

## INTERNAL GUIDELINES ON CORPORATE GOVERNANCE

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APPROVED BY	Board of Directors

### PURPOSE

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To ensure the good governance through the implementation of effective policies and procedures, which is mandated and regularly reviewed by the Board or the Committees of the Board. 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.

Pursuant to Reserve Bank of India circular - DNBS (PD) CC No. 053/03.10.119/2015-16 dated 1<sup>st</sup> July, 2015, guidelines on Corporate Governance has been adopted on framing the Corporate Governance framework of the Company.

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## **1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE**

Nissan Renault Financial Services India Private Limited (NRFSI) is a Non-Deposit taking Systematically Important Non-Banking Finance Company (ND- SI - NBFC) registered with the Reserve Bank of India, NRFSI is a captive finance company engaged in retail and wholesale financing including financing of Nissan, Renault and Datsun models. The Company follows a philosophy that a good corporate governance system is necessary condition to ensure its long term success.

The Company's philosophy on Corporate Governance is founded upon a fair, ethical and transparent governance practices in all our dealings and deliver what is promised to be delivered in customer's interest.

## **2. BOARD OF DIRECTORS**

The Board is responsible to exercise its business judgment to act in what they reasonably believe to be in the best interest of the Company and its shareholders.

The Board of Directors along with its constituted Committees provide direction and guidance to the Company's Leadership Team and further direct, supervise as well as review the performance of the Company. Further, 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 organization.

## **3. COMMITTEES OF THE BOARD**

To focus effectively on the issues and ensure expedient resolution of diverse matters, the Board constitutes a set of Committees with specific terms of reference/scope. The Committees operate as per the directions of the Board. The minutes of the discussions and decisions taken by the Committees in their meetings are placed in the subsequent meeting of the Board for its review and approval.

As per the RBI guidelines on Corporate Governance applicable to the Systemically Important Non-Deposit accepting NBFC's, the existence and the functioning of the following committees are required to be overseen by the Board:

- a. Audit Committee
- b. Nomination and Remuneration Committee
- c. Risk Management Committee
- d. Corporate Social Responsibility Committee
- e. Asset Liability Management Committee

### **a. Audit Committee**

The primary objective of the Audit Committee shall be to oversee and provide effective supervision of the Management's financial reporting process with a view to ensure accurate and proper disclosures, with the highest levels of transparency, integrity and quality of financial reporting. The Committee shall advise, guide and suggest measures to add value and improve the organisation's operations, internal audit system, and strengthen governance processes. The Audit Committee shall give directions to the management in the areas that needs to be strengthened.

The Audit Committee shall, while acting as a catalyst in helping the organization to achieve its objectives, also assist the Board of Directors in overseeing and reviewing :-

- Work carried out in the financial reporting process by the Management, the Internal Auditor(s) and the Statutory Auditor(s) and processes and safeguards employed by them.

- Audit(s) of the Company's financial statements, appointment(s), independence and performance of Internal and statutory Auditors.
- Quality and integrity of the accounting, internal and external auditing and reporting practices of the Company adequacy and reliability of Internal Control system.
- Overall compliance by the Company with legal and regulatory requirements.
- Any other area that the Board of Directors of the Company may mandate/direct the Audit Committee to take up.

## **Constitution**

The Audit Committee shall be constituted in line with the RBI Master Directions, 2016, consisting of not less than three Directors as members. The Audit Committee constituted under the Directions shall have the same powers, functions and duties as laid down in Section 177 of the Companies Act, 2013.

All members of Audit Committee shall be financially literate and at least one member shall have accounting or relevant financial management expertise.

Explanation 1: The term "financially literate" means possessing a working familiarity with the basic finance and accounting practice.

Explanation 2: A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a Chief Executive Officer, chief financial officer or other senior officer with financial oversight responsibilities.

- The Chairman of the Audit Committee shall be elected, by the members from amongst themselves or may be elected as per the Articles of Association or the constitution document of the Company.
- The Company Secretary shall act as the secretary to the Committee.
- The Audit Committee may invite such of the executives as it considers appropriate to be present at the meetings of the Committee.

