



INTERNAL GUIDELINES ON CORPORATE GOVERNANCE

VERSION CONTROL

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| V2 | Jitendra Bhati VP – Compliance & Secretarial | 5 February 2018 | Upon listing of Equity Shares | To align the Policy with requirements of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and other contextual changes |
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PHILOSOPHY, PURPOSE AND SCOPE

At IndoStar Capital Finance Limited ("the Company"), we believe that sound governance practices are the bedrock for the functioning of the Company and for creation of value for its stakeholders on a sustainable and long term basis. This philosophy guides us in defining and maintaining an ethical framework within which we operate.

In order to adopt best practices and greater transparency in the operations of the Company and in compliance with the Guidelines on Corporate Governance issued by the Reserve Bank of India (RBI) vide Circular No. DNBR (PD) CC. No. 029/ 03.10.001/ 2014-15 dated 10 April 2015, as amended from time to time ("RBI CG Directions"), the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), the Companies Act, 2013 ("Act") and other applicable laws, acts, rules, regulations, guidelines, circulars, directions and notifications (collectively referred to as the "Applicable Laws"), the Board of Directors have adopted these Internal Guidelines on Corporate Governance ("Guidelines"). The Guidelines prescribe various corporate governance norms which shall be followed by the Company, which shall be in addition to and not in derogation of any provisions of the Applicable Laws.

The Guidelines shall be published on the website of the Company.

BOARD OF DIRECTORS

The Company's Board has a fiduciary role to protect and enhance stakeholders' value through strategic supervision. The Board along with its Committees provides direction and exercises appropriate controls. In addition to basic governance practices, the Board lays strong emphasis on transparency, accountability and integrity. The corporate governance principles of the Company ensure that the Board remains informed, independent and participates actively in the affairs of the Company.

The Board shall have a suitable combination of Executive, Non-Executive and Independent Directors, and its composition shall be in compliance with the requirements of the Listing Regulations and the Act. At present the Board comprises of 4 (four) Independent Directors, 3 (three) Non-Executive Directors and 1 (one) Executive Director. The Directors bring to the Board an optimal mix of professionalism, knowledge, expertise and a wide range of experience and skills, which includes banking, global finance, loan, accounting, legal and economics. None of the Directors of the Company are related to each other.

All the Directors shall meet eligibility criteria including the 'fit and proper' person criteria, for appointment on the Board of the Company, as prescribed under Applicable Laws. The Directors shall submit adequate disclosures / declarations as required under the provisions of Applicable Laws and the codes and policies adopted by the Company from time to time.

Meetings of the Board

At least 4 meetings of the Board shall be held in each calendar year in such a manner that not more than 120 (one hundred and twenty) days shall intervene between two Board meetings. Detailed notes / information for agenda of the Board meetings shall be circulated to the Directors well in advance, for facilitating meaningful and focused discussions at the meetings. While adequate overall disclosure shall

be made to the Board / Committees, it shall be ensured that minimum disclosures / updates to be circulated / placed before the Board / Committees in terms of the requirements of the Act, the Listing Regulations and the RBI CG Directions, are circulated to / placed before the Board / Committee Members in a timely manner.

The decisions of the Board shall be taken by simple majority of the Directors and each Director shall exercise one vote. The Chairperson shall not be entitled to a second or casting vote at any meeting of the Board.

Board Independence

Independent Directors are expected to play a key role in the decision-making process of the Board by participating in the process of framing the overall strategy of the Company. The Independent Directors should strive to bring in an independent, impartial and objective view to discussions at the meetings of the Board and its Committees and they shall act in a way that is in the best interest of the Company and its stakeholders.

Independent Directors appointed on the Board of the Company shall fulfill the criteria of independence as set out under the provisions of the Act and the Listing Regulations. They shall submit a declaration affirming compliance with the criteria of independence for every financial year and such declaration shall be submitted whenever there is any change in circumstances which may affect their independence. An Independent Director may hold office for a term of up to five consecutive years and shall be eligible for re-appointment for another term of up to five consecutive years on passing of a special resolution by the Members of Company and disclosure of such appointment in the Board's Report. Provided that an Independent Director, who completes two consecutive term(s) shall be eligible for appointment as Independent Director in the Company only after the expiration of three years of ceasing to be an Independent Director in the Company.

Board Compensation Review

Remuneration and sitting fees payable to the Director(s) shall be determined by the Nomination & Remuneration Committee in compliance with the Applicable Laws and approved by the Board and Shareholders, as the case may be. Remuneration paid shall be in accordance with the Board approved Remuneration Policy.

