RISK MANAGEMENT POLICY

OVERVIEW:

Risk Management aims to improvise the governance practices across the Company's activities. Rockland Finstock Limited (RFL/Company) have base their business decisions on a dynamic and integrated risk management system and process. It is important that effective risk management policy should be introduced which addresses the issues relating to various risks. The Risk Management at RFL encompasses practices relating to identification, assessment, monitoring and mitigation of various risks.

Risks may be avoided through preemptive action and hence there is a need to identify the risks and put in place various mitigation mechanisms. Proactive risk management is essential to the long-term sustainability of every NBFC. This document presents a framework for proactive risk management processes, internal risk management systems, tools for mitigation of various risks.

The Company has adopted this Risk Management Policy to set out the guidelines, principles and approach to manage risks for the Company and establish a risk mitigation culture and risk governance framework to enable identification, measurement, mitigation and reporting of risks within the Company. This Risk Management Policy of the Company aims to mitigate adverse effects on business objectives and develop stakeholders value.

OBJECTIVE:

The main objective of this policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. In order to achieve the key objective, the policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues.

This policy aims to protect the reputation of the organization, enable the Company to make consistently profitable and prudent business decisions 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.

Further, the purpose of this risk management policy is to provide guidance on identifying, managing and mitigating risks arising across risk taking activities in the organization to ensure sustainable business growth and profitability. This policy applies to activities and processes associated with the operations of the organization and covers areas such as interest risk, credit risk, operational risk, market risk, liquidity risk, human resource risk, regulatory risk and also covers business aspects related to reputation, technology, finance, regulatory, strategy, business continuity etc.

Also, this policy specifies RFL's commitment to prudently managing risks in the pursuit of its mission to empower individuals and communities. By staying vigilant, adaptive and proactive in the risk management approach, RFL seeks to navigate the challenges of the operating environment while maximizing opportunities for sustainable growth and social impact.

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PRINCIPLES:

The effective management of risk is vital to the continued growth and success of RFL. For Risk management to be effective, all operations must apply the following principles to the context of their particular business and its objectives:

1. Risk Management must create and protect value.
2. Risk Management is integrated into organizational processes.
3. Explicit risk Management helps decision makers informed choices.
4. Risk management is focused on the sources of uncertainty around the achievement of the objectives.
5. Risk management must be tailored to the context and fit for the purpose.
6. Risk Management is dynamic, iterative and responsive to change.

Risk Management should consist the following basic building blocks:

- ***Risk appetite and strategy:*** Risk appetite clarifies the risks that the organisation is prepared to accept and manage in the pursuit of its objectives and those which it does not.

- ***Organisation structure and governance*:** Organisation structure and governance framework ensures independence of the risk function while providing sufficient oversight and effective challenge.

- ***Credit risk assessment and risk analytics*:** Analytics shall be embedded directly into making decisions, taking action and delivering value to various stakeholders. Analytics shall deliver agility and ensure test and learn on tools and models for developing holistic customer view.

- ***Risk controls, monitoring and reporting*:** Effective monitoring process with early warning signals and feedback mechanisms in policies shall be in place.

- ***Risk culture*:** RFL may strive to build and embed a common organisation culture with shared goals and objectives. The organisation shall focus on building a healthy risk culture by linking performance to risk and capital metrics.

DEFINITIONS:

1. "**Business unit**" is responsible for identifying and managing the risks inherent in the products, services, activities, processes and systems for which it is accountable and includes all associated support, corporate and/or shared service functions, e.g., Finance, Human Resources, and Operations and Technology. It does not include Risk Management and Internal Audit functions unless otherwise specifically indicated.

2. "**Critical operations**" refers to critical functions, activities, processes, services and their relevant supporting assets the disruption of which would be material to the continued operation of the Reporting Entity (RE) i.e., RFL for this policy or its role in the financial system. Whether a particular operation is "critical" depends on the nature of the RE and its role in the financial system. REs' tolerance for disruption should be applied at the critical operations level.

