

## Internal Guidelines on Corporate Governance

**Change Log**

Version	Date	Updated By	Remarks
1	25 Feb 2022	Head Legal & Compliance & Company Secretary	

**Prepared/Modified by**

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**Approved by**

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Board of Directors	N/A		25 Feb 2022

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## Introduction

Volvo Financial Services (India) Private Limited (“the **Company**”) believes in setting best standards and practices through adopting ‘policies’ into ‘practice’ in pursuit of ethical work culture with sustained commitment towards meeting compliances and maintaining of transparency. The objective of this document is to assist the Company as a member of the Volvo Group in India with the establishment and administration of a governance structure in line with Volvo Group (**‘Group’**) policies and practices and in compliance with local laws and regulations.

This Internal Guideline on Corporate Governance (the “Guidelines” ) is framed in accordance with the directions issued by the Reserve Bank of India vide its Master Direction no. *RBI/DNBR/2016-17/45 Master Direction DNBR. PD. 008/ 03.10.119/ 2016-17* dated September 01, 2016 and as updated till date.

## Governance Structure

The Company is professionally managed through the Board of Directors and through committees. The Company ensures good governance through the Board of Directors of the Company and its Committees.

The Company has laid terms with regard to constitution of its Board and committees in its Articles of Association that which is in accordance with directions issued by the Reserve Bank of India and the Companies Act, 2013.

The Company is a distinct legal entity registered under the Companies Act, 2013 and it is a Systemically Important Non-Banking Financial (Non Deposit Accepting) Company (NBFC-ND-SI) and is registered with Reserve Bank of India (‘RBI’).

The affairs of the Company are governed in the manner as described below in detail.

## Board of Directors

The Composition of the Board shall be governed by the Articles of Association of the Company read with applicable provisions of Companies Act, 2013 (the ‘Act’) and rules framed thereunder, as may be amended from time to time.

The Board of Directors may include directors from various Business Units / Functions of Volvo, as may be required to oversee the business activities of the Company as per applicable local law, regulations and guidance issued by relevant regulators and as suggested under Group norms.

In accordance with the Articles of Association, the Board of the Company can consist of a minimum of 02 (two) directors and a maximum of 15 (fifteen) directors.

The composition of the Board may change from time to time due to appointment, resignation or any other reason.

The Company shall conduct due diligence, as may be appropriate and appoint person of

integrity and expertise keeping in view the business needs of the company. Remuneration to the Director(s) other than the Managing Director may be paid as per the decision of the Board in consideration of the recommendation of Nomination Committee. The remuneration, if any, shall be paid out of the funds of the Company.

The Directors shall not be liable to retire by rotation at the general meeting.

The Board shall meet at least four times in a year, in such a manner that not more than one hundred and twenty days shall intervene between two consecutive meetings of the Board (except where extension is granted by the Ministry of Corporate Affairs)

**Committees**

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. The minutes of the meetings of all Committees shall be placed before the Board for noting in subsequent meeting.

In compliance with applicable laws and regulations, its constitution documents and the Volvo Group governance and control arrangements, the Company has formed the following Committees:

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| <p><b>Board Committees</b></p> <ul style="list-style-type: none"> <li>• Audit Committee</li> <li>• Nomination Committee</li> </ul> | <p><b>Management Committees</b></p> <ul style="list-style-type: none"> <li>• Risk Management Committee</li> <li>• Local Credit Committee</li> <li>• Asset and Liability Management Committee</li> <li>• Information Technology (IT) Strategy Committee</li> </ul> |
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The Board or the Management of the Company, as appropriate, may form other committees as may be necessary from time to time.

**1. Board Committees**

Each Committee has defined responsibilities and operates within its Terms of Reference ('ToRs') as approved by the Board from time to time. The details of the Committees formed by the Board of Directors are given hereinbelow:

**1.2 Audit Committee**

The Company has in place the Audit Committee in accordance with the Companies Act, 2013 and the provisions of directions issued by the Reserve Bank to Systemically Important Non-Deposit Accepting Non Banking Financial Companies.

