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Keertana Finserv Private Limited

Name of Policy	Risk Management Policy
Date of Last Approval/Review	NA
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Approving Authority	Board of Directors
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Contents

Risk Management Policy

1. Introduction

Keertana Finserv Private Limited ('Keertana" Or "Company") is categorized under Middle Layer as per the RBI Master Direction Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023. The company predominantly is involved in extending Gold Loans, LAP, Home Loans and JLG Loans.

Financial services business is exposed to various types of risks which, if not managed properly, could lead to disruption in business and impact the attainment of main objectives of the organization. Risk management works towards identifying and managing threats that could adversely impact the organization. This involves reviewing operations, processes & procedures of the organization, identifying potential threats and likelihood of their occurrence, and taking appropriate actions to address the most likely threats.

Objectives of the Risk Management Policy:

- Establish methodologies for identification, measurement and management of Risk
- To build profitable and sustainable business with conservative risk management approach
- To have risk management as an integral part of the organization's business strategy.
- To undertake business activities that are well understood and within acceptable risk appetite.
- To manage the risks proactively across the organization.
- To adopt best risk management practices leading to shareholder value creation and increased stakeholder confidence.
- To develop a strong risk culture across the organization.

2. Applicability and Validity of the policy

There shall be an annual review of the Policy. Keertana with the approval of the Board of Directors, can at any time modify or amend, either the whole or any part of this Policy. Any operational changes to the policy can be done with approval of MD & CEO.

If at any time, there is any change in the rule / regulation / guideline pertaining to the Policy then the said change will be "*mutatis mutandis*" part of the Policy. Further, if any part of the policy is not in compliance of the applicable law then the said part will become in-applicable.

3. Key Elements of Risk Management Framework

The key elements of the company's Enterprise Risk Framework include:

- **Risk Strategy & Appetite**: Long-term plan of how risk management effectively supports the achievement of the organization's goals
- **Risk Governance**: This Structure within which responsibility and accountability for risk management and oversight is defined, managed, and communicated throughout an organization
- **Risk Culture**: Values and behaviors of the entity that shape risk decisions
- **Risk Assessment & Measurement**: Qualitative and quantitative approaches, processes, tools and systems to identify, assess, and measure risks
- **Risk Management & Monitoring**: Management's response to manage, mitigate, or accept risk and create
  Value using risk and control information to improve business performance across the enterprise
- **Risk Reporting & Insights:** Provide insight into the strengths and weaknesses of risk management activity and enhance the transparency of risks that could have an impact on achievement of objectives.
- **Data and Technology:** Includes development and deployment of risk management tools, software, database, technology architecture, and systems that support risk management activities.

4. Risk Appetite

The risk appetite is the amount of risk, on a broad level, that the company is willing to take on in pursuit of value. It is the total impact of risk that the company is prepared to accept in the pursuit of its strategic objectives. It shall be documented in a formal risk appetite statement that shall be recommended by the Risk Management Committee and approved by the Board along with the Policy. The risk appetite statement should be defined by the following key characteristics:

- Sets clear strategic direction and tolerances around controls;
- Reflective of strategy, including organizational objectives, business plans and stakeholder expectations;
- Reflective of all key aspects of the business;
- Considers the skills, resources and technology required to manage and monitor risk exposures in the context of the risk appetite;
- Inclusive of a tolerance of loss or negative events that can be reasonably quantified;
- Periodically (annually) reviewed and reconsidered with reference to evolving industry and market conditions

The governance and reporting framework shall ensure that day-to-day decisions are made in line with the organization's risk appetite. Data shall be captured to measure performance against the risk appetite statement of the organization. Standard risk and incident reporting methodologies should be used to monitor breaches of risk appetite and tolerance levels.

The detailed Risk Appetite Framework laid down for the company has been appended to this policy document in Annexure 1.

5. Governance Structure

The Board of Directors oversees the company's risk management processes and controls, while the management is charged with the day-to-day management of the company's risks.

