

# ***GUIDELINES ON CORPORATE GOVERNANCE***

*Approved by the Board at its meeting held on October 29, 2024*

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

Five-Star Business Finance Limited's (Five Star) philosophy on corporate governance envisages adherence to the highest levels of commitment, integrity, transparency, accountability and fairness, in all areas of its business and in all interactions with its stakeholders. These Guidelines on Corporate Governance are framed in accordance with the requirements laid down in Chapter - XI (Corporate Governance) of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (“RBI Scale Based Regulations”), the Companies Act, 2013 and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI LODR Regulations”), to the extent applicable to Five Star.

The Internal Guidelines set the framework to achieve the corporate objectives with utmost transparency and sound disclosure practices.

## **2. BOARD OF DIRECTORS**

The Board of Directors along with its Committees shall provide leadership and guidance to the Company's management and direct, supervise and review the affairs and performance of the Company. As per the Company's Articles of Association, the Board of Directors will comprise of a minimum of 6 (six) Directors and a maximum of 15 (fifteen) Directors. The Board of Directors of the Company shall have at least One-half of the total directors as independent directors including atleast one Woman Director. All the Directors shall make the necessary annual disclosures regarding their directorships and shall intimate changes as and when they take place. The independent directors shall make necessary annual disclosures regarding their independence. The Directors shall abide by the duties prescribed under Section 166 of the Companies Act, 2013.

The Board shall play a key role in ensuring that the Company adopts good corporate governance practices. The Board shall have a formal schedule of matters reserved for its consideration and decision. The Board shall review periodically the Company's compliance with various statutory and regulatory requirements.

The day-to-day operations of the Company shall be looked after by the Managing Director under the guidance of the Board. He will be assisted by KMP with well-defined responsibilities.

### **Board Meetings**

Meetings of the Board of Directors shall be held as per the requirements prescribed under the Secretarial Standards -1 (SS-1) issued by the Institute of Company Secretaries of India and those prescribed under the Companies Act, 2013. The minimum information to be statutorily made available to the Board shall be furnished to the Directors for each meeting of the Board.

## **3. CODE OF CONDUCT**

The Company shall adopt a Code of Conduct for its senior management including the Managing Director and also for its Non-Executive Directors.

## **4. COMMITTEES OF THE BOARD**

To focus effectively on the issues and to ensure expedient resolution of diverse matters, the Board shall constitute a set of Committees with specific terms of reference / scope. The Committees shall operate as empowered agents of the Board as per their terms of reference / scope. The minutes of the meetings of all Committees of the Board shall be placed before the Board for review / noting.

The following committees have been set up with specific terms of reference as approved by the Board:

- **Audit Committee**

The Audit Committee shall have the same powers, functions and duties as laid down in section 177 of the Companies Act, 2013. The composition of the Audit Committee shall be as prescribed under the Companies Act, 2013 and the SEBI LODR Regulations (to the extent applicable) and the Committee shall function as per the terms of reference laid down by the Board of Directors.

- **Nomination & Remuneration Committee**

The Nomination & Remuneration Committee shall have the same powers, functions and duties as laid down in section 178 of the Companies Act, 2013 to ensure 'fit and proper' status of proposed/ existing directors. The composition of the Nomination & Remuneration Committee shall be as prescribed under the Companies Act, 2013 and the SEBI LODR Regulations (to the extent applicable) and the Committee shall function as per the terms of reference laid down by the Board of Directors.

- **Corporate Social Responsibility Committee**

The composition of the Corporate Social Responsibility Committee shall be as prescribed under the Companies Act, 2013 and the Committee shall function as per the terms of reference laid down by the Board of Directors.

- **Business & Resource Committee**

The Business & Resource Committee shall function as per the terms of reference laid down by the Board of Directors.

- **Asset Liability Committee**

The Asset Liability Committee shall be as prescribed under RBI Scale Based Regulations and function as per the terms of reference laid down by the Board of Directors.

- **Risk Management Committee**

The Risk Management Committee shall be as prescribed under RBI Scale Based Regulations and SEBI LODR Regulations (to the extent applicable) to manage the integrated risk and function as per the terms of reference laid down by the Board of Directors.

- **IT Strategy Committee**

The IT Strategy Committee shall be as prescribed under RBI Master Direction – Information Technology Framework and function as per the terms of reference laid down by the Board of Directors.

- **Stakeholders Relationship Committee**

The Stakeholders Relationship Committee shall be as prescribed under the Companies Act, 2013 and SEBI LODR Regulations (to the extent applicable) and function as per the terms of reference laid down by the Board of Directors.

- **Customer Service Committee**

The Customer Service Committee shall be as prescribed under Master Direction - Reserve Bank of India (Internal Ombudsman for Regulated Entities) Directions, 2023 and function as per the terms of reference laid down by the Board of Directors.

- **Special Committee of the Board for Monitoring Frauds**

The Customer Service Committee shall be as prescribed under Master Directions on Fraud Risk Management in Non-Banking Financial Companies (NBFCs) and function as per the terms of reference laid down by the Board of Directors.

Board may from time to time formulate, terminate, the constitution of committees, modify the terms of reference, as per the requirements of rules, regulations applicable to the Company and in accordance with changes to the internal processes adopted by the Company.