Composition	<p>The Committee shall consist of minimum of three directors and a maximum of 10 Directors.</p> <p>One of the members of the committee shall be Managing Director however the Committee shall not be chaired by the Managing Director.</p> <p>Majority of the members of the Audit Committee including its</p>
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	<p>Chairperson shall be ‘financially literate’ (persons with ability to read and understand, the financial statement).</p> <p>The Chairperson of the Audit Committee is required to attend the Annual General Meeting of the company to provide any clarification on matters relating to audit. If the Chairperson is unable to attend due to circumstances beyond his/her control, any other member of the Audit Committee may be authorized by him to attend the Annual General Meeting on his behalf;</p> <p>The Head – Finance, members of Executive Management Team, Internal Auditor, Compliance Officer and a Representative of the External Auditor may be invited to be present as invitees for the part or whole meetings of the Audit Committee, whenever necessary.</p> <p>The Auditors of the Company and the Key Managerial Personnel shall have a right to be heard at the meetings of the Audit Committee when it considers the Auditor’s Report but shall not have the right to vote.</p>
<p>Quorum</p>	<p>The quorum shall be either two Members or one-third of the total strength, whichever is higher.</p>
<p>Frequency</p>	<p>The Committee shall meet as and when required, but shall meet at least four times in a year.</p>
<p>Role</p>	<p>The terms of reference of the Audit Committee, inter alia, shall include the following:</p> <ul style="list-style-type: none"> <li>▪ recommendation for appointment, remuneration and terms of appointment of auditors of the Company</li> <li>▪ review and monitor auditor’s independence and performance, and effectiveness of audit process</li> <li>▪ examination of financial statement and auditors’ report thereon</li> <li>▪ approval or modification of transactions of the Company, if any, with related parties</li> <li>▪ scrutiny of inter-corporate loans and investments, if any</li> <li>▪ valuation of undertakings or assets of the company, wherever it is necessary</li> <li>▪ discuss any significant findings and oversight over open points of observations with the internal auditors</li> <li>▪ Review the findings of all the internal investigations conducted by the internal auditors concerning matters where fraud has been suspected or in irregularity of internal control systems of material nature and informing the Board</li> <li>▪ evaluation of internal financial controls and risk management systems</li> <li>▪ ensuring that the 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</li> <li>▪ oversight over the KYC/AML compliances of the Company</li> <li>▪ function as the High Level Monitoring Committee under RBI KYC</li> </ul>

	<p>Master Directions and in that role evaluate and monitor compliance systems for Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) including timely completion of due diligence and reporting thereof;</p> <ul style="list-style-type: none"> <li>▪ Oversight over the Grievance Redressal mechanism of the Company; and</li> <li>▪ such other tasks as may be entrusted to it by the Board of Directors from time to time.</li> </ul>
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**1.2 Nomination Committee**

The Company has in place the Nomination Committee in accordance with the Companies Act, 2013 and the provisions of directions issued by the Reserve Bank to Systemically Important Non-Deposit Accepting Non Banking Financial Companies.

Composition	The Committee shall consist of minimum of two directors
Quorum	<p>The quorum shall be either two Members or one-third of the total strength, whichever is higher</p> <p>The Chairperson of the Company/ Audit Committee (whether executive or nonexecutive) may be appointed as a member of the Committee but shall not chair the said Committee</p>
Frequency	The Committee shall meet as and when required, but shall meet at least once in a year
Role	<p>The terms of reference of the Nomination and Remuneration Committee, <i>inter alia</i>, shall include the following:</p> <ul style="list-style-type: none"> <li>▪ identify persons who are qualified to become directors in accordance with the criteria laid down and recommend to the Board their appointment and removal</li> <li>▪ specify the manner for effective evaluation of performance of Board, its committees and individual directors to be carried out either by the Board, by the Nomination Committee or by an independent external agency and review its implementation and compliance</li> <li>▪ formulate the criteria for determining qualifications and positive attributes of a director</li> <li>▪ recommend to the Board a policy, relating to remuneration for the Directors, Key Managerial Personnel and other employees</li> <li>▪ ensuring 'fit and proper' status of proposed / existing directors and scrutinize the declarations; and</li> <li>▪ such other tasks as may be entrusted to it by the Board of Directors from time to time.</li> </ul>

## 2. Management Committees

### 2.1 Risk Management Committee

The Company has in place the Risk Management Committee in accordance with the provisions of directions issued by the Reserve Bank to Systemically Important Non-Deposit Accepting Non Banking Financial Companies:

