

# Arohan Financial Services Limited

## Code of Conduct for Independent Directors Version 2.0



**Prepared by** : Compliance  
**Approved by** : Board of Directors  
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## **Schedule IV**

[Pursuant to Section 149(8) of the Companies Act, 2013]

### **CODE OF CONDUCT FOR INDEPENDENT DIRECTORS:**

The Code is a guide to professional conduct for independent directors. Adherence to these standards by independent directors and fulfillment of their responsibilities in a professional and faithful manner will promote confidence of the investment community, particularly minority shareholders, regulators and companies in the institution of independent directors.

#### **I. Definitions:**

- a) Independent Director as per the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations, 2015 shall mean a non-executive director, other than a nominee director of the Company:
- (i) who, in the opinion of the board of directors, is a person of integrity and possesses relevant expertise and experience;
  - (ii) who is or was not a promoter of the listed entity or its holding, subsidiary or associate company or member of the promoter group of the listed entity;
  - (iii) who is not related to promoters or directors in the listed entity, its holding, subsidiary or associate company;
  - (iv) who, apart from receiving director's remuneration, has or had no material pecuniary relationship with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;
  - (v) none of whose relatives has or had pecuniary relationship or transaction with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, amounting to two per cent. or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed from time to time,

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whichever is lower, during the two immediately preceding financial years or during the current financial year;

(vi) who, neither himself/herself, nor whose relative(s) —

(A) holds or has held the position of a key managerial personnel or is or has been an employee of the listed entity or its holding, subsidiary or associate company or any company belonging to the promoter group of the listed entity, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed: Provided that in case of a relative, who is an employee other than key managerial personnel, the restriction under this clause shall not apply for his / her employment.

(B) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of —

(1) a firm of auditors or company secretaries in practice or cost auditors of the listed entity or its holding, subsidiary or associate company; or

(2) any legal or a consulting firm that has or had any transaction with the listed entity, its holding, subsidiary or associate company amounting to ten per cent or more of the gross turnover of such firm;

(C) holds together with his relatives two per cent or more of the total voting power of the listed entity; or

(D) is a chief executive or director, by whatever name called, of any non-profit organisation that receives twenty-five per cent or more of its receipts or corpus from the listed entity, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent or more of the total voting power of the listed entity;

(E) is a material supplier, service provider or customer or a lessor or lessee of the listed entity;

(vii) who is not less than 21 years of age.

(viii) who is not a non-independent director of another company on the board of which any non-independent director of the listed entity is an independent director:

Explanation- In case of a 'high value debt listed entity':

(a) which is a body corporate, mandated to constitute its board of directors in a specific manner in accordance with the law under which it is established, the non- executive directors on its board shall be treated as independent directors;

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(b) which is a Trust, mandated to constitute its ‘board of trustees’ in accordance with the law under which it is established, the non-employee trustees on its board shall be treated as independent directors.

**II. Guidelines of professional conduct:**

An independent director shall:

- (1) uphold ethical standards of integrity and probity;
- (2) act objectively and constructively while exercising his duties;
- (3) exercise his responsibilities in a *bona fide* manner in the interest of the Company;
- (4) devote sufficient time and attention to his professional obligations for informed and balanced decision making;
- (5) not allow any extraneous considerations that will vitiate his exercise of objective independent judgment in the paramount interest of the company as a whole, while concurring in or dissenting from the collective judgment of the Board in its decision making;
- (6) not abuse his position to the detriment of the company or its shareholders or for the purpose of gaining direct or indirect personal advantage or advantage for any associated person;
- (7) refrain from any action that would lead to loss of his independence;
- (8) where circumstances arise which make an independent director lose his independence, the independent director must immediately inform the Board accordingly;
- (9) assist the company in implementing the best corporate governance practices.

**III. Role and functions:**

The independent directors shall:

- (1) help in bringing an independent judgment to bear on the Board’s deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct;
- (2) bring an objective view in the evaluation of the performance

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- of board and management;
- (3) scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance;
  - (4) satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible;
  - (5) safeguard the interests of all stakeholders, particularly the minority shareholders;
  - (6) balance the conflicting interest of the stakeholders;
  - (7) determine appropriate levels of remuneration of executive directors, key managerial personnel and senior management and have a prime role in appointing and where necessary, recommend removal of executive directors, key managerial personnel and senior management;
  - (8) moderate and arbitrate in the interest of the company as a whole, in situations of conflict between management and shareholder's interest.

