

L & T FINANCE LIMITED

POLICY ON INTERNAL CORPORATE GOVERNANCE

Version	Date of adoption	Change reference	Owner	Approving authority
1.0	October, 2015	Policy drafted and approved by the Board	Group Regulatory Compliance	Board of Directors
1.1	October, 2017	Policy reviewed and updated as per RBI guidelines	Group Regulatory Compliance	Board of Directors
1.2	October , 2018	Policy reviewed and updated as per RBI guidelines	Group Regulatory Compliance	Board of Directors
1.3	October , 2019	Policy reviewed and updated as per RBI guidelines	Group Regulatory Compliance	Board of Directors
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Important Note:

If at any point a conflict of interpretation / information between this Policy and any Regulations, Rules, Guidelines, Notification, Clarifications, Circulars, Master Circulars/ Directions by Reserve Bank of India arise then interpretation of such Regulations, Rules, Guidelines, Notification, Clarifications, Circulars, Master Directions issued by Reserve Bank of India shall prevail.

TABLE OF CONTENTS

1. Preamble and Company's philosophy on Corporate Governance	4
2. RBI Guidelines on Corporate Governance	4
3. Governance Structure	4
A. Board of Directors	4
B. Code of Conduct.....	4
C. Committee of the Board.....	4
D. Chief Risk Officer	8
E. Fit & Proper Criteria	8
F. Vigil Mechanism	8
G. Disclosure and Transparency.....	9
H. Statutory Auditors	10
I. Policies adopted by the Company	10
4. Review.....	10

1. Preamble and Company's philosophy on Corporate Governance

L&T Finance Limited (“**the Company / LTF**”) is a wholly owned subsidiary of L&T Finance Holdings Limited (“**LTFH**”) and is a Non Deposit Accepting – Systemically Important Non-Banking Finance Company (“**NBFC-ND-SI**”) and is registered with the Reserve Bank of India (“**RBI**”) as a “Investment and Credit Company”

The Company draws its philosophy from its parent LTFH, which is a Non-Banking Finance Company – Core Investment Company and whose shares are listed on the stock exchanges. It is the Company's endeavor to excel through better Corporate Governance and fair and transparent practices.

Corporate Governance means the system of rules, practices and processes by which a company is administered and controlled. It involves balancing the interests of the various stakeholders of the company including shareholders, employees, customers and the community within which it operates. These corporate governance guidelines will help the Company 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 DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 and as updated from time to time (“RBI circular”) directed NBFCs to frame internal guidelines on corporate governance which is to be approved by its Board of Directors.

3. Governance Structure

A. Board of Directors

The Board of Directors (“the Board”) 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 Companies Act, 2013 and other regulatory guidelines, if any.

B. Code of Conduct

The Company has framed 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.

Further, the parent Company viz, LTFH has framed a Code of Conduct for its employees which covers employees of all the entities under LTFH. Accordingly all employees of the Company including Executive Directors follow aforesaid Code of Conduct as framed by the parent Company, LTFH

C. Committee of the Board

The Board functions as a full Board and also through various Committees constituted to oversee specific areas. The Committees have oversight of

operational issues assigned to them by the Board. Accordingly, the core Committees constituted by the Board in this connection are as follows:

I. Audit Committee

The Company has in place an Audit Committee constituted under the provisions of Section 177 of the Companies Act, 2013 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 Section 177 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.

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 Companies Act, 2013 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 Section 178 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:

- Monitor and discuss the status and results implemented asset/liability management strategies and tactics
- Develop alternate strategies deemed appropriate
- Develop parameters for the pricing and maturity distributions of loans and investments
- Independent review of Asset Liability Management Model
- 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;
- Deciding the business strategy of the Company (on the assets and liabilities sides) in line with the Company's budget and set risk management objectives;
- Review 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;

- Balance Sheet planning from risk-return perspective including the strategic management of interest rate and liquidity risks;
- Product pricing for both deposits and advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by other peer NBFCs for similar services/products, etc.;
- Reviewing the current interest rate outlook of the Company and decide about the future business strategy accordingly; and
- Deciding on the source and mix of liabilities or sale of assets.

