IBL FINANCE LIMITED

REGISTERED OFFICE: Shop – 151, Silver Stone Arcade, Nr. Kanthariya Hanuman Temple, OP-34/A+B+C+D,FP-50, Singanpore Causeway Road, Surat – 395004, Gujarat.

Risk Management Policy

1. Background

The Board of Directors ('Board') of IBL Finance Limited ('Company'), acknowledges and identifies that the Company is prone to certain inherent risks, while operating as a Non-Banking Financial Company ('NBFC') in the financial sector. The Company realizes the importance of having in place a Board approved policy to clearly lay down the process of risk management within and at each level of operation and function in the Company. Considering this, the following Risk Management Policy ('Policy') has been adopted by the Board of the Company.

2. Objective and Purpose

2.1. To have in place an effective risk management system, within and at each level of operation and function in the Company;

2.2. To identify, assess, strategize and report the types of risks that are associated with the operation of the Company;

2.3. To provide for measures to be taken by the Company, in order to analyze, prioritize and handle foreseen or unforeseen events which may have a material impact on the working of the business of the Company, whether directly or indirectly, and take further measures to minimize the loss, if any occurred on account of such event;

2.4. To review and revise the existing system in place, by identifying new risks, likelihood of their impact and the measures to mitigate them in future;

2.5. To monitor the existing system and revise this Policy as and when the need arises, so that the system remains robust and effective to deal with all types of risks in the Company;

2.6. To identify the authority, who shall be primarily responsible for the management of risks and suggest measures thereon to the Board of the Company.

3. Risk Management

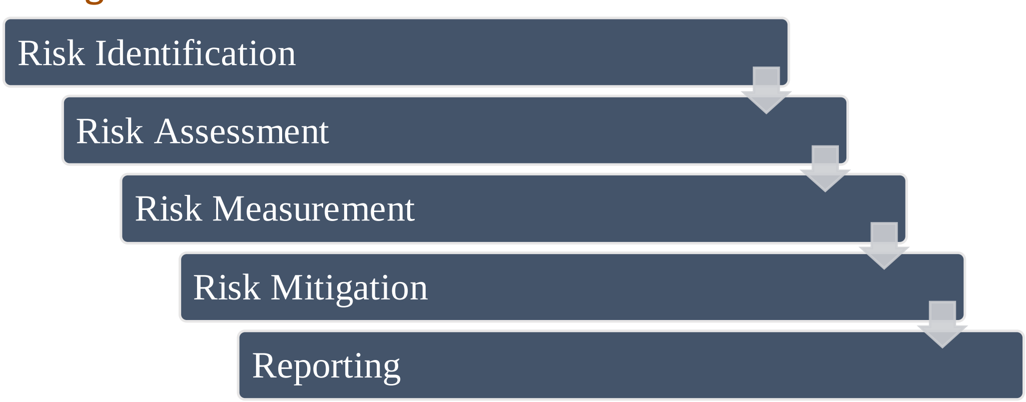

Figure 1: Process of Risk Management

3.1. Credit Risk

3.1.1. ‘Credit Risk’ is typically the risk of default on account of non-payment of any contractual obligation on part of borrower as per the agreed terms. Largely, credit risk is indirectly proportional to the credit worthiness of the borrower/investee;

3.1.2. It is pertinent to identify such risks by means of effective credit appraisal procedures and effective KYC processes.

3.1.3. The Company shall carry on a detailed credit appraisal of the borrower/ investees with the help of supporting documents, repayment track record, borrowing trends, any past records of default, tenure of default, credit ratings etc.

3.1.4. The Company shall also have in place a proper system to record the payment schedule, actual payments, amount paid and remaining due, along with the component of principal and interest, if any.

3.1.5. In case of default, due provisioning shall be done based on the overdue time-period, in accordance with the provisioning norms as provided under the relevant Guidelines by the Reserve Bank of India (‘RBI’)

3.1.6. The Company shall also use tools to manage credit risk, including but not limited to following:

3.1.6.1. Credit evaluation models: It denotes financial appraisal of the business operations meant to identify the major factors which affects/ have the potential to affect the ability of the borrower/ investee to repay and arrive at overall scoring of the entity.

3.1.6.2. Credit scoring: In the above-mentioned model, for rated securities, the Company shall rely upon credit ratings allotted to securities of the Company by SEBI registered credit rating agency.

3.1.6.3. Delegation of authority matrix: It should be prepared clearly distributing and delegating the responsibilities associated with the extant process of credit appraisal, including approval limits and respective authorities, credit scoring, conduct of KYC, preparation of assessment reports, approval of loan, etc. There shall be a continuous flow of operations in the process to devoid any loopholes in the approval of loan.