Presently, in addition to payment of sitting fees to the Independent Directors for attending Meetings of the Board and its Committees, the Independent Directors are paid remuneration by way of commission, and Non-Executive Non-Independent Directors are not paid any remuneration. Remuneration to Executive Director(s) is paid in accordance with employment contract and Applicable Laws. The Chairperson shall not be paid any remuneration to act in the capacity of Chairperson.

COMMITTEES

The Board has constituted several committees to deal with specific matters in compliance with the requirements of Applicable Laws and for operational convenience. The Board has delegated powers for different functional areas to different Committees in accordance with the Applicable Laws and internal

policies / processes of the Company. Presently, the Board has, amongst others, constituted Audit Committee, Credit Committee, Asset-Liability Management Committee, Risk Management Committee, Nomination & Remuneration Committee, Corporate Social Responsibility Committee, Stakeholders Relationship Committee, IT Strategy Committee, Debenture Committee, Internal Complaints Committee(s) and Grievances Redressal Committee, in accordance with the provisions of the Act, circulars / directions / notifications issued by RBI as applicable to the Company as a systemically important non-deposit taking non-banking financial company ("RBI Directions") including the RBI CG Directions and circulars / notifications / regulations issued by the Securities and Exchange Board of India ("SEBI") including the Listing Regulations and for internal requirements & operational convenience. The composition, terms of reference and functioning of the Committee(s) shall be decided by the Board in accordance with various Applicable Laws and policies / processes of the Company.

Minutes of meetings of Board Committees and other Committee(s) as specified by the Board shall be placed before the Board for its perusal, discussion and noting. The decisions of the Committees shall be taken by simple majority of the members of the respective Committees and each member shall exercise one vote. Chairman of the Committee(s) shall not be entitled to a second or casting vote at any meetings of the Committee(s).

Details of various Committee(s) are as under:

1. Credit Committee

The Credit Committee is *inter-alia* responsible for the deployment of capital / resources of the Company. It approves credit proposals with respect to the Corporate Lending Business Segment of the Company in accordance with the Company's Risk Framework and Policy. Any transactions that are proposed to be entered into by the Company that have a potential for a conflict-of-interest in the assessment by the members of the Credit Committee shall be referred to the Risk Management Committee for its approval. The Credit Committee is also responsible for monitoring the loan portfolio of all the business segments of the Company and supervising investment transactions undertaken by the Investment Committee.

At least one meeting of the Committee shall be held in every quarter.

2. Audit Committee

The Audit Committee is *inter-alia* responsible to deal with all material questions concerning the auditing and accounting policies of the Company and its subsidiary(ies) and their internal financial controls and systems, ensuring correctness, sufficiency and credibility of financial statements of the Company and subsidiary companies, reviewing statement of utilization of funds raised through public / rights / preferential issue, overseeing the Company's Whistle Blower Policy / Vigil Mechanism and to review, approve and monitor transactions with related parties and ensure that Information System Audit of internal systems and processes is conducted at least once in two years to assess operational risks faced by the Company.

At least four meetings of the Committee shall be held every year and not more than 120 (one hundred and Twenty) days shall elapse between two meetings of the Committee.

3. Asset-Liability Management Committee (ALCO)

The ALCO shall monitor the asset liability composition of the Company's business and determine actions to mitigate risks associated with the asset liability mismatches, and additionally its responsibilities *inter-alia* includes to determine and review the interest rate model of the Company, approve proposals and detailed terms and conditions of borrowings from banks, review the borrowing programme of the Company and product pricing and desired maturity profile of assets and liabilities and also the mix of incremental assets & liabilities.

At least one meeting of the Committee shall be held in every quarter.

4. Risk Management Committee

The Risk Management Committee is *inter-alia* responsible for setting up and ensuring implementation of risk management policies of the Company and for identifying, monitoring, managing and mitigating the credit risk, market risk, interest rate risk, operational risk and other risks that affect / may affect the Company through integrated risk management systems, strategies and mechanisms.

The Risk Management Committee shall have the authority for deciding on transactions that are proposed to be entered into by the Company that have a potential for a conflict-of-interest in the assessment by the members of the Credit Committee. However, if the Members of the Risk Management Committee have a conflict of interest, matter will be referred to the Board of Directors for final approval.

At least one meeting of the Committee shall be held in every quarter.

