

## Avanti Microfinance Private Limited

# Risk Management Policy

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## **Table of Contents**

Introduction	2
1. Objectives of the Policy	2
2. Guiding Principles for the Risk Management Framework	2
3. Event and Risk	2
4. Risk Management Framework	3
5. Limitation of Risk Management	8
6. Capital Adequacy Requirement	8
7. Reporting of Fraud	12
8. Asset Liability Management (ALM)	12
9. Liquidity Risk Management	12
10. IT Governance, Risk & Controls	15
11. Sensitive Sector Exposure	15
12. Adherence to Applicable Regulations	166
13. Regulatory Reference	16
14. Policy Review and Updates	16

## **Introduction**

Avanti Microfinance Private Limited (hereinafter referred to as 'the Company') has framed the Risk Management Policy to set out the guidelines, principles and approach to manage risks for the Company and establish a risk culture and risk governance framework to enable identification, measurement, mitigation and reporting of risks within the Company.

### **1. Objectives of the Policy**

The key objective of the Risk Management Policy aims at the following:

- (i) To understand the company's risk profile, define the risk appetite, tolerance and limits that the company is willing to undertake to achieve its strategic and business objectives.
- (ii) To understand the requirement of Capital adequacy, Fraud reporting, Asset liability management, Liquidity Risk Management etc.
- (iii) To enable the company to monitor risk - reward at corporate and business unit level thereby integrating/ embedding risk management in business decisions.
- (iv) To assist in anticipating risk in order to take proactive actions instead of depending on reactive risk management actions through continuous activities such as risk identification, risk assessment, mitigation, monitoring and reporting.
- (v) To embed risk management in all the processes and decision making such that the Senior Management is in a position to make informed business decisions based on risk assessment.

### **2. Guiding Principles for the Risk Management Framework**

The guiding principles of the risk management framework as defined in COSO framework are as follows:

- (i) Risk Management principles are incorporated into strategy and objective setting processes as well as the day-to-day activities and decision-making.
- (ii) Risks are understood and prioritized based on the event frequency and impact to one or more objectives.
- (iii) The same metrics used to measure objectives e.g., revenue, regulatory compliance etc. are leveraged during risk management activities.
- (iv) Risk response strategies are evaluated for those risks deemed to be high or medium priority.
- (v) Key risk management information (e.g., key events, results of risk assessments, risk responses) is documented in a timely and structured manner.
- (vi) A portfolio view of risks is presented to the Risk Management Committee on a regular basis.

### **3. Event and Risk**

**Event:**

In order to understand risk, one needs to define an 'Event'. An event is an incident or occurrence from internal or external sources that affects achievement of objectives. Events can have negative impact, positive impact, or both.

A series of events from internal or external sources has the potential to affect strategy implementation and achievement of objectives. Events potentially have a negative impact, a positive impact or a combination of both. Events with a potentially negative impact represent risks. Accordingly, risk is the possibility that an event will occur and adversely affect the achievement of objectives. Events with a potentially positive impact may offset negative impacts or they may represent opportunities

**Risk:**

Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Further Opportunity is the possibility that an event will occur and positively affect the achievement of objectives. Risks can be thought of in three distinct senses as threats, uncertainty or lost opportunity.

- (i) Loss opportunity: The risk that an opportunity is not identified or possibility of something positive not happening — typical examples include not capitalizing on technological advancements and new markets/ geographies
- (ii) Uncertainty: The possibility that actual results will not measure up to expectations —typical examples include unfavourable outcomes vis-a-vis budget etc.
- (iii) Threats or hazards: The threat of loss or negative things happening—typical examples include system failure, fraud, etc.

#### **4. Risk Management Framework**

Effective risk management processes defined as Objective setting, Risk identification, Risk response, Risk assessment, mitigation, monitoring and reporting of risk issues across the organisation. Essential to this process is a well-defined and articulated corporate strategy and business objectives.

The framework will help in creating an environment in which risk management is consistently practiced across the Company and where Management can take informed decisions to reduce the possibility of surprises.

The objective of the Risk Management Framework is to formalise and communicate Company's approach towards management of risk. It will have the following attributes:

- (i) Responds to the Management's need for enhanced risk information and improved governance.
- (ii) Provides the ability to prioritize, manage and monitor the increasingly complex risks in the business.