3.1.7. All credit risk related aspects shall be governed by the Credit Policy. It shall outline types of product(s), customer categories, target customer profile, credit approval process, exposure limits etc. The Credit Policy shall be approved by the Board of Directors.

3.2. Market Risk: Being a financial sector entity, the Company has a variety of market risks. The Company shall deal with each of these risks in the following manner:

3.2.1. **Interest Rate Risk** – Interest Rate Risk can be defined as the risk of change in interest rates in the market which may have a material impact on the Company’s activities. The immediate impact of changes in interest rate is on the Company's earnings (i.e., reported profits) by changing its Net Interest Income (NII). Further, such change has a long-term impact on Net Worth as the economic value of the assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates. The Company will have Interest Rate Policy in place to deal with the risk arising due to change in interest rate.

3.2.2. **Liquidity Risk** – Liquidity Risk is the risk of inability of the Company to meet the financial obligations in accordance with the agreed terms. The Board shall analyze the liquidity position of the Company on an on-going basis, to ensure that the Company has adequate funds to dispose of its obligations and any cash outflow requirement. Excess funds may be invested into such securities or market, which offers ease of redemption and high liquidity, based on the maturity and future requirements and should be in line with the Board approved Investment Policy.

3.3. Operational Risk:

3.3.1. The Company shall identify risks associated with the operational activities, including but not limited to:

a. Risk of IT system failure (*refer IT Policy for detailed procedures*);
b. Risk of physical infrastructure failure;
c. Risks relating to business support activities, including business disruptions;
d. Procedural lapses / non-adherence to guidelines or processes laid down;
e. Loss of documents;
f. Collusion/Fraud;
g. Any other risk which may have a direct bearing on people, technology, infrastructure, etc. in relation to the Company;

3.3.2. The Company will ensure that operational procedures are strictly followed in all its business operations to nullify operational ineffectiveness and error.

3.3.3. The Company will have a Fair Practice Code and Client Protection Code to ensure client security and safety, in terms of operational requirements

3.3.4. The Company will maintain and follow guidelines and procedures given in Information Security Policy for information security and physical asset security.

3.3.5. The Company will maintain support team to overcome discrepancies arising due to system failures and technical glitches and ensures speedy recovery of faults as and when it occurs.

3.4. Regulatory Risk:

Risks arising out of any change in any applicable law, rules, regulations, which may adversely affect the business operations of the Company, whether directly or indirectly, are termed as ‘Regulatory Risks’. The Board of the Company, along with and on regular recommendations of various departments of the Company, is responsible to ensure timely modifications in the policies and strategies of the Company in accordance with any amendment in law.

3.5. Reputation Risk:

Reputation risk is the risk to earnings and capital arising from adverse perception of the image of the company, on the part of customers, counterparties, shareholders, investors, vendors and regulators. It refers to the potential adverse effects, which can arise from the Company’s reputation getting tarnished due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints leading to negative publicity.

Presence in a regulated and socially sensitive industry can result in significant impact on Company’s reputation and brand equity as perceived by multiple entities like the RBI, Central/State/Local authorities, banking industry and last but not least, Company’s customers. The risk can emanate from:

- Political activism
- Non-Compliance with Regulations
- Customer Dissatisfaction

To manage this risk, the Company shall, inter alia, ensure the following:

a) Timely response to statutory/ regulatory queries/ requirements.
b) Training of employees
c) Respond to the customers’ queries and needs within committed turn-around time.

3.6. Outsourcing Risk

Outsourcing Risk is the risk faced by the Company on account of the outsourcing arrangement entered with various third parties for the functioning of the Company. The Company has established following risk management components to mitigate the outsourcing risks:

- Well defined outsourcing policy and framework
- Vendor evaluation process
- Service level agreements with suitable clauses
- Periodic audits of outsourced vendors

3.7. Compliance Risk:

The Company is present in an industry where the Company has to ensure compliance with regulatory and statutory requirements. Non-Compliance can result in stringent actions and penalties from the Regulator and/or Statutory Authorities and which also poses a risk to the Company's reputation. These risks can take the form of:

- Non-Compliance with RBI Regulations
- Non-Compliance with Statutory Regulations

3.8. Money Laundering Risk:

The Risk Management Committee (RMC) shall have oversight on the Anti-Money Laundering (AML) initiatives of the Company. The AML Policy and framework shall be put in place, in line with the statutory/ regulatory requirements. Pursuant to the AML Policy, adequate Know Your Customer (KYC) procedures shall be framed for identification and verification of customers and for monitoring/ reporting of suspicious transactions. The Company shall appoint a senior level officer as the Principal Officer (PO) who has the executive responsibility for monitoring day-to-day implementation of the AML Policy and Procedures.

