Risk Management Policy

The main objective of the policy is to keep the Board of Directors and Top Management appraised of the applicable risks promptly and regularly. This risk management policy aims to protect the reputation of the organization, enable the company to make consistently profitable and prudent business decisions across all its offices and ensure an acceptable risk-adjusted return on capital or any other equivalent measure. In a nutshell it seeks to ensure growth with profitability within the limits of risk absorption capacity. It is expected to facilitate the company to acquire and maintain a pre-eminent position amongst NBFCs especially those engaged in the business of loans.

Credit risk denotes the risk of loss arising from a default committed by the borrower to repay the principal and interest as per the contractual obligation. The objective of credit risk management is to ensure the overall health of the credit portfolio through an evaluation of the credit process, creditworthiness of each customer, new or existing, assessment of the risks involved and ensuring a measured approach to address the risks.

Credit risk in loans is managed through a strong dual combination of Repayment Capacity and Emotional Attachment. In the business of loans the security is Credit assessment of the lender and is also comparatively Cash Flow Basis.

Credit risk management will include a continuous review of the existing controls and monitoring of the systems for identification and mitigation of the various risk factors.

a) Loans will be governed by the Loan Policy approved by the Board. Credit quality may be adversely affected mainly by with or without non-servicing of interest by the borrower.
b) The Loans are governed with the Loan policy, which establish the control and system for processing of Loan.
c) The main business of the Company is granting loans to individuals, NBFC & Solar Invoicing against the security of PDC, Hypothecation Creation and Credit Worthiness. It would be reasonable in the context of current social values and beliefs to believe that such security would continue to carry the 'emotional attachment' of the owner and act as a psychological pressure against defaults.
d) The loans are highly assessment driven and hence detailed credit appraisal exercise is undertaken or warranted as may be applicable to other loan products of banks, vehicle loan / housing loan NBFCs.
e) A unique customer identification number will be provided to each customer to facilitate tracking exposures of individual customers, studying the nature of transactions and prevent the creation of new customer account for an existing customer. This has also become mandatory as per recent RBI instructions.
f) Loans of relatively large amounts to certain categories of customers such as NBFC, Solar EPC players perceived to be risky will be restricted and considered only after proper checks and controls.
g) Even though the loans are secured with acceptable collateral collect and legally valid documentation will be ensured to comply with good practices and legal requirements to protect the Company's interests. There shall be a standard loan application form to be submitted by applicants. After compliance with KYC procedures and verification of the financial Creditworthiness, sanction of the loan will be conveyed in a standard loan sanction format with all terms and conditions clearly listed therein.
h) The important terms and conditions of the loan shall be explained to every customer as a measure of customer service and also to remove any doubts or misconceptions in the mind of the customer.
i) Since loans are considered to be well secured assets recourse to legal action for recovery would normally arise only when the security furnished is subsequently found to be fake / spurious, inadequate or when there is a dispute over the title thereto or when there has been misappropriation by employees. In such cases filing of legal proceedings, civil or criminal, may be inevitable for recovery of

the dues when all other efforts have failed. Since legal proceedings have direct and indirect costs the cost benefit of such recourse will be considered before action is initiated.

Operational risk arises from 4 broad causes: people, processes, systems and external factors. Examples of 'Operational Risk' are frauds committed by employees, physical damage to assets, failure of IT hardware / software, incorrect data, manipulation of data, misuse of customer information, improper maintenance of records, lack of or breakdown in internal controls, changes in laws / regulations etc.

Identification-

Strategic Risk – This risk is related to the overall business strategies and the related economic/business environment

Operational Risk- Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies, outsourcing of activities to vendors.

Market Risk- Risks related to changes in various markets in which the Company operates.

Financial Risk- These risks includes movement in interest rates and also liquidity risks inherent to the business

Reputational Risk – Where the practices followed by the Company are not in consonance with industry as well as internally prescribed standards.

Credit & Concentration Risk – Where the overall industry has considerable exposure to one service provider and hence the NBFC may lack control over the service provider.

Regulatory & Compliance Risk – Where privacy, consumer and prudential laws are not adequately complied with by the service provider.

Human Resource Risk- Where the employee related factors are not handled cautiously such as safety, security, compensation, etc.

Mitigation Framework

- Audit function is of special importance to all entities for risk mitigation of risk.
- NBFC's internal controls, risk management, and governance related systems and processes are adequate to deal with risk faced by it

Risk Appetite

A key step in the effective risk management of an organization is to gain a good understanding of its appetite towards risk.

Risk appetite is as much about enabling an organization to take on calculated risks in pursuit of its objectives and long-term strategy as it is about placing constraints on activities and the level of risk being borne on a daily basis. In an environment where risk is minimised, the earning potential of the organisation may be restricted.

Of course, if risk is not closely monitored and understood there can be even more undesirable consequences.

Risk appetite, as often described, is an upper amount of risk an organization is prepared to accept and is often viewed as something relatively fixed and driven by goals. The idea is that each risk is quantified in some way and then compared with the risk appetite. If the risk falls within the appetite, then no action is needed. If the risk is higher than the appetite, then controls must be added until it is within the appetite.

Risk Management Policy

Risk management policies and procedures shall be developed using a top-down approach to ensure that they are consistent with one another and appropriately reflect the strategic objectives and the overall risk appetite of the institution.

Risk management policies and procedures shall provide detailed guidance on risk management approach. They clearly communicate how the risk management infrastructure will work on a daily basis with respective roles, responsibilities and accountabilities towards risk management

Risk shall be managed through a pro-active approach which shall be built into the risk management process and shall be ensured through periodic reviews and reviews contingent of information made available towards setting risk limits, monitoring etc.

An ideal Risk Process contains:

- Processes that are well defined and exhaustive (from customer on boarding to collection & recovery) for each of the products offered
- Processes that are properly documented and provided to team members across the process value chain
- Clearly defined roles & responsibilities for each process owner to avoid overlaps/conflict of interest
- Well defined processes to capture all deviations
- Processes for each product should be reviewed and modified to mitigate the potential areas of conflict
- The Risk Management Dept. should have greater control and accountability over parts of the credit process having risk implications viz. credit decisioning, post disbursement monitoring & collections

A Risk Management Information System (MIS) is a key component of the Risk Management infrastructure. The risk MIS for each department and customer should be credible, regular and useful to business management. An efficient risk reporting process is the foundation for clear and timely communication of risk across an enterprise. Risk reports shall be produced and distributed to many individuals and businesses. Risk reporting within the organisation should be holistic and at intended intervals across the reporting hierarchy.