

L & T FINANCE LIMITED

POLICY ON INTERNAL CORPORATE GOVERNANCE

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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 (“the Act”) 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 Act 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 Act 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 IT Strategy 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 and ESG Committee
- Committee of Directors
- Investment Committee
- Stakeholders Relationship Committee

- Executive Committee
- Securities transfer committee

D. Calendar of Review of the Committees:

In terms of RBI notification no. RBI/2021-22/112 DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021. The Company delineated the role of committees and laid down the calendar of reviews on the important aspects of Company's working in the frequency as required. The details of the same is mentioned in Annexure I.

Further, the Committee shall also undertake all such tasks/activities as delineated to it pursuant to the requirements of any law/rules/regulations as amended from time to time, instruction of the Regulator, and/or as outlined by the Board through policy or otherwise.

E. 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.

F. 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 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.

G. 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 Act. 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.

H. 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 Corporate Governance report containing composition and category of directors, shareholding of non-executive directors, etc.

- Disclosure on modified opinion, if any, expressed by auditors, its impact on various financial items and views of management on audit qualifications.
- Items of income and expenditure of exceptional nature.
- Breaches in terms of covenants in respect of loans availed by the NBFC or debt securities issued by the NBFC including incidence/s of default.
- Divergence in asset classification and provisioning above a certain threshold to be decided by the Reserve Bank and;
- Any other disclosures as required under RBI regulations as amended from time to time.

I. 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 Act and in accordance with the applicable RBI guidelines as amended from time to time.

J. 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.

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.

Annexure-I

Calendar of Review

1. Audit Committee

Sr. No	Particular
Quarterly	
1.	Review and monitor the auditor's independence and performance, and effectiveness of audit process;
2.	Review with the management, the quarterly financial statements before submission to the Board for approval and the auditor's report thereon;
3.	Approval or any subsequent modification of transactions of the Company with related parties;
4.	Evaluation of internal financial controls and risk management systems;
5.	Review with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter
6.	Functioning of the Whistle-blower Mechanism/ Vigil Mechanism of the Company;
7.	Review of quarterly notes and compliance to Master Direction – Know Your Customer (KYC) Direction, 2016
8.	Monitoring and review of frauds detected in quarter along with status update of frauds detected previously.
9.	Review of internal audit report
10.	Approval as required under the "Provisioning Policy for all Credit Exposures"
11.	Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
12.	Discuss with the auditors periodically (including before the audit commences) on internal control systems, nature and scope of audit including observations of the auditors and post audit discussion to ascertain any area of concern, and review the half yearly and annual financial statements before submission to the Board and ensure compliance of internal control system;
13.	Ensure Information System Audit of the internal systems and processes to assess operational risks faced by the Company in accordance with the requirements stipulated by RBI;
14.	Right to call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and discuss any related issues with the internal and statutory auditors and the management of the company;
15.	Reviewing the utilization of loans and/ or advances from/investment by the holding company in the subsidiary exceeding rupees 100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans / advances / investments existing as on the date of coming into force of this provision;
16.	Review the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
17.	Discuss with internal auditors of any significant findings and follow up thereon;
Half-yearly	
18.	Scrutiny of inter-corporate loans and investments;
19.	Review cases of frauds attempted in the last half year involving ₹ 25,00,000 and above.
Annual	
20.	Review with the management, the annual financial statements and auditor's report thereon before submission to the Board for approval, with particular reference to:

Sr. No	Particular
	a. matters required to be included in the director's responsibility statement to be included in the board's report in terms of clause (c) of sub-section (3) of Section 134 of the Companies Act, 2013; b. changes, if any, in accounting policies and practices and reasons for the same; c. major accounting entries involving estimates based on the exercise of judgment by management; d. significant adjustments made in the financial statements arising out of audit findings; e. compliance with listing and other legal requirements relating to financial statements; f. disclosure of any related party transactions; g. modified opinion(s) in the draft audit report.
21.	Recommend on financial management including audit report which shall be binding on the Board;
22.	Annual review of outsourced activities
23.	Evaluation of independence and performance of the statutory auditor(s)
24.	Review of auditor's report provided in line of Master Direction – Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016
25.	Review compliance with the provisions of along with assessment of internal controls and its effectiveness.
26.	Consolidated annual review of all the attempted frauds containing information regarding area of operations where such attempts were made, effectiveness of new process and procedures put in place during the year, trend of such cases during the last three years, need for further change in process and procedures, if any, etc. as on March 31 every year.
27.	Review of list major compliance risk faced by the NBFC along with plans of mitigating the same.
28.	Assessment of adherence to risk based internal audit policy

2. Stakeholder Relationship Committee

Sr. No	Particular
	Annual
1.	Resolving the grievances of the security holders of the Company including complaints related to transfer/transmission of shares, non-receipt of annual report, non-receipt of declared dividends, issue of new/duplicate certificates, general meetings etc.;
2.	Review of measures taken for effective exercise of voting rights by shareholders;
3.	Review of adherence to the service standards adopted by the listed entity in respect of various services being rendered by the Registrar & Share Transfer Agent; and
4.	Review 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.

