MUTHOOT FINCORP Ltd

Internal Guidelines on Corporate Governance

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CORPORATE GOVERNANCE POLICY

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Muthoot Fincorp Ltd. (the Company), the flagship Company of the Muthoot Pappachan Group, has been constantly evolving in its business dimensions and is presently counted among the premier financial institutions, offering a whole gamut of products and services that addresses the needs of its customers, touching every phase of their lives.

The Company provides personalized customer service and financial advice to ensure that customers receive relevant timely financial solutions. The company maintains a consistent and healthy growth pattern in all of its operations.

The Company constantly endeavours to offer need-based products and superior customer service.

At Muthoot Fincorp Limited, the mission is to foster and preserve superior standards of integrity in its dealings with customers, staff and vendors and other stake holders and to maintain a high degree of professionalism and pursue a Prudent Business Policy.

The need for good Corporate Governance has been gaining increased emphasis over the years. It is based on trust and mutual good. It is the key to protecting the interests of all the stakeholders. Transparency is basic to Corporate Governance. “True and Fair concept” is further expanded and practiced through timely and accurate disclosures of information regarding the financial status, performance and related matters as key aspects of Corporate Governance. It is a self-regulating mechanism, through which an organization directs and regulates itself and the people associated with it towards steadfast compliance.

Muthoot Fincorp’s Corporate Governance Philosophy

The Company’s Corporate Governance philosophy envisage adherence to the highest standards of transparency, accountability and equity in all areas of its operations and in interactions with all its stakeholders, including its customers, shareholders, employees, Government and others. The objective is to enhance shareholder value continuously.
The Board of Directors are at the core of its Corporate Governance practice, formulating, directing and overseeing how the company and its management and all employees adhere to Corporate Governance norms, serve and protect the long-term interests of all the stakeholders of the Company.
The Company believes that an active, well-informed, “Independent Board” shall ensure the highest standards of Corporate Governance. Independent Directors of the Company actively participate in ensuring proper Corporate Governance.

Board of Directors

The Board is responsible to exercise their best business judgment to act in what they reasonably believe to be in the best interests of the Company and its shareholders. The Board is responsible for overall compliance with the Corporate Governance norms of the Company. It shall oversee and direct the management of the Company’s affairs and its business. In doing so, the Board shall act honestly, in good faith, and in the best interests of the Company.

Composition of the Board

The Company's Board is broad based having an optimum combination of Professionals and Independent Directors. The Company shall ensure that all its Directors meet the fit and proper critera as contained in the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

Duties and Responsibilities

The Board is responsible for overseeing compliance with all relevant policies and procedures by which the Company operates and ensuring that the Company operates at all times in compliance with all applicable laws and regulations, adhering to the highest ethical and moral standards.

The Board monitors the "Financial Performance" of the Company and shall ensure that the financial results are prepared in accordance with the generally accepted Accounting Principles and reported to shareholders and regulators regularly and on time.

Committees

The functioning of the Board shall be further supplemented by its various committees. The Directors, Management and Auditors deal with matters relating to financial reporting obligations, internal controls, review of accounting policies and management of financial risks.

As per Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, the Board shall constitute the following Committees.

1. Audit Committee

The Audit Committee constituted by the Company as required under Section 177 of the Companies Act, 2013 shall be the Audit Committee for the purposes of Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 and the Audit Committee thus constituted shall have the same powers, functions and duties as laid down in Section 177 of the Companies Act, 2013.

The Audit Committee must ensure that an Information System (IS) Audit of the internal systems and processes is conducted at least once in a year to assess operational risks faced by the Company effective from 2018-19. IS Audit should be undertaken preferably prior to the Statutory Audit so that IS Audit reports are available to the Statutory Auditors well in time for examination and incorporating comments, if any, in the Audit Report.