- (iii) Provides an explicit, comprehensive process to satisfy the regulators, and other stakeholders, that significant risks are being effectively managed.
- (iv) Set up the Risk Committee to advise and assist the Board in its oversight of the design and effectiveness of the Enterprise Risk Management Framework.

#### **4.1 Objective Setting**

Like every Company, Avanti Microfinance Private Limited also faces risk from external and internal sources and Objective setting is pre-condition to event identification, risk assessment and risk response. Objectives can be broadly classified in the four categories:

- (i) Strategic Objective — Strategic Objective are the high-level goals, aligned with and supporting Company's Mission and Vision statement.
- (ii) Operational Objective — Effectiveness and efficiency of entity's operations, including performance and profitability goals and safeguarding resources against loss.
- (iii) Compliance Objective — Adherence to relevant laws and regulations.
- (iv) Reporting Objective — Reliability of internal and external reporting including financial and non-financial information

#### **4.2 Risk Management Committee <sup>1</sup>**

The Risk Management Committee is a committee of Board of the Company. The key responsibilities of the Risk Management Committee relating to risk management include:

- (i) To advise and assist the Board in its oversight of the design and effectiveness of the Enterprise Risk Management Framework
- (ii) To advise and assist the Board of Directors in fulfilling its oversight responsibilities with regards to the risk appetite of the Company, its risk management and compliance framework and the governance structure that supports it
- (iii) Overseeing risk appetite and risk tolerance appropriate to each business area
- (iv) Ensuring that there are adequate enterprise-wide processes and systems for identifying and reporting risks and deficiencies, including emerging risks
- (v) To ensure alignment of the risk framework with the Company's growth strategy, supporting a culture of risk taking within sound risk governance
- (vi) To monitor all material aspects of the risk profile and to notify the board of any material changes or exceptions to established risk policies
- (vii) To ensure the Company's adherence to all applicable regulations as updated from time to time by various regulatory authorities

#### **4.3 Risk Assessment**

Risk prioritization is the process of rating the risks in order to identify those risks which may have the most significant impact on the achievement of the stated goals and objectives of the business

After the key risks have been identified, they will be assessed in terms of their 'Consequence' and 'Likelihood'. Also, in order for risks to be assessed objectively, there must be a common approach or methodology for measuring risks. It is critical for the process owners and management to define and agree on the quantitative and qualitative descriptors (for consequence and likelihood scale) in identifying and assessing risks.

Risks that are characterized with high inherent risks (gross risk in absence of any controls) or high residual risks (risk assessed to be higher than the 'targeted' level after considering existing controls) should be prioritized for treatment.

#### **4.4 Risk Response**

Risk response relates to the policies, procedures, processes and controls implemented to address the risks associated with specified future events. The sophistication of the response selected is a factor of the cost versus benefit, including the effect on event likelihood and impact

Various response strategies are available for responding to a given event and associated risks. These strategies are broadly divided into the following four categories:

- (i) **Avoidance** – The Company considers adopting this strategy in circumstances where:
  - (a) the cost of implementing a response is prohibitive and out-weighs the benefits,
  - (b) Risk undertaken is well outside the risk appetite or
  - (c) Activity giving rise to the risk does not fit with the overall strategy.
  
- (ii) **Reduction** - This strategy can be undertaken by the Company with the intent that if a proposed action is taken, it will reduce likelihood or impact, or both.
  
- (iii) **Sharing** - By adopting this strategy, the Company attempts to reduce likelihood or impact or both by transferring or otherwise sharing a portion of risk. Common techniques include outsourcing an activity. This strategy is generally resorted to
  - (a) The cost of implementing a response strategy internally is prohibitive and greatly outweighs its benefits.
  - (b) The activity giving rise to the risk is not a core competency of the organization e.g. verification of customer documents submitted during the loan appraisal process.

- (c) The cost of sharing the risks is less than the benefits i.e. risk exposure is brought within the risk tolerance by transferring portion of risk.
- (iv) **Acceptance:** No action is taken to affect risk likelihood or impact. This suggests that either the existing residual risk is already in line with risk tolerances or management has accepted the current risk level regardless of whether it exceeds the risk tolerances

#### 4.5 Control Activity

Control activities are the policies and procedures that helps to ensure that management's risk responses are carried out as intended. They serve as mechanism for managing the achievement of objectives.

