

RISK MANAGEMENT POLICY

Policy Owner

1. INTRODUCTION

Non-Banking Financial Companies (NBFCs) form an integral part of the Indian financial system. NBFCs are required to ensure that a proper policy framework on Risk Management Systems with the approval of the Board is formulated and put in place. This policy document has prepared in line with the RBI guidelines, as the Digamber Capfin Limited (hereinafter referred to as “DCL”) needs to comply with certain risk organization and process requirement set out by Reserve Bank of India (RBI).

KEY DEFINITIONS

‘Risk’ can be defined as the effect of uncertainty on the objectives of the company. Risk is measured in terms of consequences and likelihood. Risks can be internal and external and are inherent in all administrative and business activities. Every member of any organisation continuously manages various types of risks. Formal and systematic approaches to managing risks have evolved and they are now regarded as good management practice also called as Risk Management.

‘Risk Management’ is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of uncertain events or to maximize the realisation of opportunities. Risk management also provides a system for the setting of priorities when there are competing demands on limited resources and the systematic way of protecting business resources and income against losses so that the objectives of the Company can be achieved without unnecessary interruption.

Risk Management Process: The systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analyzing, evaluating, treating, monitoring and communicating risk.

Risk Assessment: The systematic process of identifying and analysing risks. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks.

Risk Mitigation: Risk mitigation involves taking action to reduce company's exposure to potential risks and reduce the likelihood that those risks will happen again.

2. GENERAL PROVISIONS

This policy represents the basic standard of Risk Assessment to be followed by the company.

All relevant employees must be thoroughly familiar or made familiar with it and make use of the material contained in this policy.

The provisions of Section 134(3)(n) of the Companies Act, 2013 necessitate that the Board's Report should contain 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. Further, the provisions of Section 177(4)(vii) of the Companies Act, 2013 require that every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall inter alia include evaluation of risk management systems.

3. OBJECTIVES AND SCOPE OF THE 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, including the development of the risk matrix, in order to guide decisions on risk related issues. The Risk Management Policy provides for the enhancement and protection of business value from uncertainties and consequent losses.

The specific objectives of this Policy are:

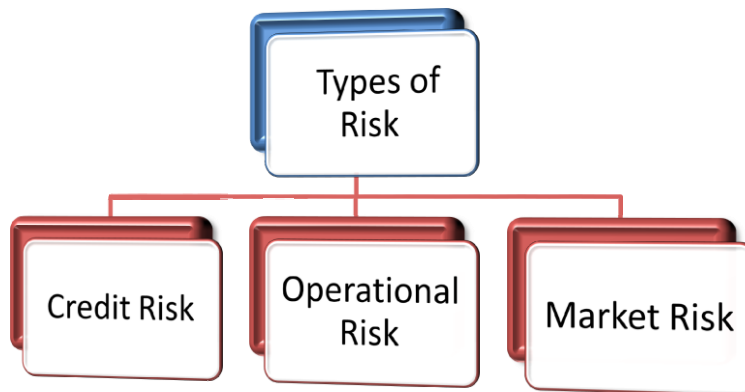
- (a) To ensure that all the current and future material risk exposures of the Company are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e., to ensure adequate systems for risk management;
- (b) To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices;

(c) To assure business growth with financial stability;

4. RISK MANAGEMENT

Risk Management is a business facilitator by making more informed decision with balanced risk-reward paradigm. The company shall follow a disciplined risk management process and has been taken business decisions, ensuring growth and balancing approach on risk-reward matrix.

There are mainly three types of risk associated with our business which are detailed as under:



4.1 CREDIT RISK:

A risk of loss due to failure of a borrower to meet the contractual obligation of repaying his debt as per the agreed terms is commonly known as risk of default.

RISK MITIGATION:

- Credit risk shall be managed using a set of credit norms and policies. The Company shall have defined roles and responsibilities for originators and approvers. All credit exposure limits shall be approved by authorized persons.
- There shall be a structured and standardized credit approval process to ascertain the credit worthiness of the borrower.

