

L&T FINANCE HOLDINGS LIMITED

CORPORATE GOVERNANCE FRAMEWORK

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1. Preamble and LTFS philosophy on Corporate Governance

L&T Financial Services (“LTFS”) believes that corporate governance is a continuous journey towards sustainable value creation for all the stakeholders, which is driven by the values and built on the foundation of assurance. Corporate Governance principles of LTFS are a reflection of culture, policies, relationship with stakeholders and commitment to values and built on the foundation of assurance. The Board of Directors (“Board”) helps to ensure that LTFS have appropriate governance in place, both to support operations and protect Members’ interest. As a good corporate citizen, the Company is committed to sound corporate practices based on conscience, openness, fairness, professionalism and accountability in building confidence of its various stakeholders in it thereby paving the way for its long-term success.

These corporate governance guidelines will help the LTFS group in attaining its objectives/goals, since it encompasses every sphere of operations, management, action plans, internal controls and regulatory disclosure.

2. RBI Guidelines on Corporate Governance

RBI vide its Master Direction - Core Investment Companies (Reserve Bank) Directions, 2016 dated August 25, 2016 and as updated from time to time (“RBI circular”) directed CICs to adopt a Board approved corporate governance framework of the Company providing higher level of governance and disclosure requirements along with management of risk across the Group. The Corporate governance requirements will be as per the Companies Act, 2013.

Accordingly, this framework is drafted in line with the requirements of the RBI Circular.

3. Definitions

Company or LTFH means L&T Finance Holdings Limited;

LTFH Group or LTFS Group means L&T Finance Holdings Limited and all its subsidiaries;

Act means Companies Act, 2013 read with relevant rules thereunder.

4. Governance Structure

A. Board of Directors

Board Composition

The members of the Board of the Company are eminent personalities from various fields and are entrusted with the responsibilities of management, general affairs, direction and performance of the Company. The Board is responsible for and committed to sound principles of Corporate Governance in the Company.

The Board of Directors along with its Committees shall provide leadership and guidance to the Company's management and direct, supervise and control the performance of the Company. The Board of the Company shall have an optimum combination of Executive and Non-Executive directors in compliance with the provisions of Section 149 of the Act and Regulation 17 of the SEBI (Listing Obligations and Disclosure Requirements)

Regulations, 2015 (“SEBI Listing Regulations.”) The Board consists of eminent personalities from diverse fields: entrepreneurs/professionals, private sector/public sector, social sector/commercial sector, banking/non-banking sector.

Commensurate with the size of the Company, complexity and nature of various underlying businesses, the composition of the Board represents an optimal mix of professionalism, knowledge and experience, diversity and enables the Board to discharge its responsibilities and provide effective leadership to the businesses carried on through its subsidiaries.

All the Independent Directors shall confirm to the Board that they meet the criteria for independence in terms of the definition of ‘Independent Director’ stipulated under Regulation 16(1)(b) of the SEBI Listing Regulations and Section 149(6) of the Act. These confirmations shall be placed before the Board.

Board Procedure

The Board shall meet at regular intervals to discuss and decide on policy of the Company / business and strategy apart from other Board business. The Board meetings (including Committee meetings) of the Company as well as of its subsidiaries shall be scheduled in advance. However, in case of a special and urgent business need, separate special Board/ Committee Meetings be held or the approval be taken by passing resolution(s) by circulation, as permitted by law, which shall be noted in the subsequent meeting.

The Company Secretary shall attend all the meetings of the Board and its Committees and advise/ assure to the Board on compliance and governance principles and ensure appropriate recording of minutes of the meetings.

With a view to leveraging technology and reducing paper consumption, the Company has adopted a web-based application for transmitting Board / Committee(s) agenda and minutes. The Directors of the Company receive the agenda in electronic form through this application. The application meets the high standards of security and integrity that is required for storage and transmission of Board / Committee(s) agenda and minutes in electronic form.

The draft minutes of the proceedings of the meetings of the Board / Committee(s) shall be circulated to all the members of the Board or the Committee(s) for their perusal, within fifteen days from the date of the conclusion of the meeting. Comments, if any, received from the Directors shall be incorporated in the minutes. The minutes are to approved by the members of the Board / Committee(s) and signed by the Chairperson of the said meeting or the next meeting and confirmed.

Meeting of Independent Directors

Section 149(8) of the Act read with Schedule IV of the Act and Regulation 25(3) of SEBI Listing Regulations require the Independent Directors of the Company to hold at least one meeting in a financial year as per regulatory requirements without the attendance of non-independent directors and members of the management.

