BERAR FINANCE LIMITED

RISK MANAGEMENT POLICY

RECORD OF REVIEW:

Document Number	01
Revision Number	02
Document Classification	Internal
Originally formulated	March 31, 2015
Created by	Secretarial Department
Reviewed by	Risk Management Committee Meeting
Approved by	Board of Directors of the Company

Version No.	Created/Modified Date	Created/Modified by	Approved by
1	March 31, 2015	Secretarial Department	Board of Directors
2	June 29, 2021	Secretarial Department	Board of Directors

RISK MANAGEMENT POLICY

BACKGROUND & LEGAL FRAMEWORK:

Risk Management is a key aspect of the "Corporate Governance Principles and Code of Ethics" which aims to improvise the governance practices across the Company's activities. The Management of NBFCs have to base their business decisions on a dynamic and integrated risk management system and process, driven by corporate strategy. NBFCs are exposed to several major risks in the course of their business-credit risk, interest rate risk, equity price risk, liquidity risk and operational risk. It is therefore important that NBFCs should introduce effective risk management policy that addresses the issues relating to various business risks .Risk management policy and processes will enable the Company to proactively manage uncertainty and changes in the internal and external environment to limit negative impacts and capitalize on opportunities.

Similarly, as per the direction by a RBI circular in FY 2014-15, all NBFCs with Public Deposit of Rs.20 crore and above or with asset size of Rs. 100 crs and above should form Risk Management Committee. Considering this the risk management process in Berar was established in the year 2015 by way of forming the Risk Management Committee to manage the inherent risks of Berar. The risk management committee meets at least 2 times in a year for Risk review.

OBJECTIVE & PURPOSE OF POLICY:

The main objective of this policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. In order to achieve the key objective, the policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues.

The specific objectives of the Risk Management Policy are:

- To ensure that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e to ensure adequate systems for risk management.
- To establish a framework for the company's risk management process and to ensure its implementation.
- To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
- To ensure the protection of rights & values of Stakeholders by establishing a well organized Risk Management Framework.
- To make informed decision.
- To continuously thrive for available risks in the organization which directly or indirectlyeffect the functioning of the organization.
- To assure business growth with financial stability.

Purpose of the Policy:

The purpose of this policy is to address unanticipated and unintended losses to the human resources & financial assets of the Company without unnecessarily limiting the activities that advance its mission and goals. The Company has introduced effective risk management systems that address the issues relating to various risks. The effective management of risk is vital to the continued growth of the Company.

DISCLOSURE IN BOARD'S REPORT:

Board of Directors shall include a statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company.

IMPLEMENTATION:

The Company is prone to inherent business risks. This document is intended to formalize a risk management policy, the objective of which shall be identification, evaluation, monitoring and minimization of identifiable risks.

This policy is in compliance with the requirements under Section 134(3) (n) of the Companies Act, 2013, which requires the Company to lay down procedure for risk assessment and procedure for risk minimization. The extract of the said provision is as follows:

"Section 134(3)(n) : a statement indicating development and implementation of a risk management policy for the Company including identification therein of elements of risk ,if any, which in the opinion of the Board may threaten the existence of the Company."

The Board of Directors of the Company along with Risk Management Committee shall periodically review and evaluate the risk management system of the Company so that the management controls the risks through properly defined network.

Head of Departments shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and report to the Board and Risk Management Committee.

RISK MANAGEMENT FRAMEWORK:

In principle, risk always results as a consequence of activities or as a consequence of non-activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks.

Risk mitigation is also an exercise aiming to reduce the loss or injury arising out of various risk exposures. Company adopts a systematic approach to mitigate risks associatedwith accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating risks proactively and help toachieve stated objectives.

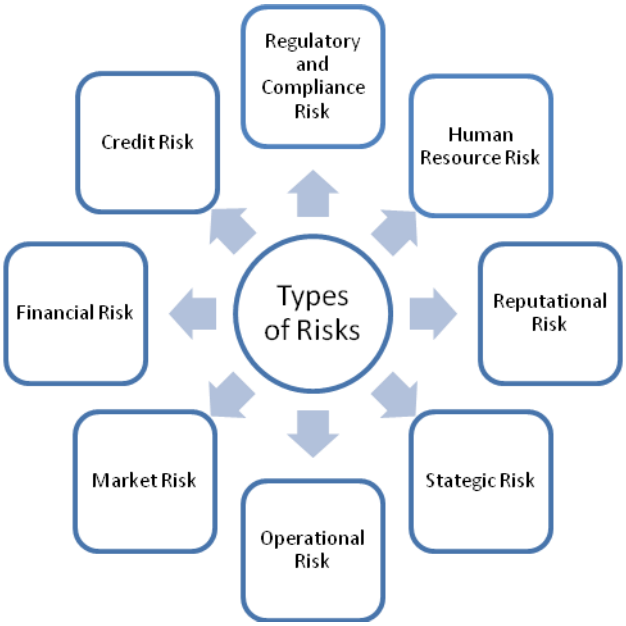
The Company will consider activities at all levels of the organization and its RiskManagement with focus on three key elements, viz,

