

N.B.I. INDUSTRIAL FINANCE
COMPANY LIMITED

RISK MANAGEMENT POLICY

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1. Introduction

N.B.I. Industrial Finance Company Limited ('the Company') being a systemically important Non- deposit taking NBFC form an integral part of the Indian financial system. NBFCs are required to ensure that a proper policy framework on Risk Management Systems is formulated with the approval of the Board and is put in place. This policy document has been prepared in line with the RBI guidelines.

General Provisions

This Policy represents the basic standards of Risk Assessment to be followed by the Company. Changes in the Policy will become effective upon approval by the Board of Directors of the Company.

2. 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 taking 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:

a.) Credit Risk

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

i.) 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.
- 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.

b.) 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. The persons responsible shall keep continuous watch and shall gather the symptoms/warning signals to manage Operational risk.

c.) **Market risk**

This is majorly external market dynamics, which gives 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 risks.

i) **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.
- The Company shall be compliant in terms of regulatory norms and therefore shall effectively manage regulatory risk. Effective Customer redressal mechanism and fair practices shall keep legal risk under control.
- The Company shall have processes in place, to manage the risk of fraud and the suspected frauds are reported, wherever necessary.

3. **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, type of business, our references, borrowers net worth and the ability to refund and pay interest etc. As such, based on the due diligence measures on risk sensitive basis each of the customers shall be divided in three categories HIGH, MEDIUM AND LOW which shall be reviewed every year. Initially, all the new clients are to be marked as high – risk category, however they may be subsequently re-categorized depending on their performance based on our own experiences. The basic principle enshrined in this approach is that the concerned persons should adopt an enhanced customer due diligence process for higher risk customers.

Conversely, a simplified customer due diligence process may be adopted for lower risk of categories of customers. In line with risk-based approach, the type and amount of information and documents shall vary depending on the risk category of a particular borrower and should be collected from the client. The beneficial owners working should be done for all corporate clients and background check of all directors. In case of a borrower who subsequently has turned out to be a Politically Exposed person, proper risk management system should be put in place to determine the beneficial ownership from such clients or potential clients.

Once we are privy to such publicly available information or the commercial electronic database of PEPs, we should seek additional relevant information from such client pertaining to ownership issues and other risks associated with such persons and take call whether such exposure to him or his company we should continue or terminate the relationship after giving notice in advance. As a policy without concurrence of top management, no such identified PEP account is to be granted loan.

4. **Responsibilities of RMC**

- Analyse the material risks to which the group, its businesses and subsidiaries are exposed. It must discuss all risk strategies both at an aggregated level and by type of risk and make recommendations to the Board in accordance with the group's overall risk appetite.
- Identify potential intra-group conflicts of interest.

- Assess whether there are effective systems in place to facilitate exchange of information for effective risk oversight of the group.
- Assess whether the corporate governance framework addresses risk management across the group.
- Carry out periodic independent formal review of the group structure and internal controls.
- Articulate the leverage of the Group and monitor the same.

5. Board of Directors, Risk Management Committee - Meetings and Review

The Board of Directors, in their board meetings, will oversee the implementation of the system and review its functioning periodically. The Risk Management Committee shall hold at least two meetings in a financial year.