# RISK MANAGEMENT POLICY

## 1. INTRODUCTION

**BHARAT FIH LIMITED** (hereinafter referred to as "BHARAT FIH" or the "Company") is engaged in the business of contract manufacturing of mobile phones, communication tools and electronic products along with related software patents and programs. As the company is engaged into diversified business activities, it poses different set of internal and external risks/threats.

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks inter alia are: Regulations, competition, Business risk, Technology obsolescence, return on investments, business cycle, increase in price and costs, limited resources, retention of talent, Environment etc.

This document lays down the framework for Risk Management at the Company and defines the policy for the same. This document shall be under the authority of the Board of Directors of the Company. It seeks to identify risks inherent in the business operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks.

Formal and systematic approaches to managing risks have evolved and they are now regarded as good management practice also called as Risk Management. The Risk Management process seeks to provide greater confidence to the decision maker and thus enhance achievement of objectives

Importance of Risk Management

A certain amount of risk taking is inevitable if the organization is to achieve its objectives. Effective management of risk helps to manage innovation and improve performance by contributing to:

- Increased certainty and fewer surprises,
- Better service delivery,
- More effective management of change,
- More efficient use of resources,
- Better management at all levels through improved decision making,
- Reduced waste and fraud,
- Better value for money,
- Innovation,
- Management of contingent and maintenance activities

The Board at its meeting held on December 14, 2021 has approved and adopted the Risk Management Policy ("Policy") of the Company. The Policy shall become effective from December 14, 2021.

## 2. LEGAL FRAMEWORK

Risk Management is a key aspect of principles of Corporate Governance Principles and Code of Conduct of Board of Directors and Senior Management of the Company which aims to improvise the governance practices across the business activities of any organisation.

In accordance with the provisions of the Companies Act, 2013 read with the provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, a listed entity shall lay down procedures to inform members of board of directors about risk assessment and minimization procedures and practices and also provides for maintaining a Risk management framework/system within the Company, to protect the interest of stakeholders and to minimize the threats or losses.

- The provisions of Section 134(3)(n) of the Companies Act, 2013 necessitate that the Board's Report should contain 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.
- The provisions of Section 177(4)(vii) of the Companies Act, 2013 require that 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 risk management systems.
- The provisions of Section 149(8) of the Companies Act, 2013 requires that Independent Directors shall abide Schedule IV (Code of Independent Directors), which provide that Independent Director shall - (a) 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; (b) satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible.
- As per Listing Regulations the Board shall be – (a) 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. (b) Ensuring the integrity of the company'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.
- Further, Listing Regulations also provides that the Audit Committee shall evaluate Internal Financial Controls and risk management systems.
- Further, it provides that – (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.

In line with the above requirements, it is therefore, required for the Company to frame and adopt a "**Risk Management Policy**" (this Policy) of the Company.

## 3. PURPOSE AND SCOPE OF THE POLICY

The objective of Risk Management at the Company is to create an enterprise-wide risk management framework so that effective management of risks is an integral part of every employee's job. Further, risk management system will improve the decision making, planning and prioritization by comprehensive and structured understanding of business activities, volatility and opportunities/ threats.

## 4. APPROVAL OF THE BOARD

Accordingly, the board of directors of Company ("Board") established a Vigil Mechanism by formulating and adopting a policy for providing a framework for responsible and secure whistle blowing/vigil mechanism at its meeting held on December 14, 2021.

## 5. APPLICABILITY

The Policy shall be applicable from the date of listing and the commencement of trading of the Equity Shares of the Company on the stock exchanges.

## 6. DEFINITIONS

"**Audit Committee**" means Committee constituted by the Board of Directors under Section 177 of the Companies Act, 2013.

"**Board of Directors**" or "Board" in relation to a Company, means the collective body of Directors of the Company as defined under Section 2(10) of the Companies Act, 2013.

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

"**Risk**" in literal terms can be defined as the effect of uncertainty on the objectives of the Company. Risk is measured in terms of consequences and likelihood. Risks can be internal and external and are inherent in all administrative and business activities. Every member of any organisation continuously manages various types of risks. Formal and systematic approaches to managing risks have evolved and they are now regarded as good management practice also called as Risk Management.

"**Risk Assessment**" means the systematic process of identifying and analysing risks. Risk Assessment consists of a study of threats and vulnerability and resultant exposure to various risks.

'**RiskManagement**" is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of uncertain events or to maximize the realization of opportunities. Risk management also provides a system for the setting of priorities when there are competing demands on limited resources.