(1) Risk Identification- Study of threats and vulnerability and resultant exposure tovarious risks.

(2) Risk Mitigation- Measures adopted to mitigate risk by the Company.

(3) Risk Monitoring and reporting- observing time to time the risk and reporting.

1. Risk identification:



- Strategic Risk – This risk is related to the overall business strategies and the related economic /business environment.
- Operational Risk- Arising out of technology failure, cash in transit, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies, outsourcing of activities to vendors.
- Market Risk- Risks related to changes in various markets in which the Company operates.
- Financial Risk- These risks includes movement in interest rates and also liquidity risksinherent to the business
- Reputational Risk – Where the practices followed by the Company are not in consonancewith industry as well as internally prescribed standards.
- Credit & Concentration Risk – Where the overall industry has considerable exposure toone service provider and hence the NBFC may lack control over the service provider.
- Regulatory & Compliance Risk – Where privacy, consumer and prudential laws are notadequately complied with by the service provider
- Human Resource Risk- Where the employee related factors are not handled cautiously such as safety, security, compensation, etc.

All risks in Berar are assessed at an inherent risk level to start with the inherent risks are assessed based on the probability and impact each risk would have on the organization without any controls being put to mitigate them. The impact & probability is assessed based on its impact on the organization under financial, operational, reputational & compliance categories further, the risk is graded as Very high, High, Moderate or Low

2. **Risk Mitigation:**

Post assessment of inherent risks, all controls/ mitigants are detailed out that reduce/mitigate the inherent risk. All relevant controls are considered that reduce the impact, probability or both. All the risks are assessed again based on probability and impact at residual level, that is, the net risk exposure after reckoning the respective controls and mitigants.

Based on the Risk Appetite/Risk Tolerance level, the organization should formulate its Risk Management Strategy. The strategy will broadly entail choosingamong the various options for risk mitigation for each identified risk. The risk mitigation can beplanned using the following key strategies:

a) Risk Avoidance: By not performing an activity that could carry risk. Avoidance may seem theanswer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed.

b) Risk Transfer: Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging.

c) Risk Reduction: Employing methods/solutions that reduce the severity of the loss. Action istaken to reduce the risk likelihood or impact, or both. This may involve any of a myriad ofeveryday business decisions.

d) Risk Retention: Accepting the loss when it occurs. Risk retention is a viable strategy for smallrisks where the cost of insuring against the risk would be greater over time than the totallosses sustained. All risks that are not avoided or transferred are retained by default. Thisincludes risks that are so large or catastrophic that they either cannot be insured against or thepremiums would be infeasible.

Mitigation plan/control is defined as any action taken by management, the board and other parties to enhance risk management and increase the likelihood that established objectives and goals will be achieved.

Mitigation plans should be documented in detail to incorporate the following:

- Person responsible for carrying out the action
- Timeline by which the action will be completed
- Cost/Budget for the action
- Cost-benefit analysis (if required)

Major risks & their Counter Measures as follows,

(i) Credit Risk: A risk of loss due to failure of a borrower / counterpart to meet the contractual obligation of repaying his debt. The risk could be on account of some erroneous sourcing done by the Company as also due to the customer facing issues which does not permit him to make the repayment even if he actually wanted to
Measures: Before sanctioning loans, the Company performs a thorough background check of the potential customers, so as to avoid any chances of fraud and default. The checks include field investigation, credit checks and tele-verification.

(ii) Economic Risk: The Company's performance will be hindered by further slowdown of the economy, as it would lead to a slump in the auto sector and NBFC lending. Measures: The Company has continuity plans and strategies to negate the risks due to economic slowdown.

