MONEDO FINANCIAL SERVICES PVT. LTD.

Risk Management Policy Document

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1. INTRODUCTION

Integrated Risk Management Framework enables the organization to have a clear view of the risks affecting each area of its activity; how those risks are being managed, the likelihood of occurrence and their potential impact on the successful achievement of the Monedo Financial Services Private Limited (hereinafter called **MFSPL/Company**) objectives. This document sets out the approach for the identification and management of risk within the company.

2. AIM, OBJECTIVES AND RATIONALE

To recognizes that robust risk management and assurance is an integral part of **MFSPL** governance responsibilities and culture.
Hence, **MFSPL** to ensure that risk management forms an integral part of its philosophy, practices, and business plans rather than viewed or practiced as a separate program, and that responsibility for implementation is accepted at all levels of the organization.

The purpose of this Integrated Risk Management Strategy is;

- To encourage a culture where risk management is viewed by the **MFSPL** and staff as an essential process of the **MFSPL**'s activities.
- To ensure structures and processes are in place to support the assessment and
- management of risks throughout the **MFSPL**.
- To assure the p public, the investors, vendors representatives, staff and partner organizations that the **MFSPL** is committed to managing risk appropriately

3. ACCOUNTABILITIES FOR RISK MANAGEMENT

Risk Management has a duty to assure itself that the organization has properly identified the risks it faces, and that it has processes and controls in place to mitigate those risks and the impact they have on the organization and its stakeholders. The risk committee discharges this duty as follows:

- Identifies risks to the achievement of its strategic objectives through.
- Monitors these on an ongoing basis Risk framework
- Ensures that there is a structure in place for the effective management of risk
- Receives assurance regarding risk management within organizations
- Approves and reviews strategies for risk management on an annual basis or on exceptional basis
- Demonstrates leadership, active involvement, and support for risk management.

4. RISK MANAGEMENT FRAMEWORK & PROCESS

The process & implementation to facilitate the identification and management of risk are as follows:

- Establish, populate and maintain an organization Risk that profiles all objectives and associated risks relating to the business, planning and delivery of services and is reported on a regular basis to the relevant teams in line with the **MFSPL**'s reporting requirements.
- Establish, populate and maintain FPR that identifies the strategic objectives of the **MFSPL** and the risks that could threaten their achievement, and is reported on a regular basis to the Management.
- Ensure that the Integrated Risk Management Strategy is reviewed thoroughly every year by Risk Committee
- Involve all staff across the **MFSPL** in the system for identifying risks
- Monitoring and identification of risks across the **MFSPL** is undertaken on a regular basis, and the Organizational Risk parameter is updated appropriately.

4.1 RISKS CATEGORIES

Risk is further sub -divided into the following categories at an organization and client level for better management

A. CREDIT RISK

Risk due to an uncertainty in a counterparty's ability to meet its obligations in accordance with agreed upon terms, which can be further understood by well established principle of "Five C's" of credit.

I. Five C's of Credit

1. **Character**
   - ➢ Refers to a borrower's reputation, sense of responsibility and repayment track records

2. **Capacity**
   - ➢ Refers to measurement of a borrower's ability to repay a loan by comparing income and obligations

3. **Capital**
   - ➢ Refers to the Net Worth of the borrower.

4. **Collateral**
   - ➢ Refers to the asset provided as security to secure the loan.

5. **Conditions**
   - Refers to the commercials of the loan, such as the loan amount, rate of interest, tenor & other conditions which influence the lending decision

II. Steps for Credit Risk Management

a. Department wise KRA defined for segregation of duty
b. Experienced credit resource with delegated authority post qualitative test
c. Robust Underwriting process
   - Well laid product policy
   - Personal Discussion with Borrowers
   - Sector Classification
   - Exposure limit
   - Centralized Disbursement
d. Credit Infrastructure Risk
   - Bureau Check
   - Specialized systems
   - Fraud Control
   - Online Monitor
   - Maker Checker concept
e. Hindsight Report
f. Portfolio Risk Management.

B. OPERATIONAL RISK

The risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events.