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3. "**Incidents**" are current or past disruptive events the occurrence of which would have an adverse effect on critical operations of the RE. Incident management is the process of identifying, analysing, rectifying and learning from an incident (including a cyber-incident) and preventing recurrences or mitigating the severity thereof. The goal of incident management is to limit the disruption and restore critical operations in line with the RE's risk tolerance for disruption.

4. "**Information and Communication Technology**" refers to the underlying physical and logical design of information technology and communication systems, the individual hardware and software components, data, and the operating environment.

5. "**Mapping**" is the process of identifying, documenting, and understanding the chain of activities involved in delivering critical operations. It incorporates the identification of all interdependencies and interconnections including people, processes, technology and third parties.

6. "**Operational resilience**" means the ability of an RE to deliver critical operations through disruption. This ability enables an RE to identify and protect itself from threats and potential failures, respond and adapt to, as well as recover and learn from disruptive events to minimise their impact on the delivery of critical operations through disruption. In considering its operational resilience, an RE should assume that disruptions will occur, and take into account its overall risk appetite and tolerance for disruption or impact tolerance.

7. "**Operational Risk**" means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk but excludes strategic and reputational risk and it is inherent in all banking/ financial products, activities, processes and systems.

8. "**Operational Risk Management**" Operational Risk Management refers to entire gamut of activities right from risk identification, measurement and assessment, monitoring and control, mitigation, reporting to senior management and the Board of Directors on the RE's risk exposures, Business Continuity Management, and learning through feedback for improvement.

9. "**Operational Risk profiles**" describe the Operational Risk exposures and control environment assessments of business units of REs and it considers the range of potential impacts that could arise from estimates of expected to plausible severe losses.

10. "**Risk appetite**" is the aggregate level and types of risk an RE is willing to assume, decided in advance and within its risk capacity, to achieve its strategic objectives and business plan.

11. "**Risk tolerance**" is the variation around the prescribed risk appetite that the RE is willing to tolerate.

12. "**Tolerance for disruption or Impact Tolerance**" is the level of disruption from any type of Operational Risk an RE is willing to accept given a range of severe but plausible scenarios.

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RISK CATEGORIES:

The following broad categories of risks have been widely considered in risk management framework: -

1. MARKET RISKS:

Risks emanating out of choices made on markets, resources and delivery model that can potentially impact our long term competitive advantage. Risks relating to inherent characteristics of the industry including competitive structure, technological landscape, extent of linkage to economic environment and regulatory structure.

➢ **MITIGATION OF MARKET RISKS**

Diversification is more effective in mitigating unsystematic risk. This type of risk is specific to individual assets or companies and can be reduced by spreading investments across different assets, sectors and geographies with varying risk profiles.

2. CREDIT RISKS:

Ownership structure could have a key influence on an NBFC's credit profile in that a strong promoter and strategic fit with promoter can benefit an NBFC's earning, liquidity and capitalization and hence its credit profile. In assessing and NBFC's ownership structure, the parameters-examined include, among others: the credit profile of the promoter, shareholding pattern of the NBFC, operational synergies of the NBFC with its promoter, level of involvement of promoter in the NBFC and level of commitment, and track record of the promoter in providing fund support.

➢ **MITIGATION OF CREDIT RISK**

Mitigating credit risk is crucial for the company, some effective strategies followed by RFL to mitigate credit risk includes, Credit Analysis and Assessment before extending credit to customers, diversifying of credit exposure to reduce concentration risk, ensuring that credit agreements and contracts are well-drafted and legally enforceable before granting credit facility, obtaining collateral or security for high-risk exposures to mitigate potential losses in case of default etc.

3. LIQUIDITY RISKS:

Measuring and managing liquidity needs are vital for effective operation of the company. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system, RFL should measure not only the liquidity positions of the company on ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. As per the general practice assets commonly considered as liquid, like government securities and other money market instruments, could also become illiquid when the market and players are unidirectional. Therefore, liquidity has to be tracked through maturity or cash flow mismatches. For measuring and managing net funding requirements, the use of maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as a standard tool.

