

NORTHERN ARC CAPITAL LIMITED

CORPORATE GOVERNANCE POLICY
(INTERNAL GUIDELINES ON
CORPORATE GOVERNANCE)

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1. Preamble

The mission of the Northern Arc Capital Limited (the “Company”) is to enable access to finance for the underbanked in an efficient, scalable and reliable manner. To carry on our journey towards our mission, the company endeavours 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 has framed Internal Guidelines on Corporate Governance (“Policy”) as per the RBI Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (“RBI Direction”) issued by Reserve Bank of India (RBI) and also in compliance with SEBI (Listing Obligations Disclosure requirements Regulations) 2015 (“Listing Regulations”) & Companies Act, 2013 (“Act”).

2. Governance Structure

A. Board of Directors

The Company believes that a well-functioning and informed Board of Directors are the key to good corporate governance. The Board shall have a core group of excellent, professionally acclaimed non-executive directors who understand their dual role of appreciating the issues put forward by management, and honestly discharging their fiduciary responsibilities towards the Company’s shareholders as well as creditors. The Board of Directors of the Company shall have an optimum combination of Executive, Non-Executive, Independent and Woman Directors, as per the Guidelines/ Regulations applicable to the Company.

Company’s Board of Directors (BoD) shall provide the leadership and strategic guidance to the Company’s management and the Company’s management shall act in accordance with the supervision, control and direction by the BoD.

The BoD shall play a vital role in matters relating to formulation of various policies, its implementation and strategic issues which are crucial for the long-term development of the Company.

Structure of the Board

The Composition of the BoD shall be governed by the Articles of Association of the Company read with the applicable provisions of RBI Direction, Listing Regulations & Act and the rules framed thereunder. The Directors shall act in accordance with the responsibilities and duties as provided under the RBI Direction, Listing Regulations & Act read with the Rules framed therein.

Board Meetings:

Meetings of the BoD shall be held atleast four times a year, such that not more than one hundred

and twenty days shall intervene between two consecutive BoD meetings. The Company is professionally managed through the BoD and through the Committees of the BoD.

The minimum information to be statutorily made available to the Board as per the applicable provisions shall be furnished to the Directors.

Duties and Responsibilities of the Board of Directors:

In accordance with the Listing regulations the Bod shall have the following duties:

(i) Disclosure of information:

- (1) Members of board of directors and key managerial personnel shall disclose to the board of directors whether they, directly, indirectly, or on behalf of third parties, have a material interest in any transaction or matter directly affecting the listed entity.
- (2) The board of directors and senior management shall conduct themselves so as to meet the expectations of operational transparency to stakeholders while at the same time maintaining confidentiality of information in order to foster a culture of good decision-making.

(ii) Key functions of the board of directors:

- (1) Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance, and overseeing major capital expenditures, acquisitions and divestments.
- (2) Monitoring the effectiveness of the listed entity's governance practices and making changes as needed.
- (3) Selecting, compensating, monitoring and, when necessary, replacing key managerial personnel and overseeing succession planning.
- (4) Aligning key managerial personnel and remuneration of board of directors with the longer term interests of the listed entity and its shareholders.
- (5) Ensuring a transparent nomination process to the board of directors with the diversity of thought, experience, knowledge, perspective and gender in the board of directors.
- (6) Monitoring and managing potential conflicts of interest of management, members of the board of directors and shareholders, including misuse of corporate assets and abuse in related party transactions.
- (7) Ensuring the integrity of the listed entity's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
- (8) Overseeing the process of disclosure and communications.
- (9) Monitoring and reviewing board of director's evaluation framework.

(iii) Other responsibilities:

- (1) The board of directors shall provide strategic guidance to the listed entity, ensure effective monitoring of the management and shall be accountable to the listed entity and the shareholders.
- (2) The board of directors shall set a corporate culture and the values by which executives throughout a group shall behave.
- (3) Members of the board of directors shall act on a fully informed basis, in good faith, with due

diligence and care, and in the best interest of the listed entity and the shareholders.

(4) The board of directors shall encourage continuing directors training to ensure that the members of board of directors are kept up to date.

(5) Where decisions of the board of directors may affect different shareholder groups differently, the board of directors shall treat all shareholders fairly.

