BERAR FINANCE LIMITED
CONTINGENCY FUNDING PLAN

RECORD OF REVIEW:

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I. OBJECTIVE

Berar Finance Limited ("**Company**") has formulated a Contingency Funding Plan ("**CFP**" or "**Plan**") which outlines the response mechanism in case of any contingencies/adverse market conditions that could severely disrupt the Company's ability to meet some or all of its liquidity requirements. This Plan provides guidance to the senior management on procedures to be adopted when such conditions are officially in effect in order to:

- Ensure minimal disruptions in normal operations of the Company;
- Ensure that all possible means are exhausted to mitigate, if not avoid, any losses from disruption of normal operations; and
- Identify and take advantage of opportunities which may arise on account of such adverse conditions or crises.

This CFP also serves to identify and monitor events or indicators that shall trigger the implementation of the Plan.

II. LIQUIDITY CRISIS MANAGEMENT TEAM ("LCMT")

The Company will constitute a Liquidity Crisis Management Team which will be responsible for monitoring, implementation and management of the Contingency Funding Plan. The LCMT will include the following members:

a.	Executive Chairman	-	Chairperson
b.	Managing Director	-	Vice Chairperson
c.	Chief Financial Officer	-	Member

Company Secretary will act as Secretary to the LCMT.

III. ROLES AND RESPONSIBILITIES OF THE LCMT

The LCMT will be responsible for monitoring early warning signals to highlight emergence of any external or internal liquidity stress in the Company. Should it determine that there is an emergence of a crisis/stress in terms of liquidity it shall be responsible for implementation and management of the Plan. For this purpose, the LCMT can seek periodic information and operational support from any functional group in the Company.

IV. EARLY WARNING SIGNALS

The Company shall continuously monitor early warning signals to predict emergence of any stress. For this purpose, the management has identified the following metrics which needs to be monitored by the Company under any of the circumstances:

1. Reduction/cancellation of 50% of approved credit lines from lender banks in the immediate prior month;
2. Monthly collection efficiency of 70% or lower for three (3) consecutive months;
3. GNPA level of 8% or higher of the loan book at the end of the month for three (3) consecutive months;
4. Breach in prudential limits set for Structural Liquidity & Interest Rate Sensitivity as set out in ALM Policy of the Company; and
5. Withdrawal of 30% or more of the total public deposits in two (2) consecutive months.

The above points are elaborated as follows:

1. <u>Reduction and/or cancellation of at least 50% of Company's credit lines in the immediate prior month</u>

The Company's primary sources of funds are the credit facilities extended by banks/financial institutions. On a daily basis, the finance department monitors the amount of available balances from each of these sources, and the type of lending transactions the funds will be utilized on. Any significant changes or imposition of additional covenants/limitations by the Company's lenders that limits the total available credit lines to less than 50% of the available credit lines in the immediately prior month or hinders the Company's ability to draw at least 50% of the amount from such credit lines should trigger a decision whether or not to implement the CFP. Other indicators such as substantial increase in interest rates, more stringent repayment terms and collateral requirements will need to be addressed as they could reflect a negative outlook towards the Company. The Company must immediately ascertain the reasons for such changes/imposition and implement necessary corrective actions that would address the creditors/lenders' concerns.

Upon the occurrence of such an event, the finance department shall promptly inform the LCMT. The LCMT will assess the situation and determine the proper course of action including implementation of the Plan if required.

2. <u>Reduction in collection efficiency below 70% for three (3) consecutive months</u>

   The Company's day to day operations and debt servicing capacity can be sustained by efficient and timely collection of the EMIs on loans advanced to customers. Any substantial decline in collection will have a detrimental impact on its liquidity position and ability to meet its debt repayment obligations. Hence reduction in collection efficiency below 70% for three consecutive months should be promptly highlighted to the LCMT in order to determine whether CFP needs to be initiated.

3. <u>GNPA level of the Company equals or exceeds 8% of the total AUM for three (3) consecutive months.</u>

   Any increase in NPA levels of the Company has direct correlation and impact on collections and thereby liquidity. Non-repayment of scheduled payments will cause an increase in GNPA. If for three consecutive months, there is an increase in the GNPA level above 8%, then the LCMT will initiate appropriate action and determine if the CFP needs to be activated.

