

Hero FinCorp Limited
Framework on Materiality of Outsourcing

Materiality of Outsourcing:

“Material Outsourcing” means those arrangements which, if disrupted, have the potential to significantly impact the business operations, reputation, profitability or customer service.

While outsourcing various activities to the third parties, the concerned Department shall determine and assess the materiality of such outsourcing based on the following criteria:

- Importance of the business activity to be outsourced in terms of its contribution to income and profit.

Any outsourced activity in the last year having contract value, or any activity to be outsourced having estimated contract value, equivalent to or higher than 5% of gross revenues of the Company or 10% of net profits of the Company shall be considered as material outsourcing.

- Cost of the outsourcing activity as a proportion of total operating cost of the Company.

Any outsourced activity in the last year having contract value, or any activity to be outsourced having **estimated contract value, equivalent to or higher than 10% of total operating cost of the Company** shall be considered as material outsourcing.

- Availability of the service providers or possibility of developing internal execution capability of any activity.

Any outsourced activity having monopoly or duopoly of the service provider(s), or any outsourced activity for which internal execution capability cannot be developed by the Company even with the available resources shall be considered as material outsourcing.

- Degree/extent of control and oversight exercised by the Company on the outsourced activity.

In case the Company is not able to exercise sufficient oversight over the day-to-day activities performed by the service provider while providing the services to the Company or the Company has no influence in day-to-day operations and decision

making of the service provider, such activity shall be considered as material outsourcing.

- Flexibility of the Company to switch to other service providers within short time span of 30-60 days. In case the Company has no such flexibility, then such activity shall be considered as material outsourcing.
- Impact on the customers of the Company in case the service provider fails to provide the service or encounter a breach of confidentiality or security.

Any outsourced activity involving sharing of sensitive and critical personal data of the customers of the Company with the service provider shall be considered as material outsourcing.

- Importance of the outsourced activity in the business and future earnings of the Company, and potential impact of such outsourced activity on the reputation, brand value, business continuity and business plans of the Company in case the service provider fails to perform the service.
- Potential impact of the outsourced activity on the Company considering various parameters such as earnings, solvency, liquidity, funding capital and risk profile.
- Overall exposure to a particular service provider in case of outsourcing of various functions to the same service provider.
- Any other factor that the concerned Department Head may consider appropriate for evaluating the materiality.

The concerned Department of the Company, outsourcing any activity, shall undertake a periodic review of their outsourced processes to identify new outsourcing risk and the materiality thereof on standalone basis as well as consolidated basis. A report in this regard shall be placed before the Committee for its review on annual basis within 6-months of end of each financial year.

The Committee shall, if necessary, conduct an independent review and audit the services provided by a service provider to whom the material outsourcing has been done, and to determine that the business continuity is not compromised on account of outsourcing of such activity. The Committee shall be entitled to approach and take proposals from the alternate service providers of such material outsourced activity. The Committee shall submit its review report to the Board of Directors of the Company for its information and necessary directions, if any.