Information to the Board

The Board of Directors shall have an access to the information within the Company, which *inter alia* includes –

- i. Annual revenue budgets and capital expenditure plans of the Company and its subsidiaries.
- ii. Quarterly results and results of operations of subsidiaries.
- iii. Minutes of the meetings of the Board of Directors and Committees.
- iv. Minutes of the Board meetings of subsidiaries.
- v. Details of potential acquisitions or collaboration agreement, if any.
- vi. Material default, if any, in the financial obligations to and by the Company or substantial non-payment.
- vii. Any issue, which involves possible public liability claims of substantial nature, including any judgment or order, if any, which may have strictures on the conduct of the Company.
- viii. Non-compliance of any regulatory, statutory nature or listing requirements and investor service such as non-payment of dividend, delay in share transfer, etc., if any.

Performance Evaluation

The Nomination and Remuneration Committee has approved a policy for evaluation of the Board, its Committees and Directors and the same has been approved by the Board of the Company. The process for the aforesaid evaluation as required is given in the Board's Report.

Familiarization programme

Regulation 25(7) of the Listing Regulations requires listed companies to familiarise independent directors through various programmes including the nature of the industry in which the company operates, business model, roles, rights and responsibilities of Independent Directors and other relevant information.

The Company engages with the Independent Directors of the Company through various ways. Some of them are given below:

1. All new Independent Directors inducted on the Board are given an orientation.
2. The Company ensures necessary training to the Directors relating to its businesses through formal/informal interactions.
3. Presentations are made to the Directors at Board and Committee Meetings which inter alia, covers business strategies, management structure, management development, quarterly and annual results, budgets, review of Internal Audit, risk management framework, operations of subsidiaries and associates, etc.
4. Periodical newsletters/economic updates are sent to the Board members of the Company.

The Company shall ensure necessary training to the Directors relating to its businesses through formal/ informal interactions. Systems and resources are made available to the members of the Board.

B. Code of Conduct

The Company has adopted a Code of Conduct/ Business Ethics for its Non-Executive Directors. All Non-Executive Directors on the Board of the Company ensures compliance with the same.

The Company has also framed a Code of Conduct for its employees which covers employees of the LTFS group. Accordingly, all employees of the LTFS group including Executive Directors follow aforesaid Code of Conduct.

The Company has also framed a Securities Dealing Code laying down guidelines and framework for transacting in the securities (listed securities of the LTFS entities) for its employees across the LTFS group. Accordingly, all employees of the LTFS group including Directors follow aforesaid Code.

C. Committee of the Board

The structure of a Board and the planning of the Board's work are key elements to effective governance. Establishing Committees is one way of managing the work of the Board, thereby strengthening the Board's governance role. The Board Committees play a crucial role in the governance structure of the Company and have been constituted to deal with specific areas /activities of the Company. The Board is regularly briefed about the deliberations, including summary of discussions and decisions, taken by the Committees through the minutes of the meetings. The business transacted by the Committees of the Board is placed before the Board for noting/ recommendation/approval as applicable.

The Board has currently constituted the following Committees pursuant to the provisions of the Act, SEBI Listing Regulations and Reserve Bank of India regulations:

I. Audit Committee

The Company has in place an Audit Committee constituted under the provisions of Section 177 of the Act, Regulation 18 of the SEBI Listing Regulations and in terms of applicable RBI guidelines in this regard.

The Audit Committee shall have the powers and duties conferred upon it in compliance with the provisions of the Act, applicable SEBI Regulations, RBI guidelines and such other duties, obligations and powers as may be prescribed by the Board of the Company from time to time.

All the members of the Audit Committee are financially literate. and have accounting or related financial management expertise. The Company Secretary is the Secretary to the Committee.

II. Nomination and Remuneration Committee

The Company has in place a 'Nomination and Remuneration Committee' in compliance with the provisions of Section 178 of the Act, Regulation 19 of the Listing Regulations and the same is in conformity with the RBI guidelines issued in this regard from time to time.

The Nomination and Remuneration Committee shall have the powers and duties conferred upon it in compliance with the provisions of the Act, applicable SEBI Regulations, RBI guidelines and such other duties, obligations and powers as may be prescribed by the Board of the Company from time to time.

