

GUJARAT STATE FINANCIAL SERVICES LIMITED

(CIN: U65910GJ1992SGC018602)

Corporate Governance Policy

1. PREAMBLE

Gujarat State Financial Services Ltd. (GSFS), is a Systemically Important Non-Deposit Taking (ND-SI) NBFC registered with Reserve Bank of India. It is a Company promoted and owned by Government of Gujarat, which started its operations in the year 1993. The basic objective of the Company is to manage the surplus funds of Departments and PSUs of the State Government. The Company offers higher interest rates on deposits than banks. The funds received are primarily provided as loans to other State Government PSUs at a lower interest rate as compared to banks/FIs. However, as the entire funds cannot be provided as loans due to immediate non availability of borrower, and to maintain adequate liquidity, the surplus funds available with GSFS are invested in the Money Market. This unique mechanism, which exists only in Government of Gujarat, creates a win-win situation for depositors, borrowers and State PSUs.

GSFS has adopted the best practices and the highest standards of Corporate Governance through transparency in business ethics, accountability to its Customers, State Government, Regulatory Authorities and others. The objective of the policy is to ensure compliance with legal requirements and set standards for Corporate Governance. The Company has framed various policies broadly covering the corporate governance framework.

2. PURPOSE

The purpose of this policy is to frame internal guidelines on Corporate Governance. This policy lays 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 from time to time in this regard.

The Policy on Corporate Governance will be reviewed as and when deemed fit and necessary by the Board in the context of changing regulation and emerging best practices with a view to enhancing the Company's governance.

3. GUIDELINES ON CORPORATE GOVERNANCE

Reserve Bank of India (RBI) in order to enable NBFCs to adopt best practices and greater transparency in their operations, has vide its Notification No. DNBR 019/CGM (CDS)-2015 dated April 10, 2015 issued directions on Corporate Governance known as Non-Banking Financial Companies Corporate Governance (Reserve Bank) Directions, 2015 and vide Master Directions No. RBI/DNBR/2016-17/45 Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 1, 2016 (as applicable to Government Companies and as amended from time to time) and in terms of the same requires all NBFC-ND-SI to frame internal guidelines on Corporate Governance. In compliance of the aforesaid directions issued by the RBI, the internal Guidelines on Corporate Governance have been formed by the Board of Directors.

4. GOVERNANCE STRUCTURE

(a) BOARD OF DIRECTORS (BoD)

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

Keeping in mind the unique business model of the Company, the Board shall oversee compliance with all relevant policies and procedures by which the Company operates and ensuring that the Company operates at all times in compliance with all applicable laws and regulations, adhering to the highest ethical and moral standards. The Board monitors the "Financial Performance" of the Company and shall ensure that the financial results are prepared in accordance with the applicable laws and accounting standards and reported to shareholders and regulators regularly and on time.

COMPOSITION

The Company's Board is broad based having an optimum combination of Nominee and Independent Directors. The Company shall ensure that all its Directors meet the fit and proper criteria as contained in the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

The Composition of the BoD shall be governed by the Articles of Association of the Company read with the applicable provisions of Companies Act, 2013 and the rules framed thereunder. The Directors shall act in accordance with the responsibilities and duties as provided under the Companies Act, 2013 and the Rules framed therein. Meetings of the BoD shall be held at-least four times a year, such that not more than one hundred and twenty days shall intervene between two consecutive BoD meetings.

(b) BOARD COMMITTEES

The functioning of the Board shall be further supplemented by its various committees. The Directors, Management and Auditors deal with matters relating to financial reporting obligations, internal controls, review of accounting policies and management of financial risks.

As per Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, the Board has constituted the following Committees.

(i) Audit Committee

The Audit Committee constituted by the Company as required under Section 177 of the Companies Act, 2013 shall be the Audit Committee for the purposes of Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 and the Audit Committee thus constituted shall have the same powers, functions and duties as laid down in Section 177 of the Companies Act, 2013.

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

(ii) Finance Committee

The Company shall constitute a Finance Committee comprising of three Directors who are senior officials of the Finance Department, Government of Gujarat. The Committee shall take all decisions related to carrying out the operations of the company regarding resources and credit & investments including policy formulation, strategy formulation, authorization to the management for carrying out various activities regarding Credit and Investment. The Committee shall also take decision regarding credit and investment proposals.