(6) The board of directors shall maintain high ethical standards and shall take into account the interests of stakeholders.

(7) The board of directors shall exercise objective independent judgement on corporate affairs.

(8) The board of directors shall consider assigning a sufficient number of non-executive members of the board of directors capable of exercising independent judgement to tasks where there is a potential for conflict of interest.

(9) The board of directors shall ensure that, while rightly encouraging positive thinking, these do not result in over-optimism that either leads to significant risks not being recognised or exposes the listed entity to excessive risk.

(10) The board of directors shall have ability to 'step back' to assist executive management by challenging the assumptions underlying: strategy, strategic initiatives (such as acquisitions), risk appetite, exposures and the key areas of the listed entity's focus.

(11) When committees of the board of directors are established, their mandate, composition and working procedures shall be well defined and disclosed by the board of directors.

(12) Members of the board of directors shall be able to commit themselves effectively to their responsibilities.

(13) In order to fulfil their responsibilities, members of the board of directors shall have access to accurate, relevant and timely information.

(14) The board of directors and senior management shall facilitate the independent directors to perform their role effectively as a member of the board of directors and also a member of a committee of board of directors.

Further as per the provisions of Section 166 of the Act and as a matter of corporate governance, the directors of the Company have the following duties: -

- 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, and the community and for the protection of environment.
- A director of a company shall exercise his duties with due and reasonable care, skill and diligence and shall exercise independent judgment.
- A director of a company shall not be involved 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.
- 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.
- A director of a company shall not assign his office and any assignment so made shall be void.

Code of Conduct:

This code embodies the belief that acting always with the company's legitimate interest in mind and being aware of the Company's responsibility towards its stakeholders is an essential element of the company's progress towards long-term excellence.

For the purpose of this Code, the "senior management" shall mean the officers and personnel of the listed entity who are members of its core management team, excluding the Board of Directors, and shall also comprise all the members of the management one level below the Chief Executive Officer or Managing Director or Whole Time Director or Manager (including Chief Executive Officer and Manager, in case they are not part of the Board of Directors) and shall specifically include the functional heads, by whatever name called and the persons identified and designated as key managerial personnel, other than the board of directors, by the listed entity.

In performing their functions, the directors, senior management and all the employees of the Company shall:

- Act honestly, diligently and in good faith and integrity in all their dealings with and for the Company;
- Not use any confidential information obtained by them in the course of their official duty, whether from the Company or otherwise, for personal gain, or use/ allow the use of such information for the financial benefit for any other person;
- Not engage in any business, relationship or activity, which might detrimentally conflict with the interest of the Company;
- Maintain the principle of "need to know" and also confidentiality of all material non-public information about the Company, its business and affairs;
- Not to use their status to seek or accept any personal gains or favors from those doing or seeking to do business with the Company or from other employees of the Company;
- Not accept, any gifts/ donations/ comparable benefits in cash or kind, if it is likely to lead to a business relationship with the Company, provided that non-cash gifts up to a value not exceeding INR 2,000/- or things which can be reciprocated like tickets to events, business meals etc., can be accepted. If refusing a gift beyond this value, would affect a relationship with the Company, the gift may be accepted and handed over to the Company, subject to the approval of the CEO/Chief Legal Counsel;
- Not share any information regarding the Company, its business and/ or affairs with media without the prior approval of the CEO/Chief Legal Counsel;

In performing their Board and Committee functions, the BoD/Members shall:

- Not hold position of director/ advisor with a competitor Company;
- In case a Director/Member is on the board of a company engaged in a related business, the Board shall specifically take note and approve of these interests;
- Inform the Chairman of changes in their interests that may interfere with their ability to perform their duties, and in the case of "Independent directors", impact their

independence as a Board Member.

B. Committees of the Board

The Board has the power to constitute Committees with specific reference to its scope and functions. The Committees shall act in terms of the scope laid down by the Board and the minutes of the meetings of all Committees shall be placed before the Board. The BoD of the Company may, from time to time, constitute such other committees as may be required under extant Company policies, local regulations or for the purpose of ease of governance.