3. Corporate Social Responsibility Committee

Sr. No	Particular
	Annual
1.	Formulation of CSR policy indicating the activities to be undertaken by the Company as per regulatory requirements and recommend the same to the Board;
2.	Recommending the annual action plan and the amount to be spent on CSR activities;
3.	Monitoring the implementation of the CSR policy;
4.	Formulation of action plan/ guidelines/policies with regard to Sustainability / ESG;
5.	Reviewing implementation of the action plan; and

Sr. No	Particular
6.	Approving the Sustainability Report.

4. Nomination and Remuneration Committee

Sr. No	Particular
	Annual
1.	Identify persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down recommend to the Board their appointment and removal and shall carry out evaluation of every director's performance;
2.	Formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration for the directors, key managerial personnel and other employees;
3.	Ensure that:
	(a) the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully;
	(b) relationship of remuneration to performance is clear and meets appropriate performance benchmarks.
4.	Ensure fit and proper status of existing/proposed reference directors by obtaining necessary information and declaration from them and undertake a process of due diligence to determine suitability of the person for appointment/continuing to hold appointment as Director on the Board based upon qualification, expertise, track record, integrity and other relevant factors. The process of due diligence should be undertaken at the time of initial appointment and also prior to reappointment;
5.	Obtain annual declaration confirming that the information already provided had not undergone change and if there is any change requisite details would be furnished by the directors forthwith;
6.	Focus on evaluating senior level employees their remuneration, promotion etc.
7.	Formulate of criteria for evaluation of performance of Independent Directors and the board of directors;
8.	Devise a policy on diversity of board of directors;
9.	Recommend to the Board, all remuneration, in whatever form, payable to senior management.
10.	Review declaration of fit and proper criteria received from directors
11.	Setting up of key result areas for key-managerial personnel and group executive committee members.
12.	Review of succession plan/methodology

5. ALCO

Sr. No	Particular
Monthly	
1.	Monitoring / reporting of liquidity risk and Interest rate risk limits as well as stock ratios specified in ALM policy
2.	Review of liquidity position as well as dynamic cash flow statement covering borrowing requirement and funding plan for the current quarter and subsequent quarter (subsequent quarter presented in the ALCO meeting prior to the start of the said quarter)
3.	Compliance to Liquidity Coverage Ratio (LCR) requirements
4.	Review of the result of the Early Warning Signals defined under the Contingency funding Plan forming part of the ALM Policy
5.	Review of derivatives transactions for hedging interest rates and currency risk
6.	Review of borrowing funding mixes between fixed vs. floating rate funds, instrument-wise break-up of outstanding sources of funding as well as incremental borrowings raised and repayment of funds along with its funding cost during the current month compared with the previous month.
7.	Review of quantum of liquid assets as well as return on liquid assets investments
8.	Review of Action Taken Report, if any
9.	Update on the Economic and Interest Rate Outlook
10.	Review of variance analysis (for tenor of up to 1 month) of Statement of Structural Liquidity
Quarterly	
11.	Review of stress scenario analysis on liquidity gap statements
Half-yearly	
12.	Review of Behavioural studies of various items of assets, liabilities and off-balance sheet items for preparation of ALM reports <ul style="list-style-type: none"> a. Prepayment study on asset book – HL / LAP, Real Estate, Infrastructure financing b. Sell-down assumption for Infrastructure financing book
Annual	
13.	Review and recommend amendments in below policy, if any: <ul style="list-style-type: none"> a. Policy on Planning and raising of resources b. Treasury Risk Management Policy c. Asset Liability Management (ALM) Policy d. Policy for Investment of Surplus Funds Policy on Perpetual Debt Instrument Management
14.	Review of Prime Lending Rate benchmark used in the pricing of floating rate asset book (E.g.: Real Estate, HL, LAP and Infrastructure financing)

6. IT Strategy Committee

Sr. No	Particular
Quarterly	
1.	IT Security Posture
2.	IT Audit/ Governance
3.	IT Projects/ Digitisation Project

Last amended/reviewed on January 2023.

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
1.4	October, 2020	Policy reviewed and updated as per RBI guidelines	Group Regulatory Compliance	Board of Directors
1.5	October, 2021	Policy reviewed and updated as per RBI guidelines	Group Regulatory Compliance	Board of Directors
1.6	October, 2022	No change	Group Regulatory Compliance	Board of Directors
1.7	January, 2023	Policy updated as per RBI notification on Scale Based regulation.	Group Regulatory Compliance	Board of Directors