(iii) Nomination Committee

The Company shall constitute a Nomination Committee to ensure 'fit and proper' status of proposed/ existing directors as contained in Annexure IX to the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016. The Nomination Committee shall have the same powers, functions and duties as laid down in Section 178 of the Companies Act, 2013.

(iv) Risk Management Committee

To manage the integrated risk, the Company shall form a Risk Management Committee, besides the Asset Liability Management Committee.

5. FIT AND PROPER CRITERIA FOR DIRECTORS

The Company shall ensure to:

- (i) Follow fit and proper criteria in the lines of the Guidelines contained in the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.
- (ii) obtain a declaration and undertaking from the directors giving additional information on the directors. The declaration and undertaking shall be on the lines of the format given in the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.
- (iii) obtain a Deed of Covenant signed by the directors, which shall be in the format as given in the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.
- (iv) furnish to the Reserve Bank a statement on change of directors, and a certificate from the Managing Director of the Company that fit and proper criteria in selection of the directors has been followed. The statement must reach the Regional Office of the Reserve Bank within 15 days of the close of the respective quarter. The statement submitted by applicable NBFC for the quarter ending March 31, shall be certified by the auditors.

6. DISCLOSURE AND TRANSPARENCY

The Company shall put up to the Board of Directors, at regular intervals, as may be prescribed by the Board in this regard, the following:

- (i) minutes of the meeting of the Risk Management Committee, comprising of three Directors, wherein the Committee reviews that the Credit & Investment is done within the norms prescribed by the Board, risk parameters associated and risk monitoring mechanism of the company.
- (ii) 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.

The Company shall also disclose the following in its Annual Financial Statement, if applicable:

- (i) registration/ licence/ authorization, by whatever name called, obtained from other financial sector regulators;
- (ii) ratings assigned by credit rating agencies and migration of ratings during the year, if any;
- (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, if any and
- (v) Asset-Liability profile, NPAs and movement of NPAs, details of all off-balance sheet exposures, structured products issued by it as also securitization/ assignment transactions and other disclosures, as given in the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

7. COMPLIANCE WITH LAWS AND ETHICAL STANDARDS

The Company shall file such quarterly / half yearly / yearly reports / returns / statements on the on-line portal / by off-line communication as required from time to time. Presently, apart from submission of Annual Accounts and routine data related to change in directors, auditors and compliances related to them, the following returns / statements are required to be filed with RBI:

Quarterly:

Return on Important Financial Parameters of NBFCs-ND-SI

Branch Information Return

Statement of short term dynamic liquidity in format ALM [NBS-ALM1]

Quarterly statement of capital funds, risk weighted assets, risk asset ratio etc., (NBS-7)

Half yearly:

Statement of structural liquidity in format ALM [NBS-ALM2]

Statement of Interest Rate Sensitivity in format ALM [NBS-ALM3]

Yearly:

Disclosure in Balance Sheet, CRAR, Exposure in Real Estate (ALM-YRLY)

The Company shall also file all such other returns / statements as may be required from time to time by RBI.

The systems and procedures shall be constantly reviewed to ensure due compliance with ethical standards of the highest order. Subject to keeping in mind the unique business model of the Company, all guidelines and regulations issued by the concerned regulators shall be strictly complied with in letter and spirit.

8. STATUTORY COMPLIANCE REPORT TO BOARD OF DIRECTORS

The respective Head of Departments (HoDs) of the Company shall give a quarterly Statutory Compliance Certificate to the Managing Director and based on the same, the Managing Director shall give a Statutory Compliance Certificate to Board of Directors.

9. POLICIES ADOPTED BY THE COMPANY

The Company shall adopt such policies, as may be required to adopt under the Companies Act, 2013, the RBI Guidelines and such other laws, regulations and Guidelines as may be applicable. The policies adopted may be reviewed by the Board from time to time.

This policy is based on guidelines on Corporate Governance issued by RBI in Master Directions, in case of any changes in the provisions of these guidelines or any other regulations which makes any of the provisions of this policy inconsistent with the regulations or directions or circulars, the provisions of regulations or directions or circulars issued by the Regulator would prevail over the policy and the provisions in the policy would be modified in the due course to make it consistent with the law, keeping in mind the unique business model of the Company.