As per the RBI Master Directions, 2016, the Audit Committee shall 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 NBFC.

## **Meetings**

The Committee may meet as often as it may decide/desire but it shall compulsorily meet for review of financial statements. The quorum shall be either two members or one third of the total strength of the members of the Committee whichever is greater.

## **Powers**

Power of the Committee shall include but not be limited to the following:

- To investigate any activity within its terms of reference.
- To seek information from any employee.
- To obtain outside legal or other professional advice
- To secure attendance of outsiders with relevant expertise, if it considers necessary.
- To recommend to the board their views and suggestions
- To give feedback to the management team based on their expertise

## Role & Responsibilities

### Financial Statements:

- To oversee company's financial reporting process and the disclosure of its financial information to ensure that the financial statement(s) are correct, sufficient and credible.
- To review with the management-
  - A. The annual financial statements before submission to the Board for approval, with particular reference to:
    - a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's Report in terms of Section 134(3)(c) of the Companies Act, 2013 (if case of listed companies);
    - b. Changes, if any, in accounting policies and practices and reasons for the same;
    - c. Major accounting entries involving estimates based on the exercise of judgment by management;
    - d. Significant adjustments made in the financial statements arising out of audit findings;
    - e. Compliance with listing and other legal requirements relating to financial statements;
    - f. Disclosure of any related party transactions;
    - g. Disclosures with regard to RBI Regulations
    - h. Disclosures with regard to Corporate Social Responsibilities
    - i. Qualifications in the draft audit report.
  - C. Management discussion and analysis of financial condition and results of operations,
  - D. Statement of significant related party transactions, submitted by management;
  - E. Management letters / letters of internal control weaknesses issued by the statutory auditors;
  - F. Statement of use/application of funds raised through an issue (public / private issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.
  - G. Statutory Audit
    - a. To recommend the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and recommend the audit fees of Statutory Auditors to the Board.
    - b. To approve engagement and payment to statutory auditors or connected entities or firms of statutory auditor for any other services rendered by them to the Company or its subsidiaries.
    - c. To conduct pre-audit discussions with the statutory auditor(s) about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
    - d. To review with statutory auditor, any audit problems or difficulties and management's response.
    - e. To resolve any disagreements of the statutory auditor with the management's response.
    - f. To review any qualification in the Auditor' report and management response thereto.
  - H. Internal Audit
    - a. To review on a regular basis the adequacy of internal audit function, including the internal audit charter, the structure of the internal audit department, approval of the audit plan and its execution, reporting structure, budget, coverage and frequency of internal audit.

- b. To review the regular internal reports to management prepared by the internal audit department as well as management response thereto.
- c. To review the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or failure of internal control systems of material nature and reporting the matter to the Board.
- d. To review Internal Audit reports relating to internal control weaknesses.
- e. To review with the management, statutory and internal auditors, and the adequacy of internal control systems including computerized information system, controls and security and ensure adherence thereto.
- f. To review performance of Internal auditors.

### **Functions of the Committee**

- Recommend appointment and removal of Statutory Auditors and their remuneration, nature and scope of audit;
- Ensure adequacy of internal controls and compliances and recommend remedial measures;
- Oversee financial reporting process and disclosure of financial information;
- Review financial statements before submission to the Board;
- Act as the link between Statutory Auditors, Internal Auditors and Board of Directors;
- Review accounting policies and Monitor Compliance;
- Review findings of internal investigations /fraud /irregularities, etc; and
- Overseeing the vigil mechanism through the Committee and if the Audit Committee members have a conflict of interest in a given case, they should recuse themselves and the others on the committee would deal with the matter on hand.

### **VIGIL MECHANISM**

As per Section 177(9) & (10) of the Companies Act 2013 and Rule 7 of the Companies (Meetings of Board and its Powers) Rules, 2014,

- Every listed company,
- The companies which accept deposits from the public and companies which have borrowed money from banks and public financial institutions in excess of Rs.50 crores

shall establish a vigil mechanism for directors and employees to report genuine concerns in such manner as may be prescribed.

