

GUIDELINES ON CORPORATE GOVERNANCE

Approved by the Board of Directors at its meeting held on April 19, 2023

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Five-Star Business Finance Limited's (Five Star) philosophy on corporate governance envisages adherence to the highest levels of commitment, integrity, transparency, accountability and fairness, in all areas of its business and in all interactions with its stakeholders. These Guidelines on Corporate Governance are framed in accordance with the requirements laid down in Chapter - XI (Corporate Governance) of Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 ("RBI Master Directions NBFC, 2016"), the Companies Act, 2013 and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR"), to the extent applicable to Five Star.

The Internal Guidelines set the framework to achieve the corporate objectives with utmost transparency and sound disclosure practices.

2. BOARD OF DIRECTORS

The Board of Directors along with its Committees shall provide leadership and guidance to the Company's management and direct, supervise and review the affairs and performance of the Company. As per the Company's Articles of Association, the Board of Directors will comprise of a minimum of 6 (six) Directors and a maximum of 15 (fifteen) Directors. The Board of Directors of the Company shall have at least One-half of the total directors as independent directors including atleast one Woman Director. All the Directors shall make the necessary annual disclosures regarding their directorships and shall intimate changes as and when they take place. The independent directors shall make necessary annual disclosures regarding their independence. The Directors shall abide by the duties prescribed under Section 166 of the Companies Act, 2013.

The Board shall play a key role in ensuring that the Company adopts good corporate governance practices. The Board shall have a formal schedule of matters reserved for its consideration and decision. The Board shall review periodically the Company's compliance with various statutory and regulatory requirements.

The day-to-day operations of the Company shall be looked after by the Managing Director under the guidance of the Board. He will be assisted by KMP with well-defined responsibilities.

Board Meetings

Meetings of the Board of Directors shall be held as per the requirements prescribed under the Secretarial Standards -1 (SS-1) issued by the Institute of Company Secretaries of India and those prescribed under the Companies Act, 2013. The minimum information to be statutorily made available to the Board shall be furnished to the Directors for each meeting of the Board.

3. CODE OF CONDUCT

The Company shall adopt a Code of Conduct for its senior management including the Managing Director and also for its Non-Executive Directors.

4. COMMITTEES OF THE BOARD

To focus effectively on the issues and to ensure expedient resolution of diverse matters, the Board shall constitute a set of Committees with specific terms of reference / scope. The Committees shall operate as empowered agents of the Board as per their terms of reference / scope. The minutes of the meetings of all Committees of the Board shall be placed before the Board for review / noting.

The following committees have been set up with specific terms of reference as approved by the Board:

- **Audit Committee**

The Audit Committee shall have the same powers, functions and duties as laid down in section 177 of the Companies Act, 2013. The composition of the Audit Committee shall be as prescribed under the Companies Act, 2013 and the SEBI LODR (to the extent applicable) and the Committee shall function as per the terms of reference laid down by the Board of Directors.

- **Nomination & Remuneration Committee**

The Nomination & Remuneration Committee shall have the same powers, functions and duties as laid down in section 178 of the Companies Act, 2013 to ensure 'fit and proper' status of proposed/ existing directors. The composition of the Nomination & Remuneration Committee shall be as prescribed under the Companies Act, 2013 and the SEBI LODR (to the extent applicable) and the Committee shall function as per the terms of reference laid down by the Board of Directors.

- **Corporate Social Responsibility Committee**

The composition of the Corporate Social Responsibility Committee shall be as prescribed under the Companies Act, 2013 and the Committee shall function as per the terms of reference laid down by the Board of Directors.

- **Business & Resource Committee**

The Business & Resource Committee shall function as per the terms of reference laid down by the Board of Directors.

- **Asset Liability Committee**

The Asset Liability Committee shall be as prescribed under RBI Master Directions NBFC, 2016 and function as per the terms of reference laid down by the Board of Directors.

- **Risk Management Committee**

The Risk Management Committee shall be as prescribed under RBI Master Directions NBFC, 2016 and SEBI LODR (to the extent applicable) to manage the integrated risk and function as per the terms of reference laid down by the Board of Directors.

- **IT Strategy Committee**

The IT Strategy Committee shall be as prescribed under RBI Master Direction – Information Technology Framework and function as per the terms of reference laid down by the Board of Directors.

- **Stakeholders Relationship Committee**

The Stakeholders Relationship Committee shall be as prescribed under the Companies Act, 2013 and SEBI LODR (to the extent applicable) and function as per the terms of reference laid down by the Board of Directors.