4. <u>Breach in prudential limits set for Structural Liquidity & Interest Rate Sensitivity as set out in ALM policy of the Company Breach would signal funding requirements.</u>

   As per the ALM Policy, the Company will closely monitor any mismatches across various time buckets. Within each time bucket, there could be mismatches depending on cash inflows and outflows. While the mismatches up to one year would be relevant since these provide early warning signals of impending liquidity problems, the main focus shall be on the short-term mismatches, viz, 1-30/31 days. The net cumulative negative mismatches in the Statements of Structural Liquidity and Interest Rate Sensitivity in the maturity buckets 1-7 days, 8-14 days, and 15-30 days, in normal course, should not exceed the limits determined under the ALM Policy of the Company.

5. <u>Withdrawal of 30% or more of the total public deposits in two (2) consecutive months.</u>

   Being a deposit taking NBFC, any withdrawal of a significant proportion of its deposit could result in liquidity challenges for the Company. Hence the Company will track all deposit withdrawals and will promptly report to the LCMT in case 30% or more of the total public deposits of the Company are withdrawn in two (2) consecutive months.

If any of the above conditions are triggered, it should be an early warning signal for the management as well as the LCMT. The Company shall maintain information on the above thresholds and report to the LCMT on a monthly basis with the following information:

a) Expected amount of collections from loan installments per month;
b) Collection efficiency for last 3 months;
c) Days Past Due ("**DPD**") status of the loan book for the last 3 months;
d) List of receivables and investments that may be readily disposed of or sold to generate liquidity;
e) Details of bank credit lines unutilized and loan sanctions in hand and under process;
f) List of repossessed assets and its estimated realizable value;
g) Monthly loan repayment liability for the next six months;
h) Projected monthly fixed expenses for the next six months;
i) Structural Liquidity Statement and Interest Rate Sensitivity Statement;
j) Quantum of public deposits withdrawn for the last 3 months; and
k) Projected disbursements for the next six months.

The Company shall also consider developments in external conditions to look for early warning signals. Some of the events which need to be considered in order to determine whether the CFP needs to be activated are as follows:

1. Any present or imminent political/social upheaval or disorder that could compromise economic trust and confidence.
2. Domestic or global financial crisis that could lead to serious concerns on the solvency of important industries, especially financial institutions (the contagion effect)
3. Regulatory or macro-economic developments which could result in adverse market sentiments in dealing with non-bank financial institutions.
4. Natural calamities and pandemic which could potentially have a significant effect on the Company's operations.

V. RISK MANAGEMENT MEASURES

The Company's ability to withstand both temporary and longer-term crisis scenarios will depend on the adequacy of its liquidity contingency plan. The Company's contingency plan should account for the following factors:

- Sizeable holdings of quality loans that could be readily disposed of in the secondary market through sale without recourse. The Company should take into account the likelihood that it will not be possible to realize the full book value of the receivable sold given the crisis/emergency. The Company should identify assets, the disposal of which are least detrimental to business relationships and public perceptions about the Company's soundness and should complete the sale of assets within 3 (Three) months of the implementation of the CFP. The endeavor of the Company should be to dispose of such assets in priority over other assets in case of a liquidity crisis. The LCMT shall recommend to the Board of Directors (henceforth, the "**Board**") which assets to dispose of first.
- The Company should maintain strong relationships with creditors and borrowers, as relationships with these counterparties become crucial during adverse conditions. A fair, ethical and mutually beneficial relationships with

counterparties during periods of relative calm can be highly effective in securing assistance from such counterparties during abnormal or crisis conditions (e.g. quick loan releases from lenders).

- Ascertaining that conditions and covenants for all loan facilities have been complied with at all times to ensure unhampered and immediate availability of such credit lines when the need arises.
- Under normal periods, the Company's credit facilities must be a judicious combination of long term and short-term credits. Preference should be given to securing long-term funds.
- The Company should periodically test its ability to draw on all credit facilities, particularly those that are maintained only for liquidity back-up purposes.

VI. STEPS ON DETERMINATION OF A LIQUIDITY CRISIS

The presence, or effect, of any or all the events mentioned in Section IV of this Plan, shall, be determined by the LCMT. On determination of the occurrence or emergence of any of the abovementioned events, the LCMT will determine the proper course of action in this regard provided further that, the determination of these events and implementation of the course of action shall be notified to the Company's Board of Directors ("**Board**").