In order to effectively focus on the issues and ensure expedient resolution of diverse issues, the BoD has constituted a set of Committees duly specifying their scope / terms of reference.

a. Audit Committee

In terms of RBI Directions, , Regulation 18 of Listing Regulation and Section 177 of the Act, the Company has constituted an Audit Committee with the powers, functions and duties as prescribed under the above-mentioned provisions.

The Company has framed a detailed Board approved Audit Committee Charter which is being placed before the BoD on an annual basis for review.

b. Nomination and Remuneration Committee

In terms of RBI Directions, , Regulation 19 of Listing Regulations and Section 178 of Act, the Company has constituted a Nomination and Remuneration Committee. Such Committee shall be constituted and shall have the same powers, functions and duties as prescribed under the above-mentioned provisions..

The Company has framed a detailed Board approved Nomination and Remuneration Committee Charter which is placed before the BoD on an annual basis for review.

c. Stakeholders Relationship Committee

In terms of Regulation 20 of Listing Regulations and Section 178 of Act, the Company has constituted a Stakeholders Relationship Committee with the same powers, functions and duties as prescribed under the above-mentioned provisions.

The Company has framed a detailed Board approved Stakeholders Relationship Committee Charter which is placed before the BoD on an annual basis for review.

d. Corporate Social Responsibility Committee

In terms Section 135 of the Act, the Company has constituted a Corporate Social Responsibility Committee with the same powers, functions and duties as laid down in Section 135 of the Companies Act, 2013.

The Company has framed a detailed Board approved Corporate Social Responsibility Committee Charter which is placed before the BoD on an annual basis for review.

e. IT Strategy Committee

In terms the RBI Direction on Information Technology Governance, Risk, Controls and Assurance Practices, the Company has constituted an IT Strategy Committee with the same powers, functions and duties as laid down under the said RBI Directions.

The Company has framed a detailed Board approved IT Strategy Committee Charter which is placed before the BoD on an annual basis for review.

f. Risk Management Committee

In terms of RBI Direction and Regulation 21 of Listing Regulations, the Company has constituted a Risk Management Committee responsible for evaluating the overall risks faced by the Company including liquidity risk.

The Company has framed a detailed Board approved Risk Committee Charter which is placed before the BoD on an annual basis for review. The constitution, powers, functions and duties of the Committee shall be in line with the approved Charter.

g. ESG Committee

To set forth the policy statement of Northern Arc Group on environmental, social, and governance issues that will govern the financings by Northern Arc Group and to provide a framework for the environmental, social and governance assessment and management process that will be carried out in relation to such financings, the Company has constituted an ESG Committee to act in accordance with the ESG policy of the Company.

h. Asset-Liability Management Committee

In terms of RBI Direction, the Company has constituted an Asset-Liability Management Committee responsible for ensuring adherence to the risk tolerance/limits set by the Board as well as implementing the liquidity risk management strategy of the Company.

The Company has framed a detailed Board approved Asset-Liability Management Committee Charter which is placed before the BoD on an annual basis for review. The constitution, powers, functions and duties of the Committee shall be in line with the approved Charter.

i. Wilful Defaulters Committee

In terms of RBI Direction, the Company has constituted Identification Committee for identification of wilful defaulters and Review committee for review of wilful defaulters. The Company has framed a detailed Board approved Committee Charter which is placed before

the BoD on an annual basis for review. The constitution, powers, functions and duties of the Committee shall be in line with the approved Charter.

C. Separate Meeting of the Independent Directors

The Independent Directors of the Company shall meet at least once in a year without the presence of Non-executive Directors and the Management in terms of Companies Act, 2013. The meeting shall be held to review the performance of Non-Independent Directors and the Board as a whole; to review the performance of the Chairman and to assess the quality, quantity and timeliness of flow of information between the company management and the Board and its members that is necessary for the Board to effectively and reasonably perform their duties.

However, The independent directors of top 2000 listed entities as per market capitalization shall endeavour to hold at least two meetings in a financial year, without the presence of non-independent directors and members of the management and all the independent directors shall endeavour to be present at such meetings.

The independent director shall not be on the Board of more than three NBFCs (NBFCs-ML or NBFCs-UL) at the same time. Further, the Board of the NBFC shall ensure that there is no conflict arising out of their independent directors being on the Board of another NBFC at the same time. However, there shall be no restriction to directorship on the Boards of NBFCs-BL, subject to provisions of Companies Act, 2013

3. Auditors

a. Statutory Auditors

The Statutory Auditors of the Company shall be appointed in accordance with the provisions of the RBI Direction and Act. Declaration shall be obtained from the Auditors affirming their eligibility for being appointed as the Statutory Auditors of the Company.