Further, with the introduction of "Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023" issued by RBI, it has been guided that all NBFCs with asset size of ₹100 crores and above shall adhere to the guidelines provided in the said Master Directions in respect of liquidity risk management. Even though as of now the said guidelines are not applicable on RFL, but as per the prudence practice RFL has adopted the said guidelines and has prepared the liquidity risk management framework considering the following aspects as suggested in the above said guidelines:

a. Liquidity Risk Management, Strategies and Practices
b. Management Information System (MIS)
c. Internal Controls
d. Maturity profiling
e. Liquidity Risk Measurement – Stock Approach
f. Currency Risk
g. Managing Interest Rate Risk
h. Liquidity Risk Monitoring Tools

1. Liquidity Risk Management, Strategies and Practices

RFL should focus on ensuring maintenance of 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 of the Company.

Key elements of the liquidity risk management framework are as under:

i. Governance of Liquidity Risk Management

Successful implementation of risk management process emanates from the top management with a strong commitment to integrate basic operations and strategic decision-making with risk management.

ii. Board of Directors

The Board have the overall responsibility for management of liquidity risk. The Board shall decide the strategy, policies and procedures to manage liquidity risk in accordance with the liquidity risk tolerance/limits.

iii. Asset-Liability Management Committee ("ALCO")

The Board of RFL will ensure that the ALCO will be established whenever necessary.

iv. Liquidity risk Tolerance

RFL already have a sound process for identifying, measuring, monitoring and controlling liquidity risk to clearly articulate a liquidity risk tolerance that is appropriate for its business strategy and its role in the financial system.

v. Liquidity Costs, Benefits and Risks in the Internal Pricing

RFL endeavors to develop a process to quantify liquidity costs and benefits to be incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities. Even though RFL already have a process in place to quantify the liquidity costs and benefits, further, the Company has products which are feasible to the current market practices and whenever the Company would introduce new product then the Company shall include the liquidity cost and benefit with them.

vi. Off-balance Sheet Exposures and Contingent Liabilities

The management of liquidity risks relating to certain off-balance sheet exposures on account of special purpose vehicles, guarantees and commitments shall need to be taken into account due to the difficulties that RFL may have in assessing the related liquidity risks that materializes from Off-balance Sheet Exposures and Contingent Liabilities in times of stress.

vii. Funding Strategy - Diversified Funding

RFL focusses on funding strategy that provides effective diversification in the sources and tenor of funding. It maintains an ongoing presence in its chosen funding markets and strong relationships with fund providers to promote effective diversification of funding sources.

viii. Collateral Position Management

RFL actively manages its collateral positions, differentiating between encumbered and unencumbered assets.

ix. Stress testing

Stress testing forms an integral part of the overall governance and liquidity risk management culture in RFL. RFL conducts stress tests on periodical basis for a variety of short-term and extended period, RFL specific and market-wide stress scenarios.

x. Contingency Funding Plan

RFL has already in place a Contingency Funding Plan ("CFP") for responding to severe disruptions which might affect its ability to fund some or all of its activities in a timely manner and at a reasonable cost.

xi. Public disclosure

In compliance of Liquidity Risk Management Framework for Non-Banking Financial Companies, RFL will ensure public disclosure of information on its website, whenever applicable and also in the annual financial statements as notes to accounts and RFL is adhered to disclose any further information which is required to be disclosed whenever and wherever required.

2. Management Information System (MIS)

RFL have a reliable MIS designed to provide timely and forward- looking information, both under normal and stress situations covering all sources of liquidity risk, including contingent risks and those arising from new activities, and have the ability to furnish more granular and time-sensitive information during stress events.

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3. Internal Controls

RFL have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedure.