The members of the Board shall be kept informed of all actions being taken by the LCMT in this regard on a weekly basis till resolution of such liquidity event. Any recommendations by the Board shall be taken into consideration by the LCMT.

In case a liquidity event is identified, the finance team shall provide the LCMT with updates on developments on a weekly basis until the liquidity problem is contained. Necessary resources shall be mobilized as may be necessary within or outside the Company, as may be deemed appropriate by the LCMT.

The Company shall adhere to the following guidelines and policies as directed by the LCMT. Depending on the type of thresholds breached or gravity of the situation, one or more of these steps will be followed.

- Liquidity shall be the utmost priority. The desired liquidity levels, as determined by the LCMT shall be maintained by the Company.
- Treasury transactions shall be limited to collections, debt service and other commitments prescribed by the finance team. Maturing short term credit lines are to be rolled over to the extent possible. All cash outflows to be reduced to a minimum level.
- The members of the senior management team including the MD and Executive Chairman shall regularly communicate with lenders and apprise them of the steps being undertaken.
- The finance team will provide LCMT with feedback regarding the developments and any problem with respect to funding some or all of its activities for proper action.

During implementation of the Plan there needs to be regular meetings of the LCMT.

The LCMT will work in close coordination with key business units and provide regular status updates on actions taken to address liquidity stress scenarios to the Board.

VII. DISCONTINUATION OF PLAN

The LCMT shall be responsible for determining if the risk indicators which has triggered the implementation of the plan has been adequately addressed and such indicators have returned to normal levels. The LCMT shall provide its recommendation to the Board for withdrawal of the Plan, basis which the Board shall determine whether the Plan can be withdrawn or not.

VIII. LIQUIDITY STRESS TEST

The Company's analysis of liquidity requires the measurement of its liquidity position on a quarterly basis and determination of funding requirements under different scenarios, especially during adverse conditions. Hence, the Company must conduct a liquidity stress test on a quarterly basis to determine the risk in this respect.

The objective of such an exercise is to ensure that the Company has sufficient funds and also to identify potential alternative sources of funds which it can access in case of a liquidity crisis. For risk management purpose, the stress test should not only simulate short-term crisis specific to the Company's operations but also potential long-term crisis on account of industry/macro-economic crisis.

The determination of the Company's cash flow based on collections and an assessment of its capacity to borrow provide an efficient way of managing day-to-day liquidity under normal conditions. In case of any stress the Company may stop or limit lending and create liquidity from collections. It may also raise additional liquidity from banks or other financial institutions through loans, equity or sale of loans given on a without recourse basis. The monitoring tools that will be used for this purpose are the Cash Position Report and Collection Report, which will give an overview of the funding and collection position of the Company. The Chief Financial Officer will be responsible in performing a stress test.

The Company shall use the following assumption in its liquidity stress test scenarios:

Company Specific Liquidity Crisis

The Company assumes at reduction in monthly collection efficiency of 70% for 3 consecutive months, at least a 50% bank-initiated reduction in credit lines, GNPA breaching 8% of the total AUM for 3 consecutive months, breach in prudential limits in Structural Liquidity Statement & Interest Rate Sensitivity as set out in ALM Policy of the Company and withdrawal of 30% or more of the total public deposits of the Company in any 2 consecutive months. At least two (2) liquidity indicators must be present to conclude a company specific liquidity crisis. This crisis scenario is assumed to be temporary, i.e., expected to last no more than ninety (90) days.

IX. PROCEDURE FOR INTIMATION OF A CONTINGENCY SITUATION TO THE RESERVE BANK OF INDIA AND OTHER REGULATORS

The occurrence or emergence of any or all the events mentioned in Section IV of this Plan and subsequent implementation of the CFP shall be intimated to the Reserve Bank of India and other regulators such as stock exchange where the debt securities of the Company are listed, Debenture Trustee etc. within 7(seven) days from the date of implementation of the plan by the LCMT.

The discontinuation of the CFP shall also be intimated to the RBI and other regulators within 7(seven) days of the approval of discontinuation of the plan by the Board of the Company.

X. REVIEW

The Policy shall be reviewed and modified by the Board as may be necessary from time to time.

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