

PAHAL FINANCIAL SERVICES PRIVATE LIMITED**Policy on Outsourcing Financial Services – (V 1.1)**

The Policy on Outsourcing Financial Services is adopted by the Board of Directors at its Meeting held on 13th August 2026.

Version Control:

Version	Date of Approval
Version 1.0	Initial Issue
Version 1.1	11 th Nov 2025
Version 1.0 (separate Financial outsourcing policy)	4 th Feb 2026
Version 1.1 (separate Financial outsourcing policy)	13 th Aug 2026

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Changes to the Policy:

Policy Reference	New Version	Updated Area	Description of the Changes	Rationale
Version 1.1 of Outsourcing Policy	Version 1.0 (New Policy)	Regulatory Guidelines; Separation of IT and Financial Outsourcing	The erstwhile combined outsourcing policy being bifurcated into separate IT Outsourcing and Financial Outsourcing policies, as mandated under applicable regulatory directions.	To ensure clear policy demarcation, strengthen governance and risk management over outsourced activities, and achieve alignment with regulatory requirements.
Version 1.0 of Policy on Outsourcing Financial Services	1.1	Specific outsourcing arrangements has been removed and clause 8 has been updated	The policy has been updated by removing references to specific outsourcing arrangements and revising Clause 8 to replace the review of material IT outsourcing arrangements with the review of financial outsourcing arrangements.	The amendments have been incorporated to ensure that the policy remains adaptable to changes in outsourcing arrangements

Policy on Outsourcing Financial Services

1. Preamble

This Policy shall be termed as the Policy on Outsourcing of Financial Services for Pahal Financial Services Private Limited (hereinafter referred as 'PF SPL' or 'Company') a Microfinance Institution "MFI" and is registered with the Reserve Bank of India as Non-Banking Financial Company - Micro Finance Institution "NBFC-MFI" under Section 45 IA having its registered office in Ahmedabad (Gujarat).

This Policy on Outsourcing of Financial Services is framed in accordance with the *Reserve Bank of India (Non-Banking Financial Companies – Managing Risks in Outsourcing) Directions, 2025* issued vide RBI/DOR/2025-26/363 dated November 28, 2025.

2. Objective of the Policy

The Financial Outsourcing Policy provides management directive to govern & manage financial outsourcing arrangements for Pahal Financial Services Private Limited through appropriate control measures across the entire life cycle of financial engagements. PF SPL shall evaluate the risks and increase benefits of financial outsourcing by:

Defining governance framework for evaluation and onboarding of partners for financial outsourcing:

- Establish a risk management framework to identify and manage risks associated with financial outsourcing.
- Enabling the team to develop & deploy the right set of controls for better management of outsourcing services.

3. Definitions & Interpretations

- Outsourcing: Use of a third party to perform activities that would otherwise be undertaken by the Company.
- Material Outsourcing: Outsourcing of services where disruption may significantly impact business operations, reputation, customers, or regulatory compliance.
- Service Provider: Any third party engaged by the Company to provide outsourced services.
- Critical Systems / CFSS: Systems supporting core financial services, customer data, accounting, or regulatory reporting.

4. Applicability

This Policy is applicable to all Financial outsourcing arrangements entered into by the Company with third party service providers, including vendors, partners, and contractors. The Policy applies across all business units, departments, and locations of the Company.

5. Materiality and Non-Materiality of Outsourcing

'Material Outsourcing' means arrangements, which if disrupted, have the potential to significantly impact the business operations, reputation or profitability or customer service.

'Materiality' of outsourcing shall be based on the:

- (i) level of importance to the Company of the activity being outsourced as well as the significance of the risk posed by the same;
- (ii) potential impact of the outsourcing on the Company on various parameters such as earnings, solvency, liquidity, funding, capital, and risk profile;
- (iii) likely impact on the Company's reputation and brand value, and ability to achieve its business objectives, strategy, and plans, should the service provider fail to perform the service;
- (iv) cost of the outsourcing as a proportion of total operating costs of the Company;
- (v) aggregate exposure to that particular service provider, in cases where the Company outsources various functions to the same service provider; and
- (vi) significance of activities outsourced in the context of customer service and protection.

