

SREI INFRASTRUCTURE FINANCE LIMITED CORPORATE GOVERNANCE FRAMEWORK

1. PREAMBLE

The Company believes that a good corporate governance system is necessary to ensure its long term success. The Company ensures good governance through the implementation of effective Framework, Policies and Procedures, which is mandated and regularly reviewed by the Board or the Committees of the Board.

The objective of the Framework is to ensure compliance with legal requirements and set standards for Corporate Governance so that concerned executives act in accordance with the highest standards of governance while working for and on behalf of the Company. All the concerned are expected to read and understand these guidelines to uphold these standards in day-to-day activities and comply with all applicable policies and procedures.

The purpose of this Framework is to frame internal guidelines on Corporate Governance. This Framework shall lay down the detailed procedures for the implementation of the said guidelines in order to comply with the directions issued by the Reserve Bank of India in this regard.

2. CONTEXT AND PURPOSE

This Framework on Corporate Governance (“Framework”) draws reference to the Master Circular – “Non-Banking Financial Companies – Corporate Governance (Reserve Bank) Directions, 2015” (“Directions”) issued by the Reserve Bank of India (“RBI”) vide its notification no. DNBR (PD) CC.No.053/ 03.10.119/ 2015-16 dated 1st July, 2015 including any updation, amendment, revision in the directions made thereunder and issuance of any guidelines, notification, circular by the RBI in this regard from time to time.

As per the said Directions, non-deposit accepting Non-Banking Financial Company with asset size of Rs.500 crore and above (NBFCs-ND-SI), as per its last audited balance sheet, should frame internal guidelines on corporate governance with the approval of the Board of Directors, enhancing the scope of the guidelines without sacrificing the spirit underlying the Directions and it shall be published on the Company's website, if any, for the information of various stakeholders. Srei Infrastructure Finance Limited (“Company”) being an NBFC-ND-SI, is accordingly covered by the Directions.

This Framework is to be read in conjunction with Applicable Laws; accordingly, this Framework enhances the provisions of Applicable Laws.

3. DEFINITIONS

In this Framework, unless the context otherwise requires:

- a) “Applicable Laws” means the Companies Act, 2013 and the rules made thereunder, Non-Banking Financial Companies – Corporate Governance (Reserve Bank) Directions, 2015, Equity Listing Agreement, Listing Agreement for Debt Securities, applicable Secretarial Standards issued by The Institute of Company Secretaries of India (ICSI) from time to time

and includes any other statute, law, standards, regulations or other governmental instruction relating to Corporate Governance Guidelines;

- b) “Audit Committee” means the Audit Committee pursuant to under Section 177 of the Companies Act, 2013;
- c) “Board of Directors” or “Board” means the collective body of the Directors of the Company;
- d) “Chief Financial Officer” means Chief Financial Officer as defined in Section 2(19) of Companies Act, 2013 or any modification or re-enactment made thereunder for the time being in force;
- e) “Company” means Srei Infrastructure Finance Limited;
- f) “Committees” means Committees of Board of Directors constituted by virtue of Directions 2015 or other Applicable Laws;
- g) “Companies Act, 2013” includes any statutory modification(s), enactment(s) or re-enactment(s) thereof for the time being in force;
- h) “Company Secretary” means a company secretary as defined in Section 2(24) of Companies Act, 2013 or any modification or re-enactment made thereunder for the time being in force;
- i) “Corporate Governance” means a set of relationships between the Company’s management, its Board, its shareholders and other stakeholders which provide the structure through which the objectives of the Company are set, and the means of attaining those objectives and monitoring performance. It helps to define the way authority is allocated and the way corporate decisions are arrived at and executed;
- j) “Directions” means Non-Banking Financial Companies - Corporate Governance (Reserve Bank) Directions, 2015 and shall include any amendment thereto;
- k) “Director” means a Director appointed to the Board of the Company;
- l) “Independent Director” means an independent director defined in Section 2(47) of Companies Act, 2013 or any modification or re-enactment made thereunder and any other applicable laws for the time being in force;
- m) “Nomination Committee” means the Nomination & Remuneration Committee (“NRC”) constituted pursuant to under Section 178 of the Companies Act, 2013;
- n) “Risk management” means the process established to ensure that all material risks and associated risk concentrations are identified, measured, limited, controlled, mitigated and reported on a timely and comprehensive basis;
- o) “Risk Committee” means the Committee constituted as per the Directions set forth by the Reserve Bank of India in this regard and any other existing committee shall be reconstituted in line with the Directions;

p) “Senior Executive” shall mean personnel of the Company who are members of its core management team excluding the Board of Directors. This would also include all members of management one level below the Executive Directors including all functional heads as well as Key Managerial Personnels (KMPs).