Control activities exist throughout the organization, at all levels and in all functions. They include a range of activities — as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

Control activities are identified with reference to objectives, events & associated risks and response strategies selected. Following may be considered while identifying control activities:

- (i) Formal documented policies, procedures, processes and controls to mitigate the likelihood and impact of occurrence of risk for the given event
- (ii) Policies, procedures, processes and controls exist but not formally documented
- (iii) Existence and effectiveness of the policies, procedures, processes and controls as formally documented.
- (iv) Reference to industry global good practices for risks and events identified
- (v) Use of experts (e.g., external consultants and Internal Audit) in designing control activities
- (vi) Brainstorming and discussions

On identification of control activities against events and associated risks, the existence of same is ascertained to identify additional control activities, if any, required for mitigation of risk.

#### 4.6 Information and communications

Information systems use internally generated data and information from external sources, providing information for managing risks and making informed decisions relative to objectives.

Effective communication should also occur, flowing down, across, and up the organization. All personnel receive a clear message from top management that enterprise risk management (ERM) responsibilities must be taken seriously. They

understand their own role in enterprise risk management, as well as how individual activities relate to the work of others. They must have a mean of communicating significant information upstream.

An effective information and communication approach will increase the level of risk management awareness and understanding at all levels across the company

#### **4.7 Monitoring and reporting**

Ongoing monitoring occurs in the normal course of management activities. ERM deficiencies are reported upstream, with critical matters reported to top management and the Board.

Monitoring mechanisms will help to:

- (i) Ensure consistent application of Risk Management Framework across the Company
- (ii) Ensure the effectiveness of the Risk Management policies and procedures
- (iii) Identify weaknesses / enhancements and develop corrective action plans

Independent risk management evaluations are periodic reviews of design effectiveness of Risk management framework conducted by Internal Audit. Such reviews focus mainly on following aspects:

- (i) Alignment of Risk Management philosophy and principles with respect to Company's vision. Adequacy of measures for developing risk awareness culture within the Company.
- (ii) Appropriateness of procedures adopted to implement various Risk Management components.
- (iii) Applicability of risk management framework's organizational structure and roles and responsibilities with respect to changes in organization.

Ongoing monitoring of risk management components will be conducted by the Chief Risk & Compliance officer. Such monitoring / validation encompass:

- (i) Ensuring alignment of objectives with risk appetite and risk tolerance at all times. Changes, addition or deletion in the corporate/ business division objectives, risk appetite or Risk Management framework, organizational structure should be reviewed to ensure alignment of objectives, risk appetite and risk tolerance.
- (ii) Ensuring that new events risks have been documented and the inventory of events is kept current and up-to-date. It is critical to have processes in place to periodically monitor and review the completeness and accuracy of the event inventory.
- (iii) Review of risk assessment results to update changes in impact and likelihood of occurrence of any risk. Such changes may arise due to

internal or external factors. Ensuring that appropriate communication happens at all levels and at all times.

- (iv) Reviewing reports of key business activity indicators, business performance, exceptions, etc.
- (v) Understanding of effectiveness for self-performed controls
- (vi) Walkthrough testing of controls on a sample basis.

Chief Risk & Compliance officer shall submit a report on updated risk profile and operating effectiveness of the existing controls to senior management.

Based on the report so submitted, senior management will present the assessment of implementation status of the Risk Management framework to the Risk Management Committee.

Key findings/outcome of the Risk Management Committee will be discussed with the Board for taking corrective actions.

## **5. Limitation of Risk Management**

Effective Risk Management Framework provides only reasonable assurance and not absolute assurance to the senior management and the Board of Directors regarding achievement of an entity's objectives. Achievement of objectives is affected by limitations inherent in all management processes, which include:

- (i) Human judgment in decision making, which can be faulty and that breakdowns can occur because of such human failures.
- (ii) Controls can be circumvented by the collusion of two or more individuals.
- (iii) Management's ability to override the risk management decisions.
- (iv) Decisions on responding to risk and establishing controls depend on their related costs and benefits.

## **6. Capital Adequacy Requirement**

The Company shall maintain a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than 15% of its risk weighted assets on-balance sheet and the risk adjusted value of off-balance sheet items or as is regulatorily applicable.

Consequently, Tier I capital cannot be less than 10% unless regulatorily applicable.

### **Composition of Tier I**

"Tier-I Capital" means owned fund as reduced by investment in shares of other NBFCs and in shares, debenture, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, 10% of the owned fund.