Composition	The Committee shall consist of such number of Members as may be determined by the Board. The members can be either part of Board or Senior Management including heads of various risk verticals in the Company. The Managing Director and Head – Risk must be a part of the committee.
Quorum	The quorum shall be either two Members or one-third of the Members of the Committee, whichever is higher. The Managing Director shall be a part of the Committee but the Committee shall have at least one meeting in the year without the presence of the Managing Director.
Frequency	The Committee shall meet as and when required, but shall meet at least four times in a year.
Role	<p>The terms of reference of the Risk Management Committee, inter alia, shall include the following:</p> <ul style="list-style-type: none"> <li>▪ discuss on business updates and progress of the Company</li> <li>▪ review and monitor key business risks and take action where required in relation to changes in risk environment</li> <li>▪ oversee the effectiveness of the Control Environment across all Principal Risks through review of key indicators, risk events, regulatory reporting, material policy dispensations and breaches, incident and issue management, root cause analysis, lessons learned assessments, results of assurance reviews, themes and concentrations</li> <li>▪ monitor the status of new and amended products</li> <li>▪ oversee the compliance and monitoring of legal and regulatory changes</li> <li>▪ monitor credit risk exposures against the defined appetite and thresholds and ensure corrective action to bring within risk appetite</li> <li>▪ review fraud risk update relevant to the business for assessing the fraud key risk profile in the business, relative to operational risk tolerance, including fraud management information, key indicators, lessons learnt assessments, risk events / losses, open audit observations</li> <li>▪ review overall liquidity risk report; and</li> <li>▪ such other tasks as may be entrusted to it by the Board of Directors from time to time.</li> </ul>

**2.2 ASSET LIABILITY MANAGEMENT COMMITTEE (ALM):**

The Company has in place the ALM Committee in accordance with the provisions of directions issued by the Reserve Bank to Systemically Important Non-Deposit Accepting Non Banking Financial Companies:

Composition	The Committee shall consist of such number of Members as may be determined by the Board. The members can be either part of Board or Senior Management including heads of various verticals in the Company including the Head – Finance and Head - Risk. The Managing Director shall be the Chairperson of the committee
Quorum	The quorum shall be at least three Members or one third whichever is higher.
Frequency	The Committee shall meet as and when required, but shall meet at least four times in a year.
Role	<p>The terms of reference of the Asset Liability Management Committee, <i>inter alia</i>, shall include the following:</p> <ul style="list-style-type: none"> <li>▪ oversight of the maturity profile of assets and liabilities, mix of incremental assets and liabilities, pricing of deposits and advances, determining the type of funding and monitoring liquidity risk levels of the Company</li> <li>▪ manage the funding and investment of Company’s balance sheet</li> <li>▪ manage the liquidity and cash flow of the Company</li> <li>▪ manage the exposure of Company to interest rate, exchange rate, commodity and equity market movements</li> <li>▪ manage the capital position and flow</li> <li>▪ consider and approve any other matters related to liquidity and market risk management including matters that might be required by RBI to be dealt with by this committee from time to time; and</li> <li>▪ such other tasks as may be entrusted to it by the Board of Directors from time to time.</li> </ul>

**2.3 Information Technology (IT) Strategy Committee**

The Company has in place the IT Strategy Committee in accordance with the provisions of directions issued by the Reserve Bank to Systemically Important Non-Deposit Accepting Non Banking Financial Companies:

Composition	The Committee shall consist of two or more Members with at least one member having knowledge or experience of technology. The Managing Director and Chief Information Officer (CIO) shall be part of the Committee. The committee shall be chaired by an independent Director, if any on the Board. If there are no independent Directors on the Board then the Managing Director shall be the chairperson of the Committee
Quorum	The quorum shall be at least two Members or one-third of the total strength, whichever is higher. If the
Frequency	The Committee shall meet as and when required, but not more than six months shall elapse between two meetings



<p>Role</p>	<p>The terms of reference of the IT Strategy Committee, <i>inter alia</i>, shall include the following:</p> <ul style="list-style-type: none"> <li>▪ approve IT strategy and policy documents and ensure that the management has put an effective strategic planning process in place</li> <li>▪ ascertain that the management has implemented processes and practices to ensure that IT delivers value to the business</li> <li>▪ acquisition and development of Information Systems and change management, oversight and monitoring of the progress of the project, including deliverables to be realized at each phase of the project and milestones to be reached according to the project timetable</li> <li>▪ ensure that IT investments represent a balance of risks and benefits and that budgets are acceptable</li> <li>▪ monitor 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</li> <li>▪ ensure proper balance of IT investments for sustaining company's growth and becoming aware about exposure towards IT risks and controls</li> <li>▪ institute an effective governance mechanism and risk management process for all IT outsourced operations, in case if any, as per the regulations</li> <li>▪ undertake any other responsibility as laid down by RBI from time to time; and</li> <li>▪ such other tasks as may be entrusted to it by the Board of Directors from time to time.</li> </ul>
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**2.4 Local Credit Committee:**

The Board of Directors of Volvo Financial Services has delegated credit authority to the operating management of VFS. The delegated authority is administered and maintained by the Local Credit Committee of Volvo Financial Services. The Local Credit committee shall be responsible for critical analyses of financials of the various loan proposals as per the credit delegation matrix as per Credit Directives of the Company as approved by the Board from time to time. The governance structure of this Committee shall be as per the Credit Directives.