6. Activities that shall not be outsourced

As per RBI directions, the Company shall not outsource its core management functions or activities including Internal Audit, strategic and compliance functions and decision-making functions such as determining compliance with KYC norms for opening deposit accounts, giving sanction for loans (including retail loans) and management of investment portfolio.

However, the Company outsource these functions within the group subject to compliance with instructions as provided in point 9 i.e. Outsourcing within a group.

Further, while internal audit function itself is a management process, the internal auditors can be on contract.

7. Authorisation, Accountability, and Oversight

- All financial outsourcing arrangements shall be subject to on-site / off site monitoring and inspection / scrutiny by RBI.
- The outsourcing arrangements do not diminish the Company's obligations including to its customers and RBI, and those of its Board and senior management, who have the ultimate responsibility for the outsourced activity.
- The Company shall be responsible for the actions of its service provider including Direct Sales Agents (DSAs) / Direct Marketing Agents (DMAs) and recovery agents and the confidentiality of information pertaining to the customers that is available with the service provider.
- PF SPL shall retain the ultimate control of the outsourced activity.
PF SPL shall ensure that:
 - all relevant laws, regulations, rules, guidelines and conditions of approval, licensing or registration have been considered when performing due diligence in relation to outsourcing;

- outsourcing, whether the service provider is located in India or outside, does not impede RBI in carrying out its supervisory functions and objectives, or diminish the ability of the Company to fulfil its obligations to the regulator / supervisor;
- outsourcing, whether the service provider is located in India or outside, does not impede or interfere with the ability of the Company to effectively oversee and manage its activities, and fulfil its obligations;
- outsourcing would not result in the compromise or weakening of PF SPL's internal control, business conduct, or reputation;
- the service provider employs the same high standard of care in performing the services as would be employed by the Company, if the activities were conducted within the Company and not outsourced; and
- the service provider, if not a group company of the Company, shall not be owned or controlled by any director of the Company, or their relatives having the same meaning as assigned under Companies Act, 2013 and the Rules framed thereunder, as amended from time to time.

The Company shall be responsible for making Currency Transactions Reports (CTRs) and Suspicious Transactions Reports (STRs) to FIU or any other competent authority in respect of its customer related activities carried out by the service providers.

8. Financial Outsourcing Governance Framework

The framework ensures effective oversight, accountability, and adherence to regulatory requirements, fostering a robust governance structure that supports PF SPL's strategic objectives and risk management efforts.

- Review all material Financial outsourcing arrangements at least annually, covering performance, risks, concentration, incidents, exit readiness, and regulatory compliance.

A. Role of the Board and Senior Management

The Board shall approve the outsourcing policy. Oversee material outsourcing risks along with annual reviews of outsourcing exposure periodically.

The Senior Management of the Company shall be responsible for:

- evaluating the risks and materiality of all existing and prospective outsourcing, based on the framework approved by the Board or a Committee of the Board;
- developing and implementing sound and prudent outsourcing policies and procedures commensurate with the nature, scope, and complexity of the outsourcing;
- reviewing periodically the effectiveness of policies and procedures;
- communicating information pertaining to material outsourcing risks to the Board in a timely manner;
- ensuring that contingency plans, based on realistic and probable disruptive scenarios, are in place and tested;
- ensuring that there is independent review and audit for compliance with set policies; and

- vii. undertaking periodic review of outsourcing arrangements to identify new material outsourcing risks as they arise.

9. Risk Management for Outsourcing Policy

The company shall evaluate the need for outsourcing of financial services based on a comprehensive assessment of attendant benefits, risks, and availability of commensurate processes to manage those risk. It shall consider

- the need for outsourcing based on materiality / criticality of activity to be outsourced
- expectations and outcomes from outsourcing
- success factors and cost-benefit analysis; and
- the model for outsourcing.