### **Composition of Tier II**

“Tier II capital” includes the following: -

- (a) preference shares other than those which are compulsorily convertible into equity;
- (b) revaluation reserves at discounted rate of fifty five percent;
- (c) general provisions and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets;
- (d) hybrid debt capital instruments;
- (e) subordinated debt; (to the extent, value does not exceed fifty per cent of Tier-I capital); and
- (f) Perpetual debt instruments issued by a systemically important non-deposit taking non- banking financial company which is in excess of what qualifies for Tier I Capital, to the extent the aggregate does not exceed Tier I capital.

Explanations:

**On balance sheet assets**

Degrees of credit risk expressed as percentage weightages shall be assigned to balance sheet assets. Hence, the value of each asset/item requires to be multiplied by the relevant risk weights to arrive at risk adjusted value of assets. The aggregate shall be taken into account for reckoning the minimum capital ratio.

The risk weighted asset shall be calculated as the weighted aggregate of funded items as detailed hereunder: -

Weighted risk assets - On-Balance Sheet items	Percentage weight
<b>i) Cash and bank balances including fixed deposits and certificates of deposits with banks</b>	0
<b>ii) Investments</b>	
(a) Approved securities *	0
(b) Bonds of public sector banks	20
(c) fixed deposits	0
(d) Shares of all companies and debentures/bonds/commercial papers of all companies and units of all mutual funds	100
(e) All assets covering PPP and post commercial operations date (COD) infrastructure projects in existence over a year of commercial operation	50

<b>(iii) Current assets</b>	
(a) Stock on hire (net book value)	100
(b) Inter-corporate loans/deposits	100
(c) Loans and advances fully secured against deposits held by the company itself	0
(d) Loans to staff	0
(e) Other secured loans and advances considered good	100
(e)(i) Consumer credit exposure (outstanding as well as new) categorised as retail loans, excluding housing loans, educational loans, vehicle loans, loans against gold jewellery and microfinance/SHG loans	125
(e)(ii) Credit card receivables	125

(f) Bills purchased / discounted	100
(g) Others (To be specified)	
<b>(iv) Fixed Assets (net of depreciation)</b>	
(a) Assets leased out (net book value)	100
(b) Premises	100
(c) Furniture & Fixtures	100
<b>(v) Other assets</b>	
(a) Income tax deducted at source (net of provision)	0
(b) Advance tax paid (net of provision)	0
(c) Interest due on Government securities	0
(d) Others (to be specified)	100

**\*Approved securities will be based on list as per exchanges**

**Notes:**

- (a) Netting may be done only in respect of assets where provisions for depreciation or for bad and doubtful debts have been made. (The provision for bad and doubtful debts will be done by way of creation of a 'Memorandum Account' to the extent of same asset value by debiting the P&L account).
- (b) Assets which have been deducted from owned fund to arrive at net owned fund shall have a weightage of 'zero'.
- (c) NBFCs were advised vide DNBR (PD) C.C. No. 008/ 03.10.119/ 2016-17 dated September 1, 2016 that in terms of Accounting Standard 22, the tax effects of timing differences are included in the tax expense in the statement of profit and loss as deferred tax assets (DTA) (subject to the consideration of prudence) or as deferred tax liabilities (DTL) in the balance sheet. Further that the balance in DTL account will not be eligible for inclusion in Tier I or Tier II capital for capital adequacy purpose and that DTA being an intangible asset, will be deducted from Tier I Capital. In this connection it is further clarified that

- (i) DTL created by debit to opening balance of Revenue Reserves or to Profit and Loss Account for the current year will be included under 'others' of "Other Liabilities and Provisions."
- (ii) DTA created by credit to opening balance of Revenue Reserves or to Profit and Loss account for the current year will be included under item 'others' of "Other Assets."
- (iii) Intangible assets and losses in the current period and those brought forward from previous periods will be deducted from Tier I capital.
- (iv) DTA computed as under will be deducted from Tier I capital:
  - (a) DTA associated with accumulated losses; and
  - (b) The DTA (excluding DTA associated with accumulated losses) net of DTL. Where the DTL is in excess of the DTA (excluding DTA associated with accumulated losses), the excess shall neither be adjusted against item (a) nor added to Tier I capital."