Board may from time to time formulate, terminate, the constitution of committees, modify the terms of reference, as per the requirements of rules, regulations applicable to the Company and in accordance with changes to the internal processes adopted by the Company.

5. INDEPENDENT DIRECTORS

The Company shall appoint Independent Directors as per the provisions of the Companies Act, 2013 and in compliance with the SEBI LODR. Independent Directors shall be required to comply with criteria for independence prescribed under Companies Act 2013 & SEBI LODR.

Every Independent Director, at the first meeting of the Board in which he/she participates as a Director and thereafter at the first meeting of the Board in every financial year, shall give a declaration that he/she meets the criteria of independence as required under Section 149 of the Companies Act, 2013.

All Independent Directors shall abide by the Code prescribed in Schedule IV to the Companies Act, 2013.

The Company shall issue a letter of appointment to all Independent Directors and the independent directors should be well aware of the terms and conditions of their appointment.

A separate meeting of the Independent Directors will be held annually in accordance with Schedule IV of the Companies Act, 2013 to:

- a) review the performance of non-independent directors and the Board as a whole;
- b) review the performance of the Chairperson of the company, taking into account the views of executive directors and non-executive directors;
- c) assess the quality, quantity and timeliness of flow of information between the company management and the Board that is necessary for the Board to effectively and reasonably perform their duties.

6. FIT AND PROPER CRITERIA

Five Star has put in place a policy laying down the Fit & Proper Criteria on the lines of the guidelines contained in the RBI Master Directions NBFC, 2016 with the approval of the Board of Directors for ascertaining the fit and proper criteria of the directors at the time of appointment and on a continuing basis.

All Directors shall adhere to the Deed of Covenant signed by them pursuant to the RBI requirements. They shall at all times comply with the "Fit & Proper" criteria prescribed by RBI.

7. DISCLOSURE AND TRANSPARENCY

- a) The Board of Directors, shall be updated, as may be required under the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 in regard to the following:
- The 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.
- b) The Company shall disclose the following in its Annual Financial Statements / Annual Report:
- 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 them as also securitization/ assignment transactions and other disclosures.
- c) The Managing Director, CEO and CFO, shall make the necessary certifications regarding the Annual Financial Statements, Internal Controls, etc. to the Board as laid down under the Companies Act, 2013 & SEBI LODR (to the extent applicable).
- d) A report on Corporate Governance shall be prepared and form part of the Annual Report of the Company.
- e) Any other details as may be mandated by any of the statutory regulations including RBI guidelines, Companies Act, SEBI guidelines, etc

8. ROTATION OF PARTNERS OF THE STATUTORY AUDITORS AUDIT FIRM

Five Star shall ensure rotation of the partner/s of the Chartered Accountant firm conducting the audit once in every three years so that same partner does not conduct the audit of the company continuously for more than a period of three years. However, the partner so rotated may be eligible for conducting the audit of the company after an interval of three years, if Five Star so decides. Five Star shall incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance. Five Star shall also ensure that the Statutory auditors are appointed in accordance with the policy for appointment of Statutory Auditors of the company.

9. COMPLIANCE OFFICER

The Company Secretary shall act as the Compliance Officer of the Company.

10. CHIEF RISK OFFICER (“CRO”)

The CRO shall function independently so as to ensure highest standards of risk management with clearly specified role and responsibilities as per the instructions given in RBI Master Directions NBFC, 2016.

The CRO will directly report to the RMC / Board. The CRO shall not have any reporting relationship with the business verticals of the NBFC and shall not be given any business targets. Further, there shall not be any ‘dual hatting’ i.e. the CRO shall not be given any other responsibility.

The CRO shall be involved in the process of identification, measurement and mitigation of risks. All credit products 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.

11. CHIEF AUDIT OFFICER (“CAO”) / HEAD – INTERNAL AUDIT

The CAO / HIA shall be designated as the Chief Audit Executive of the Company and shall be responsible for preparation / updation of the company’s audit policies and procedures and ensuring that the company undertakes a risk-based audit approach. His / her roles are detailed in the Risk based Internal Audit Policy of the company.

The CAO shall directly report to the ACB / Board. The Chief Audit Officer shall not have any reporting relationship with the business verticals and shall not assume operational responsibilities and shall not be given any business targets.

The CAO shall be involved in the design of audit processes and procedures, finalising the audit plan for the company, arrange for periodical internal audit in accordance with the audit plan and present the audit findings to the Senior Management and ACB.