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PAHAL FINANCIAL SERVICES PRIVATE LIMITED

Corporate Governance Policy

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Corporate Governance Policy

Introduction

Pahal Financial Services Private Limited ('the Company'/ 'PF SPL') believes that a good corporate governance system is necessary condition to ensure its long term success. The Company ensures good governance through the implementation of effective policies and procedures, which is mandated and regularly reviewed by the Board of Directors ('the Board') or the committees of the members of the Board.

The Board of PF SPL has enumerated the following broad principles in relation to the corporate governance:

"The Board appreciates the growing demand for accountability, honesty and transparency in fulfilling its fiduciary duties towards various stakeholders of the company."

"The Board believes that the observance of generally accepted governance standards provides a company with legitimacy, reduces its vulnerability to a financial crisis, and broadens and deepens its access to capital."

"The Board believes that PF SPL should adopt the governance principles of highest standard to enhance its reputation as a leading micro finance institution and to maintain the trust of investors."

These Corporate Governance Principles, adopted by PF SPL, together with the charter of the Asset Liability & Risk Management Committee, Audit Committee, Nomination and Remuneration Committee, Finance Committee, Stake Holder Relationship Committee, Code of Conduct/ Ethics-for all employees, Code of Conduct for Directors & Senior Management, Customer Grievance Redressal Policy, Fair Practices Code, Investment Policy, Anti-sexual Harassment Policy, Risk Management Policy, Whistle Blower Policy provide the framework for the governance of PF SPL.

The objective of the policy is to ensure compliance with legal requirements and set standards for Business Governance/Conduct so that concerned officers 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.

Fit and Proper Criteria for Directors Policy

Background: The Reserve Bank of India ('RBI') vide its Master Direction DNBR. PD. 008/03.10.119/2016-17 - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 dated September 01, 2016 updated as on April 22, 2022 regulation no.72 and RBI Circular RBI/2015-16/12 DNBR (PD) CC.No.053/03.10.119/2015-16 dated July 01, 2015 requires:

- that a policy is put in place 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.
- 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 provided in the guidelines.

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- obtain a Deed of Covenant signed by the directors, which shall be in the format as mentioned in the guidelines.

Applicability: This Policy for Fit and Proper criteria for Directors applies to the individual be considered for the position of director on the Board of PF SPL and the continuing directors of the Company.

Purpose/Objective: The Objective and the purpose of the policy is:

- To lay down fit & proper criteria and lay down the process of due diligence to determine the suitability of the person for the appointment/continuing to hold the position as a Director on the Board of the Company and to obtain necessary information and declaration from the proposed / existing directors for the purpose as per the format given in the above guidelines.
- To frame fit and proper standards and measures for Directors and lay down the internal procedures for the implementation of the said standards and measures in order to comply with above said RBI circular.
- To ensure that each director be appointed or already appointed understands, the fit and proper criteria policy and their obligation to continue to meet the fit and proper requirements on an on-going basis.

Requirements of the Policy:

- 1. Nomination and Remuneration Committee:** The Nomination and Remuneration Committee of the Company was formed whereby the following charter was adopted:
 - 1.1** To determine the Fit & Proper Criteria for Directors as per RBI DNBR. PD. 008/03.10.119/2016-17 and RBI/2015-16/12 DNBR (PD) CC.No.053/03.10.119/2015-16 at the time of Appointment and on Quarterly basis.
 - 1.2** Formulation of criteria for evaluation of Independent Directors and the Board;
 - 1.3** Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board their appointment and removal and shall specify the manner for effective evaluation of performance of Board, its committees and individual directors to be carried out either by the Board, by the Committee or by an independent external agency and review its implementation and compliance.;;
 - 1.4** To guide the Board in relation to appointment and removal of Directors, Key Managerial Personnel and Senior Management;
 - 1.5** To evaluate the performance of the members of the Board and provide necessary report to the Board for further evaluation of the Board;
 - 1.6** To recommend to the Board on Remuneration payable to the Directors, Key Managerial Personnel and Senior Management;

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- 1.7** To provide to Key Managerial Personnel and Senior Management reward linked directly to their effort, performance, dedication and achievement relating to the Company's operations;
- 1.8** Devise a policy on Board diversity;
- 1.9** Develop a succession plan for the Board and to regularly review the plan;
- 1.10** Formulation of criteria for determining qualifications, positive attributes and independence of a director;
- 1.11** Carry out any other function as is mandated by the Board from time to time and/or enforced by any statutory notification, amendment or modification, as may be applicable.

The Nomination and Remuneration Policy has been formulated in order to bring about objectivity in determining the remuneration package while striking a balance between the interest of the Company and the shareholders.

Review:

The Board of Directors on its own and/ or as per the recommendations of Committee can amend this policy, as and when deemed fit.

