Freemen Investments Private Limited

Risk Management Policy

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1. Objective:

The objective of this Risk Management Policy is to establish a systematic approach for identifying, assessing, monitoring, and mitigating various risks such as credit, liquidity, operational, and market risks faced the **M/s. Freemen Investments Private Limited**. The policy aims to ensure financial stability, regulatory compliance, and sustainable business growth.

2. Scope:

This policy applies to all functions and activities of the Company, covering credit risk, liquidity risk, operational risk, market risk, and compliance risk. It aligns with the relevant RBI regulations and guidelines applicable to NBFCs.

3. Regulatory Framework:

The policy is framed in compliance with:

- RBI Master Direction for NBFCs – Non-Systemically Important Non-Deposit Taking Companies (2016)
- RBI Circular on Scale-Based Regulation (SBR) for NBFCs issued on October 2021
- RBI Guidelines on Asset Classification, Provisioning, and Risk Management for NBFCs
- Any other relevant RBI guidelines

4. Risk Management Committee (RMC):

4.1. Constitution of RMC: The Risk Management Committee (RMC) shall consist of:

- Managing Director/CEO (Chairman)
- Chief Financial Officer (CFO)
- Head of Risk Management
- Head of Credit
- Head of Compliance

4.2. Role and Responsibilities:

- Identify and assess the various risks faced by the Company.
- Develop strategies to mitigate risks, ensuring that the company's exposure is within acceptable limits.
- Review and monitor the effectiveness of the risk management framework.
- Ensure that all activities comply with applicable laws, regulations, and internal policies.

4.3. Frequency of Meetings:

The RMC shall meet at least quarterly to review the company's risk profile, emerging risks, and risk mitigation strategies.

5. Types of Risks Covered:

5.1. Credit Risk:

Credit risk arises from the possibility that borrowers may fail to meet their repayment obligations. This section of the policy outlines the procedures for managing credit risk:

- **Credit Risk Assessment:**
  Evaluation of customer creditworthiness through credit scores, financial statements, and due diligence.

- **Loan Sanctioning:**
  The process must include appropriate collateral requirements and credit limits based on borrower risk profiles.

- **NPA Monitoring:**
  Non-Performing Assets (NPA) must be closely monitored, and appropriate provisioning in line with RBI norms should be made for any overdue accounts.

- **Concentration Risk:**
  Limits should be set for sectoral exposure to prevent concentration risk.

5.2. Liquidity Risk:

Liquidity risk arises when the Company is unable to meet its financial obligations as they become due.

Liquidity risk management involves:

- **Liquidity Coverage Ratio (LCR):**
  Maintain an adequate liquidity buffer as per RBI's norms.

- **Cash Flow Management:**
  Regular monitoring of cash flows to ensure the Company has sufficient funds to meet short-term obligations.

- **Contingency Plan:**
  A contingency plan should be in place to secure funding in times of stress, such as from overdraft facilities or liquid assets.

5.3. Operational Risk:

Operational risk includes the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. This section includes:

- **Internal Controls:**
  Strong internal controls to reduce the risk of fraud, errors, and system failures.

- **Technology Risk:**
  Implement adequate IT security measures to protect against data breaches and cyber-attacks.

- **Compliance Risk:**
  Ensure compliance with all applicable regulations, including RBI guidelines, AML/KYC norms, and other legal requirements.

- **Business Continuity Planning:**
  Establish a business continuity plan (BCP) to handle disruptions like system failures or natural disasters.

5.4. Market Risk:

Market risk refers to the possibility of losses due to adverse changes in interest rates, exchange rates, or market prices.

- **Interest Rate Risk:**
  Manage interest rate fluctuations that can affect both assets and liabilities. Regular monitoring of interest rate gaps should be performed to avoid mismatches.

- **Hedging:**
  Utilize hedging strategies (if necessary and applicable) to mitigate interest rate risk.

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6. Monitoring and Reporting of Risks:

6.1. Risk Monitoring:

- All risk categories will be continuously monitored to identify potential risk triggers and breaches in exposure limits.

- Key Risk Indicators (KRIs) will be used to monitor the credit portfolio, asset-liability mismatch, operational processes, and market fluctuations.

6.2. Risk Reporting:

- The RMC will prepare regular risk management reports, which will be submitted to the Board of Directors for review.

- The reports should cover areas such as NPA levels, liquidity positions, operational incidents, and compliance with regulatory and internal guidelines.

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7. Stress Testing and Scenario Analysis:

7.1. Stress Testing:

Stress testing will be conducted periodically to simulate adverse scenarios (e.g., economic downturns, liquidity crunches) and assess the Company's ability to withstand shocks.

7.2. Scenario Analysis:

The Company will perform scenario analysis on key risk areas such as credit risk, liquidity risk, and market risk to evaluate the potential impact of extreme but plausible events on financial health.

8. Internal Audit and Controls:

8.1. Internal Audit:

- Regular internal audits will be conducted to evaluate the effectiveness of the risk management system.
- The audit will review all areas of risk, including credit, operational, and liquidity risk, to ensure that the Company complies with internal and regulatory norms.

8.2. Controls:

- Adequate controls must be established to mitigate the identified risks, with an emphasis on process improvements, technology upgrades, and fraud prevention mechanisms.

9. Risk Appetite and Limits:

9.1. Risk Appetite:

The Board of Directors will define the risk appetite of the Company, specifying the level of risk the company is willing to accept in various risk areas. This will help guide decisions on risk-taking and capital allocation.

9.2. Exposure Limits:

Risk exposure limits (sectoral, borrower, geographical) will be set and reviewed regularly by the RMC to ensure that the Company's risk-taking activities are within acceptable boundaries.

10. Capital Adequacy and Provisioning:

The Company will ensure that its capital adequacy ratios are in line with the RBI's minimum requirements. Adequate provisioning will be maintained for NPAs and other risky exposures to absorb potential losses.

11. Compliance with RBI Guidelines:

This policy is designed to ensure that the Company complies with all RBI guidelines on risk management, including but not limited to:

- Prudential norms on income recognition, asset classification, and provisioning.
- RBI's Scale-Based Regulation (SBR) Framework for NBFCs.
- RBI guidelines on credit risk, liquidity risk, and operational risk.

12. Review of the Risk Management Policy:

This Risk Management Policy will be reviewed annually or as required by changes in the regulatory environment, risk profile, or business strategy of the Company. Any changes must be approved by the Board of Directors.

13. Conclusion:

The Risk Management Policy provides a structured framework to identify, assess, and manage risks associated with the Company's operations. The policy is essential to maintaining the financial stability and sustainability of the Company while ensuring compliance with RBI regulations.