A. The key risks in outsourcing that need to be evaluated are: -

- a. Strategic Risk –the service provider conducts business on its own behalf, inconsistent with the overall strategic goals of the NBFC.
- b. Reputation Risk – Poor service from the service provider, its customer interaction not being consistent with the overall standards of the Company.
- c. Compliance Risk – Privacy, consumer and prudential laws not adequately complied with.
- d. Operational Risk – Arising due to technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/or provide remedies.
- e. Legal Risk – includes but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as private settlements due to omissions and commissions of the service provider.
- f. Country Risk – Due to political, social or legal climate creating added risk.
- g. Counterparty Risk- the service provider engages in inappropriate underwriting or credit assessments.
- h. Contractual Risk – arising from whether or not the Company has the ability to enforce the contract.
- i. Concentration and Systemic Risk – Due to lack of control of individual Company over a service provider, more so when overall banking industry has considerable exposure to one service provider.
- j. Third-Party Risk: Risks from sub-contractors or other third parties involved in the outsourced services shall be assessed, and appropriate controls shall be put in place to manage these risks.
- k. Exit Strategy Risk: Over-reliance on a single service provider can increase business vulnerability. Diversification of service providers or contingency arrangements shall be considered to minimize dependency.
- l. Data Security and Privacy Risk: Outsourced services may expose sensitive data to third parties. Adequate measures, such as encryption and strict data protection protocols, shall be in place to safeguard information.

B. Confidentiality and Security of Information

Public confidence and customer trust in the Company are a pre-requisite for the stability and reputation, and therefore, the respective Head of the Departments shall ensure that:

- Outsourcing Arrangement shall ensure preservation and protection of the security and confidentiality of customer information in the custody or possession of the Service Provider.
- Access to customer information to the staff of the Service Provider shall be on a 'need to know' basis i.e., limited to those areas where information is required in order to perform the outsourced function.
- The Company shall review and monitor the security practices and control processes of its service providers on a regular basis and require the service provider to disclose security breaches.
- Service Provider shall isolate and clearly identify the Company's customer information, documents, records and assets to protect the confidentiality of the information.
- In Instances, where the Service Provider acts as an outsourcing agent for multiple companies, care shall be taken to build strong safeguards so that there is no comingling of information/documents, records and assets.
- Security practices and control processes of the Service Provider shall be reviewed and monitored on a regular basis and the Service Providers shall be required to disclose security breaches.
- Any breach of security and leakage of confidential customer related information shall be notified to RBI.

10. Outsourcing Process

A. Service Provider Evaluation

The Company shall perform appropriate due diligence while considering or renewing an outsourcing arrangement, to assess the capability of the service provider to comply with obligations in the outsourcing agreement on an ongoing basis. The due diligence mentioned above shall involve an evaluation of all available information, as applicable, about the service provider, including but not limited to:

- i. qualitative, quantitative, financial, operational, legal, and reputational factors;
- ii. risks arising from undue concentration, if outsourcing to a single service provider, or a limited number of services providers;
- iii. past experience, and demonstrated competence to implement and support the proposed activity over the contracted period;
- iv. financial soundness and ability to service commitments even under adverse conditions;
- v. business reputation and culture, compliance, complaints and outstanding or potential litigation;
- vi. quality of due diligence exercised by the service provider of its employees and sub-contractors;
- vii. security and internal control, audit coverage, reporting, and monitoring procedures, and business continuity management; and

- viii. external factors like political, economic, social, and legal environment of the jurisdiction in which the service provider operates and other events that may impact data security and service performance.
- ix. The Company shall obtain independent reviews and market feedback on the service provider to supplement the findings of its own due diligence.
- x. The Company shall also evaluate whether the systems of its service provider are compatible with those of the Company, and the acceptability of their standards of performance including in the area of customer service.

B. Outsourcing Agreement

- The company shall ensure that its rights and obligations and those of each service provider are clearly defined and set out in a legally binding written agreement.
- The provisions of the agreement shall appropriately reckon the criticality of the outsourced task to the business of the Company, the associated risks and the strategies for mitigating or managing them.
- The terms and conditions governing the contract shall be meticulously defined and vetted by PF SPL's legal counsel to ascertain their legal effect and enforceability.

The agreement shall, at a minimum, include the following aspects, as applicable to the scope of Outsourcing of Financial Services:

- a) Comprehensive details regarding the activity being outsourced, including appropriate service and performance standards, applicable to both the primary service provider and any subcontractors.
- b) Provisions ensuring effective access by PF SPL to all relevant data, books, records, information, logs, alerts, and business premises pertinent to the outsourced activity maintained by the service provider.
- c) Regular monitoring and assessment protocols for the service provider by PF SPL to facilitate continuous risk management and enable immediate corrective actions when necessary.
- d) prior approval or consent by the NBFC for the use of subcontractors by the service provider for all or part of an outsourced activity;
- e) controls for maintaining confidentiality of data including of its customers, and incorporating service provider's liability in the event of security breach and leakage of such confidential information;
- f) contingency plans to ensure business continuity;
- g) The Company should have the right to conduct audits on the service provider whether by its internal or external auditors, or by agents appointed to act on its behalf and to obtain copies of any audit or review reports and findings made on the service provider in conjunction with the services performed for the Company;
- h) right of RBI or persons authorised by it to access the Company's documents, records of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time;