4. Maturity Profiling

i. For measuring and managing net funding requirements, RFL uses a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates. The maturity profile is used for measuring the future cash flows of RFL in different time buckets. The Statement of Structural is prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability shall be a cash outflow while a maturing asset shall be a cash inflow.

ii. 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 is on the short-term mismatches, viz. 1-30/31 days. RFL monitors its cumulative mismatches across all time buckets by establishing internal prudential limits.

iii. In order to monitor the short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, RFL estimates its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes.

5. Liquidity Risk Measurement

RFL already has in place an approach to liquidity risk measurement and monitor certain critical ratios in this regard by putting in place internally defined limits as approved by the Board of Directors of the Company, as applicable.

6. Currency Risk

RFL is not exposed to currency risk as it does not have foreign assets, liabilities or transactions. Hence, RFL is not effected by Exchange rate volatility. However, RFL recognizes that, it should identify the liquidity risk arising out of such exposures, if any in the future and develop suitable preparedness for managing the risk.

7. Managing Interest Rate Risk (IRR)

Interest rate risk is the risk where changes in market interest rates might adversely affect RFL's financial condition.

Interest rate risk management and reporting helps identify potential risks to earnings and capital resulting from adverse fluctuations in market interest rates. It also identifies asset and funding balance and re-pricing mismatches. Proper identification of potential risks and mismatches assists management in devising asset/liability strategies to minimize these potential risks.

The interest rate risk when viewed from these two perspectives is known as 'earnings perspective' and 'economic value perspective', respectively. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM).

The interest sensitive assets and liabilities will be clubbed into the following buckets for ascertaining the Gap in individual buckets and the cumulative Gap: -

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

RFL monitors & manage interest rate risks as per the extant regulatory guidelines.

➢ **MITIGATION OF LIQUIDITY RISK**

The key liquidity management policies being followed at RFL include:

- Rolling Short Term Liquidity Forecasts: This is done to identify any short term liquidity gaps and thereby take immediate corrective actions to bridge the same, if any.
- Maintaining detailed estimates of projected cash inflows and outflows on quarterly basis so that net cash requirements can be identified.
- Maintaining investment that can be easily liquidated into cash or lines of credit with local banks to meet unexpected needs.
- Anticipating the potential cash requirements of new product introductions, if any.
- Regular stress testing / scenario analysis to determine sufficiency of liquid assets to meet stressful situations.
- Building Relationships with Stakeholders: Establishing strong relationships with stakeholders, including lenders, investors, and regulators, to enhance access to funding and liquidity support during periods of financial stress or market disruptions.
- Maintaining Adequate Liquidity Reserves: Holding sufficient liquid assets, such as cash, cash equivalents and highly liquid investments, to cover short-term funding needs and unexpected cash outflows.

4. REPUTATION RISKS:

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 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.

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 procedure.

Presence in a regulated and socially sensitive industry can result in significant impact on

RFL's reputation and brand equity as perceived by multiple entities like the RBI, Central/State/Local authorities, banking industry and last but not least, RFL's customers. The risk can emanate from:

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

➢ MITIGATION OF REPUTATION RISK

RFL has adopted proactive measures to minimize the risk of losing reputation such as sound risk management framework, good corporate governance, high level ethics and integrity and good business considering the vulnerability of our customer segment and the potential for negative political activism to affect the reputation of the company, we have in place:

- **Strict Adherence to Fair Practices Code:** RFL follows fair practices in all their dealings.
- **Grievance Redressal Mechanism:** The company has a defined GRM is place and the same will be communicated to all customers.
- **Delinquency Management**: The Company does not resort to any coercive recovery practices and has an approved delinquency management policy including restructuring of loans where necessary.

5. STRATEGIC RISKS:

Strategic risk refers to the potential threats and vulnerabilities arising from the company's strategic decisions, actions or lack thereof, which may impact its long-term objectives, competitiveness and sustainability.

It is the risk to earnings and capital arising from lack of responsiveness to changes in the business environment and/or adverse business decisions, besides adoption of wrong strategies and choices.