## **5. INDEPENDENT DIRECTORS**

The Company shall appoint Independent Directors as per the provisions of the Companies Act, 2013 and in compliance with the SEBI LODR Regulations. Independent Directors shall be required to comply with criteria for independence prescribed under Companies Act 2013 and SEBI LODR Regulations.

Every Independent Director, at the first meeting of the Board in which he/she participates as a Director and thereafter at the first meeting of the Board in every financial year, shall give a declaration that he/she meets the criteria of independence as required under Section 149 of the Companies Act, 2013.

All Independent Directors shall abide by the Code prescribed in Schedule IV to the Companies Act, 2013.

The Company shall issue a letter of appointment to all Independent Directors and the independent directors should be well aware of the terms and conditions of their appointment.

A separate meeting of the Independent Directors will be held annually in accordance with Schedule IV of the Companies Act, 2013 to:

- a) review the performance of non-independent directors and the Board as a whole;
- b) review the performance of the Chairperson of the company, taking into account the views of executive directors and non-executive directors;
- c) assess the quality, quantity and timeliness of flow of information between the company management and the Board that is necessary for the Board to effectively and reasonably perform their duties.

## **6. FIT AND PROPER CRITERIA**

Five Star has put in place a policy laying down the Fit & Proper Criteria on the lines of the guidelines contained in the RBI Scale Based Regulations 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.

All Directors shall adhere to the Deed of Covenant signed by them pursuant to the RBI requirements. They shall at all times comply with the "Fit & Proper" criteria prescribed by RBI.

## **7. DISCLOSURE AND TRANSPARENCY**

- a) The Board of Directors, shall be updated, as may be required under the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 in regard to the following:
  - The progress made in putting in place a progressive risk management system and risk management policy and strategy followed.
  - 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.

b) The Company shall disclose the following in its Annual Financial Statements / Annual Report:

- registration/ licence/ authorisation, by whatever name called, obtained from other financial sector regulators;
- ratings assigned by credit rating agencies and migration of ratings during the year;
- penalties, if any, levied by any regulator;
- information namely, area, country of operation and joint venture partners with regard to joint ventures and overseas subsidiaries and
- Asset-Liability profile, extent of financing of parent company products, NPAs and movement of NPAs, details of all off-balance sheet exposures, structured products issued by them as also securitization/ assignment transactions and other disclosures.

c) The Managing Director, CEO and CFO, shall make the necessary certifications regarding the Annual Financial Statements, Internal Controls, etc. to the Board as laid down under the Companies Act, 2013 & SEBI LODR Regulations (to the extent applicable).

d) A report on Corporate Governance shall be prepared and form part of the Annual Report of the Company.

e) Any other details as may be mandated by any of the statutory regulations including RBI guidelines, Companies Act, SEBI guidelines, etc.

## **8. COMPLIANCE OFFICER**

The Company Secretary shall act as the Compliance Officer of the Company.

## **9. CHIEF RISK OFFICER (“CRO”)**

The CRO shall function independently so as to ensure highest standards of risk management with clearly specified role and responsibilities as per the instructions given in RBI Scale Based Regulations.

The CRO will directly report to the RMC / Board. The CRO shall not have any reporting relationship with the business verticals of the NBFC 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.

The CRO shall be involved in the process of identification, measurement and mitigation of risks. All credit products 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.

## **10. CHIEF AUDIT OFFICER (“CAO”) / HEAD – INTERNAL AUDIT**

The CAO / HIA shall be designated as the Chief Audit Executive of the Company and shall be responsible for preparation / updation of the company’s audit policies and procedures and ensuring that the company undertakes a risk-based audit approach. His / her roles are detailed in the Risk based Internal Audit Policy.

The CAO shall directly report to the ACB / Board. The Chief Audit Officer shall not have any reporting relationship with the business verticals and shall not assume operational responsibilities and shall not be given any business targets.

The CAO shall be involved in the design of audit processes and procedures, finalising the audit plan for the company, arrange for periodical internal audit in accordance with the audit plan and present the audit findings to the Senior Management and ACB.

## **11. CHIEF COMPLIANCE OFFICER (“CCO”)**

The Compliance Function shall be headed by the Chief Compliance Officer (“CCO”). The CCO shall be a senior executive of the Company with a position not below two levels from the CEO. However, the Company shall have the liberty to relax the same by one level further without diluting any provisions of this Policy.

The CCO shall have a good understanding of the industry and risk management practices, knowledge of regulations, legal requirements, and have sensitivity to supervisory expectations. The Compliance Function of the Company shall be under the supervision of the CCO. He shall assist the Board and the Senior Management in overseeing the implementation of Compliance Policy, including policies and procedures, prescriptions in Compliance Manuals, internal codes of conduct, etc

There shall not be any 'dual hatting' and the CCO shall not be given any responsibility which brings elements of conflict of interest, especially any role relating to business. The CCO shall generally not be a member of any committee which conflicts her / his role as CCO with responsibility as a member of the committee, including any committee dealing with purchases / sanctions. In case the CCO is a member of any such committee, that would only be an advisory role.

The Compliance Function and the responsibilities of the CCO are enumerated in the Compliance Policy of the Company.