Liability Management Committee and to suggest on improvements, actions to be taken.

**(iv). Corporate Social Responsibility Committee (CSR)**

The Company shall have a Corporate Social Responsibility Committee of the Board consisting of three or more Directors, out of which at least one director shall be an independent director. CSR Committees shall meet atleast once in a year.

The role of the committee shall, interalia, include the following:

- a) Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the Company on activities as specified in Schedule VII];
- b) Recommend the amount of expenditure to be incurred on the activities referred to in clause (a);
- c) Monitor the Corporate Social Responsibility Policy of the Company from time to time.

**(v).Stakeholder Relationship Committee (SRC)**

The Company shall have a Stakeholder Relationship Committee with atleast three directors, with at least one being an independent director, as members of the Committee. The stakeholders relationship committee shall meet atleast once in a year.

The role of the committee shall, inter alia, include the following:

- (1) Resolving the grievances of the security holders of the listed entity including complaints related to transfer/transmission of shares, non-receipt of annual report, non-receipt of declared dividends, issue of new/duplicate certificates, general meetings etc.
- (2) Review of measures taken for effective exercise of voting rights by shareholders.
- (2) Review of adherence to the service standards adopted by the listed entity in respect of various services being rendered by the Registrar & Share Transfer Agent.
- (3) Review of the various measures and initiatives taken by the listed entity for reducing the quantum of unclaimed dividends and ensuring timely receipt of dividend warrants/annual reports/statutory notices by the shareholders of the company

**(vi). Information Technology Strategy Committee (ITSC)**

The company is required to have an IT Strategy committee whose chairman shall be an independent director. The IT Strategy Committee should meet at an appropriate frequency but not more than six months should elapse between two meetings. The Committee shall work in partnership with other Board committees and Senior Management to provide input to them. It will also 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. Its deliberations may be placed before the Board. The IT Strategy Committee shall meet at an appropriate frequency. It shall be ensured that not more than six months would have elapsed between two meetings.

Some of the major roles and responsibilities include:

- Approving IT strategy and policy documents and ensuring that the management has put an effective strategic planning process in place;
- Ascertaining that management has implemented processes and practices that ensure that the IT delivers value to the business;
- Ensuring IT investments represent a balance of risks and benefits and that budgets are acceptable;
- Monitoring the method that management uses to determine the IT resources needed to achieve strategic goals and provide high-level direction for sourcing and use of IT resources;
- Ensuring proper balance of IT investments for sustaining NBFC's growth and becoming aware about exposure towards IT risks and controls.

## **5. Passing of Resolution by Circulation**

Business or transactions are to be approved only at Meetings of the Board or Committees. However, other business that requires urgent decisions can be approved by means of Resolutions passed by circulation. Resolutions passed by circulation are deemed to be passed at a duly convened Meeting of the Board and have equal authority.

## **6. Minutes**

Every company shall keep Minutes of all Board and Committee Meetings in a Minutes Book. Minutes kept in accordance with the provisions of the Act evidence the proceedings recorded therein. Minutes help in understanding the deliberations and decisions taken at the Meeting. Minutes Books, if maintained in loose-leaf form, shall be bound periodically depending on the size and volume and coinciding with one or more financial years of the company.

## **7. Chief Risk Officer (CRO)**

The CRO shall be a senior official and shall possess adequate professional qualification/ experience in the area of risk management.

The CRO shall be involved in the process of identification, measurement and mitigation of risks. All credit products (retail or wholesale) shall be vetted by the CRO from the angle of inherent and control risks. The CRO's role in deciding credit proposals shall be limited to being an advisor.

## **8. 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.

## **9. Disclosure and transparency**

The following information will be provided to the Board of Directors on quarterly basis:

- ❖ Conformity with corporate governance standards viz; in composition of various committees, their role and functions, periodicity of the meetings and compliance.
- ❖ Updates/Minutes of the various committees meetings from time to time.

