



CORPORATE GOVERNANCE POLICY

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1. Company's Philosophy on Corporate Governance

SBFC Finance Limited (the "Company" / "SBFC") is a Middle Layer - Non-Deposit taking NBFCs registered with Reserve Bank of India. The Company recognizes its role as a corporate citizen and endeavors to adopt the best practices and the highest standards of Corporate Governance through transparency in business ethics, accountability to its customers, government and others. The Company's activities are carried out in accordance with good corporate practices and the Company is constantly striving to better them and adopt the best practices. Corporate Governance for the Company is the 'way of the life' in the Company and there exists evidence enough through the policies, and procedures laid down by the Company, about its commitment to the same. The Company ensures good governance through the implementation of effective policies and procedures, which is mandated and regularly reviewed by the Board or the committees of the members of the Board.

2. Reason for the Policy

This Policy has been aligned with the Companies Act, 2013 ('Act'), SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('SEBI Listing Regulations') and the Reserve Bank of India (Non-Banking Financial Companies - Governance) Directions. The need for adoption of good corporate governance practices continues to engage the regulator and Stakeholder attention.

3. Corporate Governance

A. Regulators

SBFC, being a company incorporated under the provisions of the Companies Act, 1956 and exist within the purview of the Companies Act, 2013 and registered with Reserve Bank of India (RBI) as Non Banking Financial Company- Middle Layer is regulated by three regulators, i.e. Ministry of Corporate Affairs (MCA) and RBI, Securities & Exchange Board of India through the Stock Exchanges – BSE Limited and National Stock Exchange of India.

B. Shareholders

The shareholders of SBFC include Indian and Foreign Companies and LLP and the public shareholders, HUF, partnership firms etc. Shareholders shall be informed of details regarding the appointment or re-appointment of a Director.

C. Board of Directors

SBFC has got a pool of very dynamic and effective Board members who not only have apt qualifications but also have in store a good experience in the sphere of banking, technology and finance. Each member of the board has the expertise in a different field. The Board of the Company is elected by and is responsible to the shareholders. SBFC's business is

conducted by its employees, managers and officers, under the direction of the Managing Director & Chief Executive Officer (MD & CEO), with the oversight of the Board to enhance the long-term value of the Company for its shareholders. The Board monitors the performance of the MD & CEO to assure that the long-term interests of the shareholders are being served. The Board of SBFC is involved in strategy formulation and also approves the business plan of SBFC.

The senior Management team updates the Board regularly on operations and key developments in each department. There are specific verticals for each function. SBFC conducts Board Meetings and maintains board meetings minutes. The Board along with its constituted Committees provides direction and guidance to the Company's Leadership Team and further direct, supervises as well as reviews the performance of the Company. In addition to the aforesaid, the Board periodically reviews the compliances of all applicable laws in the Company as well as steps taken by the Company to rectify the instances of non-compliance, if any. The MD & CEO is responsible for the execution of strategy and the day to day management of SBFC, and is supported by a team of senior executives.

In Compliance with Section 165 of the Companies Act, 2013 ('the Act'), a director shall not hold the office of a director in more than 20 companies. Provided that the maximum number of public companies in which a person can be appointed as a director shall not exceed 10.

D. Composition of the Board of Directors

As per provisions of the Act and the Articles of Association of SBFC, the Board of SBFC will have at all times a minimum of 3 (three) Directors and the total number of Directors shall not be more than as prescribed under applicable law.

The Board meets at least 4 (Four) times a year in such a manner that not more than (120) one hundred and twenty days intervenes between two consecutive meetings of the Board. The Board of SBFC ensures that Nominee Director nominated by Shareholder shall not be:

- (a) in the list of willful defaulters as published by the Credit Information Bureau (India) Limited pursuant to the directions of the Reserve Bank of India from time to time; and
- (b) disqualified to discharge his duties as a director with respect of any Applicable Law. In the event if any Nominee Director appears on the list of wilful defaulters, the Company is required to notify the relevant Shareholder in writing and the relevant Shareholder shall ensure to take corrective action, including, if necessary, replacement of such Director, within 30 (thirty) Days of receipt of such notice.

