Name of Policy	Date of Approval:	Next Review: As and when required
Risk Management Policy of MCFL	Effective date of implementation:	Version: V.1.0/04/22

MANGAL
CREDIT & FINCORP LIMITED

Ek mangalmay Shuruvaat

Risk Management Policy

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1. BACKGROUND

Mangal Credit and Fincorp Limited ("the Company" or "MCFL") being a Non Banking Financial Company is exposed to various types of risks viz Credit Risk, Market Risk, Interest Rate Risk, Liquidity Risk, Operational Risk, Legal Risk, Compliance Risk, Reputation risk etc. Further, in terms with the Master Directions for NonBanking Financial Companies – ND-NSI ("NBFC"), and Scale Based Regulation - A Revised Regulatory Framework for NBFCs prescribed by the Reserve Bank of India ("RBI"), MCFL, a NBFC-NSI-ND (NBFC – BL), is expected to put in place a Risk Management Committee thus a Risk Management Policy to oversee various risk including liquidity risk. In view of the above, this Risk Management Policy ("Policy") is presented in front of the board for review, approval and adoption by the company.

2. OBJECTIVE

The objective of the Policy is to ensure that various risks are understood and monitored / managed effectively. It also intends to define an appropriate risk management and governance framework for identification, measurement, proper management and reporting of various risks within the Company.

Key principles underlying the risk management framework of the Company will be as under:

(a) The Company will adopt risk management framework as defined under this Policy.
(b) The Board of Directors will provide broad guidance on overall risk framework of the Company.
(c) The Risk Management Committee constituted by the Board will periodically review various risks associated with business of the Company and guide the Company in putting in place an effective risk management framework.
(d) Specific committees/ authorities will be constituted/ designated across the Company to facilitate independent evaluation & monitoring of various risks and for effective implementation of the risk management framework.
(e) The policy/ procedure note approved by the Board of Directors/ by the committee/ authority delegated by the Board, from time to time, will form the governing framework for each type of risk.

3. POLICY APPROVAL AND REVIEW

The Policy and any material amendment therein shall be approved by the Board of Directors. The Policy shall be reviewed as and when required by the applicable rules and regulations.

Any review and amendments thereto may be approved by the Risk Management Committee ("RMC") constituted by the Board. However, if there is any such amendment carried-out, the Policy with material amendments carried-out during the year, should be presented before the Board for their ratification within a year. The RMC may further prescribe detailed procedures relating to various risks management by itself or delegate its powers to certain official(s) of the Company for the same.

Effective date - This Policy shall be effective from the date of approval of this policy and supersede all previous versions of FPC.

1. Type of Risk – The management has identified certain inherent and residual risks which have been divided in accordance with likelihood and its impact on the business. Following risks have been identified by the company –

    a. Credit Risk
    b. Liquidity Risk & Market Risk
    c. Operational Risk
    d. Regulatory, Compliance and Legal Risk
    e. Money Laundering Risk
    f. Reputation Risk
    g. Human Resource Risk

Risk Management Framework –

A. CREDIT RISK

Credit Risk may be defined as the potential that the Company's borrower or counterparty would fail to meet its obligations in accordance with agreed terms. The situation may arise due to fact that –

i. Credit quality of borrower/counter party has declined
ii. Due to inability or unwillingness of a customer or counter-party to meet commitments in relation to lending, trading, settlement and other financial transactions.
iii. Actual or perceived loss in portfolio value may be considered as credit risk.
iv. Credit concentration risk – incl. Single/group exposure risk, concentrated exposure to a/few industry / sector, concentrated exposure in specific geographies, complexity involved in transaction or loan, recovery risk etc.

For the Company, loans are the largest and most obvious source of credit risk. The objective goal of credit risk management is to maximize the Company's risk-adjusted rate of return by optimizing credit risk exposure within acceptable parameters.
The Company will manage the credit risk inherent in the entire portfolio as well as the risk in individual transactions. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any financial company. Therefore, it is imperative for PDL to have a robust credit risk management system to address the above risk.

Management of Credit Risk: The Company may take the following steps to manage/ mitigate credit risk:

(i) All credit risk and counter party related aspects shall be governed by the Credit Policy and Guidelines for respective products and various circulars/ bulletins (hereinafter referred together as "Credit Policy"). The Credit Policy will outline types of products, customer categories, target customer profile, credit approval process, exposure limits etc. The Credit

Policy shall be approved by the Risk Management Committee/official(s) authorized by the Board of Directors and will be put forward to board for noting.