(iii) Regulatory Risk: Risk potential for changes in laws, regulations or interpretations that causes business losses.
Measures: The Company's operations will be affected by any changes in the regulatory environment. The legal and compliance team, in collaboration with external legal advisors, keep an eye on the applicable laws and regulations, and take necessary actions as and when needed.

(iv) Product Risk Competitors catching up with the product development.
Measures: The Company has been expanding its operations across various directions in the country. The Company has also begun operations in the Personal loan, used car and Refinance of two-wheeler financing.

(v) Technology Risk: Information technology risk seeks to establish a strict information security structure to prevent data loss and threats.
Measures: In order to counter the risks related to information technology, the Company is contemplating a major revamp of its technology platform. The Company is in the process of finalizing with pioneers for both its hardware and software needs. The Company is looking beyond the immediate future to ensure that the threats from the web is countered with no chances of fraud or manipulation.

(vi) Operational Risk: Operational risks are a result of incompetent or failed internal processes, people and systems or from external events.
Measures: The constant skill development and training programs form the core of the employees' training modules. To ensure better control over the transactions, processes and regulatory compliance, the Company has Branch Operations manual in place. The Internal Auditors are also having a complete review of risk assessments and associated management action plans

3. **Risk Monitoring and reporting:**

The Board shall be responsible for time to monitoring the risk and may delegate this powers to the Risk management committee as and when required.Company reporting process will evolve as requirements and riskmanagement leading practice evolve. The head of the respective department is responsible for observing the risk and report to the Board and Risk management committee as soon as possible.

The tracking of internal loss event data is a key component of robust risk management and contributes to the assessment and monitoring of risk. We, at Berar, are developing a central repository on Operational Loss event / near miss events through an Incident Reporting System. All operational losses that occur on account of inadequate or failed internal processes, people, systems, legal related risks etc. forms part of the data base This database captures events related to Actual losses through 'Internal fraud incident reports'.

The recoding of loss events would benefit us in

♣ Validating the control effectiveness and take corrective action

♣ Avoiding repeat incidents

♣ Strengthening the existing control or put in place a new control

It is encouraged that each business unit / function should ensure collection of all events and update the details, as this would help the risk management to perform assessment of necessary controls.

CONSTITUTION OF RISK MANAGEMENT COMMITTEE:

The Board of Directors of the Company shall constitute Risk Management Committee consisting of such number of directors (executive or non-executive) as the Board may thinks fit.

The Board shall define the roles & responsibilities of the Risk Management Committee & may delegate monitoring & reviewing of the risk management plan to the Committee & such other functions as it may deem fit.

APPLICATION:

This policy applies to all areas of the Company's operations.

ROLE AND RESPONSIBILITY OF THE RISK MANAGEMENT COMMITTEE:

The Risk Management Committee shall have overall responsibility of overseeing and reviewing risk management across the Company. The terms of reference of the Risk Management Committee are as follows:

- review of strategic risks arising out of adverse business decisions and lack of responsiveness to changes;
- review of operational risks;

- review of financial and reporting risks;
- review of compliance risks;
- review or discuss the Company's risk philosophy and the quantum of risk, on a broad level that the Company, as an organization, is willing to accept in pursuit of stakeholder value;
- inquiring about existing risk management processes and review the effectiveness of those processes in identifying, assessing and managing the Company's most significant enterprise-wide risk exposures;
- review periodically key risk indicators and management response thereto.

ROLE AND RESPONSIBILITY OF THE BOARD

The Board will undertake the following actions to ensure risk is managed appropriately:

- The Board shall be responsible for framing, implementing and monitoring the risk management plan for the company.
- The Board shall define the roles and responsibilities of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the Committee and such other functions as it may deem fit.
- Ensure that the appropriate systems for risk management are in place.
- The independent directors shall help in bringing an independent judgment to bear on the Board's deliberations on issues of risk management and satisfy themselves that the systems of risk management are robust and defensible;
- Participate in major decisions affecting the organization's risk profile;
- Have an awareness of and continually monitor the management of strategic risks;
- Be satisfied that processes and controls are in place for managing less significant risks;
- Be satisfied that an appropriate accountability framework is working whereby any delegation of risk is documented and performance can be monitored accordingly;
- Ensure risk management is integrated into board reporting and annual reporting mechanisms;
- Convene any board-committees that are deemed necessary to ensure risk is adequately managed and resolved where possible.

REVIEW

This policy shall be reviewed at a minimum at least every year to ensure it meets the requirements of legislation & the needs of organization.

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