E. Duties of Board of Directors

In accordance with the provisions of Section 166 of the Companies Act, 2013, Articles of Association and as a matter of Corporate Governance, the directors of the Company have the following duties:-

- (1) A director of a company shall act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment.

- (2) A director of a company shall exercise his duties with due and reasonable care, skill and diligence and shall exercise independent judgment.
- (3) A director of a company shall not involve in a situation in which he may have a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the company.
- (4) A director of a company shall not achieve or attempt to achieve any undue gain or advantage either to himself or to his relatives, partners, or associates and if such director is found guilty of making any undue gain, he shall be liable to pay an amount equal to that gain to the company.
- (5) A director of a company shall not assign his office and any assignment so made shall be void.

F. Board Process

The Board is presented with relevant information on various matters relating to the working of the Company especially those that require deliberation at a strategic level, ahead of each Board meeting. All statutory and material information is placed before the Board to enable them in effective and efficient decision-making. The functional heads are invited to the Board and Committee meetings to appraise the Board on various issues concerning the operations of the Company.

Periodic Reporting to Board

In addition to the aforesaid, the following reports / documents / information are submitted to the Board for its noting and/ or approval as and when occurred.

- i. Annual operating plans/ budgets;
- ii. Capital budgets and any updates;
- iii. Quarterly results for the listed entity and its operating divisions or business segments.;
- iv. Minutes of meetings of the Audit Committee and other Committees of the Board;
- v. The information on recruitment and remuneration of senior officers just below the Board level, including appointment/ removal of the Chief Financial Officer and the Company Secretary;
- vi. Show-cause/ demand/ prosecution and other notices, which are materially important;
- vii. Any material default in financial obligations to and by the Company .;
- viii. Any issue which involves possible public or product liability claims of substantial nature, including any judgement or order which, may have passed strictures on the conduct of the company or taken an adverse view regarding another enterprise that may have negative implications on the company;
- ix. Details of any joint venture or collaboration agreement;
- x. Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property.
- xi. Any significant development in Human Resources;
- xii. Sale of investments, subsidiaries, assets which are material in nature and not in normal course of business.
- xiii. Quarterly details of foreign exchange exposures and the steps taken by the management to limit the risks of adverse exchange rate movement, if material;
- xiv. Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer, etc.

G. Committees of the Board

In compliance with the applicable provisions of the Act, and the RBI guidelines on Corporate Governance and in order to meet business exigencies, the Company has constituted Board committees. The terms of reference, roles and responsibilities of the aforesaid Committees will be further aligned based on the changes in the regulations and business requirements with the approval of Board.

H. Fair Practices Code

Pursuant to the guidelines on Fair Practices Code issued by Reserve Bank of India, the Company has adopted a policy on Fair Practices Code which is posted on the website of the Company and also a regular review on the implementation of the same is conducted by operating committee members.

I. Code of conduct

The Company has adopted a code of conduct for employees of the Company and due care is taken that the employees adhere to it.

J. Statutory Auditors

The Statutory Auditors of the Company shall be appointed in terms of provisions under Companies Act, 2013, at the recommendation of Audit Committee. SBFC shall rotate the partner/s of the Chartered Accountant firm conducting the audit, every three years so that same partner does not conduct audit of the company continuously for more than a period of three years. However, the partner so rotated will be eligible for conducting the audit of the Company after an interval of three years, if SBFC, so decides. SBFC shall incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance. The Company to ensure Statutory Auditors of the Company are appointed – re-appointed in terms of RBI circular no RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 pertaining titled Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs).

K. Disclosures and transparency

SBFC shall require place following information before Board at regular intervals as may be prescribed by the Board in this regard:-

- Progress made in putting in place a progressive risk management system and risk management policy and strategy followed.
- 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.