In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant authorities, not being consistent with the provisions laid down under this Policy, then such amendment(s), clarification(s), circular(s) etc. shall prevail upon the provisions hereunder and this Policy shall stand amended accordingly from the effective date as laid down under such amendment(s), clarification(s), circular(s) etc.

GOVERNANCE STRUCTURE

A. Regulators

PFSP, being a company incorporated under the provisions of the Companies act, 1956 and deemed to exist within the purview of the Companies Act, 2013 and registered with Reserve Bank of India (RBI) as Non-Banking Financial Company- Micro Finance Institution (NBFC-MFI) has three main regulators, namely Ministry of Corporate Affairs (MCA), Securities and Exchange Board of India (SEBI) and Reserve Bank of India (RBI).

The Debentures of PFSP are listed on Bombay Stock Exchange (BSE). In view of this, the affairs of PFSP are also regulated by regulation prescribed by Securities and Exchange Board of India (SEBI) and BSE.

B. Shareholders

The shareholding of PFSP is divided into two categories (i) Equity Shareholders (ii) Preference Shareholders.

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C. Board of Directors

The Board is responsible to exercise its judgement to act in what they reasonably believe to be in the best interests of the Company and its shareholders. The Board along with its constituted Committees provides direction and guidance to the Company's Leadership Team and further direct, supervises as well as reviews performance of the Company.

The Board has a vital role to play in the matters relating to the policy formulation, implementation and strategic issues which are crucial for the long term development of the organization.

In addition to the aforesaid, the Board shall periodically review the compliances of all the applicable laws in the Company as well as steps taken by the Company to rectify the instances of non-compliance, if any.

D. Composition of Board of Directors

The Company is conscious of the need to maintain an appropriate mix of skills and experience on the Board, and to progressively review its composition over time.

The current Board of PF SPL comprises of 6(six) Directors, including 3 (three) Independent Directors, 1 (one) nominee director, and 2 (Two) Promoter Director.

Board Procedures

The Board is presented with relevant information on various matters relating to the working of the Company especially those that require deliberation at a strategic level, ahead of each Board meeting. All statutory and material information is placed before the Board to enable them in effective and efficient decision-making. The functional heads are invited on need basis to the Board and Committee meetings to appraise the Board on various matters concerning the operations of the Company.

E. Committees of the Board and Executives

To focus effectively on the issues and 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 per the guidelines approved by the Board. The minutes of the meetings of all Committees of the Board shall be placed before the Board for approval in subsequent meeting.

In compliance with the applicable provisions of the Act, RBI guidelines on Corporate Governance and in order to meet business exigencies, the Company has constituted Board Committees.

The terms of reference, role and responsibilities of the aforesaid Committees will be aligned based on the changes in the regulations and business requirements with the approval of board.

The Composition of the various Committees of PF SPL in conformity with the applicable rules and regulations.

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1. ASSET LIABILITY AND RISK MANAGEMENT COMMITTEE

In compliance with the requirements under the Code of Corporate Governance framed by the RBI, the Board has constituted the Asset Liability Management Committee.

Chairman	The Chairman of the Committee shall be an independent Director.
Composition	The Committee shall consist of such number of members as may be determined by the Board from time to time.
Secretary	The Company Secretary of the Company shall act as the Secretary to the Committee.
Meetings and Quorum	The Committee shall meet at least once in a Financial Year. The quorum shall be at least two Directors.
Terms of reference	As per Annexure I.

2. AUDIT COMMITTEE

The Company has in place the Audit Committee in accordance with the provisions of Section 292A of the Companies Act 1956. The Company has adopted and implemented the provisions of the Section 177 of the Companies Act, 2013.

Chairman	The Chairman of the Audit Committee shall be Non-Executive Director and who is elected by the members of the Audit Committee
Composition	The Committee shall consist of a minimum of three Directors with Independent Directors forming a majority. The majority of the members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement
Secretary	The Company Secretary of the Company shall act as the Secretary to the Committee.
Meetings and Quorum	The Committee shall meet at least once in a Quarter. The quorum shall be either two members or one third of the members of the Audit Committee whichever is greater.
Terms of reference	As per Annexure II.

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3. CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Board has constituted a Corporate Social Responsibility Committee in compliance with the Provision of Section 135 of the Companies Act, 2013.

Chairman	The Chairman of the Committee shall be appointed by the members of the CSR Committee.
Composition	The Committee shall consist of a minimum of three Directors, out of which at least one shall be an Independent Director.
Secretary	The Company Secretary of the Company shall act as the Secretary to the Committee.
Meetings and Quorum	The Committee shall meet at least once in a Financial Year. The quorum shall be at least two Directors.
Terms of reference	As per Annexure III.