5. Nomination & Remuneration Committee

The Nomination and Remuneration Committee is *inter-alia* responsible to (i) deal with nomination, appointment and remuneration of Directors and senior management personnel; (ii) formulate criteria for determining qualification, positive attributes, 'fit and proper' person status of Directors / senior management personnel and independence of Directors; (iii) decide on specific remuneration packages and recommending policy on remuneration of the Executive Directors, Non-Executive Directors including Independent Directors and senior level employees; (iv) implement and administer the employee stock options plans(s) of the Company; and (v) formulate criteria for evaluation of Directors, the Board and its Committee(s) and evaluate performance of Directors on an annual basis.

At least one meeting of the Committee shall be held every year.

6. Corporate Social Responsibility (CSR) Committee

The CSR Committee shall decide upon 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 is responsible for monitoring the CSR Policy of the Company.

At least one meeting of the Committee shall be held every year.

7. IT Strategy Committee

The responsibilities of the IT Strategy Committee *inter-alia* are guided by the prescriptions of the Information Technology Framework for the NBFC Sector issued by RBI which *inter-alia* includes to approve and monitor Information Technology (IT) strategy and policy documents, monitor processes and practices to ensure IT delivers value to business, ensure that IT investments represent a balance of risks and benefits, determine the IT resources required to achieve strategic goals, providing high-level direction for sourcing and use of IT resources and managing IT related risks.

At least two meetings of the Committee should be held in a year, such that not more than six months should elapse between two meetings.

8. Stakeholders' Relationship Committee

The Stakeholders' Relationship Committee is *inter-alia* responsible to oversee, monitor and address grievances of shareholders, debenture holders, investors and other security holders, perform all functions relating to the interests of security holders of the Company, oversee the performance of the registrar and transfer agents of the Company and monitor transfer of transferable amounts to investor education and protection fund.

At least one meeting of the Committee shall be held every year.

9. Debenture Committee

The Debenture Committee shall deliberate and approve all matters relating to the issue / buyback / repurchase of debentures and all other matters, acts and deeds that may be necessary in this regard.

The Debenture Committee meetings shall be held on an ad-hoc basis, as required for exercising the powers or performing the functions or responsibilities of the Committee.

In addition to above, the Board has constituted Management Committee, Corporate Lending Committee, Retail Lending Committee, Internal Complaints Committee(s), Grievances Redressal Committee, Investment Committee and Banking Committee consisting of Director(s) and / or Senior Management Personnel of the Company and may constitute such other Committees, as may be required for effective functioning of the Company.

PERFORMANCE EVALUATION

In terms of the Act read with Schedule IV of the Act and the Listing Regulations, the Nomination & Remuneration Committee shall evaluate the performance of the Directors, the Board shall evaluate the performance of the Directors, Committee(s) of the Board and the Board, as a collective entity and Independent Directors shall review the performance of the Non-Independent Directors including the Chairperson and the Board, as a collective entity, on annual basis. Performance evaluation shall be

conducted in line with the Board Performance Evaluation Policy adopted by the Board and the Performance Evaluation Process – Board, Committees and Directors adopted by the Nomination & Remuneration Committee.

SUBSIDIARY COMPANY

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

- At least one Independent Director of the Company shall be a director on the board of the unlisted material subsidiary (material subsidiary in terms of the Listing Regulations) of the Company, incorporated in India
- The Audit Committee shall review the financial statements of the subsidiary companies, in particular, the investments made by them
- The minutes of the meetings of the board of the subsidiary companies shall be placed at the meeting of the Board of the Company
- The Board shall take note of the significant transactions and arrangements entered into by subsidiary companies, as may be presented to it by the management of the subsidiary companies in terms of the Listing Regulations.
- The Company shall not, without obtaining approval of Members of the Company by way of a special resolution at its general meeting:-
 - (a) dispose shares in a material subsidiary (material subsidiary in terms of the Listing Regulations) resulting in reduction of Company's shareholding (either on its own or together with other subsidiaries) to less than fifty percent or cease the exercise of control over the subsidiary, except in cases where such divestment is made under a scheme of arrangement duly approved by a Court / Tribunal; or
 - (b) sell, dispose and lease assets amounting to more than twenty percent of the assets of the material subsidiary (material subsidiary in terms of the Listing Regulations) on an aggregate basis during a financial year, unless the sale / disposal / lease is made under a scheme of arrangement duly approved by a Court / Tribunal.
- The financial statements of subsidiary companies shall be consolidated with the financial statements of the Company in accordance with the provisions of the Act, the Listing Regulations and the RBI Directions.