(ii) The authority matrix for approval of credit limits shall be approved by the Board of Directors or by the Risk Management Committee/ official(s) authorized by the Board of Directors.

(iii) The Company (directly or through its authorized agents/ representatives) will have a dedicated department/ unit for collection and recovery across customer and product segments and geographical locations, to contain and manage delinquency levels. Such collection and recovery unit will operate under the approved Collection Policy of the Company while ensuring adherence with the Fair Practices Code and other requirements prescribed by the RBI.

(iv) The Litigation function directly or through the Company's authorized agents/ representatives will facilitate recovery process, as and when required

B. LIQUIDITY RISK AND MARKET RISK

Liquidity is the ability of an entity to fund increase in assets and meet obligations as they come due, without incurring unacceptable losses. Virtually every financial transaction or commitment has implication from a liquidity perspective. Liquidity risk may arise due to maturity mismatch associated with assets and liabilities of the Company.

Effective liquidity risk management will help the Company to meet cash flow obligations, which could become uncertain as they are affected by market/ external events and behaviour of counterparties/ other market players. Liquidity risk management is of paramount importance because a liquidity shortfall at a single institution can have system-wide repercussions.

Market risk is the potential loss of value in assets and liabilities due to changes in market variables (e.g., interest and exchange rates, equity and commodity prices). This covers assets and liabilities in trading books, but also could include the market risk of assets and liabilities classified as available for sale, or even hold-to-maturity assets and liabilities.

The company being a NBFC is dependent on banks and financial institutions and other funding structures for its funding and hence the Company is exposed to the following types of risks emanating from Liquidity and Market factors:

- **(i) Liquidity Risk**
- **(ii) Asset-Liability Mismatch**
- **(iii) Interest Rate risk**
- **(iv) Funding Concentration Risk**
- **(v) Leverage Risk**

Management of Liquidity Risk and Market Risk:

The management of liquidity risk, asset liability mismatch and interest rate risk will be defined in the Board approved Policy for ALM / Liability & Interest Rate Risk Policy. The Policy (to be proposed) will cover functioning of RMC or ALCO (Risk Management Committee or Asset Liability Management Committee), ALM process and the limits pertaining to interest rate risk and liquidity risk. It will also endeavour to address funding concentration and leverage risk. RMC and/or ALCO will meet at regular intervals to monitor various aspects of liquidity, market and interest rate risk.

C. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk also cover intentional failure on part of people. All types of business entities are exposed to operational risk relating to the activities undertaken by it. It could also arise due to unforeseen natural calamities/ events, loss of data, errors in processes and frauds. Though the occurrence of such instances could be less, the impact in value terms could be significant.

Management of Operational Risk: The company need to put in place, necessary controls essential to ensure that there are no intentional or unintentional errors that creep into the process. Following steps will be taken to manage/ mitigate various types of Operational Risk:

(i) The Company through its operations team (managed directly or through its authorized agents/ service provider) shall manage operational risks in all processes of the Company's business including back-office processing, customer engagements, etc.
(ii) Operational risk will be mitigated through sound standardized operational processes, robust IT systems and back-up plans which would help in minimizing loss of information/ data, errors & fraud occurrence.
(iii) The company will put necessary controls in place to insure minimum operational risk including internal audit function and processes, segregation of duties wherever possible, dual control – maker / checker, regular training of employees etc.
(iv) The Company may adopt, as applicable to it, appropriate policies on information technology, information/ cyber security, IS audit, BCP/ disaster recovery etc.
(v) Fraud-related risks would be mitigated through systems and processes for fraud prevention. Such systems and processes may be implemented at the ground level through various empanelled external agencies also.
(vi) The fraud-related risks will be mitigated through proper field verifications, profile checks and other credit requirements built in the respective policies.
(vii) The Company will put in place adequate system of internal audit, internal finance controls and assurance along with requisite training to the employees at the ground.
(viii) The company will, as may be required, accordance with RBI guidelines wherein a detailed check is done for all the outside vendors before any work is outsourced.

D. COMPLIANCE, LEGAL AND REGULATORY RISK

The company being a NBFC company registered under Company Act and listed on stock exchanges (currently BSE) operates under highly regulated environment and hence is required to comply with various regulations, laws, rules etc. Further company is exposed to other legal risk like documentation which may be required for customers, partners, vendors, outsourcing and various other aspects. Non-Compliance can result in stringent actions and penalties from the Regulator and/or Statutory Authorities and which also poses a risk to Company's reputation.