The following information shall be disclosed by the Company in its Annual Report:

- ❖ 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;
- ❖ Corporate governance section including Composition of the Board, breach of covenant, divergence in asset classification and provisioning.
- ❖ 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 by them as also securitization/ assignment transactions and other disclosures, as given in RBI Master Direction and Scale Based Regulation.
- ❖ Disclosures in the financial statements shall be in accordance with RBI Master Direction, Scale Based Regulation, applicable accounting standards, laws, and regulations.

#### **10. Policies adopted by the Company.**

The following policies have been framed and adopted by the Company, viz.

- ❖ Fair Practices Code
- ❖ Asset Liability Management Policy
- ❖ Investment Policy
- ❖ Policy on Interest and Other Leivable Charges
- ❖ Policy on 'Fit and Proper Criteria' for Directors
- ❖ Related Party Transaction Policy
- ❖ Policy on Outsourcing of Financial Services
- ❖ Business Continuity Policy
- ❖ Cyber Security Policy
- ❖ Information Security Policy
- ❖ Information Systems Audit Policy
- ❖ Information Technology Policy
- ❖ Liquidity Risk Management Framework
- ❖ Expected Credit Loss Policy
- ❖ Policy on appointment of Statutory Auditors
- ❖ Vigil Mechanism and Whistle Blower Policy
- ❖ Risk Management Policy
- ❖ Policy on Nomination and Remuneration
- ❖ Policy on Board Diversity
- ❖ Policy Guidelines on Know Your Customer Norms and Anti - Money Laundering Measures
- ❖ Policy for usage of DAKSH system and user creation and management
- ❖ Policy on Prevention, Prohibition and Redressal of Sexual Harassment of Women at Workplace
- ❖ Two-wheeler Credit Policy
- ❖ Used Car Credit Policy
- ❖ Used Two-Wheeler Credit Policy
- ❖ Electric Two-Wheeler Credit Policy

The above policies may be reviewed from time to time.

## **11. Appointment of Statutory Auditors**

The Company shall appoint Statutory Auditors as per the provisions of the Companies Act, 2013 and the RBI Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs dated April 27, 2021, as applicable. The Statutory Auditors shall be appointed for a period of three continuous years subject to the audit firm satisfying the prescribed eligibility norms under RBI Guidelines every year. The performance of the auditors will be reviewed every year. The Company will accordingly adopt and place in public domain its policy on appointment of statutory auditors in alignment with regulatory prescriptions.

## **12. 'Fit and Proper Criteria' for the Directors**

The Company shall:

- (i) 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 as well as on a continuing basis along with a declaration and undertaking from the directors giving additional information on the directors.
- (ii) obtain a Deed of Covenant signed by the directors, which shall be in the format as prescribed by RBI.
- (iii) furnish to the Reserve Bank a quarterly statement on change of directors, and a certificate from the Managing Director of the NBFC that 'fit and proper criteria' in selection of the directors has been followed. The statement must reach 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 NBFC for the quarter ending March 31, shall be certified by the auditors. Provided that the Reserve Bank, if it deems fit and in public interest, reserves the right to examine the 'fit and proper' criteria of directors of any NBFC irrespective of the asset size of such NBFCs.

## **13. Independent Director**

Within the permissible limits in terms of Companies Act, 2013, 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 of the Company shall ensure that there is no conflict arising.

## **14. Guidelines on 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, the Company has a Nomination & Remuneration Policy, which was duly adopted by the Board on 5<sup>th</sup> November 2014. The Policy was last reviewed on 19<sup>th</sup> May 2023. The policy includes:

- (i) Constitution of a Remuneration Committee

- (ii) Remuneration of Managing Director, Whole Time Director, Manager, Non-Executive Directors, KMPs and SMPs
- (iii) Principles for fixed/variable pay structures, and
- (iv) Malus/clawback provisions.

### **15. Interaction with the Regulator**

The Company shall maintain good working relationship with its 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. The Board shall review its functioning and effectiveness periodically.