III. Asset-Liability Management Committee (ALCO)

The Company has in place the Asset-Liability Management Committee ("ALCO") constituted in accordance with the RBI guidelines. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. The Company has a Board approved Asset Liability Management Policy in place and required disclosures to the effect are made from time to time. ALCO shall provide guidance in following areas:

- Monitoring market risk management systems, compliance with the asset liability management policy and prudent gaps and tolerance limits and reporting systems set out by the Board of Directors and ensuring adherence to the RBI Guidelines issued in this behalf from time to time;
- Monitoring the business strategy of the Company (on the assets and liabilities sides) in line with the Company's budget and decided risk management objectives;
- Reviewing the effects of various possible changes in the market conditions related to the balance sheet and recommend the action needed to adhere to the Company's internal limits; and
- Balance Sheet planning from risk-return perspective including the strategic management of interest rate and liquidity risks.

IV. Group Risk Management Committee ("GRMC")

The Company has in place a Group Risk Management Committee ("GRMC") constituted by the Board of Directors and as required by the RBI Circular. GRMC would be responsible for the risk management function of all the LTFH group companies. This will include the risk monitoring regarding transactions of investee companies of LTFH with other group companies of L&T Limited.

The role of the GRMC includes the following:

- a. Formulate a detailed risk management policy including:
 - i. A framework for identification of internal and external risks specifically faced by the Company, its subsidiaries and the respective businesses ("LTFH Group"), in particular including financial, market, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee;
 - ii. Measures for risk mitigation including systems and processes for internal control of identified risks; and
 - iii. Business continuity plan.
- b. Analyze the material risks to which LTFH Group is exposed to;
- c. Discuss all risk strategies both at an aggregated LTFH Group level and by type of risk and make recommendations to the Board in accordance with LTFH Group's overall risk appetite;
- d. Identify potential intra-group conflicts of interest;
- e. Articulate the leverage of LTFH Group and monitor the same;
- f. Ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of LTFH Group and facilitate exchange of information for effective risk oversight of LTFH Group;
- g. Assess whether the corporate governance framework addresses risk management across LTFH Group;
- h. Monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;
- i. Undertake risk monitoring regarding transactions of investee companies of the Company with other group companies of L&T Limited;
- j. Periodically review the risk management policy, at least once a year including by considering the changing industry dynamics and evolving complexity;
- k. Periodically carry out independent formal review of the LTFH Group structure and internal controls;
- l. Keep the Board informed about the nature and content of its discussions, recommendations and actions to be taken;

- m. Review the appointment, removal and terms of remuneration of the Chief Risk Officer (if any); and
- n. Such other functions as the Board may from time-to-time delegate to it with respect to the Risk Management function of the Company and the group or may be prescribed under law.

V. Corporate Social Responsibility (“CSR”) and ESG Committee

The Company has in place CSR and ESG Committee constituted by the Board of Directors in compliance with the Act.

The role of CSR and ESG Committee includes the following:

- Formulation of CSR policy indicating the activities to be undertaken by the Company as per regulatory requirements and recommend the same to the Board;
- Recommending the annual action plan and the amount to be spent on CSR activities;
- Monitoring the implementation of the CSR policy;
- Formulation of action plan/ guidelines/policies with regard to Sustainability/ ESG;
- Reviewing implementation of the action plan;
- Approving the Sustainability Report.

VI. Stakeholders Relationship Committee (“SRC”)

The Company has in place Stakeholders Relationship Committee constituted by the Board of Directors in compliance with the provisions of Section 178 of the Act and Regulation 20 of the Listing Regulations.

- Reviewing implementation of the action plan; and
- Approving the Sustainability Report.
- Reviewing of cases for refusal of transfer / transmission of shares, debentures and other securities, if any;
- Redressal of stakeholders and investor complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends, non-receipt of interest, etc.;
- Reference to statutory and regulatory authorities regarding security holders' grievances;
- Ensuring proper and timely attendance and redressal of security holders' queries and grievances;
- Reviewing of measures taken for effective exercise of voting rights by shareholders;
- Reviewing of adherence to the service standards adopted by the Company in respect of various services being rendered by the Registrar & Share Transfer Agent; and
- Reviewing of the various measures and initiatives taken by the Company for reducing the quantum of unclaimed dividends and ensuring timely receipt of dividend warrants / annual reports / statutory notices by the shareholders of the Company.

VII. Committee of Directors (“COD”)

The COD of the Company was constituted to facilitate the operational decisions within the broad framework laid down by the Board such as day to day operational decisions

of the Company in terms of borrowing powers, additional investment in subsidiaries, etc.

VIII. IT Strategy Committee (“ITC”)

As a part of good corporate governance, the Board of Directors of the Company has constituted an ITC on a voluntary basis.