4. GUIDELINES ON CORPORATE GOVERNANCE

In pursuance of the guidelines issued by the Reserve Bank of India, the Company has framed the following internal Framework on Corporate Governance.

5. BOARD OF DIRECTORS

The Board shall be responsible for exercising its objective business judgments to act in what it reasonably believes to be in the best interests of the Company and its shareholders. The Board of Directors along with its constituted Committees shall provide direction and guidance to the Company and shall further supervise and review the performance of the Company.

As the Directors occupy fiduciary position, they shall attend and actively participate in Board and its Committee meetings thereof, on which they serve, with fair regularity and conscientiously fulfil his/ her obligations as Director of the Company.

The Board shall be responsible for overall compliance & monitoring the effectiveness of the Company’s governance practices and making changes as needed and shall periodically review Compliance Reports of all laws applicable to the Company prepared by the Company as well as steps taken by the Company to rectify instances of non-compliance.

The Board shall also ensure the integrity of Company’s accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular system of risk management, financial and operational control, and compliance with the Applicable laws and relevant standards.

The Board shall conduct themselves so as to meet the operational transparency to stakeholders while at the same time maintaining confidentiality of Information in order to foster a culture of good decision-making and oversee the business affairs including responsibility for the Company’s business strategy and financial soundness, key personnel decisions, internal organisation and governance structure and practices, and in doing so, the Board must act honestly, in good faith and in the best interests of the Company.

The Board shall ensure that the Company’s organisational structure enables the Board and Senior Executive to carry out their responsibilities and facilitates effective decision-making and good governance. This includes clearly laying out the key responsibilities and authorities of the Board itself, of Senior Executives and of those responsible for the control functions.

The Board shall actively engage in the major matters of the Company and keep up with material changes in the Company’s business and the external environment as well as act in a timely manner to protect the long-term interests of the Company.

The Board shall ensure that transactions with related parties are reviewed to assess risk and are subject to appropriate resolutions/approvals as required under various Applicable laws and that corporate or business resources of the Company are not misappropriated or misapplied.

The Board shall review this Framework periodically so that it remains appropriate in the light of material changes in regulatory requirement with respect to the Company's size, complexity, geographic reach, business strategy, market and best governance practices.

Corporate Culture and values

In order to promote a sound corporate culture and values, the Board shall ensure the following:

1. setting and adhering to corporate values for itself, Senior Executives and other employees that create expectations that all business should be conducted in a legal and ethical manner;
2. promoting risk awareness within a strong risk culture, conveying the Board's expectation that it does not support excessive risk-taking and that all employees are responsible for helping ensure that the Company operates within the agreed risk appetite and risk limits;
3. ensuring that appropriate steps are taken to communicate throughout the Company the corporate values, professional standards or Code of Conduct it sets, together with supporting policies;
4. employees shall be encouraged and able to communicate, confidentially and without the risk of victimization, legitimate concerns about illegal, unethical or questionable practices. This will be facilitated through the Whistle Blower Policy including any modification(s) or revision(s) thereto.

Oversight of Senior Executives

The Board shall oversee the Senior Executives through the Managing Director. It should hold members of Senior Executive accountable for their actions and enumerate the consequences if those actions are not aligned with the Board's performance expectations. This includes adhering to the Company's values, risk appetite and risk culture, regardless of financial gain or loss to the Company. In doing so, the Board should through the Managing Director:

1. monitor that Senior Executive's actions are consistent with the strategies and policies approved by the Board;
2. meet regularly with Senior Executive;
3. Interrogate and critically review reply and information provided by Senior Executives;
4. ensure that Senior Executive's knowledge and expertise remain appropriate given the nature of the business and the Company's risk profile;
5. ensure that appropriate succession plans are in place for Senior Executive positions.