- i) right of RBI to cause an inspection to be made of the service provider of the Company and its books and account by one or more of its officers, employees or other authorised persons;
- j) a termination clause and minimum period for executing termination, if deemed necessary;
- k) provision that confidentiality of customers' information shall be maintained even after the contract expires or gets terminated; and
- l) provisions to ensure that the service provider preserves documents and data in accordance with legal and regulatory obligations of the Company and take suitable steps to ensure that its interests are protected in this regard even post termination of the services

C. Monitoring & Control of Outsourced Services

- The Company shall have in place a management structure to monitor and control its outsourced activities and shall ensure that outsourcing agreements with its service provider contain provisions to address the same.
- The Company shall maintain a central record of all material outsourcing of financial services for review by its Board and Senior Management. The records shall be updated promptly, and half yearly reviews shall be placed before the Board or Risk Management Committee.
- Regular audits, by either the internal auditors or external auditors of the Company shall assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, the NBFC's compliance with its risk management framework, and the requirements of these Directions.
- The Company shall, at least on an annual basis, review the financial and operational condition of the service provider to assess its ability to continue to meet its outsourcing obligations. Such due diligence reviews, which shall be based on all available information about the service provider, shall highlight any deterioration or breach in performance standards, confidentiality, and security, and in operational resilience or business continuity preparedness.
- In case of outsourcing of cash management that involves reconciliation of transactions between the Company and the Service Provider; the Company shall ensure that reconciliation of transactions between itself and the service provider (or its subcontractors) is carried out in a timely manner.

D. Business Continuity and Management of Disaster Recovery Plan

- i. The Service Provider should develop and establish a robust framework for documenting, maintaining, and testing business continuity and recovery procedures. The Company shall ensure that the service provider periodically tests the Business Continuity and Recovery Plan and may also consider occasional joint testing and recovery exercises with its service provider.

- ii. In establishing a viable contingency plan, the Company shall consider the availability of alternative service providers or the possibility of bringing the outsourced activity back in-house in an emergency, and the costs, time, and resources that would be involved.
- iii. The Service Provider should be able to isolate the Company's information, documents, and records, and other assets so that in adverse conditions or termination of the agreement, all documents, records of transactions and information given to the service provider, and assets of the Company, can be removed from the possession of the service provider (in order to continue its business operations); or deleted, destroyed or rendered unusable.
- iv. The Company shall retain an appropriate level of control over its outsourcing arrangement along with the right to intervene with appropriate measures to continue its business operations without incurring prohibitive expenses and disruption in the operations of the Company and its services to the customers.

E. Termination

In the event of termination of the outsourcing agreement for any reason in cases where the service provider deals with the customers of the Company, the same shall be given due publicity by the Company so as to ensure that the customers stop dealing with the concerned service provider.

F. Offshore Outsourcing

The Service Provider shall not outsource, sub-contract, or process any part of the Services outside India ("Offshore Outsourcing") without the prior written approval of the Company. Any approved Offshore Outsourcing shall be subject to compliance with applicable laws, including Reserve Bank of India guidelines, data localisation requirements, and the Digital Personal Data Protection Act, 2023. The Service Provider shall remain fully responsible and liable for the acts and omissions of any offshore service provider and shall ensure confidentiality, data security, audit rights, and regulatory access equivalent to those applicable within India.

11. Redressal of Grievances related to Outsourced Services

The Nodal officer of the company will act as Grievance Redressal officer for the purpose of outsourced services. The designated officer shall ensure that genuine grievances of the Customers are forwarded to concerned department and redressed promptly without any delay. The grievance redressal procedure of the Company and the time frame fixed for responding to the complaints shall be placed on the Company's website.

12. Review



The policy shall be reviewed annually, or earlier if considered necessary by the Management or the Board of Directors, or in the event of any change in applicable regulatory requirements.