

## Guideline\_ Director's Appointment and Remuneration

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## 1. Purpose

The purpose of this guideline is to define the overall framework for determining appointment of Directors which includes qualifications, positive attributes, fit and proper criteria and Independence on a continuing basis at Volkswagen Finance Private Limited (VWFPL) India.

## 2. Applicability

This guideline has been developed in consonance with Section 178 of the Companies Act, 2013, Rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014 (hereby referred to as the Rules) and Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 (hereby referred to as Directions).

## 3. Introduction

The Board of Directors should have the appropriate balance of skills, experience, independence and knowledge to enable them to discharge their duties and responsibilities effectively.

The search for Directors should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender.

## 4. Evaluation of Fit & Proper Criteria:

1. Due diligence to be undertaken to determine the suitability of the person for appointment / continuing to hold appointment as a Director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria. VWFPL should obtain necessary information and declaration from the proposed / existing Directors for the purpose.
2. The process of due diligence should be undertaken by VWFPL at the time of appointment / renewal of appointment.
3. It is the responsibility of the Nomination & Remuneration Committee to scrutinize the declarations on fit and proper criteria.
4. Based on the information provided in the signed declaration, Nomination & Remuneration Committee should decide on the acceptance or otherwise of the Directors, where considered necessary.
5. VWFPL should obtain annually as on 31st March a simple declaration from the Directors that the information already provided has not undergone change and where there is any change, requisite details are furnished by them forthwith.
6. The Board of the VWFPL must ensure that the nominated/ elected Directors execute the deeds of covenants.

## 5. Criteria for determining Independence of Director:

An Independent Director in relation to a Company, means a Director other than a Managing Director or a Whole-time Director or a Nominee Director of VWFPL,—

- a) who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience (including the proficiency);

“proficiency” means the proficiency of the independent director as ascertained from the online proficiency self-assessment test conducted by the institute notified under sub-section (1) of section 150.

- (b)
  - (i) who is or was not a Promoter of the Company or its Holding, Subsidiary or Associate Company;
  - (ii) who is not related to Promoters or Directors in the Company, its Holding, Subsidiary or Associate Company;
- (c)
  - (i) who has or had no pecuniary relationship, other than remuneration as such Director or having transaction not exceeding ten per cent of his total income or such amount as may be prescribed with the company, its Holding, Subsidiary or Associate company, or their Promoters, or Directors, during the two immediately preceding Financial Years or during the Current Financial Year;
  - (ii) who has or had no pecuniary relationship with the Company, its Holding, Subsidiary or Associate Company, or their Promoters, or Directors, during the two immediately preceding Financial Years or during the Current Financial Year;
- (d) none of whose relatives—
  - (i) is holding any security of or interest in the Company, its Holding, Subsidiary or Associate Company during the two immediately preceding Financial Years or during the Current Financial Year: Provided that the relative may hold security or interest in the company of face value not exceeding fifty lakh rupees or two per cent. of the paid-up capital of the company, its holding, subsidiary or associate company or such higher sum as may be prescribed;
  - (ii) is indebted to the company, its holding, subsidiary or associate company or their promoters, or directors, in excess of such amount as may be prescribed during the two immediately preceding financial years or during the current financial year;
  - (iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, its holding, subsidiary or associate company or their promoters, or directors of such holding company, for such amount as may be prescribed during the two immediately preceding financial years or during the current financial year; or
  - (iv) has any other pecuniary transaction or relationship with the company, or its subsidiary, or its holding or associate company amounting to two per cent. or more of its gross turnover or total income singly or in combination with the transactions referred to in sub-clause (i), (ii) or (iii);
- (e) who, neither himself nor any of his relatives—
  - (i) holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;

Provided that in case of a relative who is an employee, the restriction under this clause shall not apply for his employment during preceding three financial years.

  - (ii) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of—
    - (A) a firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or

- (B) any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to ten per cent. or more of the gross turnover of such firm;
- (iii) holds together with his relatives two per cent. or more of the total voting power of the company; or
- (iv) is a Chief Executive or director, by whatever name called, of any non- profit organisation that receives twenty-five per cent. or more of its receipts from the company, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent. or more of the total voting power of the company; or
- (f) who possesses such other qualifications as may be prescribed.

A certificate shall be obtained annually to determine the Fit and Proper Criteria and Independence of the Director on continuous basis. Independent Director shall also submit to the Board a declaration about inclusion of his/her name in the data bank maintained under Rule 6 of Companies (Appointment and Qualification of Directors) Rules, 2014, each time he submits the declaration required under sub-section (7) of section 149 of the Act.