Size of the Board

The Board's strength shall be minimum 3 and maximum number of directors shall be as per the limit specified in the Companies Act, 2013 and the Article of Association of the Company.

Board Composition

The Board shall have an optimum combination of Executive, Non-executive and Independent Directors in line with the requirements of the provisions of the Companies Act, 2013 and other Applicable Laws and the Articles of Association of the Company.

Board Meetings and Quorum

The Board Meetings of the Company shall be held as per the requirements prescribed under the Companies Act, 2013, Articles of Association of the Company and other Applicable Laws and as decided by the Board of Directors. The dates of the meetings shall be fixed well in advance. The quorum shall be as per the requirements of the Companies Act, 2013 and other Applicable Laws. Moreover, urgent matters are transacted through circular resolutions.

Information to be placed before Board and its Committees

To enable the Board members to discharge their responsibilities effectively and take informed decisions, detailed agenda papers, with explanations on each item, shall be sent to each Director well in advance of the Board and its Committee meetings as per Companies Act, 2013 and other Applicable Laws. All the items on the agenda shall be discussed in detail, during the Board and its Committee meetings. The Board members shall have complete access to any information, within the Company. At the meetings, the Board members shall be provided with all the relevant information on important matters affecting the working of the Company as well as the related details that require deliberation by the members of the Board.

Agenda for the Meeting

The agenda for the Board and its Committee meetings shall be sent to the Board members and the Committee members respectively within a reasonable period of time prior to the Meeting as per Companies Act, 2013 and other Applicable Laws. Each Board member and Committee member as the case may be is free to suggest inclusion of items in the agenda. With the permission of the Chair, each Board member and Committee member as the case may be is free to raise any matter(s) that is/are not on the agenda of the Board and the Committee Meeting respectively and any other matter can be placed for discussion unless there are any regulatory restrictions. However, with reference to any sensitive matter on the agenda, relevant information shall be made available only at the time of the Board Meeting or the Committee meeting as the case may be.

Attendance at Board Meetings

The Directors shall strive to attend all meetings of the Board and its Committees where they are members. In case a Director is unable to attend specific Board Meeting or its Committees where they are members, he or she shall obtain leave of absence from the Board or the Committee as the case may be.

Minutes

The minutes of all meetings of the Board and the Committees shall be circulated to the Board and the Committee respectively and shall be noted in the consequent Board Meeting and Committee meeting respectively as per Companies Act, 2013 and other Applicable Laws. Minutes of meetings of Committees of Board shall also be placed before the Board.

6. BOARD COMMITTEES

The Board has constituted various Committees consisting of Executive and Non-Executive Directors to focus on the critical functions of the Company.

The Board Committees play a crucial role in the governance structure of the Company and are being set out to deal with specific areas/activities which concern the Company and need a closer review. They are set up under the formal approval of the Board, to carry out the clearly defined role which is considered to be performed by Members of the Board, as a part of good Corporate Governance practice. The Board supervises the execution of its responsibilities by the Committees and is responsible for their action. All observations, recommendations and decisions of the Committees are placed before the Board for information or for approval.

The Board has the following Committees as mandated by the Directions:

- Audit Committee;
- Nomination and Remuneration Committee (NRC); and
- Risk Committee.

In order to focus on the critical functions of the Company, and/or as mandated by various Applicable Laws, the Board may constitute such other Committees (including Internal Committees) as and when required to ensure smooth functioning of the Company. The Committees which have been presently constituted by the Board are as under-

- Credit Committee;
- Investment Committee;
- Corporate Social Responsibility Committee (CSR);
- Stakeholders Relationship Committee (SRC);
- Committee of Directors (COD); and
- Asset Liability Management Committee (ALM).

The Terms of Reference for the various Committees including their roles and powers is in accordance with the relevant provisions of Companies Act, 2013, revised Clause 49 of the Listing Agreement, and other applicable laws, rules and regulations issued by the concerned Regulators from time to time.

Each of the Committees has the authority to engage outside experts, advisors and counsels to the extent it considers appropriate to assist in its function.

