

RISK MANAGEMENT POLICY



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RISK MANAGEMENT POLICY

The Board of Directors has adopted the following policy and procedures with regard to risk management, which lays down the framework of Risk Management at **Commitment Finance Limited** (hereinafter referred to as the '**Company**'). It seeks to identify risks inherent in any business operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks. Risk management policy and processes will enable the Company to proactively manage uncertainty and changes in the internal and external environment to limit negative impacts and capitalize on opportunities.

OBJECTIVE & PURPOSE OF 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 and to create and protect shareholder value by minimizing threats or losses, and identifying and maximizing opportunities. In order to achieve the key objective, the policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues.

APPLICATION

This policy applies to all areas of the Company's operations.

DEFINITIONS

"**Audit Committee**" means Committee of Board of Directors of the Company constituted under the provisions of the Companies Act, 2013 and the Listing Regulation.

"**Board of Directors**" or "**Board**" in relation to a Company, means the collective Body of Directors of the Company. [Section 2(10) of the Companies Act, 2013].

"**Policy**" means Risk Management Policy.

LEGAL FRAMEWORK

Risk Management Policy is framed as per the following regulatory requirements:

SEBI Listing Regulations.

Listing Regulation.

Regulation 4 (2) (ii) – Key Functions of the Board.

The Board should fulfill certain key functions, including:

- Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance, and overseeing major capital expenditures, acquisitions and divestments.
- Ensuring the integrity of the listed entity's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

Regulation 17 – Board of Directors

A. The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures.

B. The Board shall be responsible for framing, implementing and monitoring the risk management plan for the Company.

Regulation 17(7) – Minimum Information to be placed before Board of Directors (Part A of Schedule II)

Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.

Regulation 18 Role of Audit Committee (Part C of Schedule II)

The role of the Audit Committee shall include the following:

- Evaluation of internal financial controls and risk management systems.

Companies Act, 2013.

Provisions of the Section 134(3)

There shall be attached to financial statements laid before a company in general meeting, a report by its Board of Directors, which shall include —

- 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.

Provisions of the Section 177(4)

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 internal financial controls and risk management systems.

Schedule IV [Section 149(8)] – Code for Independent Directors Role and functions.

The independent directors shall.

- help in bringing an independent judgment to bear on the Board's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct;
- satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible;

RISK IDENTIFICATION & RISK CONTROL

Risk level = Consequences (the outcome severity (injury/illness) of one scenario) * **Exposure** (frequency and duration of exposure of persons to the chosen hazard) * **Probability** (likelihood or chance that the chosen sequence and consequence will occur).

I. Financial Risks.

We have divided the financial risk into four categories, namely:-

1. Credit Risk. These includes-

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.

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.

2. Liquidity Risks:

Ongoing liquidity needs of the Company will be monitored regularly to assure cash flow requirements are met on a day-to-day, cyclical, and long-term basis. These risks include:

- Financial solvency and liquidity risks
- Cash management risks

Risk Mitigation Measures:

- Investments should mature to meet anticipated cash requirements.
- In addition, the portfolio shall include securities with active secondary or resale markets to provide maximum liquidity.
- The portfolio must not hold more than 25% in any one issuer in an asset class and should not hold more than 35% in one entity, except government securities.

3. Market Risks:

Adverse and unanticipated market (including change in interest rates etc.) and economic developments may significantly change the risk profile and market value of investments.

Risk Mitigation Measures.

- Tracking micro and macro economic level data, market trends and forecasts by expert agencies, internal review by team of experts.
- The Company shall only undertake such transactions as permitted by the laws of the country applicable to it including the RBI guidelines.

4. Political Risks. Any adverse change in the political environment of the country, government policies etc. can have an impact in growth strategies of the Company.

Risk Mitigation Measures.

- Reviewing and monitoring the NBFC and other related policies and involvement prevailing in the country.

II. Legal and regulatory compliance risks. Legal risk is the risk in which the Company is exposed to legal actions. As the Company is governed by various laws and the Company has to do its business within four walls of law, where the Company is exposed to legal risk exposure. Further, the Company is required to avail various approvals, licenses, registrations and permissions for its business activities and each regulatory authority may impose its own requirements or delay or refuse to grant approval. The regulatory environment in India continues to be challenging.

III. Human Resource Risk. Company's 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. Our growth has been driven by our 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.

RESPONSIBILITY, COMPLIANCE AND CONTROL. Every staff member of the Company is responsible for the effective management of risk including the identification of potential risks. The Head of Departments and other Senior Management Persons in the Company at organizational levels under the guidance of the Board / Audit Committee are 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.

In case of any inconsistency between any of the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 / the Companies Act, 2013 and this Policy or in case of any omission of any of the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 / the Companies Act, 2013 in this Policy, the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 / the Companies Act, 2013, as amended shall prevail or be applicable, as the case may be.

DISCLOSURE IN BOARD'S REPORT

Board of Directors shall include 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.

BACKGROUND AND IMPLEMENTATION

The Company is prone to inherent business risks. This document is intended to formalize a risk management policy, the objective of which shall be identification, evaluation, monitoring and minimization of identifiable risks. Head of Departments 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 Audit Committee.

ROLE OF THE BOARD / AUDIT COMMITTEE

The Board will undertake the following actions to ensure risk is managed appropriately:

1. The Board shall be responsible for framing, implementing and monitoring the risk management plan for the Company.
2. The Board shall define the roles and responsibilities of the Audit Committee and may delegate monitoring and reviewing of the risk management plan to the Committee and such other functions as it may deem fit.
3. The Audit Committee and Board of Directors shall have the power to modify, amend or replace this Policy in part or full as may be thought fit from time to time in their absolute discretion as far as it is not in contravention of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
4. Ensure that the appropriate systems for risk management are in place.
5. The independent directors shall help in bringing an independent judgment to bear on the Board's deliberations on issues of risk management and satisfy themselves that the systems of risk management are robust and defensible;

6. Participate in major decisions affecting the organization's risk profile;
7. Have an awareness of and continually monitor the management of strategic risks;
8. Be satisfied that processes and controls are in place for managing less significant risks;
9. Be satisfied that an appropriate accountability framework is working whereby any delegation of risk is documented and performance can be monitored accordingly;
10. Ensure risk management is integrated into board reporting and annual reporting mechanisms;
11. Convene any board-committees that are deemed necessary to ensure risk is adequately managed and resolved where possible.

REVIEW

The Board of Directors and the Audit Committee in their meeting shall at least once in every year review the risk management framework and effectively address the emerging challenges in a dynamic business environment and ensure that it meets the requirements of the applicable Laws and the needs of the Organization.

DISCLAIMER CLAUSE.

The Management cautions that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.

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