

**SAKTHI FINANCE LIMITED
COIMBATORE - 18**

**Internal Guidelines on
Corporate Governance**

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1. INTRODUCTION

- 1.1 Sakthi Finance Limited ("**the Company or SFL**") is a Deposit Taking – Systemically Important Non-Banking Finance Company ("**NBFC-D-SI**") and is registered with the Reserve Bank of India ("**RBI**") as an "Investment and Credit Company" (formerly Asset Financing Company).
- 1.2 The Equity Shares and Non-Convertible Debentures ("**NCDs**") of the Company are listed on the BSE Limited.

2. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

- 2.1 Corporate Governance is a set of principles, processes and systems to be followed by Directors, Management and all the employees of the Company for enhancement of shareholders value, keeping in view the interest of all other stakeholders. Integrity, transparency and compliance with regulations in dealing with members, employees, customers, lenders, regulators and government agencies are the objectives of good corporate governance. The Company adopts and practices these principles of good Corporate Governance while ensuring integrity, transparency and accountability at all levels in the organisation.

3. RBI DIRECTIONS ON CORPORATE GOVERNANCE

- 3.1 The Company has already been complying with the Corporate Governance norms as per the RBI Directions, SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 and the Companies Act 2013.
- 3.2 In view of the RBI Master Direction No DNBR. PD. 008/03.10.119/2016-17 dated 1 September 2016 (Chapter XI, updated as on 17th February 2020), this Guidelines is documented and is to be approved by the Board of Directors. Accordingly, the Company has framed these Guidelines.
- 3.2 These Corporate Governance Directions will help the Company in attaining its objectives / goals, since it encompasses every sphere of Management, Operations, Action Plans, Internal Control and Regulatory Disclosure.

4. GOVERNANCE STRUCTURE

4.1 Board of Directors

- 4.1.1 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 operations of the Company.
- 4.1.2 The Board of the Company shall have an optimum combination of Executive and Non-Executive Directors (including a Woman Director) in compliance with the Companies Act 2013 ("**the Act**"), SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 ("**Listing Regulations**") and other regulatory guidelines, if any.

4.2 Code of Conduct for Directors and Senior Management Personnel

- 4.2.1 The Company has framed a Code of Conduct for its Directors and Senior Management Personnel ("**the Code**"). All Executive and Non-Executive Directors on the Board and Senior Management Personnel of the Company ensure compliance with the Code.

4.3 Committees of the Board

- 4.3.1 The Board functions as a full Board and also through various Committees constituted by it to oversee specific areas. The Committees have oversight of operational responsibilities assigned to them by the Board. Accordingly, the core Committees constituted by the Board in this regard are as follows:

4.3.1.1 Audit Committee

- 4.3.1.1.1 The Company has constituted an Audit Committee in accordance with the provisions of Section 177 of the Act and in terms of applicable RBI guidelines in this regard.
- 4.3.1.1.2 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 Listing Regulations 2015, RBI guidelines and such other duties, obligations and powers as may be assigned by the Board of the Company, from time to time.

4.3.1.2 Nomination and Remuneration Committee

4.3.1.2.1 The Company has constituted a Nomination and Remuneration Committee in compliance with the provisions of Section 178 of the Act, and it is also in conformity with the RBI guidelines issued in this regard from time to time.

4.3.1.2.2 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 Listing Regulations 2015, RBI guidelines and such other duties, obligations and powers as may be delegated by the Board of the Company from time to time.

4.3.1.3 Asset Liability Management Committee

4.3.1.3.1 The Company has put in place an Asset Liability Management Committee ("**ALCO**") constituted in accordance with the RBI guidelines. The ALCO reviews the Company's fiscal and risk management policies and practices adopted by the Company. The Company has a Board approved Asset Liability Management Policy in place and the required disclosures to the effect are made from time to time.

4.3.1.3.2 ALCO shall provide guidance in the following areas:

- Monitor and discuss the status and results of implemented asset / liability management strategies and tactics
- Develop parameters for the pricing and maturity distributions of advances, public deposits and investments
- Independent review of Asset Liability Management Model

4.3.1.4 Risk Management Committee

4.3.1.4.1 The Company has constituted a Risk Management Committee (“**RMC**”) by its 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 draws its powers and responsibilities from Board of Directors and functions as per the directions of the Board.

4.3.1.4.2 RMC shall provide directions in the following areas:

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

4.3.1.5 Information Technology (“IT”) Strategy Committee

4.3.15.1 The Company has constituted an Information Technology (“**IT**”) Strategy Committee in terms of the requirements of the Reserve Bank of India Directions.

