

TMF HOLDINGS LIMITED

POLICY FOR APPOINTMENT / RE-APPOINTMENT OF STATUTORY AUDITORS

The Reserve Bank of India (“RBI”) vide its circular no. RBI/2021-22/25 dated April 27, 2021, prescribed “Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)” (“Guidelines”) applicable with effect from the second half of financial year 2021-22.

The notification stipulates detailed conditions on the eligibility, procedures etc for selection and appointment of Statutory Auditors including upload of policy on Company’s official website. The Directive inter alia require Regulated Entities to put in place a Board approved policy for selection and appointment of Statutory auditors (“SA”) for the financial Year 2021/22 and onwards. Accordingly, the following policy and procedures are proposed.

I. OBJECTIVE:

The main objective of this Policy for Appointment / Re-appointment of Statutory Auditors (SA) is to act as guidelines for determining qualifications, eligibility and procedure for appointment / re-appointment of SA of the Company.

II. APPLICABILITY:

This Policy will be applicable from October 1, 2021 in respect of appointment/reappointment of Statutory Auditors.

III. SCOPE OF THE POLICY:

This policy shall form the basis for appointment of SA. The Company shall comply with the relevant provisions of the Companies Act, 2013, rules made thereunder, and the guidelines/ circulars issued by RBI from time to time.

In case of conflict between the provisions of the Companies Act and the Guidelines issued by RBI, the RBI Guidelines (being sectoral regulator) shall prevail.

IV. NUMBER OF SA:

As per RBI stipulation if asset size of the Company is below ₹15,000 crore as at the end of previous year, the statutory audit can be conducted by one audit firm (Partnership firms/Limited Liability Partnerships (LLPs)).

Considering relevant factors such as the size and spread of assets, accounting and administrative units, complexity of transactions, level of computerisation, availability of other independent audit inputs, identified risks in financial reporting, etc., the Company shall restrict the appointment of SA to only one audit firm as SA.

Accordingly, it is proposed to have one audit firm [Partnership firms/Limited Liability Partnerships (LLPs)].

V. TENURE AND ROTATION OF SAs:

The appointment of SA shall be for a continuous period of three years, subject to the SA satisfying the eligibility norms each year. If the Company removes SA before completion of 3 years, it shall inform the concerned RO / SSM of RBI about the same, along with the reasons / justification within a month of such decision being taken.

The Company cannot reappoint an audit firm for six years (two tenures) after the completion of full or part of one term of the audit tenure 3. (3 In case an audit firm has conducted audit of the Company for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the Company for six years from completion of part-tenure.)

One audit firm can concurrently take up statutory audit of a maximum eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each Company and within overall ceiling prescribed by any other statutes or rules. A group of audit firms having common partners and/or under the same network, will be considered as one entity and they will be considered for allotment of Statutory Audit accordingly. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible. The incoming audit firm shall not be eligible if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

The Company shall inform RBI about the appointment/re-appointment of SA for each year by way of certificate prescribed under the Guidelines within one month of such appointment.

VI. CRITERIA FOR APPOINTMENT OF SAs:

The Company's asset size, being less than ₹ 15,000 crore, the SA shall fulfil the following minimum criteria for being eligible to be considered for appointment as auditor of the Company:

Basic Eligibility & Conditions

- a. Minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years should **be 3 (three)**.

Note: There should be at least one-year continuous association of partners with the firm as on the date of shortlisting for considering them as full-time partners. Further, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

- b. Out of total FTPs, minimum number of fellow chartered accountant (FCA) partners associated with the firm for a period of at least three years should **be 2 (two)**.
- c. Minimum number of full-time partners / paid Chartered Accountants (CAs) with Certified Information System Auditor (CISA) / ISA qualification should be **1 (one)**.

Note: There should be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

- d. Minimum number of years of relevant audit experience of the firm should be **8 (eight)**. The relevant audit experience would be experience of the firm as statutory / branch auditors of Banks / NBFCs / AIFI.

Note: Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ AIFIs. In case of merger and demerger of audit firms, merger effect will be given after 2 years of merger while demerger will be effected immediately for this purpose.

- e. Minimum number of professional staff should be **12 (twelve)**.

Note: Professional staff includes audit and article clerks with knowledge of book-keeping and accountancy and who are engaged in on-site audits but excludes typists/stenos/computer operators/ secretaries/subordinate staff, etc. There should be at least one-year continuous association of professional staff with the firm as on the date of empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as professional staff for the purpose.