4. FINANCE COMMITTEE

The Board has constituted the Finance Committee with the power to borrow, lend money and for other day to day transactions as and when required.

Chairman	The Chairman of the Committee shall be appointed by the members of the Finance Committee.
Composition	The Committee shall consist of members as may be determined by the Board.
Secretary	The Company Secretary of the Company shall act as the Secretary to the Committee.
Meetings and Quorum	The Committee shall meet as and when required in consonance with the requirements of the company. The quorum shall be atleast two Directors.

5. NOMINATION AND REMUNERATION COMMITTEE

With a view to complying with the requirements under the Code of Corporate Governance framed by the RBI, the Board has set up the Nomination and Remuneration Committee with all Non-executive Directors to ensure that the general character of the management or the proposed management of the non-banking financial company shall not be prejudicial to the interest of its present and future stakeholders and to ensure 'fit and proper' credential/status of proposed/existing Directors of the Company.

The Committee also discharges the Board's responsibilities relating to the composition of the Company's Directors, KMP's and senior management. The Committee has the overall responsibility of evaluating and approving the compensation plans, policies and programs for Directors, KMP's and senior management of the Company.

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Chairman	The Chairman of the Committee shall be appointed by the members. The Chairman of the Company shall not be appointed as the Chairman of the Committee.
Composition	The Committee shall consist of three or more Non-Executive Directors out of which not less than one-half shall be Independent Directors.
Secretary	The Company Secretary of the Company shall act as the Secretary to the Committee.
Meetings and Quorum	The Committee shall meet at least once in a Financial Year. The quorum shall be at least two Directors.
Terms of reference	As per Annexure IV.

6. STAKE HOLDER RELATIONSHIP COMMITTEE

The Board has constituted a Stake Holder Relationship Committee in compliance with the Provision of Section 178 of the Companies Act, 2013.

Chairman	The Chairman of the Committee shall be appointed by the members. The Chairman of the Company shall not be appointed as the Chairman of the Committee.
Composition	The Committee shall consist of a Chairperson who shall be a Non-Executive Director and such other members as may be decided by the Board.
Secretary	The Company Secretary of the Company shall act as the Secretary to the Committee.
Meetings and Quorum	The Committee shall meet at least once in a Financial Year. The quorum shall be at least two Directors.
Terms of reference	As per Annexure IV.

7. IT STRATEGY COMMITTEE

The Board has constituted an IT Strategy Committee in compliance with Master Direction - Information Technology Framework for the NBFC Sector vide RBI/DNBS/2016-17/53 Master Direction DNBS.PPD.No.04/66.15.001/2016-17 dated June 08, 2017.

Chairman	The Chairperson of the Committee shall be an Independent Director.
Composition	The Committee shall consist of a Chairperson who shall be an Independent Director and Chief Information Officers (CIOs) & Chief Technology Officers (CTOs) should be a part of the committee.
Secretary	The Company Secretary of the Company shall act as the Secretary to the Committee.
Meetings and Quorum	The Committee should meet at an appropriate frequency but not more than six months should elapse between two meetings. The quorum shall be at least two Directors.
Terms of reference	As per Annexure V.

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Annexure I

Terms of reference of Asset Liability and Risk Management Committee

- Addressing concerns regarding asset liability mismatches;
- Achieving optimal return on capital employed while maintaining acceptable levels of risk including and relating to liquidity; market and operational aspects and adhering to the relevant policies and regulations;
- Addressing concerns regarding interest rate risk exposure; and
- To do such other acts, deeds and things as may be directed by the Board and required to comply with the applicable laws.
- To monitor and review the risk management plan:
- To take strategic actions to mitigate the risk associated with the nature of the business;
- To appraise the Board of Directors at regular intervals regarding the process of putting in place a progressive risk management system, risk management policy and strategy;
- To do such other acts, deeds and things as may be directed by the Board and required to comply with the applicable laws.
- To lay down procedure to inform Board members about the risk assessment and minimization procedures.

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Annexure II

Terms of reference of Audit Committee

- Recommendation to the Board the appointment, remuneration, replacement or removal and terms of Appointment of auditors of the company;
- Review and monitor the auditor's independence and performance, and effectiveness of the audit process;
- Examination of the financial statement and the auditor's report thereon;
- Approval or subsequent modifications of transactions of the Company with the related parties;
- Valuation of undertaking or assets of the company, wherever it is necessary;
- Evaluation of Internal financial controls and risk management systems;
- Scrutiny of Inter-corporate Loans and Investment;
- Monitoring the end use of funds raised through public offer (if any) and related matter.