4.3.1.5.2 The scope of the Committee is as follows:

- Providing input to other Board Committees and Senior Management.
- Carrying out review and amending the IT strategies in line with the corporate strategies, Board Policy reviews, cyber security arrangements and any other matter related to IT Governance.
- Approving 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 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 Company's growth and becoming aware about exposure towards IT risks and controls

4.3.1.6 Other Committees of the Board

4.3.1.6.1 Apart from the above Committees, the Company has also constituted the following Committees:

- Stakeholders' Relationship Committee
- Corporate Social Responsibility Committee
- Policy Review Committee
- Finance and Investment Committee
- Allotment Committee
- NCD Issuance Committee
- Credit Committee

4.4 Chief Risk Officer ("CRO")

4.4.1 RBI has, by its Circular RBI/2018-19/184DNBR (PD) CC. No.099 / 03.10.001 / 2018-19 dated 16 May 2019, advised the NBFCs with specified asset threshold limits (more than ₹ 5,000 crores) to appoint a CRO with clearly specified roles and responsibilities. The CRO is required to function independently so as to ensure highest standards of risk management.

4.4.2 At present, the appointment of CRO is not applicable for our Company.

4.5 Fit and Proper Criteria in the appointment of Directors

4.5.1 As required by RBI Circular No. RBI/2014-15/299 DNBR (PD) CC.No.002 / 03.10.001 / 2014-15 dated 10 November 2014, the Company has a Board approved policy on 'Fit and Proper Criteria in the appointment of Directors' (**"the F & P Policy"**). In compliance of the F & P Policy, the Company gets necessary disclosures from Directors from time to time. Further, the Company ensures compliance with the provisions as stipulated in the F & P Policy.

- 4.5.2 Moreover, as required under the above RBI circular, the Company shall ensure to furnish to the RBI on a quarterly basis, a statement on change of directors, if any and a certificate confirming that fit and proper criteria in selection of the directors has been followed. It should be submitted to the Regional Office of RBI within fifteen (15) days from the end of the respective quarter and the statement for the quarter ending 31 March shall also be certified by the statutory auditors.

4.6. Whistle Blower Policy (“Vigil Mechanism”)

- 4.6.1 In terms of Section 177(9) of the Act read with Rule 7 of the Companies (Meetings of Board and its Powers) Rules 2014, as amended, the Company has framed and adopted a Whistle Blower Policy (“**Vigil Mechanism**”) to enable directors and employees to report genuine concerns about unethical behaviour, actual or suspected fraud or violation of Code of Conduct.
- 4.6.2 The objective of this mechanism is to maintain a redressal system which can process all complaints concerning improper accounting practices, internal controls or fraudulent reporting of financial information.

4.7. Disclosure and Transparency

- 4.7.1 The Company shall update the Board of Directors through the Risk Management Committee, on annual basis or such other frequency as may be decided by the Board, the progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the Company.
- 4.7.2 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;
 - asset-liability profile products, NPAs and movement of NPAs, details of all off-balance sheet exposures as also securitization / assignment transactions and other disclosures, as may be prescribed by RBI from time to time.

4.8. Statutory Auditors

4.8.1 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.

4.9 Policies adopted by the Company

4.9.1 Following are the primary policies which are framed and adopted by the Board / Committees of the Company and which forms an integral part and parcel of the overall corporate governance framework of the Company.

- Audit Committee Charter
- Nomination and Remuneration Committee Charter
- Corporate Social Responsibility Policy
- Whistle Blower Policy (Vigil Mechanism)
- Know Your Customer Guidelines and Anti-Money Laundering Policy
- Fair Practices Code
- Interest Rate Model
- Code of Conduct for Directors and Senior Management
- Policy on Related Party Transactions
- Asset Liability Management Policy
- Liquidity Risk Management Policy
- Risk Management Policy
- Resource Raising Policy
- Investment Policy
- Cash Management Policy
- Credit Policy
- Board Diversity Policy
- Policy on Fit and Proper Criteria in the appointment of Directors
- Information Technology Policy
- Information Security Policy
- Change Management Policy
- Information Systems Audit Policy
- Policy for Business Continuity and Planning and Disaster Recovery
- IT Services Outsourcing Policy
- IT Risk Management Policy
- IT Outsourcing Policy
- Cyber Security Policy
- Business Model Assessment Policy
- ECL Policy

- Policy on determination of materiality of an Event or Information
- Policy on preservation of documents and archival of documents in website
- Policy on Prevention of Sexual Harassment at the workplace
- Investor Grievance Redressal Policy

5. REVIEW AND AMENDMENT

These guidelines shall be reviewed or amended by the Board of Directors as and when deemed necessary in order to be conformity with the current regulatory requirements.

Date : 13 February 2021

Place : Coimbatore – 18

(Approved by the Board of Directors at their meeting held on 13 February 2021)