**Performance Evaluation**

The Company recognizes the benefits of a Board that possesses a balance of skill, experience and expertise appropriate to the requirements of the business of the Company.

The Nomination Committee shall specify the manner for effective evaluation of performance of Board, its committees and individual directors to be carried out either by the Board, by the Nomination Committee or by an independent external agency and review its implementation and compliance.

Pursuant to the provisions of Companies Act, 2013, the Company shall include in the report of its Board of Directors, a statement indicating the manner in which formal annual

performance evaluation was carried by the Board of its own performance, its Committees and Individual Directors.

### **Fit and Proper Criteria**

The Company has adopted 'fit and proper' policy as issued by Reserve Bank of India. The Nomination Committee shall :

- i. ensure fit and proper status of proposed directors at the time of appointment and renewal of appointment and of the existing directors on an ongoing basis.
- ii. undertake the 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.
- iii. obtain a declaration and undertaking from the directors giving certain information on the directors. The declaration and undertaking shall be on the lines of the format as prescribed by the RBI from time to time.
- iv. Obtain a deed of covenant signed by the directors in the prescribed format.
- v. ensure that a quarterly statement shall be furnished to the Regional Office of the Reserve Bank of India within 15 days of the close of the respective quarter on change of directors and a certificate from the Managing Director of the Company stating that fit and proper criteria in selection of the directors has been followed. The statement submitted by the Company for the quarter ending March 31, shall also be certified by the Statutory Auditors of the Company.

### **Disclosure and Transparency**

The following must be put forth before the Board of Directors, at regular intervals, as may be prescribed by the Board in this regard:

- i. the progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the Company; and
- ii. conformity with corporate governance standards viz., composition of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

The following must be disclosed in the Annual Financial Statements of the Company:

- i. registration/ license/ authorization, by whatever name called, obtained from other financial sector regulators
- ii. ratings assigned by credit rating agencies and migration of ratings during the year
- iii. penalties, if any, levied by any regulator
- iv. information namely, area, country of operation and joint venture partners with regard to Joint ventures and overseas subsidiaries
- v. details of customer grievances received by the Company
- vi. details of any fraud reported by the Company
- vii. 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 may be prescribed.

### Rotation of partners of the Statutory Auditors Audit Firm

The partner of the Chartered Accountant firm conducting statutory audit of the Company will be subject to rotation and is required to rotate in every three years. The Company shall incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance. The Company shall formulate a separate policy for the appointment and evaluation of Auditors.

### Policies and Directives

Policies/Codes have been formulated by the Company in compliance with the provisions of the Companies Act, 2013 and other Applicable laws and/ or as a matter of Good Corporate Governance Practices. Some of the important Policies are as under:

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|--------------------------------------|---|
| 1. Whistle Blower Policy             | 14. Repossession and Remarketing Directives   |
| 2. Fraud Risk Management Policy      | 15. Asset Liability Management Policy         |
| 3. VFS India Authorisation Directive | 16. Risk Management Framework                 |
| 4. Fair Practices Code               | 17. Customer Grievance Redressal Policy       |
| 5. Credit Policy                     | 18. Outsourcing Policy                        |
| 6. Wholesale Policy                  | 19. Direct Assignment Policy                  |
| 7. Operations Policy                 | 20. Policy on Related Party Transactions      |
| 8. Collection Directives             | 21. Write off Policy                          |
| 9. IT Policy                         | 22. Provisioning Policy                       |
| 10. KYC/AML Policy                   | 23. Investment Policy                         |
| 11. Provisioning Policy              | 24. Pricing and interest rate Policy          |
| 12. Direct assignment Policy         | 25. Policy on Prevention of Sexual Harassment |
| 13. Pricing and interest rate Policy | 26. Policy for Preservation of Documents      |

### Review of Framework

The Board may review the Guideline from time to time as may be required. Changes, if any, shall be effective only upon approval by the Board.

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