

Policy on Corporate Governance

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1. PURPOSE

The Reserve Bank of India vide Master Circular No. DNBS (PD) CC No.390/03.10.001/2014-15 dated July 01, 2014 issued guidelines on Corporate Governance and has required all NBFCs to frame internal guidelines on Corporate Governance.

The Company is in compliance with guidelines issued on Corporate Governance with regard to constitution of Committees of the Board, fit and proper criteria in selection of Directors, disclosure and transparency requirements and rotation of the partners of statutory audit firm. The Company has framed various policies encompassing corporate governance framework of the Company.

However as a good governance practice, the company summarizes the various internal policies in this consolidated policy on corporate governance for the information of all the stakeholders.

2. APPLICABILITY

The Policy is applicable to all the employees of Volkswagen Finance Private Limited (“VWFPL”)

3. INTRODUCTION TO THE COMMITTEES OF THE BOARD

3.1 Audit Committee

The Company has in place the Audit Committee in accordance with the provisions of Para 68 (1) of the Master Direction and its powers, functions and duties are as laid down in section 177 of the Companies Act, 2013 and rules made thereunder.

The Composition of Audit Committee consists of:-

Sr. No	Member
1	Managing Director and CFO
2	Independent Director
3	Independent Director

3.1.1 Role

The Role of Audit Committee is defined by its Charter, a gist of which is given, below:

1. Recommending to the Board the appointment, remuneration and terms of appointment of auditors of the company;
2. review and monitor the auditor’s independence and performance, and effectiveness of audit process;
3. examination of the financial statement and the auditors’ report thereon;
4. approval or any subsequent modification of transactions of the company with related parties;
5. scrutiny of inter-corporate loans and investments;

6. valuation of undertakings or assets of the company, wherever it is necessary;
7. evaluation of internal financial controls and risk management systems;
8. monitoring the end use of funds raised through public offers and related matters;
9. call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company;
10. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
11. Reviewing, with the management, 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.
 - 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. Qualifications in the draft audit report.
12. Reviewing, with the management, the half yearly financial statements before submission to the board for approval;
13. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
14. Discussion with internal auditors any significant findings and follow up there on;
15. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;
16. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
17. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;
18. To establish a vigil mechanism for providing adequate safeguards against victimization of person who use such mechanism and make provision for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases;
19. To oversee the vigil mechanism through the committee and if any of the members of the committee 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;
20. To review the functioning of the Whistle Blower mechanism;
21. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee;

3.1.2 Frequency of meetings

The Committee shall meet at least twice a year and otherwise as required. Ad-hoc meetings may be held from time to time.

3.1.3 Quorum

The quorum necessary for the transaction of business by the Committee shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

3.2 Nomination and Remuneration Committee

The Company has constituted the Nomination and Remuneration Committee in accordance with the provisions of Para 68 (2) of the RBI Directions and its powers, functions and duties are as laid down in section 178 of the Companies Act, 2013 and rules made thereunder.

The Composition of the Nomination and Remuneration Committee consists of:-

Sr. No	Member
1	Non-Executive Director
2	Independent Director
3	Independent Director

3.2.1 Role

Duties of the Nomination and Remuneration Committee to include:

1. Identify the persons who are qualified to be appointed as Directors & appointment in senior management in accordance with the criteria laid down and recommend Board of their appointment and removal.
2. Evaluation Criteria of performance of every Director.

The Committee shall also

1. formulate Policy/ guideline for appointment of Directors determining qualifications, positive attributes, fit and proper criteria and Independence at the time of appointment of Directors and on a continuing basis at Volkswagen Finance Private Limited.
2. Recommend Board a policy relating to remuneration for Directors, Key Managerial Personnel and other employees.

While formulating the above policy the Committee shall ensure:

- (a) The level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully;

- (b) Relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
- (c) Remuneration to directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals:

3.2.2 Frequency of meetings

The Committee shall meet at least once a year and otherwise as required. Ad-hoc meetings may be held from time to time.

3.2.3 Quorum

The quorum necessary for the transaction of business by the Committee shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

3.2.4 Remuneration Policy

Along with the Nomination and Remuneration Committee charter and the guideline for appointing of the director at VWFPL, Remuneration Policy lays down guidelines for the Remuneration of the Directors, Key Managerial Positions and other employees of VWFPL.

3.3 Corporate Social Responsibility (CSR) Committee

The composition of CSR Committee consists of :-

Sr. No	Member
1	Managing Director and CEO
2	Independent Director
3	Independent Director

The CSR Committee undertakes the activities/ terms of reference as defined under Section 135 of the Companies Act, 2016 and rules made thereunder.