I. Operational Risk Management

1. Standard operating process
2. Maker & Checker process
3. Centralized Disbursement
4. Credit bureau, Credit verification, Fraud Checks

II. Steps for Operational Risk Management

- Credit verification vendors, Fraud Check vendors, and credit bureau have been tied up for conducting all the necessary checks required.
- A full developed system has been setup which captures end to end loan processing from Emi Calculation to closure of loan.
- System receives regular updates time to time as when decided by the management.
- System audits are conducted on regular basis both by third party and internal audits.

System flaws and gaps are worked upon on identification on immediate basis.

- System functions on the maker – checker concept.
- Online monitoring of system.

C. MARKET RISK

The ability of management to identify, measure, monitors external risk and take corrective actions:

I. Market Risk Management

1. Social economic focus to met dynamic market environment risk.
2. Government Regulation
3. Change in regulatory environment.
4. Natural Disaster Management

II. Steps for Market Risk Management

- Flexibility in system to adopt changes in market.
- Sufficient margins, daily/ monthly monitoring.
- Product/ Sector/Client level Concentration parameters.
- Regular interval Review.
- Interaction with market Participants & Regulator.
- Daily Reports

D. INDUSTRY SPECIFIC RISK

Risks specific to a certain industry.

I. Factors that define the industry-specific risk

- Overall industry growth prospects.
- Barriers to competitive entry such as initial capital investment, licensure requirements or unique know-how.
- Consolidation trends and degree to which large competitors dominate the industry segment.
- Technological changes that may require considerable investment to stay competitive.
- Emergence of new competitive threats domestically and internationally

II. Steps for Industry Specific Risk Management

- LTV Restriction
- Sector Concentration
- Portfolio Calibration

E. REPUTATION RISK

Reputational risk is the potential that negative publicity, whether true or not, will result in loss of customers, severing of corporate affiliations, and decrease in revenues and increase in costs.

Steps to Manage Reputational Risk

- Strict compliance with all Regulatory norms
- Regular Meeting with Vendors and suppliers

F. LIQUIDITY RISK

Liquidity Risk is the risk of inability of the Company to meet the financial obligations as they become due without adversely affecting the Company's financial condition. To monitor the liquidity risk the Company shall adhere to the board approved "Liquidity risk Management Framework" (LRMF) under the management and review of Asset Liability Management Committee (ALCO). Framework aims to establish a sound and robust liquidity risk management system to ensure that it maintains sufficient liquidity. Sufficient liquidity refers to the Company's capacity to fund the increase in assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses.

G. FOREIGN CURRENCY RISK

As the Company may raise foreign currency borrowings, it might be exposed to currency risk which can be addressed by appropriate hedging strategy in accordance with the Liquidity Risk Management Framework policy (LRMF) approved by the Board.

The hedging instruments may include foreign exchange forward contracts, currency swaps, and options, subject to regulatory compliance as suggested by the Authorised Dealer (Bank / Financial Institution). The Asset Liability Management Committee (ALCO) of the Company shall be taking decisions on framing hedging strategy as well as proportion of hedging on immediate or prospective basis. All hedging positions shall be periodically reviewed by ALCO in line with the guidelines specified in the LRMF.

5. PORTFOLIO COMPOSITION

- Portfolio mix to move to lower per borrower exposure.
- Overall product mix to be as follows.
  - Health care less than or equal to 10 %
  - Supply Chain Finance (SCF) less than or equal to 80%
  - SME less than or equal to 10%

A portfolio composition to be reviewed on annual basis.

6. OTHER ENTERPRISE LEVEL FUNCTIONAL RISKS

Other enterprise level risks envisaged at this stage of Company's growth are risks in relation to information technology and human resources & administration.

The system access and availability at all times while protecting sensitive borrower data and confidential business data thereby ensuring robust cybersecurity posture within the organisation is crucial for the company's information technology function. The Company shall maintain prudent measures and remain guided by the information technology and security policies.

Human resources and administration of the Company is an integral part of the Organizational set up. Addressing talent attrition, succession planning and ensuring compliance with applicable employment & labour laws across all the offices of the Company, administration, health and safety is crucial. The Company shall adhere to the board approved Human resource policies and employee relations.