➢ MITIGATION OF STRATEGIC RISK

This is being addressed and the risk mitigated to a great extent, by referring matters of strategic importance to the concerned authority, consisting of members with diversified experience in the respective fields for intense deliberations, so as to derive the benefit of collective wisdom.

6. GEOGRAPHICAL RISKS:

Geographical risk for RFL is the potential challenges and vulnerabilities associated with operating in specific geographic regions. These risks can stem from various factors, including:

- **Political Stability**: Operating in regions with political instability or frequent changes in government can expose the company to uncertainties in regulations, policies, and governance, impacting its operations and financial stability.

- **Economic Conditions**: Geographical areas with volatile economies, high inflation rates, unemployment, or dependency on a single industry can pose risks to the financial health of the company, affecting repayment rates and profitability.
- **Legal and Regulatory Environment**: Different regions may have varying legal frameworks and regulatory environments governing NBFC operations. Compliance with these regulations, licenses, and permits may differ, impacting the ease of doing business and overall risk exposure.
- **Infrastructure:** Access to reliable infrastructure, including transportation networks, communication systems, and banking facilities, is essential for the efficient functioning of the company. Operating in remote or poorly connected areas can increase operational costs and hinder service delivery.

➢ MITIGATION OF GEOGRAPHICAL RISK

Mitigating geographical risks involves a combination of proactive strategies aimed at understanding, managing and minimizing the impact of risks associated with operating in specific geographic regions. Here are several approaches adopted by the company to mitigate geographical risks:

- **Credit Risk Management**: Implementation of robust credit risk management practices, including thorough borrower assessment, credit scoring models, and repayment monitoring mechanisms. Regularly reviewing and adjusting credit policies based on evolving market conditions and risk profiles.
- **Avoidance of Compliance and Regulatory Oversigh**t: Staying abreast of regulatory requirements and compliance obligations in each geographic jurisdiction where we operate.
- **Training and Capacity Building**: Investing in training and capacity building initiatives for staff members operating in high-risk areas. Providing them education and resources to enhance their understanding of local contexts, risk factors, and best practices for risk mitigation.
- **Customer Education and Support**: Educating the borrowers about financial literacy, risk management, and responsible borrowing practices.

7. REGULATIONS AND COMPLIANCE RISKS:

The company is exposed to risk attached to various statutes and regulations. RFL 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 Company's reputation. These risks can be:

- Non-Compliance with RBI Regulations; and
- Non-Compliance with other Statutory Regulations;

➢ MITIGATION OF REGULATORY AND COMPLIANCE RISK

RFL intends to comply with all the applicable compliances within time in order to be a fully compliant entity, the company is mitigating these risk through regular review or legal compliances carried out through internal as well as external compliance unit.

8. OPERATIONAL RISKS:

Operational risk is quite a complex risk to handle. Pinpointing its extent, measuring it, and finding ways to minimize is tricky. This type of risk is influenced by many factors such as how our business operates internally, the rules and regulations we must adhere to, company's growth trajectory, customer preferences, and external factors beyond our control. It's a dynamic risk because it's constantly evolving with the introduction of new elements like cutting-edge technologies, data accessibility, latest rules and regulations, and collaborations with external parties.

Risks inherent to business operations including those relating to client acquisition, service delivery to clients, business support activities, information security, physical security and business activity disruptions. It's a dynamic risk because it's constantly evolving with the introduction of new elements like cutting-edge technologies, data accessibility, latest rules and regulations, and collaborations with external parties.

OPERATIONAL RISK MANAGEMENT AND RESILIENCE

Operational Risk Management facilitates an entity in systematically identifying, assessing, and mitigating operational risks, whereas Operational Resilience empowers the entity to sustain critical functions despite disruptions. Although Operational Risk Management and Operational Resilience serve distinct purposes, they are interrelated. An effective Operational Risk Management framework and a robust Operational Resilience system synergize to reduce the frequency and impact of operational risk events.