3.3.1 Role

1. To formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the following activities to be undertaken by the company falling within the purview of the Schedule VII of the Act or such activities as may be prescribed from time to time:
 - Eradicating extreme hunger and poverty and malnutrition,(promoting healthcare including preventive health care) and sanitation (including contribution to Swach Bharat Kosh set-up by Central Government for the promotion of sanitation) and making available safe drinking water;

- Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects;
 - Promoting gender equality and empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;
 - Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air, water (including contribution to the Clean Ganga Fund setup by Central Government for rejuvenation of river Ganga);
 - protection of National Heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;
 - Measure for benefit of armed force, veterans, war widows and their dependants;
 - Training to promote rural sports, nationally recognized sports, Paralympic sports and Olympics Sports;
 - Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;
 - Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;
 - rural development projects;
 - slum area development (slum area shall mean any area declared as such by Central Government or any State Government or any other competent authority under any law for the time being in force.)
2. To recommend amount of money to be spent on CSR activities
 3. To recommend allocation of budget for each of CSR activities/projects to be undertaken
 4. To monitor CSR activities / projects and report to the Board
 5. To monitor Corporate Social Responsibility Policy, to review the same periodically and to recommend changes, if any, required therein
 6. Identifying the focus areas of VWFPL CSR
 7. To appoint a CSR Team
 8. To develop a transparent monitoring mechanism
 9. To oversee the systematic development of processes, procedures and guidelines for CSR so as to deliver its proposed value to the company and the targeted community
 10. To ensure that the CSR spends are audited in an accountable and transparent manner

3.3.2 Frequency of meetings

The Committee shall meet at least twice a year and otherwise as required. Ad-hoc meetings may be held from time to time.

3.3.3 Quorum

The quorum necessary for the transaction of business by the Committee shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

4. OTHER MANAGEMENT COMMITTEES

4.1 Risk Management Committee

Risk Management Committee constitutes with the following members:-

1. Managing Director – Back Office - Chairman of the Committee
2. Managing Director – Front Office - Member
3. Head of Risk - Member
4. Head of Operations - Member
5. Company Secretary - Member

The Risk Management Committee is required to manage the integrated risk and inform the Board from time to time the progress made in putting in place a progressive risk management system, risk management policy and strategy followed by the Company.

4.1.1 Responsibility

The Risk Management Committee shall shall monitor Credit Risk, Operation Risk, and Other Risks, and strategize action to mitigate the associated risks. The Committee shall work as per applicable guidelines issued by Reserve Bank of India and shall oversee the implementation of all policies and guidelines issued from time to time in this regard.

4.1.2 Membership

In line with the guidelines issued by Reserve Bank of India, the Risk Management Committee will be constituted with following members:

1. Managing Director – Back Office - Chairman of the Committee
2. Managing Director – Front Office - Member
3. Head of Risk - Member
4. Head of Operations - Member
5. Company Secretary - Member

Invitation for the meeting will be extended to representative from below mentioned teams based on the agenda and discussions:

1. Senior Manager Credit Risk - Member
2. Senior Manager Collections - Member

3. Senior Manager Operation Risk - Member

4.1.3 Frequency of meetings

The Risk Management Committee will meet minimum four times a year or more frequently as the Committee may determine to adequately fulfill the responsibilities outlined in the charter. Members of the risk management committee are expected to attend each committee meeting, in person or via telephone or video conference.

The members of the Risk Management Committee shall elect a chairman from amongst themselves. The Company Secretary shall act as the secretary to the committee.

4.1.4 Quorum

Minimum three members shall form the valid quorum for these meetings. In the event of absence of the Chairman of the Committee from any meeting, Managing Director – Front Office will chair meetings of the Committee.

4.2 Asset Liability Committee (ALCO)

Asset Liability Committee is headed by the MD Front Office / CEO of VWFPL. Other ALCO members could be

- MD Back Office / CFO
- Head of Risk Management
- Head of Treasury
- Head of Credit
- Head of Compliance

4.2.1 Role

1. ALCO is responsible for ensuring adherence to the limits set for interest rate risk and liquidity risk as detailed in framework of Policy “Policy_GCF-FT_Asset Liability Management Framework”
2. Interest rate risk and liquidity risk limits are governed by the ALM guidelines by RBI, the local Board of VWFPL, ALM Committee. Other responsibilities of ALCO include deciding the business strategy on funding, interest rate levels and interest rate forecast related to funding and ALM mismatches
3. ALCO should also review the interest rate and liquidity limits for any changes required
4. ALCO should also consider the following business issues
 - Desired maturity profile and mix of the incremental assets and liabilities
 - Prevailing interest rates related to CP and Bonds offered by others in the industry
5. ALCO should also articulate its view on the current interest rates to enable it to take decisions on future business strategies
6. ALCO would also have to decide on the funding strategies which would include the source and mix of liabilities and funding strategy (for e.g., fixed vs floating rate funds, money market vs capital market funding, etc)

7. ALCO should review the results of and progress in implementation of the decisions made in the previous meetings

4.2.2 Membership

1. ALCO should be headed by the MD Front Office / CEO of VWFPL.
2. Other ALCO members could be
 - MD Back Office / CFO
 - Head of Risk Management
 - Head of Treasury
 - Head of Credit
 - Head of Compliance

4.2.3 Frequency of meetings

ALCO should meet at least 4 times in a year with a minimum of 1 meeting in each financial quarter

4.2.4 Quorum

Quorum required for all ALCO meeting should be at least 4 members of ALCO

5. AUDITORS

6.1. Statutory Auditors

VWFPL shall rotate the partner/s of the Chartered Accountant firm conducting the audit, every three years so that same partner shall not conduct 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 after an interval of three years, if VWFPL, so decides. VWFPL shall incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.