3.9. Human Resource Risk

3.9.1. This risk generally arises due to ineffective management and utilization of human resource, lack of staff, discrimination among employees, cultural differences, resistance to change etc.

3.9.2. The Company shall have in place an effective Human Resource Policy to overcome Human Resource Risk.

3.9.3. The Company shall undertake regular training of its staff to equip them with new skills and new practices followed by the Company.

4. Identification and Assessment of Risks & Control

4.1. **Identification:**

Risk identification will be done by involving personnel at the senior and middle management level of all key functions to achieve a holistic view of risks. The purpose is to identify the risks that will have an impact on the operations of the Company.

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 shall 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.

4.2. **Prioritization of Risk Treatment**

Risk prioritisation 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

Identified risk shall be rated based on the nature of the risk and likelihood of its occurrence. 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) shall be prioritized for treatment.

Detailed action plans (include responsible parties and target dates) should be developed and documented.

5. Risk Mitigation

Risk mitigation is the process of initiating responsive action for managing the RTMs ('Risk That Matter') and restricts their impact to a tolerable level. The process of Risk Mitigation involves development of mitigation plans with defined ownership and implementation timelines.

The following is a workflow indicating the major tasks to be conducted for the risk mitigation phase:

All the risks identified shall be mapped to the Chief Risk Officer, Such person/authority shall be called Risk Owner.

Risk Owner shall identify the process/controls in places to mitigate the identified Risks and monitor the compliance to the identified controls. The Risk Owner will also identify the gaps in the existing processes through self-assessment process.

Risk Owner will submit a quarterly compliance statement to the Risk Management Committee and the Senior Management.

Based on the feedback so received, the Risk Owners shall present to the RMC or Senior Management the implementation status of the control and its impact of risk mitigation plan decided at the onset of the financial year

Monitoring of the process activities shall be done to ensure their timely and appropriate execution. Further reporting to the Board and the RMC on the risk profile and effectiveness of the implementation plan shall be done.

6. Roles and Responsibilities of the Board

The principal roles and responsibilities of Board, in the overall risk structure are as follows:

i. To set/approve overall risk appetite and risk tolerance limit of the Company that aligns with the stakeholder expectations;
ii. Review and approve risk management strategies, policies and procedures proposed by RMC/Senior Management;
iii. Ensure that the Company has in place adequate internal audit coverage to satisfy itself that policies and procedures have been implemented effectively;
iv. Provide senior management with clear guidance and direction for risk management initiatives for items reported by RMC/Senior Management;
v. Regular monitoring of and response to executive summary risk reporting by RMC/ Senior Management;

7. Constitution, Roles & Responsibilities of RMC/Senior Management

The Company shall constitute a Risk Management Committee (RMC) for evaluating the overall risks faced by the NBFC including liquidity risk and will report to the Board. The RMC shall include the Chief Executive Officer (CEO)/ Managing Director / Director and one senior member from each department to monitor and control this Policy and its implementation. The RMC shall meet at such intervals as deemed necessary, which shall not be less than 3 months. The RMC shall be responsible to establish policies and minimum process standards of risk management across the Company.

i. Monitor and ensure that appropriate risk management framework is in place;
ii. Review the risk profile, understand future changes and threats, and prioritize action steps on a periodic basis;
iii. Review and approve the development, implementation of risk methodologies and tools, including assessments and reporting;
iv. Review periodical risk assessment results;
v. Review the critical risks and their drivers identified as a result of the risk assessment exercise;
vi. Nominate Risk Owners for developing and implementing mitigation plans for critical risks that are prioritized during risk prioritization workshop;
vii. Discuss and recommend suitable controls/ mitigations for gaps identified during risk assessment exercise;
viii. Approve exceptions / deviations from Risk Management Policy;
ix. Report to the Board of Directors on the breaches to the risk appetite/ tolerance/ limits, status of the risk management activities and highlight the key issues and action steps as evident from the various MIS and dashboards prepared;
x. Review and manage potential risks which may arise from regulatory changes/ or changes in economic / political environment in order to keep ahead;
xi. Guide the risk team in developing the risk appetite statements;

xii. Encourage the risk team to develop an MIS framework commensurate to the strategy of the company and also expectations of Board and Top management;

Further, the RMC/Senior Management shall meet at such intervals as may be required to review the significant risk issues evaluated by the Risk Owners. Major changes proposed by RMC will be discussed at Board meetings.

8. Policy Review

The contents of this Policy shall be reviewed by the Board of the Company/ Risk Management Committee, on such intervals as may be necessary for smooth and robust business operations of the Company.

9. Change Control Record

Version No.	Change Request by	Memorandum of Change	Approval date
1.0	-	Adoption of policy by the Board of Directors of the Company	21.06.2023

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