IV. Risk Management Committee (RMC)

The Company has in place a Risk Management Committee constituted by the Board of Directors and as required by the Reserve Bank of India. The main objective of RMC is to assist the Board in effective discharge of the responsibilities of risk management and internal controls. The Committee derives its powers and responsibilities from Board of Directors and functions as per the directions of the Board. RMC shall provide directions in the following areas:

- To nurture risk management culture in the organisation
- Assess overall efficacy of risk management function through review of reports submitted by various departments
- Suggest ways to mitigate risk and improve internal controls to prevent re-occurrence of risk events;

V. Credit Committee (CC)

The Company has in place Credit Committee constituted by the Board of Directors and as required by the Reserve Bank of India. The main functions are as below:

- Evaluate financing opportunities aligned to the risk-return strategy of the organization
- Evaluate credit appraisal, monitor business portfolio
- Build a sound and focused asset portfolio with selective churning of the portfolio to enhance returns on capital employed
- Better management of credit risk profile of the portfolio with emphasis on quality, close monitoring, timely collection and well delineated exit options
- Develop a robust institutional structure that is responsive, factors in internal and external environment and is based on sound corporate governance principles of transparency, accountability and professionalism.

VI. IT Strategy Committee

The Company has in place Credit Committee constituted by the Board of Directors and as required by the Reserve Bank of India. The main functions are as below:

- 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 that 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.
- Institute an effective governance mechanism and risk management processes for all outsourced IT operations.
- The Role of IT Strategy committee in respect of outsourced operations shall include:
 - Defining a Framework for outsourced activities and processes, comprising of risk based policies and procedures, to effectively identify, measure, monitor and control risks associated with outsourcing in an end to end manner;
 - Defining approval authorities for outsourcing depending on nature of risks and materiality of outsourcing;
 - Developing sound and responsive outsourcing risk management policies and procedures commensurate with the nature, scope, and complexity of outsourcing arrangements;
 - Undertaking a periodic review of outsourcing strategies and all existing material outsourcing arrangements;
 - Evaluating the risks and materiality of all prospective outsourcing based on the framework developed by IT Strategy Committee;
 - Ensuring that, the business continuity preparedness is not adversely compromised on account of outsourcing. Ensuring sound adoption of the business continuity management practices as issued by RBI and seeks proactive assurance that the outsourced service provider maintains readiness and preparedness for business continuity on an on-going basis

VII. Other Committees

In addition to the aforesaid Committees, the Company has also constituted the following Committees:

- Corporate Social Responsibility Committee
- Committee of Directors
- Investment Committee
- Stakeholders Relationship Committee
- Executive Committee
- Securities transfer committee

D. Chief Risk Officer

In terms of RBI circular RBI/2018-19/184DNBR (PD) CC.No.099/03.10.001/2018-19 dated May 16, 2019 the Company has appointed a CRO with clearly specified roles and responsibilities. The CRO functions independently so as to ensure highest standards of risk management.

E. Fit & Proper Criteria

In terms of RBI circular no RBI/2014-15/299 DNBR (PD) CC.No.002/03.10.001/2014-15 dated November 10, 2014 and RBI Master Circular no. RBI/2015-16/12 DNBR (PD) CC.No.053/03.10.119/2015-16 dated July 01, 2015, 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 disclosures 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, 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 Companies Act, 2013. 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

- A. The Company shall update the Board of Directors through the Risk Management Committee, on annual basis or such other frequency as decided by the Board, the following:
- The progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the Company;
 - 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 following shall be disclosed in the Company's Annual Financial Statements:
- 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 the Company has also securitization/ assignment transactions and other disclosures, as may be prescribed by RBI from time to time.
 - Amount of funds raised through PDI during the year and outstanding at the close of the financial year;
 - Percentage of the amount of PDI of the amount of its Tier I Capital;
 - Mention the financial year in which interest on PDI has not been paid in accordance with clause above.
 - The exposures where the applicable NBFC had exceeded the prudential exposure limits during the year. The sanctioned limit or entire outstanding, whichever is high, shall be reckoned for exposure limit.
 - Information relating to number and amount of advances restructured, and the amount of diminution in the fair value of the restructured advances

H. Statutory Auditors

The appointment of Statutory auditors and the partner/s of the Chartered Accountant Firm conducting the Statutory Audit of the Company, shall be in terms of the provisions of Section 139 and 141 of the Companies Act, 2013 and in accordance with the applicable RBI guidelines as amended from time to time.

I. Policies adopted by the Company

The Company has framed all the policies as required by the Reserve Bank of India, Companies 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.

4. Review

These guidelines shall be reviewed by the Board of Directors at such intervals as and when deemed necessary, in order to align the same with the prevalent regulatory and business requirements.