

Corporate Governance Policy

1. Preamble

Village Financial Services Ltd (the “Company”/“VFS”), now VFS Capital Ltd, is an NBFC-ND-SI (Non Banking Financial Company-Non-Deposit-taking Systemically Important) company categorized as a Microfinance Institution (MFI) registered with the Reserve Bank of India and is a financial conglomerate of immense repute and high regard.

The Company believes that good corporate governance can go a long way in preparing a microfinance institution to better handle the risks that are inherently part of managing an MFI. Risk-taking is at the heart of financial intermediation and the Board of Directors is ultimately responsible for the level of risk assumed by the institution.

The Company ensures good governance through the implementation of effective policies and procedures, which is mandated and regularly reviewed by the Board or the Committees, the “workhorses” of the board.

The objective of the policy is to ensure compliance with legal requirements and set standards for corporate governance so that concerned officers act in accordance with the highest standards of governance while working for and on behalf of the Company. All the persons 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.

2. Context and purpose

This Policy on Corporate Governance (“Policy”) draws reference to the Master Circular — Non-Banking Financial Company – Systemically Important — Non-Deposit-taking Company and Deposit-taking Company (Reserve Bank) Directions, 2016, (“Directions”) issued by the Reserve Bank of India (“RBI”) vide its notification DNBR.PD. 008/03.10.119/2016-17 dated September 1, 2016, and including any amendment, revision in the directions made under it and issuance of any guidelines, notification and circular by the RBI in this regard from time to time.

According to the Directions, inter alia, non-deposit-accepting non-banking financial company – microfinance institutions (NBFC-MFIs) with asset size of Rs 500 crore and above, should frame internal guidelines on corporate governance with the approval of the Board of Directors, enhancing the scope of the guidelines without sacrificing the spirit underlying the Directions and the Policy shall be published on the company’s website, if any, for the information of all stakeholders.

VFS being an NBFC–MFI is accordingly covered by the Directions.

This Policy is to be read in conjunction with applicable laws; accordingly, this Policy enhances the provisions of applicable laws.

3. Governance structure

Regulators

The Company, 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 the Reserve Bank of India as a non-banking financial company- microfinance institution (NBFC-MFI), has two main regulators, viz., the Ministry of Corporate Affairs (MCA) and RBI.

Shareholders

The major shareholders of the Company include large corporates and high-net-worth individuals. The Board of the Company is elected by and is responsible to the shareholders. The Company’s business is conducted by its employees, managers and officers, under the direction of the Managing Director & Chief Executive Officer (MD & CEO), with the oversight of the Board to enhance the long-term value of the Company for its shareholders.

The Board monitors the performance of the MD & CEO and Senior Management to assure that the long-term interests of the shareholders are being served.

Board of Directors

The Board is responsible for exercising its business judgment to act in what it reasonably believes to be in the best interest 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 directs, supervises as well as reviews the performance of the Company.

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

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

The MD & CEO is responsible for the execution of strategy and the day-to-day management of the Company and is supported by a team of Senior Executives.

Composition of the Board of Directors and limit on directorships

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 Company, being a public limited entity, is required to ensure compliance with the provisions of its Articles of Association, and the Companies Act, 2013 ("the Act").

According to the provisions of the Act and Article 83 of the Articles of Association of the Company, the Board of the Company will have at all times a minimum of three Directors and the total number of Directors shall not be more than 15.

Section 149(4) of the Act read together with Companies (Appointment and Qualification of Directors) Rules, 2014, as amended from time to time, stipulates that the Board shall have at least two Independent Directors.

The current Board of the Company has six Directors, including two Independent Directors and three Non-Executive Directors. The Chairman of the Board is a Non-Executive Director. The composition of the Board conforms with the Act.

The Board shall meet a minimum of four times a year, in such a manner that not more than 120 days shall intervene between two consecutive meetings of the Board.

In compliance with Section 165 of the Act, a director shall not be a director in more than 20 companies, provided that the number of public companies in which a person can be appointed as a director shall not exceed ten. For reckoning the limit of public companies in which a person can be appointed as director, directorship in private companies that are either holding or subsidiary company of a public company shall be included.