SBFC shall also disclose the following in their Annual Financial Statements

- i. registration/ licence/ authorisation, by whatever name called, obtained from other financial sector regulators;
- ii. ratings assigned by credit rating agencies and migration of ratings during the year;
- iii. penalties, if any, levied by any regulator;

- iv. information namely, area, country of operation and joint venture partners with regard to Joint ventures and overseas subsidiaries and
- v. 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 them and other disclosures, as per prescribed format of RBI.

L. Policies adopted by the Company

The following other policies have been framed and adopted by the Company, viz.

- a. KYC Policy and AML Guidelines
- b. Grievance Redressal Policy
- c. Vigil Mechanism & Whistle Blower Policy
- d. Policy against Sexual Harassment at workplace
- e. Enterprise Risk Management Policy

The Company may from time to time adopt any other policies as may be required under applicable law or approved by the Board of Directors.

The above policies may be reviewed from time to time

M. ROLE OF CHIEF COMPLIANCE OFFICER (“CCO”)

The role of the Chief Compliance Officer shall be as follows:

1. The CCO shall be the nodal point of contact between the NBFC and the regulators / supervisors and shall necessarily be a participant in the structured or other regular discussions held with RBI. Further, he shall ensure the compliance to RBI inspection reports shall be communicated to RBI necessarily through the office of the Compliance Function.
2. The CCO shall have the authority to communicate with any staff member and have access to all records or files that are necessary to enable her / him to carry out entrusted responsibilities in respect of Compliance issues. This authority shall flow from the Compliance Policy of the NBFC.
3. The CCO shall have direct reporting lines to the MD & CEO and / or Board / Board Committee. In case the CCO reports to the MD & CEO, the Board / Board Committee shall meet the CCO at quarterly intervals on a one-to-one basis, without the presence of the senior management, including MD & CEO. The CCO shall not have any reporting relationship with the business verticals. Further, the performance appraisal of the CCO shall be reviewed by the Board / Board Committee.
4. The CCO shall ensure that the Compliance function Assists the Board and the Senior Management in overseeing the implementation of Compliance Policy, including policies and procedures, prescriptions in Compliance Manuals, internal codes of conduct, etc.

5. The CCO shall ensure that the Compliance function plays the central role in identifying the level of Compliance risk in the organisation. The Compliance risks in existing / new products and processes shall be analysed and appropriate risk mitigants put in place. The Chief Compliance Officer (CCO) shall be a member of the 'new product' committee/s. All new products shall be subjected to intensive monitoring for at least the first six months of introduction to ensure that the indicative parameters of Compliance risk are adequately monitored.
6. The CCO shall ensure that the Compliance Function shall monitor and test Compliance by performing sufficient and representative Compliance testing, and the results of such Compliance testing shall be reported to the Senior Management. It shall periodically circulate the instances of compliance failures among staff, along with the required preventive instructions. Staff accountability shall be examined for major Compliance failures.
7. The CCO shall make sure that the Compliance function ensures compliance of regulatory/ supervisory directions given by RBI in both letter and spirit in a time-bound and sustainable manner.
8. The CCO shall ensure that the Compliance function attends to compliance with directions from other regulators in cases where the activities of the entity are not limited to the regulation/supervision of RBI. Further, discomfort conveyed to the NBFC on any issue by other regulators, and action taken by any other authorities / law enforcement agencies, shall be brought to the notice of RBI.
9. The CCO shall ensure that the Compliance Department may also serve as a reference point for the staff from operational departments for seeking clarifications / interpretation of various regulatory and statutory guidelines.