Further, with the introduction of "Guidance Note on Operational Risk Management and Operational Resilience" dated 30th April, 2024, by RBI prepared based on the Basel Committee on Banking Supervision (BCBS) principles which is now applicable on all regulated entities including NBFCs, Operational Risk Management and resilience has been further elaborated to inter alia cover man-made causes, Information Technology (IT) threats (e.g., cyber-attacks, changes in technology, technology failures, etc.), geopolitical conflicts, business disruptions, internal/external frauds, execution/ delivery errors, third party dependencies, or natural causes (e.g., climate change, pandemic, etc.).

For RFL, Operational resilience refers to the ability of the organization to maintain essential functions and operations, even in the face of various disruptions or challenges. This includes the capacity to withstand and recover from unexpected events such as natural disasters, technological failures, regulatory changes, economic downturns or other operational disturbances.

Further, as per the said guidance note "Operational resilience" means the ability of a Company to deliver critical operations through disruption. This ability enables the Company to identify and protect itself from threats and potential failures, respond and adapt to, as well as recover and learn from disruptive events to minimize their impact on the delivery of critical operations through disruption.

The said guidance note had elaborated and suggested that Risk Management and Operational Resilience have been built on three pillars. The three pillars are:

(i) Prepare and Protect

- Business Unit Management (First Line of Defense)
- Organizational Operational Risk Management Function including Compliance Function (Second Line of Defense)
- Audit Function (Third Line of Defense)

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(ii) Build Resilience

- Developing an independent view regarding business units' (a) identified material Operational Risks, (b) design and effectiveness of key controls, and (c) risk tolerance;
- Challenging the relevance and consistency of the business unit's implementation of the Operational Risk Management tools, measurement activities and reporting systems, and providing evidence of this effective challenge;
- Developing and maintaining Operational Risk Management and measurement policies, standards and guidelines;
- Reviewing and contributing to the monitoring and reporting of the Operational Risk profile;
- Designing and providing Operational Risk training and instilling risk awareness; and
- Operational Compliance

The above functions of both first and second line of defense can be carried out by the same unit for smaller regulated entities like us and independence may be achieved through separation of duties within the same unit by the same or different persons.

(iii) Learn and Adapt

The third line of defense, i.e. the audit function provides an independent assurance to the Company regarding the appropriateness of operations. This function's staff should not be involved in the development, implementation and operation of Operational Risk Management processes which has been carried out by the other two lines of defense. The third line of defense reviews are generally carried out by Company's auditor but may also involve suitably qualified independent third parties, if required. The scope and frequency of reviews should not only be sufficient to cover all activities aligned with the Company Operational Risk profile and identify and prioritize key risk areas that warrant thorough examination but also be responsive to the dynamic nature of the Operational Risk environment. An effective independent review includes two processes:

a. Validation
b. Verification

"Guidance Note on Operational Risk Management and Operational Resilience" dated 30th April, 2024 by RBI, has further suggested comprehensive mechanism for Operational Risk Management and Operational Resilience, which is considered by the Company to refer to the extent possible whenever required. The said guidance note has specified three pillars with 17 principles for Operational Risk Management and Operational Resilience. The said pillars and principles have been summarized below and may be referred by the Company as and when required according to the circumstances to mitigate the operational risk and resilience.

PILLAR 1: PREPARE AND PROTECT

➢ **GOVERNANCE AND RISK CULTURE**

Principle 1 - The Board of Directors should take the lead in establishing a strong risk management culture, implemented by Senior Management. The Board of Directors and Senior Management should establish a corporate culture guided by strong risk management, set standards and incentives for professional and responsible behavior and ensure that staff receives appropriate risk management and ethics training.

RFL has implemented Human Resource Policy containing employee compensation, incentive/bonus, promotion etc. Further, Company has put in place required hierarchy of the employees as well as training module in place.

Principle 2 - Company should develop, implement and maintain an Organisation Risk Management Framework (ORMF) that is fully integrated into the Company's overall risk management processes. The ORMF adopted by Company will depend on a range of factors, including its nature, size, complexity and risk profile. Further, Company should utilize their existing governance structure to establish, oversee and implement an effective operational resilience approach that enables them to respond and adapt to, as well as recover and learn from, disruptive events in order to minimize their impact on delivering critical operations through disruption.