The role of ITC includes the following:

- Approving Information Technology (“IT”) strategy and policy documents and ensuring that the management has put an effective strategic planning process in place;
- Ascertaining that management has implemented processes and practices that ensure that the IT delivers value to the business;
- Ensuring IT investments represent a balance of risks and benefits and those budgets are acceptable;
- Monitoring the method that management uses to determine the IT resources needed to achieve strategic goals and provide high-level direction for sourcing and use of IT resources;
- Ensuring proper balance of IT investments for sustaining NBFC’s growth and becoming aware about exposure towards IT risks and controls; and
- Instituting an effective governance mechanism and risk management processes for all outsourced IT operations.

D. Chief Risk Officer (“CRO”)

In terms of RBI Circular, the Company has appointed a CRO with clearly specified roles and responsibilities. The CRO has adequate professional qualification/ experience in the area of risk management. The CRO functions independently so as to ensure highest standards of risk management.

E. Fit & Proper Criteria

The Company has in place a Board approved policy on ‘Fit and Proper Criteria for Directors’ (“the Policy”).

Pursuant to the Policy, the Company obtains necessary declarations from Directors from time to time.

Further, the Company ensures compliance with the provisions laid down in the said Policy. Further, as required under the above referred RBI circulars, the Company shall ensure to furnish to the RBI on a quarterly basis, statement on change of directors and a certificate confirming that fit and proper criteria in selection of the directors has been followed. The same should be submitted to the Regional Office of RBI within 15 days of the close of the respective quarter and the statement for the quarter ending March 31, should be certified by the auditors.

F. Vigil Mechanism

Pursuant to Rule 7 of the Companies (Meetings of Board and its Powers) Rules 2014 read with Section 177(9) of the Act and Regulation 22 of the Listing Regulations, the Company has framed and adopted Vigil Mechanism Framework (“the framework”) to

enable directors and employees to report genuine concerns about unethical behaviour, actual or suspected fraud or violation of Code of Conduct.

Under the framework, the Company has set up 'Whistle Blower Investigation Committee', which is in compliance with the requirements of the Act and SEBI Listing Regulations. The objective of this mechanism is to maintain a redressal system which can process all complaints concerning questionable accounting practices, internal controls, or fraudulent reporting of financial information.

G. Disclosure and Transparency

The disclosure requirements for the Company will be as per the guidelines contained in "Annex V- Disclosure Requirements" of the RBI circular.

H. Policies adopted by the Company

The Company has framed all the policies as required by the Reserve Bank of India, the Act, and Securities Exchange Board of India. All these policies required under any law have been also approved by the Board. As an overall corporate governance framework all these policies are reviewed/amended annually.

5. Risk Management across LTFS group

Credit Risk: The Company has a wide-ranging underwriting framework in place. This framework helps guide individual businesses to optimum credit decisions. This framework is further supported by risk limits across various parameters including products, sectors, geographies and counterparties. The Company also has a provisioning policy which is cautious, conservative and prudent in nature.

Market Risk/Liquidity Risk: The Company maintains a positive liquidity gap on a cumulative basis in all time buckets up to 1 year at LTFH consolidated level. A contingency funding plan has also been put into practice by your company for responding to severe disruptions which might affect the ability to fund some or all activities in a timely manner and at a reasonable cost. The company also maintains a positive interest rate sensitivity gap over a one-year horizon.

Operational Risk: The Company's effective and pre-emptive Operational Risk framework is overseen by the Operational Risk Management Committee. The Operational Risk team examines operational risks and incidents in a way to ensure robust continuance of processes and systems.

Sustainability (particularly, ESG related risks): ESG risk will be integrated into Risk Management in the next few years. In some of the LTFH's businesses viz, IDF, ESDD of renewable projects has been initiated on the basis of the IFC's Performance Standards. Most of the lending contracts of the infrastructure business of LTFH have covenants covering Environmental and Social requirements and mandating adherence by the investee company/project.

Information, cyber security risks: LTFH has an integrated Cyber Security in its IT Security policies and procedures which enables it to mitigate risks. It has instituted security protocols such as firewalls, intrusion prevention system to detect and stop threats. It also has separations for internal facing applications and critical internal applications and processes to recognise, monitor and mitigate IT Security Risks.

Any other risk as may be determined by the GRMC;

6. REVIEW / REVISION OF POLICY:

If at any point a conflict of interpretation / information between the Policy and any regulations, rules, guidelines, notification, clarifications, circulars, master circulars/directions issued by relevant authorities (Regulatory Provisions) arises, then interpretation of the Regulatory Provisions shall prevail.

In case of any amendment(s) and/or clarification(s) to the Regulatory Provisions, the Policy shall stand amended accordingly from the effective date specified as per the Regulatory Provisions.

Last amended/reviewed on October 2022.