Duties of Board of Directors

Under the provisions of Section 166 of the Act and as a matter of Corporate Governance, the Directors of the Company have the following duties:

- Subject to the provisions of the Act, a Director of the Company shall act in line with the articles of the Company.
- A Director of the 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, the community and for the protection of the environment.
- A Director of the Company shall exercise his or her duties with due and reasonable care, skill and diligence and shall exercise independent judgement.
- A Director of the Company shall not involve in a situation in which he or she may have a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the Company.

- A Director of the Company shall not achieve or attempt to achieve any undue gain or advantage either to himself/ herself or to his/her relatives, partners, or associates and if such director is found guilty of making any undue gain, he/she shall be liable to pay an amount equal to that gain to the company.
- A director of a company shall not assign his/her office and any such assignment so made shall be void.

Board procedure

Ahead of each Board meeting, 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. All statutory and material information is placed before the Board to enable effective and efficient decision-making. The functional heads are invited to the Board and Committee meetings to appraise the Board on various issues concerning the operations of the Company.

- General Business Items
- Noting minutes of meetings of the Audit Committee and other committees.
- Approving financial statements and the Board's Report.
- Considering the Compliance Certificate to ensure compliance with the provisions of all the laws applicable to the company.
- Specifying the list of laws applicable specifically to the Company.
- Appointment of Secretarial Auditors and Internal Auditors.
- Annual operating plans/ budgets
- Quarterly results of the Company
- Specific Items
- Borrowing money otherwise than by issue of debentures.
- Investing the funds of the company.
- Granting loans or giving guarantee or providing security in respect of loans.
- Making political contributions.
- Making calls on shareholders in respect of money unpaid on their shares.
- Approving remuneration of Managing Director, Whole-time Director and Manager.
- Appointment or removal of Key Managerial Personnel.
- Appointment of a person as a Managing Director / Manager in more than one company.
- In case of a public company, the appointment of Director(s) in casual vacancy subject to the provisions in the Articles of the company.
- According sanction for related party transactions which are not in the ordinary course of business or which are not on arm's length basis.
- Sale of subsidiaries.
- Purchase and Sale of material tangible/intangible assets not in the ordinary course of business.
- Approve Payment to Director for loss of office.
- Items arising out of separate Meeting of the Independent Directors if so decided by the Independent Directors.
- The information on recruitment and remuneration of senior officers just below the Board level,
- Corporate Actions
- Authorize the buy-back of securities.
- Issue of securities, including debentures, whether in or outside India.
- Approving amalgamation, merger or reconstruction.
- Diversify the business.
- Taking over another company or acquiring a controlling or substantial stake in another company.

Committees of the Board

To focus effectively on the issues and ensure expedient resolution of diverse matters, the Board constitutes a set of Committees with specific terms of reference/scope. The Committees shall operate as empowered agents of the Board according to their charter/terms of reference.

While the RBI Guidelines require the setting up of an Audit Committee, Asset Liability Committee, Risk Management Committee and Nominations Committee, the Companies Act, 2013, requires the Company to constitute an Audit Committee, Nomination and Remuneration Committee and Corporate Social Responsibility Committee.

In compliance with the applicable provisions of the Act and RBI Guidelines, the Company has constituted its Board Committees. The terms of reference, roles and responsibilities of the aforesaid Committees will be further aligned based on the changes in the guidelines and business requirements with the approval of Board.

The Company complies with the above requirements of committee constitution and have the following committees of the Board:

A: Audit and Risk Management Committee (Audit Committee)

The Company has in place the Audit Committee in accordance with the provisions of Section 177 of the Companies Act, 2013, and RBI guidelines on Corporate Governance.

Chairman	The Chairman of the Audit Committee shall be an Independent Director and be elected by the members of the Audit Committee.
Composition	The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority. The majority of members of the Audit Committee including its Chairperson shall be persons with the ability to read and understand the financial statements. The Auditors of the company and the Key Managerial Personnel shall have a right to be heard in the meetings of the Audit Committee when it considers the Auditor's Report but shall not have the right to vote. The Audit Committee may invite such of the executives, as it may deem appropriate, and Statutory Auditor, Internal Auditors or representative of auditors to be present at the meeting.
Secretary	The Company Secretary of the Company shall act as the Secretary to the Committee.
Meetings and Quorum	The Committees shall meet as often as necessary subject to the minimum number and frequency prescribed by any law or any authority or as stipulated by the Board. The quorum shall be either two members or one-third of the members of the Audit Committee whichever is greater, but there should be One Independent member present.
Meeting Minutes	Minutes of the meetings of shall be approved by the Chairman of the Committee and noted and confirmed by the Board in its next meeting.
Terms of reference	The Audit Committee shall act under the terms of reference specified in writing by the Board which are, inter alia: Recommend for the appointment, the remuneration and terms of appointment of auditors of the company; Review and monitor the auditor's independence and performance, and effectiveness of audit process;