**IV. Duties:**

The independent directors shall—

- (1) undertake appropriate induction and regularly update and refresh their skills, knowledge and familiarity with the company;
- (2) seek appropriate clarification or amplification of information and, where necessary, take and follow appropriate professional advice and opinion of outside experts at the expense of the company;
- (3) strive to attend all meetings of the Board of Directors and of the Board committees of which he is a member;
- (4) participate constructively and actively in the committees of the Board in which they are chairpersons or members;
- (5) strive to attend the general meetings of the company;
- (6) where they have concerns about the running of the company or a proposed action, ensure that these are addressed by the Board and, to the extent that they are not resolved, insist that their concerns are recorded in the minutes of the Board meeting;
- (7) keep themselves well informed about the company and the

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external environment

in which it operates;

- (8) not to unfairly obstruct the functioning of an otherwise proper Board or committee of the Board;
- (9) pay sufficient attention and ensure that adequate deliberations are held before approving related party transactions and assure themselves that the same are in the interest of the company;
- (10) ascertain and ensure that the company has an adequate and functional vigil mechanism and to ensure that the interests of a person who uses such mechanism are not prejudicially affected on account of such use;
- (11) report concerns about unethical behavior, actual or suspected fraud or violation of the company's code of conduct or ethics policy;
- (12) act within their authority, assist in protecting the legitimate interests of the company, shareholders and its employees;
- (13) not disclose confidential information, including commercial secrets, technologies, advertising and sales promotion plans, unpublished price sensitive information, unless such disclosure is expressly approved by the Board or required by law.

#### **V. Manner of appointment:**

- (1) Appointment process of independent directors shall be independent of the company management; while selecting independent directors the Board shall ensure that there is appropriate balance of skills, experience and knowledge in the Board so as to enable the Board to discharge its functions and duties effectively.
- (2) The appointment of independent director(s) of the company shall be approved at the meeting of the shareholders.
- (3) The explanatory statement attached to the notice of the meeting for approving the appointment of independent director shall include a statement that in the opinion of the Board, the independent director proposed to be appointed fulfils the conditions specified in the Act and the rules made thereunder and that the proposed director is independent of the management.

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- (4) The appointment of independent directors shall be formalised through a letter of appointment, which shall set out:
- (a) the term of appointment;
  - (b) the expectation of the Board from the appointed director; the Board-Level committee(s) in which the director is expected to serve and its tasks;
  - (c) the fiduciary duties that come with such an appointment along with accompanying liabilities;
  - (d) provision for Directors and Officers (D and O) insurance, if any;
  - (e) the Code of Business Ethics that the company expects its directors and employees to follow;
  - (f) the list of actions that a director should not do while functioning as such in the company; and
  - (g) the remuneration, mentioning periodic fees, reimbursement of expenses for participation in the Boards and other meetings and profit related commission, if any.
- (5) The terms and conditions of appointment of independent directors shall be open for inspection at the registered office of the company by any member during normal business hours.
- (6) The terms and conditions of appointment of independent directors shall also be posted on the company's website.

## VI. Appointment

In accordance with Schedule II Part A of the SEBI LODR Regulations, 2015, for every appointment of an independent director, the Nomination and Remuneration Committee shall evaluate the balance of skills, knowledge and experience on the Board and on the basis of such evaluation, prepare a description of the role and capabilities required of an independent director.

The person recommended to the Board for appointment as an independent director shall have the capabilities identified in such description. For the purpose of identifying suitable candidates, the Committee may:

- a. use the services of an external agencies, if required;

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- b. consider candidates from a wide range of backgrounds, having due regard to diversity; and
- c. consider the time commitments of the candidates.

## **VII. Re-appointment:**

The re-appointment of independent director shall be on the basis of report of performance evaluation.