**Off-balance sheet items**

**(a) General**

The Company shall calculate the total risk weighted off-balance sheet credit exposure as the sum of the risk-weighted amount of the market related and non-market related off-balance sheet items. The risk-weighted amount of an off-balance sheet item that gives rise to credit exposure shall be calculated by means of a two-step process:

- (i) The notional amount of the transaction shall be converted into a credit equivalent amount, by multiplying the amount by the specified credit conversion factor or by applying the current exposure method; and
- (ii) the resulting credit equivalent amount shall be multiplied by the risk weight applicable viz. zero percent for exposure to Central Government/State Governments, 20 percent for exposure to banks and 100 percent for others.

**(b) Non-market-related off- balance sheet items**

The credit equivalent amount in relation to a non-market related off-balance sheet item shall be determined by multiplying the contracted amount of that particular transaction by the relevant credit conversion factor (CCF).

Sr. No	Instruments	Credit Conversion Factor (%)
1.	Financial & other guarantees	100
2.	Partly-paid shares/debentures	100
3.	Lease contracts entered into but yet to be executed	100

4.	Other commitments (e.g., formal standby facilities and credit lines) with an original maturity of	
	up to one year	20
	over one year	50
	Similar commitments that are unconditionally cancellable at any time by the Company without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's credit worthiness	0
	Commitment to provide liquidity facility for securitization of standard asset transactions	100
5.	Second loss credit enhancement for securitization of standard asset transactions provided by third party	100
6.	Other contingent liabilities (To be specified)	50

**Note:** - Cash margins/deposits shall be deducted before applying the conversion factor.

## 7. Reporting of Fraud

The Fraud Risk Management policy lays out in detail the Company's approach to fraud management including a) assignment of roles and responsibilities with respect to combating fraud, b) defining measures and controls for prevention, early detection, investigation, monitoring, c) recovery and d) timely reporting of incidents of fraud to RBI and Law Enforcement Agencies (LEA)

## 8. Asset Liability Management (ALM)

The Asset Liability Management shall be in accordance with relevant and applicable RBI directions including the Master Direction-Reserve Bank of India (Non Banking Financial Company-Scale Based Regulation) Direction, 2023

The Asset Liability Management Committee (ALCO) will assist the Risk Committee in evaluating risks emanating from Asset-liability mismatch, Interest rate risk, various aspects of liquidity risk management such as specifying the appropriate liquidity risk tolerance, internal product pricing, the funding strategy, stress testing and developing contingency plans etc., and other specific matters as may be indicated by the Board of the Company from time to time.

## 9. Liquidity Risk Management

The intent of the liquidity risk management framework is to ensure that the Company maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

In addition to the ALCO., the Company will also ensure appropriate internal controls and procedures to ensure adherence to the Liquidity Risk Management framework and a reliable MIS system for providing timely and accurate reporting of the liquidity position of the Company.

The Company will also have procedures to monitor other aspects of liquidity risk management as below:

**(A) Maturity Profiling**

A maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates can be used for measuring and managing net funding requirements, The Maturity Profile should be used for measuring the future cash flows of the Company in different time buckets. The time buckets shall be distributed as under:

- (i) 1 day to 7 days
- (ii) 8 days to 14 days
- (iii) 15 days to 30/31 days (one month)
- (iv) Over one month and upto 2 months
- (v) Over two months and upto 3 months
- (vi) Over 3 months and upto 6 months
- (vii) Over 6 months and upto 1 year
- (viii) Over 1 year and upto 3 years
- (ix) Over 3 years and upto 5 years
- (x) Over 5 years

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 Statement of Structural Liquidity in the maturity buckets 1-7 days, 8-14 days, and 15-30 days shall not exceed 10 percent, 10 percent and 20 percent of the cumulative cash outflows in the respective time buckets. NBFCs, however, are expected to monitor their cumulative mismatches (running total) across all other time buckets upto 1 year by establishing internal prudential limits with the approval of the Board. NBFCs shall also adopt the above cumulative mismatch limits for their structural liquidity statement for consolidated operations.

In order to enable the NBFCs to monitor their short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, NBFCs shall estimate their short-

term liquidity profiles on the basis of business projections and other commitments for planning purposes.

**(B) Liquidity Risk Measurement – Stock Approach**

The Company should monitor certain critical ratios and specify some internal limits for these ratios based on the Company’s liquidity risk management capabilities, experience and profile. An indicative list of critical ratios are as below:

- (i) Short-term liability to total assets
- (ii) Short-term liability to long term assets
- (iii) Commercial papers to total assets
- (iv) Short-term liabilities to total liabilities
- (v) Long-term assets to total assets

**(C) Currency Risk**

The Board of the Company should recognise the liquidity risk arising out of exchange rate volatility affecting exposures to foreign assets or liabilities and develop suitable preparedness for managing the risk.