The Board:

- Approves the strategic plans and objectives for Risk Management framework for the company which is recommended by Risk Management Committee and periodically (annual) reviews the Risk Management framework
- Establish a management structure capable of implementing the company's Risk Management Framework
- Develops Policies and Procedures around risk which are consistent with the organization's strategy and risk appetite
- Encourages organizational culture of risk adjusting awareness
- Take note and review the audit committee & Risk Management Committee minutes
- Any other matter requiring Board's approval

Risk Management Committee (RMC)

The Risk Management Committee will act within the ambit of duties assigned to it by the Board. The committee will be presented with detailed reviews of risk exposures across the company. Its functions will include the following:

- Reviews and approves compliance with risk policies, risk methodologies and tools, including assessments, reporting and loss event databases and monitors breaches / triggers of risk tolerance limits and recommendation of corrective action to mitigate the effects of risk whenever they arise above the level defined by the committee
- Reviews reports of significant issues prepared by internal risk oversight functional groups, including risk exposure related to specific issues, concentrations and limits excesses
- Nurtures a healthy and independent risk management function in the company Inculcates risk culture within the organization
- Establishment of an Risk Management framework and policy for the company and recommendation of the same to the Board of Directors for approval
- Assessment of risks identified and ensuring that these are reported and manage potential risks which may arise from regulatory changes or changes in the economic/political environment

Asset Liability Committee (ALCO)

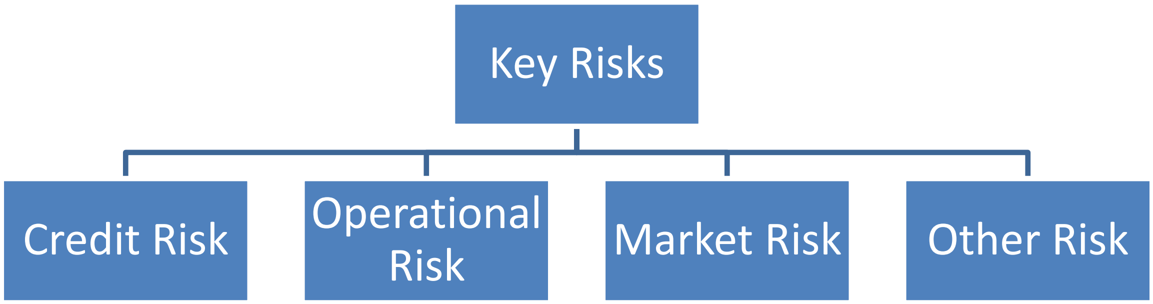
The work area of ALCO will be decided basis the power and authority delegated by Board of Directors more particularly in Asset Liability Management (ALM) policy or Committee Charter.

Audit Committee

Audit Committee shall evaluate the internal financial controls and risk management systems on a Quarterly basis. The risk management responsibility for the Audit Committee will mainly be towards operational risk, as follows:

- Identifying and presenting operational risks during regular internal audits
- Focusing the internal audit work for significant risks and auditing the risk management processes across the organization

6. Key Risks



Credit Risk

Credit Risk is the risk of loss due to the failure of the counter party to meet its credit obligations in accordance with the agreed contract terms. It is the result of either inability or unwillingness of a borrower or counter- party to meet commitments in relation to lending or any other financial transactions.

The losses could take the form of outright default or alternatively, losses from changes in portfolio value arising from actual or perceived deterioration in credit quality that is short of default. The objective of credit risk management is to minimize the risk and maximize Keertana's risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters.

Operational Risk

Operational Risk is inherent in all product, activities, processes and systems. It is a risk of loss arising from inadequate or failed internal processes, people and systems. Risk education for familiarizing the complex operations at all levels of staff can reduce operational risk. Operational risk events are associated with weak links in the internal control procedures. Operational risk involves breakdown in internal controls and corporate governance leading to error, fraud, performance failure resulting in financial loss.

Putting in place proper corporate governance practices by itself would serve as an effective risk management tool. Keertana shall strive to promote a shared understanding of operational risk within the organization, especially since operational risk is often intertwined with market or credit risk and it is difficult to isolate.

Market Risk

Market Risk may be defined as the possibility of loss to Keertana caused by the changes in the market variables.

Market Risk consists of:

- Liquidity Risk
- Interest Rate Risk
- Foreign Exchange Risk

Maintaining an optimal balance sheet structure and cash flow patterns shall be the keystone of the market risk management strategy. A detailed description about managing market risks is available in the ALM policy.

- **Liquidity Risk**

  Liquidity risk arises where the Company is unable to meet its obligations as and when they arise. Measuring and managing liquidity needs are vital for smooth business operations. Keertana's management to ensure that sufficient liquidity is available and keeps examining how the liquidity position would be changing in coming months. Liquidity risk will be measured at a structural level and a dynamic short term level.