- f. The SA shall be duly qualified for appointment as such in terms of criteria specified under Section 141 of the Companies Act, 2013.
- g. The audit firm should not be under debarment by any Government Agency, National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators.

VII. ADDITIONAL CONDITIONS AND PROCEDURE FOR APPOINTMENT OF SA:

The following procedure to be adopted for appointment of SA:

- a. The Company shall ensure that appointment of SA is in line with the RBI Guidelines / ICAI's Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.
- b. If any partner of SA is a director in an RBI Regulated group Entity, the said firm shall not be appointed as SA of the Company. The Company shall, as part of the process for selection of firms for appointment as SA, obtain appropriate disclosures in this regard, including details of directorships in Group Entities that are not regulated by RBI.
- c. The Company shall ensure that the SA has capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS), commensurate with the degree/ complexity of computer environment of the Entities where the accounting and business data reside in order to achieve audit objectives.

VIII. PROCEDURE FOR APPOINTMENT OF NEW FIRM AS SA:

- a. Expression of Interests/application received by the Company shall be evaluated if it fulfils the eligibility criteria as per this policy and applicable RBI stipulations for expression of interest (EOI) for appointment of Statutory Auditors.
- b. Interests/Applications received will be evaluated by the CFO in consultation with the MD&CEO. Based on the evaluation result CFO in consultation with the MD&CEO will shortlist 2 firms for every vacancy identified. The shortlisted names will be presented to the ACB/Board. ACB/Board will select one firm from the list as required. In case ACB/Board require shortlisted firms may be requested to give a presentation on their capability in brief.
- c. The Audit Committee shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders. Shareholders shall appoint the SA except the first SA and the appointment of SA in case of casual vacancy shall be ratified by the shareholders as per the provisions of the Companies Act, 2013.

- d. The Company shall obtain a certificate, along with relevant information as per Form B (as prescribed by RBI), from the audit firm(s) proposed to be appointed/ reappointed as SA, to the effect that the audit firm complies with all the eligibility norms prescribed by RBI for the purpose. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment/ reappointment of SA of the Company, under the seal of the said audit firm.
- e. Thereafter, the Company shall submit the information to RBI in the prescribed format within 30 days as prescribed in the RBI directive

IX. CONTINUED COMPLIANCE WITH BASIC ELIGIBILITY CRITERIA:

In case audit firm (after appointment) does not comply with any of the eligibility norms (on account of resignation, death etc. of any of the partners, employees, action by Government Agencies, NFRA, ICAI, RBI, other Financial Regulators, etc.), it shall promptly approach the Company with full details. Further, the audit firm shall take all necessary steps to become eligible within a reasonable time and in any case, the audit firm should be complying with the above norms before commencement of Annual Statutory Audit for Financial Year ending March 31, and till the completion of annual audit.

In case of any extraordinary circumstance after the commencement of audit, like death of one or more partners, employees, etc., which makes the firm ineligible with respect to any of the eligibility norms, the Company may approach RBI, to allow the concerned audit firm to complete the audit, as a special case.

X. AUDIT FEE AND EXPENSES:

The audit fees for SA shall be reasonable and commensurate with the scope and coverage of audit, size and spread of assets, accounting and administrative units, complexity of transactions, level of computerisation, identified risk in financial reporting, etc.

XI. REVIEW OF THE PERFORMANCE OF SA, THEIR INDEPENDENCE AND ROTATION OF FIRMS/PARTNERS:

The Audit Committee shall review the performance of the SA, their independence and rotation criteria on an annual basis in accordance with the applicable Companies Act and Regulatory Guidelines, as applicable. Any serious lapses/negligence in audit responsibilities or conduct issues on the part of the statutory auditors or any other relevant matter shall be reported to the RBI within two months of completion of annual audit after approval from the Audit Committee.

XII. REVIEW OF THE POLICY:

This Policy shall be reviewed by the Board / Audit Committee as and when deemed necessary. Necessary amendments / modifications shall be carried out to the Policy as advised by RBI / any other Regulatory / statutory authority from time to time which shall be approved by the Board, which shall be placed before the Board for their approval.

XIII. PUBLIC DISCLOSURE:

The Board approved Policy will be hosted on the Company's official website.

This policy is last reviewed by the Board of Directors in its meeting held on October 25, 2023.