Nomination and Remuneration Committee would recommend the appointment or otherwise of Directors to the Board of Directors for their approval. The Board shall appoint the directors on such terms and conditions including the remuneration as may be decided by the Board and in accordance with the Companies Act 2013 and such other regulations for the time being in force.

#### **6. Criteria for appointing Managing Director:**

Appointment of any Managing Director of the Company would be proposed by the majority shareholder of the Company or any other Director to the Nomination and Remuneration Committee. The Nomination & Remuneration Committee would evaluate the fit and proper criteria as per RBI Directions and Companies Act, 2013 and recommend action to the Board of Directors.

#### **7. Qualification to become Director:**

An Individual shall possess appropriate skills, experience and knowledge in one or more fields of finance, law, management, sales, marketing, administration, research, corporate governance, technical operations, experience in Banking or Non-Banking Financial Company or other disciplines related to the company's business or as may be further required by the Board. It should be ensured that the proposed candidate do not hold any disqualification mentioned in the Companies Act, 2013 or RBI Master Directions from time to time.

#### **8. Evaluation Methodology**

##### **Evaluation parameter and process for Individual Director**

Each Director will assess his/her own performance and those of his/her fellow Directors through a structured questionnaire covering various aspects which, inter alia, includes level of participation in the Board meetings, understanding their roles and responsibilities and the business of the Company along with the environment and effectiveness of their contribution, responsibility towards stakeholders and independent judgement.

The Board shall discuss the summary report on response received from all the Directors and carry out evaluation of performance of Individual Directors. The Director being evaluated shall not participate in the evaluation process except for responding to the specific queries from the Board. Feedback received from Independent Directors after the discussion at their separate Meeting shall also be considered for evaluation of Non-Independent Directors and Chairman of the Board. The summary of feedback shall be shared to individual directors after the Board Meeting.

### **Evaluation parameter and process for Board and its Committees**

Each Board member will assess the performance of the Board as a whole and that of its committees through a structured questionnaire covering various aspects which, inter alia includes structure, composition, quality, diversity, experience, competencies, performance of duties and obligations effectively, quality decision making and overall Board and committee effectiveness.

The Board shall discuss the summary report on response received from all the Directors and carry out evaluation of performance of the Board as a whole and that of its Committees. Feedback received from Independent Directors after the discussion at their separate Meeting shall be considered for evaluation of Board and Chairman of the Board. The summary of feedback shall be shared to all the directors after the Board Meeting.

### **9. Frequency and Responsibility**

The evaluation process will take place annually in the first month of each Calendar year. The Chairman of Nomination and Remuneration Committee for the last Meeting held in the previous calendar year shall oversee the evaluation process with the help from Company Secretary. A report on compliance with the provisions shall be sent to all the Members of Nomination and Remuneration Committee after the evaluation has been completed by the Board.

It shall be responsibility of each Director to respond to the questionnaire within the timeline, offer honest, unbiased and constructive feedback, endeavour to improve individual performance and collectively work towards betterment of functioning of Board and its Committees.

It shall be the responsibility of the Board to use the evaluation system constructively to improve the effectiveness of the Board, Committees of the Board and Directors by addressing the shortcomings and maximising the strengths.

It shall be the responsibility of the Independent Directors to evaluate objectively the performance of the Non-Independent and Non-Executive Directors and the Board as a whole and 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. The Independent Directors shall hold at least one meeting in a year to review the performance of Non-Individual and Non-Executive Directors and the Board.

## 10. Action Plan

Evaluation parameters on which majority of directors have indicated need for improvement would be identified as areas of reflection and action planning. The Board may devise a plan to address such identified areas and recommend required actions to be undertaken to meet the best governance standard in the Industry. The Board should utilise the evaluation process to effectively perform its role in long term value creation for all the stakeholders at the same time promote harmony, coordination and cohesiveness in the working of the Board and its Committees and the Management.

## 11. Policy Review

The Policy may be reviewed on annual basis to ascertain its appropriateness and as may be required in order to adhere to the Companies Act, 2013 and Rules made thereunder and any other statutory modifications/alterations, if any. This policy is based on the provisions of the Companies Act 2013 and RBI Master Directions. In case of any changes in the provisions of the act or any other regulations which makes any of the provisions of this policy inconsistent with the acts or the regulations, then the provisions of the act or the regulations would prevail over the policy.

## 12. Disclosure

A statement indicating the manner in which formal annual evaluation of the performance of the Board, its Committees and of individual Directors has been made shall be disclosed in the Annual Report every year. The Board of Directors shall review the same before its inclusion in the Annual Report. This policy shall be made available on the website of the Company. The salient features of the policy and any change therein should be specified in brief in the Board's report and the web-address should be indicated therein at which the complete policy is available.