N. ROLE OF CHIEF RISK OFFICER (“CRO”)

The role of the Chief Risk Officer shall be as follows:

1. The CRO is required to function independently so as to ensure highest standards of risk management
2. The CRO shall be involved in the process of identification, measurement and mitigation of risks. All credit products (retail or wholesale) shall be vetted by the CRO from the angle of inherent and control risks. The CRO’s role in deciding credit proposals shall be limited to being an advisor
3. The CRO is one of the decision makers in the credit sanction process, the CRO shall have voting power and all members who are part of the credit sanction process, shall individually and severally be liable for all the aspects, including risk perspective related to the credit proposal.
4. The CRO shall have a separate meeting with the Board of Directors on quarterly basis, without the presence of the management, if the same is required under the applicable RBI regulations.

O. ROLE OF HEAD – INTERNAL AUDIT

The role of the Head – Internal Audit shall be as follows:

1. The Head internal audit should assess and make appropriate recommendations to improve the governance processes on business decision making, risk management and control; promote appropriate ethics and values within the organization; and ensure effective performance management and staff accountability, etc.
2. The Head Internal Audit shall ensure that the internal audit function should work on the basis of established policies and procedures as approved by the ACB/Board.
3. The Head Internal Audit shall ensure that the internal audit shall undertake an independent risk assessment for the purpose of formulating a risk-based audit plan. This risk assessment would cover risks at various levels/areas (corporate and branch, the portfolio and individual transactions, etc.) as also the associated processes.
4. The Head Internal Audit shall ensure that the risk assessment in the internal audit department should be used for focusing on the material risk areas and prioritizing the audit work.
5. The Head Internal Audit shall ensure that the risk assessment process should, inter alia, include identification of inherent business risks in various activities undertaken, evaluation of the effectiveness of the control systems for monitoring the inherent risks of the business activities ('Control risk') and drawing-up a risk-matrix for both the factors viz., inherent business risks and control risks.
6. The HIA shall directly report to either the ACB/Board/ MD & CEO or to the Whole Time Director (WTD). Should the Board of Directors decide to allow the MD & CEO or a WTD to be the 'Reporting authority', then the 'Reviewing authority' shall be the ACB/Board and the 'Accepting authority' shall be the Board in matters of performance appraisal of the HIA. Further, in such cases, the ACB/Board shall meet the HIA at least once in a quarter, without the presence of the senior management (including the MD & CEO/WTD). The HIA shall not have any reporting relationship with the business verticals of these SEs and shall not be given any business targets.
7. The Head Internal Audit shall ensure that the basis for determination of the level (high, medium, low) and trend (increasing, stable, decreasing) of inherent business risks and control risks should be clearly spelt out.
8. The Head Internal Audit shall ensure that the risk assessment may make use of both quantitative and qualitative approaches. While the quantum of credit, market, and operational risks could largely be determined by quantitative assessment, the qualitative approach may be adopted for assessing the quality of overall governance and controls in various business activities.
9. The Head Internal Audit shall ensure that the risk assessment methodology should include, inter alia, parameters such as (a) Previous internal audit reports and compliance; (b) Proposed changes in business lines or change in focus; (c) Significant change in management / key personnel; (d) Results of regulatory examination report; (e) Reports of external auditors; (f) Industry trends and other environmental factors; (g) Time elapsed since last audit; (h) Volume of

business and complexity of activities; (i) Substantial performance variations from the budget; and (j) Business strategy of the entity vis-à-vis the risk appetite and adequacy of control.