The Audit Committee shall review the independence and performance of the Statutory Auditors and the effectiveness of the audit process periodically.

Further, the Company shall rotate the partner(s) of the Chartered Accountant firm(s) conducting the statutory audit of the Company in line with the RBI Directions, every three years or such other earlier period as may be decided by the Board. However, the partner so rotated shall be eligible to conduct the audit of the Company after an interval of three years. The Company shall incorporate appropriate terms to this effect in the letter of appointment of the firm of auditors and ensure its compliance.

Further, the Statutory Auditor or the Statutory Audit firm of the Company shall be rotated in line with the Companies Act, 2013.

b. Secretarial Auditors

The Company shall appoint a Company Secretary in practice in terms of Section 204 of the Act and Regulation 24A of the Listing Regulations, who shall be responsible to conduct audit of the secretarial and related records of the Company. Further, pursuant to Regulation 24A of the Listing Regulations material unlisted subsidiaries of the Company incorporated in India are also subject to Secretarial audit.

4. Certification

a. CEO/CFO certification

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) shall provide a certificate on quarterly and annual basis, inter-alia, certifying that the financial statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading, to the Audit Committee and the Board of Directors in terms of Regulation 17 (8) and Regulation 33 (2) (a) of the Listing Regulations.

b. Annual compliance with the Company's Code of Conduct

An annual declaration in terms of Schedule V (D) of the SEBI Listing Regulations signed by the Chief Executive Officer (CEO) stating that the Members of Board of Directors and Senior Management have affirmed compliance with the Code of Conduct of Board of Directors and Senior Management.

c. Certificate on compliance of conditions of Corporate Governance

A compliance certificate from the auditor or practicing company secretaries in terms of Schedule V (E) of SEBI Listing Regulations, shall be furnished stating compliance of conditions of corporate governance and be annexed to the Board's Report.

5. Codes and Policies

In accordance with the provisions of the RBI Directions/Guidelines, Listing Regulations and Act, and other applicable laws, the Company has formulated various Codes and Policies to ensure high ethical standards in the overall functioning of the Company.

The key codes and policies as approved by the Board of Directors inter-alia include the following:

- a. Code of Conduct for Fair Disclosure of Unpublished Price Sensitive Information and Trading in Listed Securities

This Code lays down practices and procedures for fair disclosure of unpublished price sensitive information that could impact price discovery in market for its securities, in

accordance with the Securities and Exchanges Board of India (Prohibition of Insider Trading) Regulations, 2015.

b. Nomination and remuneration Policy

This policy ensure that the level and composition of remuneration is reasonable and sufficient to attract, retain, reward and motivate directors and employees including key managerial personnel and senior managerial personnel of the quality required to run the company successfully and to ensure that the remuneration of whole-time directors, key managerial personnel and senior management involves a balance between fixed and variable pay reflecting short and long-term performance objectives appropriate to the working of the company and aligned with the regulatory requirements;

c. Document Preservation and Retention Policy

This Policy ensures that the Company complies with the applicable document retention laws, preservation of various statutory documents and also lays down minimum retention period for the documents/records in respect of which no retention period has been specified by any law/regulation.

d. Whistle Blower Policy

The Company has established a vigil mechanism by way of 'Whistle Blower Policy', to report to the management instances of unethical practices, illegal activities and/or actual or suspected fraud or violation of the company's code of conduct or ethics policy. It also provides for direct access to the Chairman of the Audit Committee in exceptional cases and ensures that the Whistle blower is provided with adequate safeguards against victimization.

e. Fair Practice Code

This Code includes guidelines in appropriate staff conduct when dealing with the customers and on the Company's policies vis-à-vis customer protection. It captures the spirit of RBI guidelines on fair practices for NBFCs.