Management of Compliance, regulatory and legal risk.
The company may mitigate the risk through regular review of legal compliances carried out through internal as well as external compliance audit, as required and applicable. Further to manage Legal Risk, the Company will have standardized documentations for various business purposes which are approved. If required, opinions may be sought from internal and external legal counsel. The designated Compliance Officer shall ensure that all regulatory requirements are disseminated across the Company and are adhered to. He / She shall also have the responsibility of coordinating the regulatory audits and correspondence with the regulatory authorities.

E. MONEY LAUNDERING (ML) RISK AND MANAGEMENT

The Company, being an NBFC and business of lending, is exposed to the risk of being used for money Laundering. The Company will take the following steps to mitigate the ML risk:

- **(i) A committee authorized by the Board or the Designated Director may be appointed by the Board shall have oversight on the Anti-Money Laundering (AML) initiatives of the Company.**
- **(ii) The AML/ KYC Policy, in line with the statutory/ regulatory requirements, will be in implemented.**
- **(iii) Adequate Know Your Customer (KYC) procedures will be implemented for identification & verification of customers and for monitoring/ reporting of cash/ suspicious transactions, as required.**
- **(iv) The Company may appoint, as applicable, a Principal Officer (PO) who will have executive responsibility for monitoring day-to-day implementation of the AML Policy and Procedures.**
- **(v) The company will create regular training program framework for all the employees especially who are front facing and exposed to customer.**

F. REPUTATIONAL RISK

Reputation risk could be defined as the risk of potential damage to any enterprise owing to deterioration of its reputation, negative or unfavourable perception about company, it's brand, company's marketing standing or reputation and image among its different stakeholders, namely, its customers, employees, shareholders, suppliers and regulatory authorities. It may arise when some incident leads to reputation damage due to various factors including mis-selling, adverse media campaign, unfair trade practices, regulatory action and non compliances, liquidity issue, etc.

Management of Reputational Risk: To manage this risk, the Company shall ensure the following:

(i) Prior to any release, all media communications should be approved by the Chairman & CEO or the authority to whom such powers have been delegated by the Chairman & CEO.
(ii) Timely response to statutory/ regulatory queries/ requirements.
(iii) Respond to the customers' queries and needs within committed turn-around time.
(iv) Be vigilant to customer's/ stakeholder's/ media feedback (including social media) and take quick remedial actions.
(v) Audit system, compliance functions, RMC, ALCO, Segregation of duties, dual controls, internal financial controls and training of employees on regular basis will help mitigate Reputation risk of the company.

G. HUMAN RESOURCE RISK –

Human Resource adds value to the entire company by ensuring that the right person is assigned to the right job and that they grow and contribute towards organizational excellence. The company growth has been driven by its ability to attract top quality talent and effectively engage them in right jobs. Risk in matters of human resources are sought to be minimized and contained by following a policy of providing equal opportunity to every employee, inculcate in them a sense of belonging and commitment and also effectively train them in spheres other than their own specialization. Employees are encouraged to make suggestions on innovations, cost saving procedures, free exchange of other positive ideas etc. It is believed that a satisfied and committed employee will give of his best and create an atmosphere that cannot be conducive to risk exposure. Employee- compensation is always subjected to fair appraisal systems with the participation of the employee and is consistent with job content, peer comparison and individual performance. Management of HR Risk: Human Resource Policy and initiatives: Various programs and initiatives are carried out by the HR to retain talent and motivate them on a regular basis. Further the company will continuously work to create a healthy environment and culture of its employees. Regular training program and awareness would also help to retain and attract quality people in the company.

4. COMMITTEES, AUDIT AND ASSURANCE

As part of its overall risk management framework, the various committees formed by company like Risk Management committee, Asset Liability Committee, Audit committee, and requisite internal audit mechanism, commensurate with its size & volume, will ensure adequate checks and balances are embedded in the Company's business activities and processes.

The Board/ Audit Committee of the Company will periodically review functioning of the audit and committees framework and action taken based on their feedback. All the Senior Executives under the guidance of Board and Committees has the responsibility for overviewing management's process and results in identifying, assessing and monitoring risk associated with the Company's business operations and 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