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- The company shall develop internal evaluation team to make credit decisions more robust and in line to manage collateral risk.
- The company shall follow a process of time to time revisiting the credit policy and processes, on the basis of experience and feedback.
- The other members/borrowers in the joint liability group can take active role in credit screening and in monitoring the credit behavior of other customers apart from providing credit guarantee.
- Provisions for bad and doubtful debts are appropriately made in books of accounts.
- Appropriate recovery management and follow-up.

4.2 OPERATIONAL RISK:

Any eventuality arising from the act relating to people, technology, infrastructure and external factors, which can give rise to some type of loss in the organization, is termed as Operational Risk. Majorly, it is internal and unknown. Therefore, the persons responsible shall keep continuous watch and shall gather the symptoms/warning signals to manage operational risks.

4.3 MARKET RISK:

This is majorly external market dynamics, which give rise to risks like Liquidity risk, Interest Rate risk and Funding risk. Liquidity risk is the inability to meet financial obligations in a timely manner and without stress. The company shall resort to proper ways to manage such risk.

RISK MITIGATION:

As a contingency plan, the company shall maintain sufficient approved but undrawn credit lines on a continuous basis as buffer to manage eventuality of liquidity constraints.

In addition of above company has formed a Risk Management Committee and composition of the same is as follows:

1. Mr. Rajiv Jain (Managing Director)
2. Mr. Amit Jain (Whole Time Director)
3. Mr. Virendra Kumar Bhargaw (Vice President)
4. Mr. Dharmendra Kumar Jangid (Vice President)

Following are main objectives of the said committee:

- The total process of risk management which includes opening of new branches along with review of existing branches in different states and review of internal control system.
- The Committee is constituted to assist the Board in the discharge of its duties and responsibilities in this regard.
- The duties and responsibilities of the members of the Committee are in addition to those as a member of the Board of Directors.

Other major responsibilities of the committee are covered under terms of reference of the committee.

The Company shall be compliant in terms of regulatory norms and therefore shall effectively manage regulatory risks. Effective customer redressal mechanism and fair practices shall keep legal risk under control.

The Company shall have processes in place, to manage the risks of fraud and the suspected frauds are reported, wherever necessary.

RISK ASSESSMENT OF BORROWERS

It is generally recognized that certain borrowers may be of a higher or lower risk category depending on the customer's background, borrower's net worth and the ability to refund and pay interest etc. As such, the concerned person shall apply to each of the customers due diligence measures on a risk sensitive basis. Initially, all the new clients are to be marked as high – risk category, however they may be subsequently recategorised depending on their performance based on our own experiences. In line with risk based approach, the type and amount of information and documents should be collected from the client for the purpose of verification.

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Further to assess credit worthiness of the borrower, company has separately formed a committee named “Credit committee” consisting of four members. Committee has been constituted with overall responsibility of granting sound loans as per financial stability of borrower.

Composition of the Credit committee is as follows:

1. Mr. Virendra Kumar Bhargaw (Vice President)
2. Mr. Dharmendra Kumar Jangid (Vice President)
3. Mrs. Preeti Verma (Credit Hub Head)
4. Mr. Subhash Kumawat (GRT Head)

RESPONSIBILITY FOR RISK MANAGEMENT

Management is responsible for the development of risk mitigation plans and the implementation of risk reduction strategies. Risk management processes should be integrated with other planning processes and management activities.

COMPLIANCE AND CONTROL

All the Senior Executives under the guidance of the Chairman and Board of Directors has the responsibility for over viewing management’s processes and results in identifying, assessing and monitoring risk associated with Organization’s business operations and the implementation and maintenance of policies and control procedures to give adequate protection against key risk. In doing so, the Senior Executive considers and assesses the appropriateness and effectiveness of management information and other systems of internal control, encompassing review of any external agency in this regards and action taken or proposed resulting from those reports.

AMENDMENTS

This policy may be amended subject to the approval of Board of Directors, from time to time in line with the business requirement of the company or any statutory enactment or amendment thereto and shall be reviewed at least every year to ensure it meets the requirements of legislation and the needs of organization.

CONTENT ON THE WEBSITE

- Appropriate disclosure regarding this Policy shall be made on the Company website at <https://www.digamberfinance.com/corporate-governance/>

DIGAMBER CAPFIN LIMITED

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