f. Credit Risk Management Policy

The Company remains committed to manage its risk in a proactive manner and adopts a structured and disciplined approach to risk management by developing and implementing risk management program. This policy has been formulated inter-alia to ensure that there is a formal process for risk identification, risk assessment and risk mitigation

g. Policy on Fit and Proper Criteria for the Directors

This Policy lays down the process and procedure of due diligence of Director(s) to ensure that they fulfil the 'fit and proper' criteria and to determine their suitability for appointment/

re-appointment as a Director(s) on the Board of the Company. It also aims to ensure that each Director on the Board of the Company continues to meet the fit and proper criteria on an on-going basis.

h. Policy on Know Your Customer and Anti-Money Laundering Measures

This Policy has been formulated in line with the Know Your Customer and Anti Money Laundering guidelines prescribed by RBI for the Company's lending/credit operations/ financial dealings.

i. Policy on Related Party Transactions

This Policy aims to regulate transactions with related parties of the Company and aims to ensure transparency between them. It also sets out the materiality thresholds for related party transactions and the manner of dealing with such transactions in accordance with the applicable laws.

j. Policy on Prevention, Prohibition & Redressal of Sexual Harassment of Women at workplace

The primary objective of this Policy is to protect the women employees from sexual harassment at the place of work and to provide punishment in case of false and malicious representations.

k. Outsourcing Policy

This Policy has been framed to evaluate all outsourcing contracts entered into by the Company in line with the RBI Directions, 2016 and to conduct and monitor the outsourcing arrangements in accordance with this Policy.

l. Corporate Social Responsibility Policy

This Policy has been framed by the Company in line with the Companies Act, 2013 to play its role in making a direct contribution to the society as a part of its Corporate Social Responsibility agenda.

m. Board Evaluation Policy

This Policy has been framed by the Company in line with the Companies Act, 2013 to lay down the criteria to evaluate the performance of the Board of Directors of the Company.

n. Asset-Liability Management Policy

This Policy has been framed by the Company in line with the RBI Directions, 2016 to establish operating procedures for Asset Liability Management of the Company.

6. Compliance Officer

A qualified Company Secretary appointed in terms of Section 203 of the Companies Act, 2013, shall act as the Compliance Officer of the Company for the purposes of ensuring conformity with the applicable laws/ regulations/ guidelines including Companies Act and SEBI Listing Regulations issued from time to time.

In terms of RBI Circular No. RBI/2022-23/24 Ref.No.DoS.CO.PPG./SEC.01/11.01.005/2022-23 dated April 11, 2022, the Company has appointed a Chief Compliance Officer to perform and roles and responsibilities listed out in the said Circular.

7. Chief Risk Officer

As per RBI Directions, every NBFC's with asset size of more than ₹5,000 crore in categories shall appoint a Chief Risk Officer (CRO) with clearly specified role and responsibilities. The CRO is required to function independently to ensure highest standards of risk management. The appointment, terms, roles and responsibilities etc., shall be dealt in accordance with RBI Directions.

8. Chief Compliance Officer

Pursuant to RBI Circular Ref.No.DoS.CO.PPG./SEC.01/11.01.005/2022-23 dated April 11, 2022, every NBFC falling under the Upper Layer and Middle Layer shall appoint a Chief Compliance Officer (CCO). 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. The appointment, terms, roles and responsibilities etc., of the CCO shall be dealt in accordance with RBI circular/guidelines.

9. Key Managerial Personnel

As per the Section 2 (51) of the Act, "key managerial personnel", in relation to a company, means—

- (i) the Chief Executive Officer or the managing director or the manager;
- (ii) the Company Secretary;
- (iii) the Whole-Time Director;
- (iv) the Chief Financial Officer;
- (v) such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and
- (vi) such other officer as may be prescribed;

As per RBI Directions, the Key Managerial Personnel of the Company except for directorship in a subsidiary, shall not hold any office (including directorships) in any other NBFC-ML or NBFC-UL.

The Company shall also comply with the Corporate Governance related provisions as may be prescribed in the Act, SEBI Regulations, RBI Directions and other circulars, guidelines issued by the Regulatory Authorities from time to time.

10. Policy Review

This Policy may be amended, modified or supplemented from time to time to ensure compliance with any modification, amendment or supplementation to any notifications and directions issued by the relevant Act or under any other law applicable, from time to time.

The Policy shall be reviewed by the Board of Directors of Company annually or whenever there is a significant change.