2. Nomination Committee

The Company shall form a Nomination Committee to ensure 'fit and proper' status of proposed/ existing directors as contained in Annexure IX to the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016. The Nomination Committee shall have the same powers, functions and duties as laid down in Section 178 of the Companies Act, 2013.

3. Risk Management Committee

To manage the integrated risk, the Company shall form a Risk Management Committee, besides the Asset Liability Management Committee.

Appointment of Chief Risk Officer

The Company has to appoint a Chief Risk Officer (CRO). CRO is required to function independently so as to ensure highest standards of risk management.

The Company shall strictly adhere to the following in this regard:

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

b) The CRO shall be appointed for a fixed tenure with the approval of the Board. The CRO can be transferred/ removed from his post before completion of the tenure only with the approval of the Board and such premature transfer/ removal shall be reported to the Reserve Bank of India, Department of Non-Banking Supervision, Regional Office, Trivandrum.

c) The Board shall put in place policies to safeguard the independence of the CRO. In this regard, the CRO shall have direct reporting lines to the MD & CEO/ Risk Management Committee (RMC) of the Board. In case the CRO reports to the MD & CEO, the RMC/ Board shall meet the CRO without the presence of the MD & CEO, at least on a quarterly basis. The CRO shall not have any reporting relationship with the business verticals of the Company and shall not be given any business targets. Further, there shall not be any 'dual hatting' i.e. the CRO shall not be given any other responsibility.

d) 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.

e) In credit sanction process for high value proposals, if the CRO is one of the decision makers in the credit sanction process, the CRO shall have voting power and all members who are part of the credit sanction process, shall individually and severally be liable for all the aspects, including risk perspective related to the credit proposal.

Fit and Proper Criteria for Directors

The Company shall ensure to:

i. put in place a policy with the approval of the Board of Directors for ascertaining the fit and proper criteria of the directors at the time of appointment, and on a continuing basis. The policy on the fit and proper criteria shall be on the lines of the Guidelines contained in Annexure XI to the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

ii. obtain a declaration and undertaking from the directors giving additional information on the directors. The declaration and undertaking shall be on the lines of the format given in Annexure XII to the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

iii. obtain a Deed of Covenant signed by the directors, which shall be in the format as given in Annexure XIII to the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

iv. furnish to the Reserve Bank a quarterly statement on change of directors, and a certificate from the Managing Director of the Company that fit and proper criteria in selection of the directors has been followed. The statement must reach the Regional Office of the Reserve Bank within 15 days of the close of the respective quarter. The statement submitted by the Company for the quarter ending March 31, shall be certified by the auditors.

Disclosure and transparency

(1) the Company shall put up to the Board of Directors, at regular intervals, as may be prescribed by the Board in this regard, the following:
   i. the progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the Company;
   ii. conformity with corporate governance standards viz., in composition of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

(2) the Company shall also disclose the following in its Annual Financial Statement,
   i. registration/ licence/ authorisation, 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 and

   v. Asset-Liability profile, NPAs and movement of NPAs, details of all off-balance sheet exposures, structured products issued by it as also securitization/ assignment transactions and other disclosures, as given in Annex XIV to the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

Rotation of partners of the Statutory Auditors Audit Firm

The Company 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 of the Company after an interval of three years, if the Company, so decides. The Company shall incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.

Internal Control Systems

The adequacy of internal control systems shall be reviewed by the Management. The Board has laid emphasis on adequate transparency and disclosure measures. Adequate risk management policies and measures are to be strictly adhered to.

Participative Management

The Company on its own has constituted various committees at operational levels to invite greater participation of Executives and Staff, to harvest their collective knowledge, skills and expertise and to hone the process towards qualitatively better performance, with 'Excellence' as the goal. This process will reinforce the steps towards 'transparency'.

Compliance with Laws and Ethical standards

The systems and procedures shall be constantly reviewed to ensure due conformance with ethical standards of the highest order. All guidelines and regulations issued by the concerned regulators shall be strictly complied with in letter and spirit.