Details of the various Board Committees as mandated by the Directions are as under:

A. AUDIT COMMITTEE

The Audit Committee constitution and functioning shall be in compliance with the provisions of the Companies Act, 2013 and other Applicable laws. The powers, functions, duties and terms of reference of the Audit Committee shall be comprehensive and include the requirements as set out by Section 177 of the Companies Act, 2013 and the Equity Listing Agreement. The Committee will be vested with necessary powers, as defined in its terms of reference to achieve its objectives.

Composition:

The Audit Committee of the Company shall have minimum of three Directors with two-third of members being Independent Directors. All Members of Audit Committee shall be financially literate and at least one Member shall have accounting or related financial management expertise.

The Chairman of the Committee shall be an Independent Director who shall be present at the Annual General Meeting to answer shareholder queries.

The Company Secretary of the Company shall act as Secretary to the Audit Committee.

The Head of Internal Audit Department and the Chief Financial Officer attend the meetings of the Audit Committee. The Statutory Auditors of the Company are invited to attend the Audit Committee meetings. The Committee also invites senior executives, as it considers appropriate, to be present at the meetings of the Committee.

Meetings and Quorum:

The Audit Committee shall meet as and when required by the Board or by the Committee itself, but it shall meet at least four times in a year and not more than four months shall elapse between two meetings.

Quorum shall comprise of one third of the total strength or two members of the Committee whichever is more subject to minimum of two Independent Directors being present.

Minutes:

The Secretary of the Committee will maintain minutes of the meetings.

Terms of reference & Role of Committee:

The Terms of Reference of this Committee includes 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, recommending appointment, remuneration and terms of appointment of auditors, reviewing/examining quarterly and annual financial statements and auditor's report thereon before submission to the Board for approval, evaluate Company's internal financial controls and risk management systems, reviewing performance of statutory and

internal auditors and adequacy of internal control systems, reviewing the functioning of the Whistle Blower Mechanism and other matters specified for Audit Committee in Section 177 of the Companies Act, 2013, Companies (Meetings of Board and its Powers) Rules, 2014, Listing Agreement with the Stock Exchanges and other Applicable laws. The Chairman of the Audit Committee shall be present at the Annual General Meeting of the Company to answer shareholder queries.

Information System Audit:

Additionally, the Audit Committee must ensure that an Information System Audit of the internal systems and processes is conducted at least once in two years to assess operational risks faced by the Company.

Rotation of Partners of Statutory Auditors / Audit Firms:

The Company shall rotate the partner/s of the Chartered Accountants firm conducting the audit, every 3(three) years so that same partner does not conduct audit of the Company continuously for more than a period of 3(three) years. However, the partner so rotated will be eligible for conducting the audit of the Company after an interval of 3(three) years, if the Company, so decides. The Company shall incorporate appropriate terms in the letter of appointment of the Audit Firm ensure its compliance.

B. NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee (NRC) shall have the same powers, functions and duties as laid down in Section 178 of the Companies Act, 2013 and other Applicable laws.

Composition:

The Nomination and Remuneration Committee of the Board shall consist of three or more Non-Executive Directors out of which not less than one half shall be Independent Directors.

The Chairperson of the Company whether executive or non-executive may be appointed as member of NRC but shall not act as the Chairman of the NRC. The Chairman of the NRC shall be an Independent Director. The Chairman of the NRC or any other member authorised by him in this behalf shall attend the general meetings of the Company.

The Company Secretary of the Company shall act as the Secretary to the Nomination & Remuneration Committee.

Meetings and Quorum:

The Committee shall meet as and when required by the Board or by the Committee itself.

The quorum of the meetings of the Committee shall be one third of total strength or two Directors, whichever is more.

Minutes:

The Secretary of the Committee will maintain the minutes of the meeting.

Terms of reference and Role of Committee:

The Nomination and Remuneration Committee evaluates the composition and organization of the Board and its Committees in light of requirements established by any regulatory body or any other applicable statute, rule and regulation which the Committee deems relevant, make recommendations to the Board of Directors in respect to the appointment, re-appointment and resignation of Independent, Executive and Non-Executive Directors of the Company, ensure 'fit and proper' status of the existing/proposed Directors of the Company in accordance with Master Circular – “Non-Banking Financial Companies – Corporate Governance (Reserve Bank) Directions, 2015 (“Directions”) and other matters specified for Nomination and Remuneration Committee in Section 178 of the Companies Act, 2013, Companies (Meetings of Board and its Powers) Rules, 2014 and under the Listing Agreement with the Stock Exchange.