  ALCO is responsible for determining the appropriate mix of funding sources utilized to ensure that liquidity is managed prudently and appropriately. For measuring and managing the funding requirements, Keertana to use appropriate cash flow projections and cumulative surplus/deficit of the funds. The detailed ALM practices are covered under the ALM policy of the company.

- **Interest Rate Risk**

  Interest rate risk management and reporting helps identify potential risks to earnings and capital resulting from adverse fluctuations in market interest rates. Interest Rate risk arises from the inability of transmit the changes to the borrowers when the same has been received from the lenders. This is exacerbated in case a company has a mis-match in interest rate type for its loans. Interest rate risk can be measured by Gap report by calculating gaps over different time intervals as at any given date. For Gap analysis, mismatches between interest sensitive assets and interest sensitive liabilities are measured across the different buckets. The same is detailed in ALM policy of the company. The interest rate risk along with the liquidity risk should be monitored by the Risk Management Committee.

- **Foreign exchange risk**

  FX risk is a financial risk that exists when a financial transaction is denominated in a currency other than the domestic currency of the company. The exchange risk arises when there is a risk of an unfavorable change in exchange rate between the domestic currency and the denominated currency before the date when the transaction is completed. It is the endeavor of the company to remain neutralized of any foreign currency risk. In case of any open position, the same needs to be hedged at the appropriate level as discussed deliberated in the ALCO meeting.

Strategic Risk

Risks that derive from the decisions that the management takes about the products or services that the organization provides. It includes risks associated with developing and marketing those products or services, economic risks affecting product sales and costs, and risks arising from changes in the technological environment which impact on sales and production. Strategic Risk needs to be assessed both in qualitative & quantitative terms. Assessment of an incidence or a potential risk aims at quantifying the risk in financial terms to the extent possible.

Reputation Risk

Keertana is also exposed to reputation risk arising from failures in governance, business strategy and process, regulatory-compliance and legal risk. These risks are generally covered under Operational risks. Reputational risk is the risk of potential damage to the Company due to deterioration of its reputation. The reputation of the Company may suffer as a result of its failure to comply with laws, regulations, rules, reporting requirements, standards and codes of conduct applicable to its activities, rather than compliance with the internal limits or procedures.

Proactive measures to minimize the risk of losing reputation could be a sound risk management framework, good corporate governance, high level ethics and integrity, rigorous anti money laundering procedures, good business practices and reporting of all breaches which lead to reputational risk to the attention of senior management and the board.

Compliance Risk

Compliance risk is the risk arising from non-adherence to prescribed law in force, regulations, policies, procedures and guidelines which may give rise to regulatory actions, litigations, deficiency in product or services depending on the level of non-adherence. The corporate governance function is primarily designed to avoid incurrence of compliance regulatory-legal risk.

7. Roles and Responsibilities

Roles and responsibilities for all the committees to be as defined in board charter.

8. Risk Management

The company may lay down the guidelines regarding the response to the various risks faced by the business. It may accordingly form the mitigation strategies which would be reviewed periodically whenever deemed fit. As part of risk management strategy, company may enter into derivative transactions (Including OTC). The purpose of such transactions should be to hedge the identified exposure like interest rate risk or currency risk and not to speculate. Further, for each product type or identified risk, prior approval of ALCO is mandatory. ALCO to ensure that periodic review of such transactions (At least quarterly) is undertaken by the committee to have the regular monitoring in place. Further, such transactions to be subject to annual audit review.

Ongoing monitoring of actual performance v/s policy caps, early warning Indicators, key takeaways from RMC and ALCO, customer/site/competition visits etc. are reviewed on periodic basis, exceptions, if any, are reported in related committee, and acted upon as advised by the committee:

Type of risk	Reporting
Credit risk	Risk Management Committee (RMC)
Market Risk	ALCO/ RMC
Operational Risk	Audit Committee of Board (ACB) as part of audit reports
Other Risks	RMC

Annexure 1 – RISK APPETITE STATEMENT

The company recognizes that the managed acceptance of risk lies at the heart of the business. As a result, effective risk management capabilities represent a key source of competitive advantage for the company. By managed acceptance of risk, the company seeks to generate shareholder value by selectively taking exposure to risks for which it is well compensated. The company will additionally accept exposure to risks for which it is not directly compensated, where these are an inevitable by-product of its business activities. These risks will be reduced to the extent it is cost-effective to do so.