The vigil mechanism should provide for adequate safeguards against victimization of persons who use such mechanism and make provision for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases.

The details of establishment of such mechanism shall be disclosed by the Company on its website, if any, and in the Board's Report.

If any of the members of the audit committee are conflicted in a given case, they should recuse themselves and the others on the committee would deal with the matter on hand.

Renault-Nissan Alliance HR has framed the policy on Standards of Conduct, Code of Ethics & Compliance Handling, which Whistle Blowing system is part of the same and the employees have been advised to send the genuine concerns to the compliance officer in case compliance issues. The issues received, if any, by such compliance officer shall be taken up to the Chairperson of the Audit Committee immediately in appropriate or exceptional cases.

#### **b. Nomination and Remuneration Committee**

The Nomination and Remuneration Committee (NRC) shall be constituted in line with the RBI Master Directions, 2016. The NRC shall consist of three or more non-executive directors and shall have the same powers, functions and duties as laid down in Section 178 of the Companies Act, 2013. The powers of the committee includes:

- a. Formulation, review, recommendation and/ or approval of the remuneration offered to the proposed Director / Key Managerial Personnel (KMP) of the Company.
- b. Develop a process for selection and appointment new Directors and to ensure the 'fit and proper' criteria prescribed by the Master Circular on Corporate Governance (Reserve Bank) Directions, and
- c. Recommendation to the Board from time to time, a compensation structure for Directors and KMP.

#### **c. Risk Management Committee**

The Risk Management Committee (RMC) shall be constituted in line with the RBI Master Directions, 2016. The RMC plays a vital role by helping the Company's business to identify the inherent risks, assess, evaluate and monitor these risks continuously and undertake effective steps to manage these risks. RMC is responsible for putting in place a progressive risk management system, risk management policy and strategy followed by the Company. The constitution, roles and responsibilities, management have been provided in detail in the Retail & Wholesale Risk policy document of the Company.

#### **d. Corporate Social Responsibility Committee**

The Corporate Social Responsibility (CSR) shall be constituted in line with Section 135 of the Companies Act, 2013 consisting of three or more Directors. The CSR Committee shall meet atleast once a year to discuss on the CSR activities to be undertaken by the Company. The constitution, roles and responsibilities, management have been provided in detail in the CSR policy document of the Company.

The CSR Committee shall:

- formulate and recommend Corporate Social Responsibility Policy to the Board; such policy to indicate the activities to be undertaken by the Company as specified in Schedule VII to the Companies Act, 2013;
- recommend of the amount of expenditure to be incurred on the activities referred to in clause (a) and specifically, the quantum of contributions which may be approved to entities undertaking such activities; and
- monitor the Corporate Social Responsibility Policy and performance of the Company from time to time.

#### **e. Asset Liability Management Committee**

The Asset Liability Management (ALM) Committee shall be constituted in line with the RBI Directions, 2016 consisting of the senior management and shall be responsible for ensuring adherence to the limits set by the Board as well as for deciding the business strategy of the NBFC (on the assets and liabilities sides) in line with the Company's budget and decided risk management objectives. The Committee shall be responsible for integrated balance-sheet management from the risk-return perspective including the strategic management of interest-rate and liquidity risks within the parameters set by the Board and/or regulatory guidelines. The constitution, roles and responsibilities, management have been provided in detail in the ALM policy document of the Company.

### **4. FIT AND PROPER CRITERIA FOR DIRECTORS**

The Company has formulated 'Fit and Proper' Policy in accordance with the Directions issued by RBI. The Nomination and Remuneration Committee (NRC) shall ensure Fit and Proper status of proposed/existing

Directors. The Committee shall obtain a declaration and undertaking from the Directors, giving certain information relating to them. The declaration and undertaking shall be on the lines of the format prescribed by RBI from time to time.