C. RISK COMMITTEE

The Risk Committee is constituted to manage the integrated risks of the Company. The Risk Committee shall identify and assess various risks and suggest measures to minimize and/or mitigate the significant risks.

Composition:

The constitution and functioning of Risk Committee shall be in line with the requirements of the RBI regulations.

The Risk Committee shall have minimum of three Directors. The members of the Committee will be appointed by the Board of Directors.

Meetings and Quorum:

The Risk Committee shall meet as and when required by the Committee itself.

The quorum of Risk Committee shall comprise of one-third of the total strength or two members, whichever is more.

Minutes

The Secretary of the Committee will maintain minutes of the meetings.

Terms of Reference and Role of the Committee:

The Terms of Reference and Role of the Risk Committee are as under -

- To identify and assess various risks across all entities in the Srei Group and to suggest measures to minimise and / or mitigate the significant risks.

- To deal with such matters as may be referred to by the Board of Directors from time to time or as specified by Applicable laws.

7. POLICIES/CODES FORMULATED BY THE COMPANY

Various Policies/Codes have been formulated by the Company in compliance with the provisions of the Companies Act, 2013 and other Applicable laws and/ or as a matter of Good Corporate Governance Practices. The aforesaid Policies are as under:

- Policy for determining Material Subsidiaries;
- Policy on Related Party Transactions;
- Whistle Blower Policy;
- ESMS Policy;
- Policy on Prevention of Sexual Harassment;
- Corporate Social Responsibility Policy;
- Nomination and Remuneration Policy;
- Policy on Board Diversity;
- Srei Fair Practice Code;
- Srei Code of Conduct for Board of Directors and Senior Executives; and
- Srei Code of Conduct for Prohibition of Insider Trading.

8. FIT AND PROPER CRITERIA FOR DIRECTORS

The Company shall have a Policy for ascertaining the ‘fit and proper’ criteria at the time of appointment of Directors and on a continuing basis. The Nomination and Remuneration Committee (“NRC”) shall ensure fit and proper status of proposed / existing directors. It shall obtain a declaration and undertaking from the directors giving certain information on the directors. The declaration and undertaking shall be on the lines of the format as prescribed by the RBI from time to time. Further, quarterly statement shall be furnished to the Regional Office of the Reserve Bank of India within 15 days of the close of the respective quarter on change of directors and a certificate from the Managing Director of the Company stating that fit and proper criteria in selection of the directors has been followed. The statement submitted by the Company for the quarter ending March 31, shall also be certified by the Statutory Auditors of the Company.

9. DISCLOSURE TO THE BOARD

The following disclosures shall be made to the Board of Directors at regular intervals preferably once in a year.

1. progress made in putting in place a progressive risk management system, and risk management Framework and strategy followed;
2. 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.

10. DISCLOSURE IN FINANCIAL STATEMENTS

The following disclosures shall inter alia be made in the annual financial statements pursuant to the Directions:

1. Significant Accounting Policies
2. Capital classification including CRAR & Investment classification;
3. Derivatives details;
4. Asset-Liability Management Maturity pattern;
5. Exposures to Real Estate Sector & Capital Markets;
6. Details of Financing of Parent Company Products;
7. Details of Single Borrower Limit/ Group Borrower Limit exceeded by the Company;
8. Unsecured Advance;
9. Registration / licence / authorisation by whatever name called, obtained from other financial sector regulators;
10. Related Party Transactions;
11. Ratings assigned by credit rating agencies and migration of ratings during the year;
12. Remuneration of Directors;
13. Penalties, if any, levied by any regulator;
14. Information namely area, country of operation and joint venture partners with regard to joint ventures and overseas subsidiaries; and
15. Non-Performing Assets (NPA) and movement of NPAs, details of all off-balance sheet exposures & Customer Complaints.

The disclosures listed above are intended only to supplement, and not to replace, other disclosure requirements as may be applicable to the Company in accordance with Applicable laws.

11. REVIEW OF FRAMEWORK

The Board or any of its Committee may review the Framework from time to time as may be required. Changes, if any, shall be effective only upon approval by the Board.

Date: August 01, 2015

This Framework has been approved by the Board at its meeting held on 01.08.2015.