In general therefore, the company's control procedures and systems are designed to manage enterprise, credit, liquidity, market and operational risks, rather than eliminate them. However, at certain times, there may also exist some risks for which the company has no tolerance and which are actively avoided. The identification and exploitation of specific business opportunities, including the evaluation of the risk-versus- reward characteristics of such opportunities, is the remit of the individual businesses. This Risk Appetite Statement is meant to provide a framework to guide the businesses in their risk acceptance and management activities in order to ensure that the risks accepted are within the overall tolerance levels of the company. The limit structures and tolerances in respect of specific risk types are separately defined in line with the broad guidance provided by this statement.

Financial Risk Appetite Statement

The company will limit its exposure to adverse outcomes by ensuring that risk-taking takes place within appropriate boundaries. This ensures that earnings and growth are achieved in a responsible manner and not merely by assuming disproportionate downside exposure. In doing so, the company protects the interests of its key stakeholders. In order to provide an objective and quantifiable means to ensure that the various businesses and the company as a whole have accepted risks which are within the overall tolerance levels of the company, certain objective measures of enterprise risk have been identified, namely:

- Capital
  - The current regulatory limit is set at 12% for Tier I capital. However, internally, we shall monitor the minimum Tier-1 capital adequacy ratio to be minimum at 15% of owned funds.
  - Tier-2 capital adequacy ratio should not exceed Tier-1 capita

- ALM Risk

Liquidity Risk Management		
Liquidity Bucket	**Limit as per RBI**	**Limit as per Company**
1 to 7 days	10%	10%
8 to 14 days	10%	10%
Over 15 days to one month	20%	10%
Over one month to 2months	-	10%
Over 2 months to 3 months	-	10%
Over 3 to 6 months	-	10%
Over 6 months to 1 Year	-	10%

- Funding Mix (Targeted Funding mix with a tolerance level of 10% in each category).

    - Company strives for diversification in terms of lenders and instruments. The top 2 lenders should not have more than 50% of the overall debt funding while top 3 lenders should not have more than 60% of the overall debt.

    - Funding diversification is sought to be achieved on best effort basis and to work as directional path. In case of any changes in market dynamics, ALCO/Board to direct the change in mix accordingly.

    - Instrument diversification (Term Loan, NCDs, ECBs, DA/PTC) should also be kept in mind while deciding on incremental borrowings. No limit is prescribed considering the nascent stage of organization.

- Foreign Exchange Risk

Foreign Exchange Risk		Parameters Triggers
1	Vendor Payment	Amount > 0.25 mn $ to be hedged is payable after 3 months
2	Liability/Borrowings	Entire exposure to be hedged unless specifically approved by ALCO and allowed as per regulatory guidelines

- Investment Risk

Parameter	Limit
Mutual Fund Investments in AUM	As per Borrowing & Investment Policy

- Operational Risk

Parameter (Micro Enterprise Loans)	Limit
Branch Level Cap	Not exceeding 3,000 Borrowers for JLG Branches; Not Exceeding 1,000 Borrowers for Gold Loan and LAP&HL Branches
LO Case load	Caseload not >80 Borrowers in a day <= 4 Centre meetings in a day Max caseload per LO not exceeding 800

Monitoring to be placed to ensure the limit is not breached. In case of any breach, the same to be discussed in ALCO or Other Management committee for rectification of the same.

Apart from this, Sales and Credit functions to work independent of each other.

- Gold Loan Branches have Credit team based at the Branch level. Each Branch has two to three member credit teams, whose core responsibility is to appraise the purity of Gold ornaments and facilitate smooth loan disbursement process.
- LAP and HL have credit centralized at HO and each and every loan is appraised by Credit team.

- <u>Credit & Policy Risk</u>

Triggers	**Policy Trigger Limit**
Product Mix	
Micro Enterprise Loans (MEL) Portfolio	<25% (On Balance Sheet Portfolio)
Secured Funding (Gold and Secured MSME)	>50%; Focus would be keep it above 70% in long term
Geographical Concentration (Unsecured Segment)	
Concentration in 1 State (MEL & Unsecured Loans)	To be brought down in planned manner- <75% by FY25 <60% by FY26 <50% by FY27
Secured Products Limits (Qtr end)	
LTV- Gold Loan	Portfolio Simple Avg <= 75%
LTV – HL & LAP	Portfolio Simple Avg <= 70%
Cash Collection (LAP)	
LAP/MSME	Should not be >25%; To be tapered down further with plan in place
Delinquency Trigger (Qtr end)	
30+	>3%
90+	>2%