10. The Head Internal Audit shall ensure that for the risk assessment to be accurate, it will be necessary to have proper MIS and data integrity arrangements. The internal audit function should be kept informed of all developments such as introduction of new products, changes in reporting lines, changes in accounting practices / policies, etc. The risk assessment should invariably be undertaken on a yearly basis. The assessment should also be periodically updated to take into account changes in business environment, activities and work processes, etc.
11. The Head Internal Audit shall ensure that before taking up specific internal audit assignment, the plan, scope, objectives, timelines and resource allocations of the assignment should be clearly established. The scope and objectives of the assignment should be based on a preliminary assessment of the risks relevant to the business activity under review.
12. The Head Internal Audit shall ensure that the SEs may prepare a Risk Audit Matrix based on the magnitude and frequency of risk. The Audit Plan should prioritize audit work to give greater attention to the areas of:
 - a. High magnitude and high frequency
 - b. High magnitude and medium frequency
 - c. High magnitude and low frequency
 - d. Medium magnitude and high frequency
 - e. Medium magnitude and medium frequency
 - f. Low magnitude and high frequency.
13. The Head Internal Audit shall ensure that the scope of the audit and resource allocation should be sufficient to achieve the objectives of the audit assignment. The precise scope of RBIA must be determined by each SE for low, medium, high, very high and extremely high risk areas. The scope of internal audit should also include system and process audits in respect of all critical processes. The findings of such audits should also be placed before the IT Committee of the Board.
14. The Head Internal Audit shall ensure that the internal audit report should be based on appropriate analysis and evaluation. It should bring out adequate, reliable, relevant and useful information to support the observations and conclusions. It should cover the objectives, scope, and results of the audit assignment and make appropriate recommendations and / or action plans.
15. The Head Internal Audit shall ensure that all the pending high and medium risk paras and persisting irregularities should be reported to the ACB/Board in order to highlight key areas in which risk mitigation has not been undertaken despite risk identification.
16. The Head Internal Audit shall ensure that the internal audit function should have a system to monitor compliance to the observations made by internal audit. Status of compliance should be an integral part of reporting to the ACB/Board.

17. The Head Internal Audit shall ensure that the internal audit function shall not be outsourced. However, where required, experts including former employees can be hired on a contractual basis subject to the ACB/Board being assured that such expertise does not exist within the audit function of the SE. Any conflict of interest in such matters shall be recognised and effectively addressed. Ownership of audit reports in all cases shall rest with regular functionaries of the internal audit function.

P. Senior Management Personnel

The term "Senior Management Personnel"(SMP) shall mean officers / personnel of the Company who are members of its core management team excluding the Board and shall also comprise all the members of management one level below the Chief Executive Officer or Managing director / Whole Time Director (including Chief Executive Officer, in case he is not part of the Board) and shall specifically include the functional heads, by whatever name called and the Company Secretary and Chief Financial Officer and includes key managerial personnel as defined under Section 2(51) of the Companies Act, 2013 (the "Companies Act").

Terms of Reference:

(a) Selection/ Appointment

A person should possess adequate skills, qualification, expertise and experience for the position he/ she is considered for appointment, as per the Company's requirements and applicable laws. The appointment and remuneration of SMP will be approved by the Board basis the relevant recommendation by the MD & CEO, Nomination and Remuneration Committee ("NRC") and Risk Management Committee("RMC").

(b) Remuneration for SMP

In determining the remuneration of the SMP, the following shall be considered:

- industry benchmarks of remuneration;
- the relationship between remuneration and performance benchmarks is clear;
- balance between fixed and variable components reflecting short and long term performance objectives of the Company;
- the remuneration is divided into two components i.e., fixed components of salary, perquisites and retirement benefits and variable component of performance based incentives;
- the remuneration including the annual increment and performance incentive is decided based on the criticality of the roles and responsibilities, the Company's performance vis-à-vis the annual budget achievement and individual performance vis-à-vis the key performance indicators; and
- certain defined quantitative and qualitative parameters as may be decided, from time to time and the individual's performance vis-à-vis the key performance indicators.

The MD/ CEO shall carry out the individual's performance review based on the appraisal matrix after taking into consideration the appraisal scorecard and the factors mentioned hereinabove.

The MD/ CEO will present a summary of the quantitative assessment of each of the SMP in terms of their leadership style, individual growth needs and objectives sets for the forthcoming years to NRC and RMC along with the recommendations on remunerations, performance based incentives.

(c) Separation of SMP

In the event of separation by way of resignation or superannuation or any other mode, the NRC and Board will take the same on record.

However, in the event of separation due to removal, approval of NRC and Board will be required.