## **5. FAIR PRACTICES CODE**

Pursuant to the guidelines on Fair Practices Code issued by the Reserve Bank of India (RBI), the Company has adopted a policy on Fair Practices Code, which shall be implemented and reviewed on a regular basis.

## **6. DISCLOSURES AND TRANSPARENCY**

As per the Master Circular on Corporate Governance (Reserve Bank) Directions, 2015, the following information shall be put up by the Company to the Board of Directors at regular intervals as may be prescribed by Board in this regard:

- a. Progress made in putting in place a progressive risk management system, and risk management policy and strategy followed.
- b. Conformity with corporate governance standards viz; in composition of various committees, their roles and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

The above information shall form part of the Board's Report on an yearly basis by the Company.

### **Annual Disclosures – Companies Act, 2013**

The following are the prescribed annual disclosures of the Directors prescribed under the provisions of the Companies Act 2013.

1. As per Rule 9(1) of the Companies (Meetings of Board and its Powers) Rules, 2014 and Section 184 of the Companies Act, 2013, every director shall disclose his concern or interest in any company or companies or bodies corporate (including shareholding interest), firms or other association of individuals, by giving a notice in writing in Form MBP 1. (Format provided in **Annexure 1**) - Appointment and Annual Declaration
2. Section 2(77) of the Companies Act, 2013 and Rule 4 of Companies (Specification of definitions details) Rules, 2014 the disclosure about the relatives of directors shall be provided by directors (Format provided in **Annexure 2**) – Appointment and Annual Declaration
3. Pursuant to Section 164(2) and Rule 14(1) of Companies (Appointment and Qualification of Directors) Rules, 2014, the directors have to provide the intimation to the Company in Form DIR – 8 (Format provided in **Annexure 3**), which the company in which director is interested have filed financial statements for the past 3 years and the timely repaid its deposits/redeemed its debentures – Appointment/Re-appointment Declaration



**FORM MBP - 1**

Notice of interest by director

*[Pursuant to Chapter XII of the Companies Act, 2013]*

To

The Board of Directors

of M/s .....

Dear Sir(s)

I, \_\_\_\_\_, son of \_\_\_\_\_ resident of \_\_\_\_\_, being a Director in the Company hereby give notice of my interest or concern in the following company or companies, bodies corporate, firms or other association of individuals:-

S. No.	Names of the Companies /Body Corporates/Firms/ Association of individuals	Nature of interest or concern / Change in interest or concern	Shareholding	Date on which interest or concern arose / changed

*\*Note: Please also disclose directorship in private companies which is either a subsidiary or holding company of a public company.*

**Note: List of Relatives - Kindly refer Annexure – 2**

Date:

Signature:

## List of Relatives

## Section 2(77) of the Companies Act, 2013, Rule 4 of Companies (Specification of definitions details) Rules, 2014

1	Spouse	
2	Father (including step-father)	
3	Mother (including step-mother)	
4	Son (including step-son)	
5	Son's wife	
6	Daughter (including step-daughter)	
7	Daughter's husband	
8	Brother (including step-brother)	
9	Sister (including step-sister)	
10	Members of HUF where I am a member	

**FORM 'DIR-8'**

## Intimation by Director

*Pursuant to Section 164(2) and rule 14(1) of Companies (Appointment and Qualification of Directors) Rules, 2014]*

Registration No. of Company	
CIN of Company	
Nominal Capital	
Paid-up Capital	
Name of Company	
Address of its Registered Office	

To

The Board of Directors of

M/s \_\_\_\_\_

I, \_\_\_\_\_, son of \_\_\_\_\_ resident of \_\_\_\_\_, Director in the Company hereby give notice that I am / was a director in the following companies during the last three years:-

S. No.	Name of the Company	Date of appointment	Date of cessation

I further confirm that I have not incurred disqualification under section 164(2) of the Companies Act, 2013 in any of the above companies, in the previous financial year, and that I, at present, stand free from any disqualification from being a director.

Date:

Signature: