



**APAC FINANCIAL SERVICES PRIVATE LIMITED (“APAC
FS” or (“the Company”)**

**INTERNAL GUIDELINES ON CORPORATE GOVERNANCE
 (“CG Guidelines”)**

APPROVAL DATE: February 15, 2023

Owner: Company Secretary and Compliance Officer

1. PREAMBLE

The Reserve Bank of India (“RBI”) on September 01, 2016 issued Master Direction on - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 (“Master Direction”) as amended from time to time, applicable to applicable NBFC’s. As per the Master Direction, every Non-Deposit accepting NBFC having an asset size of Rs. 500 Crores or more has to frame “Internal guidelines on Corporate Governance”. Further, RBI on October 22, 2021 had issued Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs which covers certain aspect of Corporate Governance.. In line with the above regulations, the Internal Guidelines on Corporate Governance is formulated as follows.

2. PHILOSOPHY

APAC Financial Services Private Limited (“APAC FS” or “Company”) believes in maintaining high standards of corporate governance which is key to ensure its long-term success and is committed to protecting the interests of its stakeholders. The Company aims at achieving not only the highest possible standards of legal and regulatory compliances, but also of effective management through suitable policies/guidelines and procedures conforming to the applicable laws.

3. BOARD OF DIRECTORS:

3.1. Composition: The Board shall have a minimum of three directors and a maximum of fifteen directors or such other limit as may be prescribed under the applicable provisions of the Companies Act, 2013 (“the Act”) and Articles of Association of the Company.

3.2. Meetings: Meetings of the Board of Directors shall be held a minimum of four times a year in such a manner that not more than one hundred and twenty days shall lapse between two consecutive meetings of the Board. The Company shall observe secretarial standards with respect to General/Board Meetings and Committee Meetings specified by the Companies Act and Institute of Company Secretaries of India.

3.3. Appointment, Disclosures and Duties:

- (a) Director(s) shall be appointed as per the applicable provisions of the Act and rules made there under;
- (b) A person proposed to be appointed as a Director shall be assessed on ‘Fit and Proper’ Criteria in compliance with the Master Direction. The person considered to be appointed as a Director should also possess relevant expertise which will help the person to act objectively and constructively;
- (c) Upon appointment, the Director shall execute a Deed of Covenant with the Company as per the format prescribed under the ‘Fit and Proper’ Criteria for Directors formulated in compliance with the Master Direction;
- (d) The Company shall upon the appointment of an Independent Director, issue a formal letter of appointment outlining his/her terms of appointment, role, responsibilities, duties, etc.;
- (e) The appointment/re-appointment, if any, of the Director shall be reviewed by the Nomination and Remuneration Committee and recommended to the Board for approval;
- (f) The Independent Directors shall be paid sitting fees and other expenses incurred for attending the Board/ Committee Meetings;
- (g) The day-to-day operations of the Company will be looked after by the Managing Director under the overall superintendence, guidance, and control of the Board. He will be assisted by senior officers with well-defined responsibilities.

4. COMMITTEES:

The Board shall have various committees to deal with specific matters for different functional areas. The Risk Management Committee, Audit Committee, Nomination and Remuneration Committee, Corporate Social Responsibility Committee, IT Strategy Committee, Outsourcing Committee and the Asset Liability

Management and Resource Planning Committee are constituted in accordance with the provision of the Companies Act, 2013, Master Direction and other directions issued by RBI as applicable to the Company. The composition, terms of reference and functioning of the Committee(s) shall be decided by the Board of Directors in accordance with the provisions of the applicable laws. The minutes of the Board level Committee(s) will be placed before the Board for its perusal, discussion, and noting.

4.1. Risk Management Committee:

The Risk Management Committee is constituted as required the Master Direction and Scale based Regulations. The Committee shall meet at least twice during any financial year.

The terms of reference of the Risk Management Committee are as under:

- a) To review and recommend any amendment in Risk Management policy to the Board
- b) Review various risks as stipulated in the Risk Management policy along with macroeconomic risks, industry risks and other related external risks and recommend corrective actions including changes in policy, products, customer strategies etc.
- c) Review the portfolio and the stressed accounts and thereby suggest corrective actions as required.
- d) Review collection policy in line with portfolio performance and recommend amendments as required
- e) Review stress testing scenarios and recommend corrective actions as required.
- f) To consider and recommend appointment and Remuneration of Chief Risk Officer.
- g) To work in close coordination with Nomination and Remuneration Committee (NRC) of the company to achieve effective alignment between compensation and risks.
- h) to review the progress made in putting in place a progressive risk management system and risk management policy and strategy
- i) To review grant of loans to directors, senior officers and relatives of directors and to entities where directors or their relatives have major shareholding
- j) Periodic review of the Product Programs, Credit Policy, Collateral policy & processes
- k) To review and recommend to the Board Internal Capital Adequacy Assessment Process
- l) One on one Meeting of Chief Risk Officer with Committee
- m) To place minutes of APAC CC QPR meetings and Asset Liability Management and Resource Planning Committee for noting
- n) To perform any other functions or duties as stipulated by the Companies Act, Reserve Bank of India, and any other regulatory authority or under any applicable laws as may be prescribed from time to time.

4.2. Audit Committee:

The Audit Committee is constituted as per the provisions of the Companies Act 2013 and as per the Master Direction. The Committee shall meet at least once during any financial year.

The terms of reference of the Audit Committee are as under:

- (a) To recommend to the Board approval of appointment of Statutory Audit Policy
- (b) To recommend to the Board approval of Compliance Policy
- (c) recommendation for appointment, remuneration and terms of appointment of Statutory auditors of the Company;
- (d) approval of appointment of Chief Financial Officer after assessing the qualifications, experience and background, etc. of the candidate
- (e) review and monitor the auditor's independence, annual performance, and effectiveness of audit process;
- (f) examination of the financial statement and the auditors' report thereon;
- (g) approval or any subsequent modification of transactions of the company with related parties;
- (h) disclosure of any related party transactions;

- (i) scrutiny of inter-corporate loans and investments;
- (j) valuation of undertakings or assets of the Company, wherever it is necessary;
- (k) evaluation of internal financial controls and risk management systems;
- (l) review of accounting policy of the Company.
- (m) matters required to be included in the director's responsibility statement to be included in the board's report in terms of clause (c) of sub-section (3) of Section 134 of the Companies Act, 2013
- (n) To review all cases of frauds and attempted frauds
- (o) To recommend appointment and Remuneration of Internal Auditor
- (p) To verify fit and proper criteria and recommend appointment/re-appointment, Remuneration and performance appraisal of Chief Compliance Officer to the Board
- (q) To Review of internal audit reports relating to internal control weaknesses
- (r) To review and approve the Internal Audit Policy and amendments thereto
- (s) To review Breaches in terms of covenants in respect of loans availed by the NBFC or debt securities issued by the NBFC including incidence/s of default.
- (t) Divergence in asset classification and provisioning above a certain threshold to be decided by the Reserve Bank
- (u) establish a vigil mechanism for Directors and employees to report genuine concerns
- (v) to place before Committee Annual compliance review
- (w) quarterly one on one meeting of Chief Compliance Officer with Committee
- (x) To perform any other functions or duties as stipulated by the Companies Act, Reserve Bank of India, and any other regulatory authority or under any applicable laws as may be prescribed from time to time.

4.3. Nomination and Remuneration Committee:

The Nomination and Remuneration Committee is to be constituted as per the provisions of the Companies Act 2013 and as per the Master Direction. The Committee shall meet at such intervals as required.

The terms of reference of the Nomination and Remuneration Committee are as under:

- (a) To recommend to the Board appointment/reappointment of Directors
- (b) To validate 'fit and proper' status of all Directors on the Board of the Bank in terms of the Guidelines issued by the RBI or other regulatory authorities;
- (c) identify persons who are qualified to become Directors and who may be appointed in senior management in accordance with the criteria laid down, recommend to the Board their appointment and removal
- (d) To recommend to the Board a Compensation policy relating to, the remuneration for the directors, key managerial personnel and other employees including performance/achievement bonus, perquisites, retinals, sitting fee, etc.;
- (e) To recommend to the Board appointment/re-appointment, Remuneration and performance appraisal of Key Managerial Personnel and Senior Management Personnel of the Company
- (f) To Formulate/review the criteria for performance evaluation and carry out the performance evaluation of independent directors and the members of the Board of Directors;
- (g) To consider grant of Stock Options to employees and administer and supervise the Employee Stock Option Plans;
- (h) To work in close coordination with Risk Management Committee (RMC) of the company to achieve effective alignment between compensation and risks.
- (i) To perform any other functions or duties as stipulated by the Companies Act, Reserve Bank of India, and any other regulatory authority or under any applicable laws as may be prescribed from time to time.

4.4. Asset Liability Management and Resource Planning Committee (ALRPCO):

ALRPCO is constituted as per the requirements of RBI. ALRPCO shall meet at least once in every quarter. The committee shall lay down policies and quantitative limits relating to assets and liabilities and periodically monitor Asset-Liability management. ALRPCO will be responsible for the following:

- a) Identifying ALM risks, measuring their impact and management of risks
- b) Implementation of an effective process for managing the APAC's Prime Lending Rate (PLR)
- c) Monitoring interest rate risk including APAC's overall interest rate risk profile, the sensitivity of APAC's earnings under varying interest rate scenarios
- d) Monitoring the capital position of APAC to ensure that capital levels are maintained in accordance with regulatory requirements
- e) Resource Planning, Funding Strategy
- f) Adoption of liquidity risk monitoring tools to capture strain in liquidity position post borrowings from the market
- g) Maintaining sufficient liquidity, high quality liquid assets to withstand a range of stress events
- h) Intra Group funding programme
- i) Contingency Funding plan
- j) Review of off-balance sheet exposures including on account of guarantees and commitments and related impact on liquidity position.
- k) Review of Collateral Position Management
- l) Review of key ratios. Following ratios will be published as annexures to the Statement of Structural Liquidity –
 - o Short-term liability to total assets
 - o Short-term liability to long term assets
 - o commercial papers to total assets
 - o short-term liabilities to total liabilities
 - o long-term assets to total assets
- m) Review of foreign currency exposure risk if any.

4.5. Corporate Social Responsibility (CSR) Committee:

The CSR Committee shall decide upon and oversee the corporate social responsibility activities of the Company and the CSR expenditure to be incurred by the Company and recommend the same to the Board for its consideration and approval. The Committee shall be responsible for monitoring the CSR Policy of the Company.

- a) To review corporate social responsibility policy;
- b) To identify, segment and recommend the CSR projects/programs/activities to the Board of Directors;
- c) To recommend the amount of expenditure to be incurred on the activities as identified for CSR by the Company;
- d) To oversee the implementation of corporate social responsibility projects / programs / activities;
- e) To review the annual budgets/expenditure with respect to corporate social responsibility programs;
- f) To work with the management to establish and develop the Company's strategic framework and objectives with respect to corporate social responsibility matters;
- g) To receive reports on the Company's corporate social responsibility programs / projects / activities;
- h) To establish and review the implementation mechanism for the CSR programs / projects / activities undertaken by the Company;
- i) To establish and review the monitoring mechanism of CSR projects / programs / activities;
- j) To review the CSR Initiatives and Programs/projects/activities undertaken during the year;
- k) To review the Company's disclosure relating to corporate social responsibility matters in accordance with the requirements of the regulatory provisions;

- l) To obtain legal or other independent professional advice/assistance, and
- m) To form and delegate authority to any sub-committee or employee(s) of the Company or one or more members of the committee.
- n) To perform any other functions or duties as stipulated by the Companies Act, 2013 and any other regulatory authority or under any applicable laws as may be prescribed from time to time.

4.6. IT Strategy committee

- a) Approving IT strategy and policy documents and ensuring that the management has put an effective strategic planning process in place;
- b) Ascertaining that management has implemented processes and practices that ensure that the IT delivers value to the business;
- c) Ensuring IT investments represent a balance of risks and benefits and that budgets are acceptable;
- d) 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;
- e) Ensuring proper balance of IT investments for sustaining NBFC's growth and becoming aware about exposure towards IT risks and controls.

5. POLICIES FORMULATED BY THE COMPANY:

Various policies have been formulated by the Company in compliance with the provisions of the Companies Act, 2013 and other applicable laws and regulations and as a matter of good corporate governance Practices.

Some of the important policies that drive good corporate governance are as under:

- (a) Related Party Transactions Policy;
- (b) Whistle Blower policy;
- (c) Policy on Prevention of Sexual Harassment;
- (d) Human Resource Policy;
- (e) Policy on Health and Safety of Employees;
- (f) Business Continuity Plan Policy;
- (g) Policy for Prevention of Insider Trading;
- (h) Corporate Social Responsibility (CSR) Policy;
- (i) Fit and Proper Criteria for Directors;
- (j) Grievance Redressal Policy;
- (k) Risk Management Policy;
- (l) Know Your Customer & Anti-Money Laundering Policy;
- (m) Policy on Money Laundering (ML) and Terrorist Financing (TF) Risk Assessment
- (n) Fair Practice Code;
- (o) Interest Rate Policy;
- (p) Investment Policy;
- (q) Asset Liability Management & Resource Planning Policy;
- (r) Credit Risk Policy;
- (s) Outsourcing Policy
- (t) Policy for Monitoring of Frauds
- (u) Policy for preservation of documents;
- (v) Information Security & IT Policy;
- (w) Policy on appointment of Statutory Auditors etc.

The policies adopted may be reviewed by the Board from time to time.

6. STATUTORY AUDITORS

The Board and the Audit Committee of the Company shall be responsible to appoint Statutory Auditors. The Company shall review the independence and performance of the Statutory Auditors and the effectiveness of the audit process periodically. The declaration shall be obtained from the Auditors affirming their eligibility for being appointed as the Statutory Auditors of the Company. The Company shall rotate the partner/s of the Chartered Accountant firm(s) conducting the statutory audit of the Company every three years or such other earlier period as may be decided by the Board under applicable laws, so that the same partner does not conduct the audit of the Company continuously for more than a period of three years. However, the partner so rotated shall be eligible for conducting the audit of the Company after an interval of three years or such other period as permissible under the applicable laws.

Note: The requirement for the appointment of a Statutory Auditor may be read with the provisions contained in the circular, DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, issued by RBI on 'Guidelines for Appointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs)', as amended from time to time.

7. INTERNAL AUDITORS

The Board / the Audit Committee of the Company shall appoint the Internal Auditor in accordance with the provisions of applicable laws and regulations who shall perform an independent and objective assessment of the internal controls, processes and procedures instituted by the Management and accordingly monitor its adequacy and effectiveness. The Internal Auditor shall be assisted by a team as appropriate for the companies size and extent of operations. The Internal Auditor may also seek the help of external parties as may be necessary.

8. SECRETARIAL AUDITORS

The Company shall appoint an Independent Company Secretary in Practice, in accordance with the provisions of the Companies Act, 2013 and rules made thereunder to conduct a Secretarial Audit of the Company for every Financial Year, if applicable. The Secretarial Auditor shall provide a report in the form and the manner prescribed under the applicable laws/regulations. The Secretarial Audit Report shall be placed before the Board for its noting and records and the same shall be annexed to the Board's Report which shall be circulated to the Shareholders of the Company in accordance with the applicable laws/regulations.

9. SUBSIDIARY COMPANIES

The Company shall ensure compliance with the following corporate governance requirements with respect to its subsidiaries.

1. The Audit Committee shall review the financial statements including particulars of investments made by subsidiary companies.
2. Non-compliance of any regulatory, statutory requirements
3. placing the minutes of the Board/ Audit Committee and statements of all the significant transactions of all the subsidiary companies at the Meeting of Board of Directors of the Company.

10. DISCLOSURES

The Company is committed to make adequate disclosures based on the principles of transparency, timeliness, fairness and continuity. The Company shall ensure and make necessary disclosures to the Board, the Regulator(s)/ Statutory Authorities, the Shareholders etc. as may be required by the applicable laws and the codes/ Policies of the Company. The Board of Directors of the Company or such other person authorized by the Board or any law / Regulation shall ensure that all the disclosures

statutorily required to be made on behalf of the Company are duly made to the Regulatory/ Statutory Authorities or such other persons as may be required under applicable laws/regulations.

11. COMPLIANCE OFFICER

The Company Secretary shall be the Compliance Officer of the Company.

12. REVIEW

The Board of Directors of the Company reserves the right to add, amend, modify these guidelines, as and when it deems appropriate.