**(D) Interest Rate Risk (IRR)**

Company should measure the Gap or Mismatch risk by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions). An asset or liability is normally classified as rate sensitive if:

- (i) within the time interval under consideration, there is a cash flow;
- (ii) the interest rate resets/re-prices contractually during the interval;
- (iii) dependent on RBI changes in the interest rates/Bank Rate;
- (iv) it is contractually pre-payable or withdrawal before the stated maturities.

The Gap Report shall be generated by grouping rate sensitive liabilities, assets and off- balance sheet positions into time buckets according to residual maturity or next repricing period, whichever is earlier.

The gaps shall be identified in the following buckets:

- (i) 1 day to 7 days
- (ii) days to 14 days
- (iii) 15 days to 30/31 days (one month)
- (iv) Over one month to 2 months
- (v) Over two months to 3 months
- (vi) Over 3 months to 6 months
- (vii) Over 6 months to 1 year
- (viii) Over 1 year to 3 years
- (ix) Over 3 years to 5 years
- (x) Over 5 years

- (xi) Non-sensitive

**(E) Public disclosure on liquidity risk**

- (i) Funding Concentration based on significant counterparty (both deposits and borrowings)
- (ii) Top 20 large deposits (amount in ₹ crore and % of total deposits)
- (iii) Top 10 borrowings (amount in ₹ crore and % of total borrowings)
- (iv) Funding Concentration based on significant instrument/product
- (v) Stock Ratios:
  - Commercial papers as a % of total public funds, total liabilities and total assets
  - Non-convertible debentures (original maturity of less than one year) as a % of total public funds, total liabilities and total assets
  - Other short-term liabilities, if any as a % of total public funds, total liabilities and total assets
  - Institutional set-up for liquidity risk management

**10. IT Governance, Risk & Controls**

Effective risk identification and management underpins and forms the foundation of the information security management system. The Risk Assessment process suggested follows the guidelines offered in ISO 31000:2018 and ISO 27001:2022.

Risk Assessment shall be carried out by an objective assessment of the Assets, Vulnerabilities to the Assets, Threats that could exploit these Vulnerabilities and the probability with which the threat could be manifest. The risks derived through this process should be quantified using a relative scale grading based on the likelihood of occurrence and its potential impact, guiding the development of a risk treatment plan that includes avoidance, reduction, acceptance, or transfer of risks. Security Controls should be applied to reduce these risks and these controls and their implementation monitored for measuring the effectiveness.

Risk Assessment should be conducted at least once a year or as and when required by the Company to continually improve the IS posture. These may be termed as planned reviews and will be carried out at predetermined frequencies. Reviews may also be event driven for e.g. a virus attack on the network or change in policies etc.

Information security management system related risks are recorded in the risk register and reviewed atleast annually by the Information Technology Steering Committee and the Information Technology Strategy Committee.

**11. Sensitive Sector Exposure**

As per the Master Direction-Reserve Bank of India (Non-Banking Financial Company-Scale Based Regulation) Direction, 2023, NBFCs shall consider exposure to the capital market (both direct and indirect) and commercial real estate as sensitive exposures

(SSE). As part of the business operations, the Company will not have any exposure to the capital market or the commercial real estate sector.

## **12. Adherence to Applicable Regulations**

The Company should incorporate appropriate processes to ensure that it is abreast of applicable changes in regulation as updated by various regulatory authorities from time to time and necessary changes are made to the operational processes to ensure compliance to the latest regulations.

The Risk Committee will monitor the Company's adherence to the latest regulations as part of the periodic review of the Company's risk management practices.

## **13. Regulatory Reference**

This policy is framed as per the following regulatory references (where applicable) and in accordance with leading industry practice:

- Section 134 of Companies Act, 2013 (Refer Para 2 to 5 of this policy)
- Master Direction-Reserve Bank of India (Non-Banking Financial Company-Scale Based Regulation) Direction, 2023

## **14. Policy Review and Updates**

This document shall be approved by the Risk Management Committee and the Board and shall be reviewed at least annually.

This revised Policy comes into effect from date of approval of the Board.