	<p>Examine the financial statement and the auditors' report thereon; Approve any subsequent modification of transactions of the company with related parties; Provided that Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as may be prescribed in the Act; Scrutinize of inter-corporate loans and investments; Carry out valuation of undertakings or assets of the company, wherever it is necessary; Evaluate internal financial controls and risk management systems; Monitor the end-use of funds raised through public offers and related matters; Ensure that an Information System Audit of internal systems and processes is conducted at least once in two years to assess operational risks faced by the NBFCs. Review the functioning of the whistle-blower mechanism; Monitor and review the risk management plan; Review, take strategic actions to mitigate the integrated risk associated with the nature of the business; 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; Lay down the procedure to inform Board members about the risk assessment and minimization procedures.; and To do such other acts, deeds and things as may be directed by the Board and required to comply with the applicable laws.</p>
<p>Powers of the Audit Committee</p>	<p>The Audit Committee has the following powers under Section 177 of the Act: The Audit Committee shall have the power to call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company. The Audit Committee shall have the authority to investigate into any matter concerning the items specified in terms of reference or referred to it by the Board and for this purpose the Committee has the power to obtain professional advice from external sources. The Committee for this purpose shall have full access to the information contained in the records of the company.</p>

B: Nomination and Remuneration Committee

The Company has in place a Nomination and Remuneration Committee in accordance with the provisions of Section 178 of the Companies Act, 2013, and the rules under it and in compliance with RBI guidelines on Corporate Governance.

<p>Chairman</p>	<p>The Chairman of the Committee shall be an Independent Director. In the absence of the Chairman, the members of the Committee present at the meeting shall choose one amongst them to act as Chairman.</p>
<p>Composition</p>	<p>The Committee shall consist of three or more Non-Executive Directors out of which not less than one-half shall be Independent Directors. The chairperson of the company (whether executive or non-executive) may be appointed as a member of the Committee but he shall not chair such Committee.</p>

Secretary	The Company Secretary of the Company shall act as the Secretary to the Committee.
Meetings and Quorum	The Committee shall meet as often as necessary subject to the minimum number and frequency prescribed by any law or any authority or as stipulated by the Board The quorum shall be at least two Directors. The Chairperson of the Committee or, in his absence, any other member of the committee authorized by him in this behalf is required to attend the general meetings of the company.
Meeting Minutes	Minutes of the meetings shall be approved by the Chairman of the Committee and noted and confirmed by the Board in its next meeting.
Terms of reference	To identify persons who are qualified to become directors and who may be appointed in senior management under the criteria laid down; To recommend to the Board appointment and removal of Directors and Senior Management; To specify the manner for effective evaluation of the performance of the Board, its committees and individual directors to be carried out either by the Board, by the Nomination and Remuneration Committee or by an independent external agency and review its implementation and compliance; To formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration for the directors, key managerial personnel and other employees; While formulating the policy to ensure that— the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully; relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and remuneration to directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals: to ensure ‘fit and proper’ credentials of proposed/ existing Directors; to do such other acts, deeds and things as may be directed by the Board and required to comply with the applicable laws.

C: Corporate Social Responsibility (CSR) Committee

The Company has in place a CSR Committee under the provisions of Section 135 of the Companies Act, 2013.