"**Risk Management Committee**" Committee of Board of Directors of the company constituted under the provisions of Companies Act, 2013 and Listing Regulations.

"**Risk Management Process**" means the systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.

## 7. IN HOUSE RISK MANAGEMENT STRUCTURE

### 7.1 Risk Management Structure

| LEVEL | KEY ROLES & RESPONSIBILITIES |
|---|---|
| Board of Directors | • Framing, implementing and monitoring the risk management plan or delegate monitoring and reviewing of the risk management plan to the Risk Management Committee;<br>• Review the risk profile;<br>• Include a statement in the Directors Report. |
| Audit Committee | • Evaluate the risk management system;<br>• Advise Business/support functions on Risk initiatives;<br>• Monitor and report to the Board. |
| Risk Management Committee | • Identification of internal and external risks in particular including financial, operational, sectoral, sustainability (ESG related risks), information, cyber security risks or any other risk;<br>• Measures for risk mitigation including systems and processes for internal control of identified risks;<br>• Review and monitor cyber security; and<br>• Business continuity plan. |
| Employees | • Adhere to the risk management policies / practices;<br>• Implement the actions prescribed;<br>• Exercise reasonable care to prevent loss and to ensure that the operations, reputation and assets are not adversely affected;<br>• Report the risk events. |

### 7.2 Policy Framework

Risk Management Committee inter-alia reviews the Risk management plan at regular intervals and develop the Risk Management Strategy which shall encompass laying down guiding principles on proactive planning for identifying, analysing and mitigating all the material risks, both external and internal viz. Environmental, Business, Operational, Financial and others and shall also have communication of Risk Management Strategy to various levels of management for effective implementation is essential.

Risk Identification is obligatory on all vertical and functional heads, and they are required to report the key material risks to the officer as identified by the risk management committee.

Analysis of all the risks thus identified shall be carried out by such officer through participation of the Key Managerial Personnel and a preliminary report thus finalized shall be placed before the Risk Management Committee, as and when required.

The following methodology should be adopted by every concern to identify and mitigate risks to which they are subjected;

**Risk Identification:** This would envisage identification of the potential list of events/perils/ risks/factors that could have an adverse impact on the achievement of business objectives. Risks can be identified under the following broad categories. To identify organization's exposure to uncertainty, risk may be classified in the following:

- **Strategic Risk** - Competition, inadequate capacity, high dependence on a single customer/ vendor / brand.
- **Business Risk** - Process risk, failure of marketing strategies.
- **Inflation and Cost Structure** - At organizational level, cost optimization and cost reduction initiatives are implemented and are closely monitored. Being operating into EMS industry, cost effectiveness and cost oriented is one of the major goal as well as a challenge to achieve.

  Company controls costs through budgetary mechanism and its review against actual performance with the key objective of aligning them to the financial budgets/model.

- **Personnel Risk** - Health & safety, incompetence of personnel.
- **Operational Risk** – Infrastructures issues, non-availability of facilities, non-adherence to the guidelines.
- **Reputation Risk** - Brand impairment, product liabilities.
- **Finance Risk** - Liquidity, credit, bad debts, change in banking policy.
- **Environment Risk** - Non-compliances to environmental regulations.
- **Regulatory Risk** -Non-compliance to statutes, change of regulations, change in government policies, legal uncertainties.
- **Technology Risk** - Innovation, obsolescence, performance of IT / broadcasting systems. Company strongly believes that technological obsolescence is a practical reality. Technological obsolescence is evaluated on a continual basis and the necessary investments are made to bring in the best of the prevailing technology.
- **Political Risk** - Changes in the political environment, regulation/deregulation due to changes in political environment, political instability.
- **Litigation Risk** - Legal risk is the risk in which the Company is exposed to legal action. As the Company is governed by various laws and the Company has to do its business within four walls of law, the Company is exposed to legal risk.
- **Financial Reporting Risk** - Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure can create uncertainty for the Company. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided

by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such standards.

- **Fluctuations in Foreign Exchange** - The Company has forex exposures on account of exports, imports, income and expenditure in one or more foreign currencies. Such exposures may impact the Company because of currency movements, interest rate movements etc. This implies certain degree of uncertainty in terms of the effect on financial results and the company's ability to execute transactions on future dates with similar profit levels.