## **VIII. Resignation or removal:**

- (1) The resignation or removal of an independent director shall be in the same manner as is provided in Sections 168 and 169 of the Companies Act, 2013.
- (2) An independent director who resigns or is removed from the Board of the company shall be replaced by a new independent director within a period of 3 (three) months from the date of such resignation or removal, as the case may be.
- (3) Where the company fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director shall not apply.
- (4) In case of resignation of an independent director, within seven days from the date of resignation, the following disclosures shall be made to the Stock Exchanges by the Company:
  - a) The letter of resignation along with] detailed reasons for the resignation of independent directors as given by the said director shall be disclosed by the Company to the Stock Exchanges]
  - b) Names of listed entities in which the resigning director holds directorships, indicating the category of directorship and membership of board committees, if any.]

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**IX. c) The independent director shall, along with the detailed reasons, also provide a confirmation that there is no other material reasons other than those provided. The confirmation as provided by the independent director above shall also be disclosed by the Company to the Stock Exchanges along with Separate meetings:**

- (1) The independent directors of the company shall hold at least one meeting in a financial year, without the attendance of non-independent directors and members of management ;
- (2) All the independent directors of the company shall strive to be present at such meeting;
- (3) The meeting shall:
  - (a) review the performance of non-independent directors and the Board as a whole;
  - (b) review the performance of the Chairperson of the company, taking into account the views of executive directors and non-executive directors;
  - (c) assess the quality, quantity and timeliness of flow of information between the company management and the Board that is necessary for the Board to effectively and reasonably perform their duties.

**X. Evaluation mechanism:**

- (1) The performance evaluation of independent directors shall be done by the Entire Board of Directors, excluding the director being evaluated, which shall include-
  - (a) performance of the directors; and
  - (b) fulfillment of the independence criteria as specified in the Companies Act 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 and their independence from the management:
- (2) On the basis of the report of performance evaluation, it shall be determined whether to extend or continue the term of appointment of the independent director.

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**XI. Obligation with respect to independent directors as per SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015**

(1) An independent director shall be held liable, only in respect of such acts of omission or commission by the Company which had occurred with his/her knowledge, attributable through processes of board of directors, and with his/her consent or connivance or where he/she had not acted diligently with respect to the provisions contained in the regulations.

(2) An independent director who resigns or is removed from the board of directors of the Company shall be replaced by a new independent director by Company at the earliest but not later than the immediate next meeting of the board of directors or three months from the date of such vacancy, whichever is later.

Provided that where the Company fulfils the requirement of independent directors in its board of directors without filling the vacancy created by such resignation or removal, the requirement of replacement by a new independent director shall not apply.

(3) The listed entity shall familiarise the independent directors through various programmes about the Company, including the following:

- (a) nature of the industry in which the Company operates;
- (b) business model of the Company;
- (c) roles, rights, responsibilities of independent directors; and
- (d) any other relevant information.

(4) Every independent director shall, at the first meeting of the board in which he participates as a director and thereafter at the first meeting of the board in every financial year or whenever there is any change in the circumstances which may affect his status as an independent director, submit a declaration that he meets the criteria of independence as provided in clause (b) of sub-regulation (1) of regulation 16 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 and that he is

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not aware of any circumstance or situation, which exist or may be reasonably anticipated, that could impair or impact his ability to discharge his duties with an objective independent judgment and without any external influence.

(5) The board of directors of the listed entity shall take on record the declaration and confirmation submitted by the independent director under sub-regulation (8) after undertaking due assessment of the veracity of the same.

(6) The Company shall undertake Directors and Officers insurance ('D and O insurance') for all their independent directors of such quantum and for such risks as may be determined by its board of directors.

(7) No independent director, who resigns from a Company, shall be appointed as an executive / whole time director on the board of the listed entity or on the board of a company belonging to its promoter group, unless a period of one year has elapsed from the date of resignation as an independent director.

(8) A 'high value debt listed entity' shall undertake Directors and Officers insurance (D and O insurance) for all its independent directors for such sum assured and for such risks as may be determined by its board of directors.

Independent Directors shall not be entitled to any stock options.

## **XII. Confidentiality**

The Independent Directors shall maintain the Confidential Information entrusted to them by the Company including any sensitive personal data or information which the Independent Directors may have access or may possess during the course of their association with the Company.

## **XIII. Insider Trading**

The Independent Directors shall not derive benefit or assist others to derive benefit by giving investment advice based on unpublished price sensitive as defined in the SEBI (Prohibition of Insider Trading)

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Regulations, 2015 and as amended from time to time about the Company. The Independent Directors shall comply with the insider trading policy of the Company and the Listing Regulations.

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