CONFLICT OF INTEREST

The Company expects its Directors, officers and other employees to act ethically at all times and to affirm compliance with the policy(ies), process(es) and code(s) adopted by the Company.

The Directors, senior management and other employees of the Company shall endeavor to avoid any conflict of interest in their dealing with / on behalf of the Company. Directors and senior management personnel of the Company shall ensure adequate disclosure relating to all material, financial and commercial transactions entered / proposed to be entered in to by the Company where they have personal interest that may have a potential conflict with the interest of the Company at large, in terms of the Act and the Listing Regulations. Conflict of interest exists when benefits or interests of one person or entity conflict with the benefit or interests of the Company. If a Director has a potential conflict of interest in a matter under consideration by the Board or a Committee, such Director shall disclose his interest in accordance with the provisions of Applicable Laws and abstain from deliberations and voting on such matter as may be required in terms of the Act. A Director who is interested in any proposed transaction shall not exercise any influence over other Board/Committee Members in any manner whatsoever. Other employees must disclose the circumstances of any possible conflict of interest to his / her supervisor and the Management Committee, for determination about whether a potential or actual conflict exists. If an actual or potential conflict is determined, the Management Committee may take whatever corrective action appears appropriate according to the circumstances. Failure to disclose facts shall constitute grounds for disciplinary action.

AUDITORS

Statutory Auditors

The Board and the Audit Committee of the Company shall be responsible to appoint Statutory Auditors who have professional ability and are independence. The Company shall review the independence and performance of the Statutory Auditors and the effectiveness of the audit process periodically. Declaration shall be obtained from the auditors affirming their eligibility for being appointed as the Statutory Auditors of the Company.

Further, 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, so that same partner does 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 from his last term. Appropriate terms in this regard shall be indicated in the letter of appointment to the Auditors.

Internal Auditors

The Board and the Audit Committee of the Company shall appoint Internal Auditors who shall perform independent and objective assessment of the internal controls, processes and procedures instituted by the management and accordingly monitor its adequacy and effectiveness. Internal Auditors shall report directly to the Audit Committee.

Secretarial Auditors

The Board shall appoint an independent company secretary in practice, in accordance with the provisions of the Act 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 Act. 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 Act.

CODE(S) AND POLICY(IES) OF THE COMPANY

In terms of the RBI Directions, circulars / regulations / notifications / guidelines issued by SEBI including the Listing Regulations, provisions of the Act, various other Applicable Laws and as a part of good corporate governance and also to ensure strong internal controls, the Board of Directors has adopted several codes / policies / guidelines which amongst others includes the following:

- Code of Conduct for Directors and Employees
- Whistle Blower Policy / Vigil Mechanism
- Related Party Transaction Policy
- Code(s) under the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 (including any amendments thereof)
- Fair Practice Code
- Investment and Loan Policy
- Policy on Single/Group Exposure Norms
- Policy on Know Your Customer Norms and Anti Money Laundering Measures
- Risk Framework and Policy
- Internal Control Framework
- Interest Rate Policy
- Asset Liability Management Policy
- Resource Planning Policy
- Fraud Risk Policy
- Policy on Selection Criteria/ "Fit & Proper" Person Criteria
- Outsourcing Policy
- Information Technology Related Policies
- Policy For Determining Material Subsidiary
- Policy for Determination of Materiality of Events and Information
- Archival Policy
- Policy on Diversity of Board of Directors
- Remuneration Policy
- Care and Dignity Policy
- Corporate Social Responsibility Policy
- Board Performance Evaluation Policy
- Code for Independent Directors
- Media Communication Policy
- Anti-Corruption Policy
- Compliance Process
- Record Retention Policy

DISCLOSURES

The Company is committed to make adequate disclosures based on the principles of transparency, timeliness, fairness and continuity, including making minimum disclosures as required under the Applicable Laws particularly the Listing Regulations. The 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.

Additionally, the Company shall ensure compliance with corporate governance norms as prescribed in the Listing Regulations with respect to disclosure of information *inter-alia* for protecting shareholders rights, dissemination of timely information, equitable treatment to all shareholders including minority & foreign shareholders, recognising the rights of stakeholders and encouraging co-operation with the stakeholders and disclosure and transparency norms.

The Company shall maintain a functional website, wherein important information / disclosures / documents of the Company shall be hosted.

ANNUAL REPORT

The Annual Report of the Company shall contain a separate section on corporate governance, detailing the measures / activities undertaken by the Company as a part of its efforts towards adopting high standards of corporate governance.

COMPLIANCE OFFICER

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