### 7.3 Risk Identification Technique's

These techniques are elaborated below:

| SOURCES | DESCRIPTION |
|---|---|
| Internal audit reports | Internal audit observations are evaluated to identify if any of those could pose a risk and mapped to the risk management framework wherever required |
| Whistle blower mechanism | Learnings from investigations into whistle blower complaints also help identify process gaps and risks. |
| Brainstorming | Perceived risks for a business are identified by key members of business teams through a brainstorming discussion every two years which acts as a platform to identify risks and opportunities |

**7.4 Risk Analysis:** This is the determination of existing controls and the analysis of risks in terms of the consequence and likelihood in the context of those controls. The analysis should consider the range of potential consequences and whether these consequences are likely to occur. Consequence and likelihood are reviewed to produce an estimate of the level of risk.

**7.5 Risk Evaluation:** After risk analysis, comparison of estimated risks against organization risk criteria is required. It is to be used to make decisions about the significance of risks and whether each specific risk to be accepted or treated.

**7.6 Risk Estimation:** Can be quantitative, semi quantitative or qualitative in terms of probability of occurrence and possible consequences.

**7.7 Impact level and Treatment of Risk:** For high priority risks, the management develop and implement specific risk management / mitigation plans. Low priority risks may be accepted and monitored.

## 8. ROLES & RESPONSIBILITIES

### Board of Directors

1. The Action Plan and guidelines decided by the RMC shall be approved by the Board before communication to the personnel for implementation.

2. Board shall approve the Risk Management (including Risk Treatment) strategy, control structure and policy guidelines and delegate authority and accountability for risk management to the Company's executive team.
3. Board shall perform the risk treatment which includes risk control/ mitigation and extends to risk avoidance, risk transfer (insurance), risk financing, risk absorption etc. for effective and efficient operations, effective Internal Controls, Compliance with laws and regulations.
4. The Board is responsible for the oversight of the risk management framework. This includes: policies and procedures related to risk management, risk profile, risk management and assessing the effectiveness of risk oversight and management.
5. Board shall have the discretion to deal with certain risks (may be called Key or Highly Sensitive Risks) in the manner it may deem fit. Mitigation of such Highly Sensitive/Key risks and effectiveness of their mitigation measures and review of the strategy may be directly discussed by the Board members with Audit Committee.

## Risk Management Committee

### COMPOSITION:

The Risk Management Committee shall consist of minimum three members with majority of

them being members of the Board of Directors, including at least one Independent Director. The Chairperson of the Risk Management Committee shall be a member of the Board of Directors and senior executives of the listed entity may be members of the committee.

The Company Secretary shall act as the Secretary to the Committee.

### MEETINGS:

The Risk Management Committee should meet at least two times in a year and not more than 180 days shall elapse between two consecutive meetings. The Quorum for the meeting of the Committee shall be a minimum of two members or one-third of the Members of the Committee, whichever is higher, including at least one member of the Board.

The role of the committee shall, inter alia, include but not limited to the following:

1. To formulate a detailed risk management policy which shall include:
   - A framework for identification of internal and external risks specifically faced by the listed entity, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.
   - Measures for risk mitigation including systems and processes for internal control of identified risks.
   - Business continuity plan.
2. To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;
3. To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;
4. To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;

5. To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;
6. To coordinate its activities with other committees, in instances where there is any overlap with activities of such committees, as per the framework laid down by the Board; and
7. To carry out any other function as may be required / mandated by the Board from time to time and/ or mandated as per the provisions of the SEBI Regulations, as amended, the listing agreements to be entered into between the Company and the respective stock exchanges on which the equity shares of the Company are proposed to be listed and/or any other applicable laws

**Company Personnel and Auditors**

1. All Functional Heads, Department Heads, Key Managerial Personnel are responsible to ensure that systems, processes and controls in the Company are in place to position identified risk at an acceptable level;
2. All employees of Company must report any new risks or changes to existing risks to their managers or supervisors as soon as they become aware of the risk;
3. The auditor(s) are responsible for providing an independent opinion of the financial results / Compliance framework of the Company. In undertaking this role, the auditor also provides comments on the management of risk and assists the Company in the identification of the risk.

## 9. AMENDMENT

Consequent upon any changes in regulatory guidelines, such change shall be deemed to be a part of the Policy until the Policy is reviewed and approved by the Board.

## 10. DISCLAIMER

The Company reserves its right to amend or modify this Policy in whole or in part, at any time without assigning any reason whatsoever in accordance with applicable law and no such amendment or modification will be binding on the directors and employees unless the same is communicated in the manner described as above.