Annexure III

Terms of reference of Corporate Social Responsibility Committee

- To formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII of the Companies Act, 2013
- Recommend the various CSR Activities to be undertaken by the Company
- Recommend the amount of expenditure to be incurred on the recommended CSR activities
- Spend the allocated CSR amount on the CSR activities once it is approved by the Board of Directors of the Company in accordance with the Act and the CSR Rules
- Prepare a transparent monitoring mechanism for ensuring implementation of the projects/ programs/ activities proposed to be undertaken by the Company
- The Committee shall have the authority to discharge its responsibilities, including the authority to retain and terminate the engagement of such consultants and counsels as the Committee may deem necessary or helpful in carrying out its responsibilities and to establish the fees and other terms for the retention of such consultants and counsel. However, such fees shall be borne by the company;
- The Committee may form sub-committees for any purpose to be undertaken by it and may delegate to such sub-committees or to members of the management of the Company, such powers and authority as it deems appropriate;
- Submit the Reports to the Board in respect of the CSR activities undertaken by the Company
- Monitor CSR Policy from time to time
- Authorize executives of the Company to attend the CSR Committee Meetings
- The Committee shall formulate and recommend to the Board, an annual action plan in pursuance of its CSR policy, in accordance with the applicable rules of the Companies (Corporate Social Responsibility Policy), Rules 2014 and such plan may be altered by the Board as per the recommendation of the Committee, based on the reasonable justification to that effect.
- To do such other acts, deeds and things as may be directed by the Board and required to comply with the applicable laws.

Annexure IV

Terms of reference of Nomination and Remuneration Committee

- Formulation of the criteria for determining qualifications, positive attributes and independence of a Director and recommend to the Board a policy, relating to the Remuneration of the Directors, Key Managerial Personnel and other Employees;
- Formulation of criteria for evaluation of Independent Directors and the Board;
- Devising a policy on Board diversity;
- Identifying persons who are qualified to become Directors and who may be appointed in Senior Management in accordance with the criteria laid down, and recommend to the Board their appointment and removal and shall specify the manner for effective evaluation of performance of Board, its committees and individual directors to be carried out either by the Board, by the Committee or by an independent external agency and review its implementation and compliance.;
- To determine the Fit & Proper Criteria for Directors as per RBI/DNBR/2016-17/45 Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 updated as on April 22, 2022 at the time of Appointment and on Quarterly basis
- To guide the Board in relation to appointment and removal of Directors, Key Managerial Personnel and Senior Management;
- To evaluate the performance of the members of the Board and provide necessary report to the Board for further evaluation of the Board;
- To recommend to the Board on Remuneration payable to the Directors, Key Managerial Personnel and Senior Management;
- To provide to Key Managerial Personnel and Senior Management reward linked directly to their effort, performance, dedication and achievement relating to the Company's operations;
- Develop a succession plan for the Board and to regularly review the plan;
- Carry out any other function as is mandated by the Board from time to time and/or enforced by any statutory notification, amendment or modification, as may be applicable.

Annexure V

Terms of reference of IT Strategy Committee

- Approving IT strategy and policy documents and ensuring that the management has put an effective strategic planning process in place
- Ascertaining that management has implemented processes and practices that ensure that the IT delivers value to the business;
- Ensuring IT investments represent a balance of risks and benefits and that budgets are acceptable;
- Monitoring the method that management uses to determine the IT resources needed to achieve strategic goals and provide high-level direction for sourcing and use of IT resources;
- Ensuring proper balance of IT investments for sustaining NBFC's growth and becoming aware about exposure towards IT risks and controls.
- Terms of reference of the Committee in respect of outsourced operations shall include following -
 - a) Instituting an appropriate governance mechanism for outsourced processes, comprising of risk based policies and procedures, to effectively identify, measure, monitor and control risks associated with outsourcing in an end to end manner;
 - b) Defining approval authorities for outsourcing depending on nature of risks and materiality of outsourcing;
 - c) Developing sound and responsive outsourcing risk management policies and procedures commensurate with the nature, scope, and complexity of outsourcing arrangements;
 - d) Undertaking a periodic review of outsourcing strategies and all existing material outsourcing arrangements;
 - e) Evaluating the risks and materiality of all prospective outsourcing based on the framework developed by the Board;
 - f) Periodically reviewing the effectiveness of policies and procedures;
 - g) Communicating significant risks in outsourcing to the NBFC's Board on a periodic basis;
 - h) Ensuring an independent review and audit in accordance with approved policies and procedures;
 - i) Ensuring that contingency plans have been developed and tested adequately;
 - j) NBFC should ensure that their business continuity preparedness is not adversely compromised on account of outsourcing. NBFCs are expected to adopt sound business continuity management practices as issued by RBI and seek proactive assurance that the outsourced service provider maintains readiness and preparedness for business continuity on an ongoing basis.