6.2. Secretarial Auditors

The Board 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. The Secretarial Auditor shall provide its report in the form and 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 be annexed to the Board's Report which shall be circulated to the members of the Company in accordance with the applicable laws / regulations.

6. DISCLOSURES

The Company is committed to make adequate disclosures based on the principles of transparency, timeliness, fairness and continuity. The Board of Directors and employees of the Company shall ensure and make necessary disclosures to the Company, the Regulator(s) / Statutory Authorities, the Shareholders, Investors, Members or other stakeholders 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 maybe required under applicable laws / regulations.

7. POLICIES/CODES FORMULATED BY THE COMPANY:

Various 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. The some of the important Policies are as under:

1. Code of Conduct
2. Policy on Related Party Transactions;
3. CSR Policy;
4. Whistle Blower Policy;
5. Anti-Sexual Harassment Policy;
6. Nomination and Remuneration Policy;
7. Policy for Preservation of Documents;
8. Code of Practices and Procedures for Fair Disclosure of Price Sensitive Information
9. Code of Conduct for Prevention of Insider Trading
10. Remuneration Policy

8. INTERNAL GUIDELINES

The internal guidelines set the framework to achieve Company's goal by adopting best practices with emphasis to transparency, accountability and integrity.

The Company has framed various internal guidelines which is available on Intranet (Local OHB) which is accessible to all the employees. Following is gist of the Polices:-

8.1. Gift Policy

This Organisational policy regulates the making of gifts and the extending of invitations. The regulations contained herein are a necessary means of protecting Volkswagen Finance Pvt Ltd. (VWFPL) employees and invited third parties, so as to avoid any conflicts of interest and the legal consequences which may ensue as a result.

8.2. Avoiding of Conflict of Interest and Corruption

This guideline is subset of the national, international statutory/legal regulations and Volkswagen AG Group Guidelines, which have been agreed to be adhered by VWFPL. This policy is binding to all the employees of VWFPL and all are obliged to comply with these rules. The instructions govern the handling of conflicts of interest and the combatting of corruption and white-collar crime.

8.3. ISMS (Information Security Management System) Manual

The manual specifies the scope and the requirements for establishing, implementing, operating, monitoring, reviewing maintaining and improving a documented information security management system for VWFPL.

8.4. Credit Policy – Retail & Corporate

The objective of this guideline is:

1. Compliance with the internal & external requirements.
2. Providing a brief description on the products applicable.
3. Describe in brief minimum requirements of credit assessment, credit administration, credit monitoring and credit control
4. To prepare a basis for examination for auditors (internal revision, external auditor, etc.).

8.5. Operational Risk Management Policy

The targets of this regulation are:

- Determining general framework conditions and processing standards
- Providing a working basis for the OPR business divisions concerned
- Creating a test basis for the Internal Audit department and external audits
- Fulfilling internal and external documentation requirements

8.6. Asset Liability Management Framework

The aim of work instruction is documentation and quantification of interest rate risks and liquidity risks within VWFPL

8.7. Know your Customer and Anti Money Laundering Policy

The purpose of this policy is to prevent VWFPL from being used, intentionally or unintentionally, by criminal elements for money-laundering activities. KYC procedures enable VWFPL to know/understand customers and their financial dealings better which in turn helps the company manage risks prudently.

8.8. Corporate Dealer Credit Handbook

The Corporate Dealer Credit Handbook standardizes and clarifies the policies and procedures involved in the dealer financing process, the working methods for the origin, administration and cancellation of credit lines for dealerships of Volkswagen India (VWFPL) and clarify the responsibilities during the complete life cycle.

8.9. Corporate Non Dealer Credit Handbook

Credit Handbook standardizes and clarifies the policies and procedures involved in the non-dealer financing process, standardize the working methods for the origin, administration and cancellation of credit lines for dealerships of Volkswagen India (VWFPL) and clarify the responsibilities in the complete life cycle.

Internal policies can be reviewed by the employees on <http://web2.collaboration.fs01.vwf.vwfs-ad/sites/VWFPL/layouts/viewlists.aspx?ShowSites=1>

9. REVIEW OF THE POLICY

The internal guidelines and various policies encompassing corporate governance framework of the Company are reviewed periodically and amended with the permission of Management/Board of Directors as the case may be.

This policy is based on guidelines on Corporate Governance issued by RBI in Master Directions, in case of any changes in the provisions of these guidelines or any other regulations which makes any of the provisions of this policy inconsistent with the regulations or directions or circulars, then the provisions of regulations or directions or circulars issued by the regulator would prevail over the policy and the provisions in the policy would be modified in the due course to make it consistent with the law. The Policy shall be reviewed at least annually and as and when there is change in the regulatory framework or business circumstances or otherwise as it may deem appropriate.