Chairman	The Board shall appoint a Chairman of the Committee.
Composition	The Committee shall consist of three or more directors, out of which at least one director shall be an Independent Director.
Secretary	The Company Secretary of the Company shall act as the Secretary to the Committee.
Meetings and	Committees shall meet as often as necessary subject to the minimum number and

Quorum	frequency prescribed by any law or any authority or as stipulated by the Board. The quorum shall be at least two Directors. The Chairperson of the Committee or, in his absence, any other member of the committee authorized by him in this behalf is required to attend the general meetings of the company.
Meeting Minutes	Minutes of the meetings of shall be approved by the Chairman of the Committee and noted and confirmed by the Board in its next meeting.
Terms of reference	To formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company in areas or subject, specified in Schedule VII of the Act; To recommend the amount of expenditure to be incurred on the activities referred to in clause (a); To monitor the Corporate Social Responsibility Policy of the company from time to time; To institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company; To do such other acts, deeds and things as may be directed by the Board and required to comply with the applicable laws.

D: Asset Liability Management Committee

Chairman	The Board shall appoint a Chairman of the Committee.
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 as and when necessary. The quorum shall be at least two Directors.
Terms of reference	To address concerns regarding asset-liability mismatches; To address 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.

Fit and proper criteria for Directors

Pursuant to the Master Circular — Non-Banking Financial Company – Systemically Important – Non-Deposit-taking Company and Deposit-taking Company (Reserve Bank) Directions, 2016 (“Directions”) issued by the Reserve Bank of India (“RBI”) vide its notification DNBR.PD.008/03.10.119/2016-17 dated September 1, 2016, and including any amendment, revision in the directions made thereunder and issuance of any guidelines, notification and circular by the RBI in this regard from time to time, the Company has a Board approved policy for ascertaining the ‘fit and proper’ criteria at the time of appointment of Directors and on a continuing basis.

Pursuant to the Policy, the Company shall obtain necessary disclosures from Directors from time to time.

The NRC shall review the appointment/re-appointment of Directors considering their qualifications, expertise, track record, integrity and other 'fit and proper' criteria.

The NRC should obtain such declarations/undertakings, deed of covenant from the Directors and ensure furnishing such statement and certificates as may be prescribed by the Policy for determining Fit and Proper Criteria in line with the Guidelines issued by the RBI for the time being in force.

A quarterly statement on change of directors (certified by the Auditors of the Company wherever required) and a certificate by the Managing Director of the Company certifying that 'fit and proper' criteria in selection of Directors has been followed by the Company should be furnished to the Regional Office of the RBI in terms of the Guidelines issued by the RBI for the time being in force.

Disclosure to the Board

The following disclosures shall be made to the Board of Directors at regular intervals as may be prescribed by the Board in this regard:

1. Progress made in putting in place a progressive risk management system, and risk management policy and strategy followed;
2. Conformity with Corporate Governance standards viz. in the composition of various Committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

Disclosure in the financial statements

In addition to the disclosures required to be made under applicable laws, the following additional disclosures shall be made in the Annual Financial Statements in terms of the RBI Directions:

1. Registration/licence/authorization by whatever name called, obtained from other financial sector regulators;
2. Ratings assigned by credit rating agencies and migration of ratings during the year;
3. Penalties, if any, levied by any regulator;
4. Information namely, area, country of operation and joint venture partners about joint ventures and overseas subsidiaries; and
5. Asset-liability profile, the extent of financing of parent company products, non-performing assets (NPAs) and movement of NPAs, details of all off-balance sheet exposures, structured products issued by them as also securitization/ assignment transactions and other disclosures.

Requisite disclosures as may be required under any Applicable Laws from time to time shall also be made in the Financial Statements.

Appointment and rotation of Statutory Auditors/Audit Partner(s)

Subject to the provisions contained in the Companies Act, 2013, the Auditors of the Company shall be appointed with the approval of the Shareholders at the Annual General Meeting as recommended by the Board of Directors based on the recommendation of the Audit Committee of the Company. The Auditors can be appointed for a period of five years at the Annual General Meeting. Auditors can be appointed for two consecutive terms of five years.

The Company shall also comply with the RBI guidelines and provisions of the Companies Act, 2013, regarding the rotation of partners of the firm conducting statutory audit from time to time. As contained in the Directions, at present the Company is required to rotate the partner of the Chartered Accountant firm conducting the audit, every three years so that the same partner does not conduct the audit of the company continuously for more than a period of three years. However, the partner so rotated will be eligible for conducting the audit of the company after an interval of three years, subject to the approval of the shareholders and recommendations of the Board and Audit Committee of the Company.

The Company shall also incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.

*****Last reviewed by the Board in its meeting held on July 20, 2018***