POLICY ON RISK MANAGEMENT

1. INTRODUCTION

MUKESH BABU FINANCIAL SERVICES LIMITED (MBFSL) is a Non-banking Financial Company registered with the Reserve Bank of India. The Board of Directors of MBFSL has adopted the following policy and procedures in compliance with Reserve Bank of India (RBI) guidelines for Non-Banking Financial Companies (NBFCs) which requires the Company to lay down procedures about the risk assessment and risk minimization. The Board may review and amend this policy from time to time.

2. OBJECTIVE

Objective of risk management is not limited to complying with RBI guidelines but also to enable the Company in achieving its strategic objectives and enhance stakeholder value. The Company understands that risk management or exercise; so the Company has adopted a risk management methodology/framework to bring the inherent level of risks to a desired level of acceptable risks.

3. TYPE OF RISKS

(a) Industry & Services Risks:

These risks can be broadly categorised as follows:

- Economic risks such as dependence on one product, one process, one client, one industry, etc. in the short and long term.
- Services risks
- Market structure
- Business dynamics
- Competition risks affecting tariffs prices, costs, revenues and customer preferences
- Customer relations risks
- Reputational risk

(b) Management and Operations Risks:

These risks relate broadly to the Company's operations and management such as planning, monitoring and reporting systems in the day to day management process namely:

– Risks to Property

– Clear and well defined check processes

– Changes in Technology/ up-gradation

– R&D risks

- Agency Network Risks

– Personnel risks such as labour turnover risks involving replacement risks, training risks, cost risks, skill risks etc. There are also unrest risks due to strikes and lockouts. These risks affect the company's business and earnings.

(c) Market Risks:

These risks relate to market conditions namely:

- interest rates risks
- Preference of the borrowers

.

(d) Political Risks:

These risks relate to political uncertainties namely:

– Elections

– War risks

– Country/Area risks

– Insurance risks like fire, strikes, riots and civil commotion etc.

– Fiscal/Monetary Policy Risks including Taxation risks.

(e) Credit Risks:

These risks relate to commercial operations namely:

– Credit worthiness risks

– Risks in settlement of dues by clients

– Provisions for doubtful and bad debts

(f) Liquidity Risks:

These are financial risk factors namely:

– Financial solvency and liquidity risks

– Borrowing limits, delays

– Cash/Reserve management risks

– Tax risks

(g) Disaster Risks:

These risks relate to disasters from following factors:

– Natural risks like fires, floods, earthquakes, etc.

(h) Systems Risks:

These risks relate to the company's systems namely:

– System capacities

– System reliability

– Obsolescence risks

– Data Integrity risks

– Coordinating and Interface risks.

(i) Legal Risks:

These risks relate to the following:

– Contract risks

– Contractual Liability

– Frauds

– Judicial risks

– Insurance risks.

4. RISK MANAGEMENT COMMITTEE

A Risk Management Committee (RMC) comprising senior executives/Head of the Departments of the Company, Chaired by the Mr. Mukesh Babu, the Managing Director, is responsible for the review of risk management processes within the

Company and for overseeing the implementation of the requirements of this policy.

The Company Secretary is the Secretary to the RMC.

Objectives of RMC:

- Identify changes in contributing factors, which may affect the likelihood and impact of an outcome
- Ensure proposed risk treatment plans are adequate
- Assess the progress of risk treatment action plans
- Identify new and emerging risks, if any.

5. RISK MANAGEMENT METHODOLOGY

Risk Management methodology explains the process that the Company should follow. It has four phases.

I Risk Identification

The Company may use following ways to identify new risks that may have emerged or risks that would have changed over a period of time:

- Review of documents such as strategic plans, board and audit committee meeting minutes, risk management committee meeting minutes, policies and procedures, internal audit reports, financial statements, press releases, analyst reports etc.;
- Structured workshops, brainstorming sessions and
- Interview with Top and Senior Management.

All identified risks should be undated in a risk register as and when identified.

Risk registers should be reviewed by the Risk Committee to ensure pertinence of the risks listed. Risks that would have ceased should also be closed appropriately.

II Risk assessment and prioritization

Risk may be high, medium or low. The objectives of Risk Assessment to assist the organization in prioritizing risk treatment strategies to ensure that appropriate attention is given to risks based on their criticality and that the Company resources are effectively utilized in managing these risks.

III Risk Treatment

Risk treatment involves identifying the range of options for treating risk, assessing those options, preparing risk treatment plans and implementing them. Risk treatment plans, as and when formed, should be profiled in the Risk Profile. Action plans need to be time bound and responsibility driven to facilitate future status monitoring. Treatment plan should ensure that existing level of risks is brought down to an acceptable level.

Treatment Options

a) Eliminate-

Action is taken to exit the activities giving rise to risk such as exiting a product line, selling a division, declining expansion to a new geographical market etc. where either the cost of other responses would exceed the desired benefit or no response option was identified that would reduce the impact and likelihood to an acceptable level.

b) Reduction-

Action is taken to reduce the risk likelihood or impact or both to reduce the risk to an acceptable level. This may involve any of everyday business decisions.

c) Sharing -

Action is taken to reduce risk likelihood or impact by transferring or otherwise sharing a portion of the risk with a third party, such as Purchasing insurance products, pooling risks, engaging in hedging transactions, outsourcing an activity etc.

d) Acceptance-

No action is taken to mitigate the risk. Business is willing to continue taking the risk at the same level.

IV Implementation of decisions

The last step in the risk management process is the implementation of the decision. The Risk Manager should recommend to the Board or an organization various alternatives of tackling the risks. After getting it approved, initiate measures to implement it.

6. REVIEW

Head of Departments/ senior executives 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 the Audit Committee.

The Board of Directors of the Company and the Audit Committee of Directors shall periodically review the risk management policy of the Company so that management controls the risk through properly defined network.

7. AMENDMENTS

The Board may, subject to applicable laws amend any provision(s) or substitute any of the provision(s) with the new provision(s) or replace the Policy entirely with a new Policy, based on the recommendations of the Audit Committee.

The Board may also establish further rules and procedures, from time to time, to give effect to this Policy and to ensure governance of material subsidiary companies.

8. SCOPE AND LIMITATION

In the event of any conflict between the provisions of this Policy and the SEBI (Listing Obligations & Disclosure Requirements) Regulations / Companies Act, 2013 or any other statutory enactments, rules, the provisions of such SEBI (Listing Obligations & Disclosure Requirements) Regulations / Companies Act, 2013 or statutory enactments, rules shall prevail over this Policy.

9. DISSEMINATION OF POLICY

This policy shall be hosted on the website of the Company and a web link thereto shall be provided in the annual report of the Company.

* * * * * * * * * * * * * * * * * * * *