The Company has conducted an evaluation of the nature and intricacies of risks inherent in its business, products, services, activities, processes, and systems. These areas of risk are overseen by their respective department heads, who operate independently.

The Company, being relatively smaller in scale compared to other regulated entities subject to the aforementioned guidance note, intends to adhere to the ORMF as it grows and attains a reasonable size. The Company identify that the proposed ORMF documentation should clearly:

- identify the governance structures used to manage Operational Risk, including reporting lines and accountabilities, and the mandates and membership of the Operational Risk governance committees;
- reference the relevant Operational Risk Management policies and procedures;
- describe the tools for risk and control identification and assessment and the role and responsibilities of the three lines of defence in using them;
- describe the Company's accepted Operational Risk appetite and tolerance; the thresholds, material activity triggers or limits for inherent and residual risk and the approved risk mitigation strategies and instruments;
- describe the Company's approach to ensure controls are designed, implemented and operate effectively;
- describe the Company's approach to establishing and monitoring thresholds or limits for inherent and residual risk exposure;
- describe inventory risks and controls implemented by all business units (e.g., in a control library);
- establish risk reporting and management information systems (MIS) for producing timely, and accurate data;
- provide for a common taxonomy of Operational Risk terms to ensure consistency of risk identification, exposure rating and risk management objectives across all business units.
- provide for appropriate independent review and challenge of the outcomes of the risk management process; and
- require the policies to be reviewed and revised as appropriate based on continued assessment of the quality of the control environment addressing internal and external environmental changes or whenever a material change in the Operational Risk profile.

➢ <u>RESPONSIBILITIES OF BOARD OF DIRECTORS AND SENIOR MANAGEMENT</u>

Principle 3 - The Board of Directors should approve and periodically (annually) review the ORMF and Operational Resilience approach, and ensure that Senior Management implements the policies, processes and systems of the ORMF and Operational Resilience approach effectively at all decision levels.

The Board of Directors should:

- establish a risk management culture and ensure that the Company has adequate processes for understanding the nature and scope of the Operational Risk inherent in its current and planned strategies and activities;
- ensure that the Operational Risk Management processes are subject to comprehensive and dynamic oversight and are fully integrated into, or coordinated with, the overall framework for managing all risks across the enterprise;
- provide senior management with clear guidance regarding the principles underlying the ORMF and approve the corresponding policies developed by senior management to align with these principles;
- regularly review and evaluate the effectiveness of ORMF to ensure the Company has identified and is managing the Operational Risk arising from external market changes and other environmental factors, as well as those Operational Risks associated with new products, services, activities, processes or systems, including changes in risk profiles and priorities (e.g. changing business volumes);
- ensure that the Company's ORMF is subject to effective independent review by a third line of defense (audit or other appropriately trained independent third parties from external sources); and
- ensure that, as best practices evolve, management is availing themselves of these advances.

Principle 4 - The Board of Directors should approve and periodically (annually) review a risk appetite and tolerance statement for Operational Risk that articulates the nature, types and levels of Operational Risk the RE is willing to assume. The Board of Directors should also review and approve the criteria for identification and classification as critical operations as well as of impact tolerances for each critical operation, in order to enhance Company's Operational Resilience.

The Company, being relatively smaller in size as compared to other regulated entities subject to the aforementioned guidance note, intends to adhere to the ORMF as it grows and attains a reasonable size and upon the applicability of the ORMF, Principle 4 mentioned above will also become applicable.

Principle 5 - Senior Management should develop for approval by the Board of Directors a clear, effective and robust governance structure with well-defined, transparent and consistent lines of responsibility. Senior Management is responsible for consistently implementing and maintaining throughout the organisation policies, processes and systems for managing Operational Risk in all of the Company's material products, activities, processes and systems consistent with its risk appetite and tolerance statement.

The Company has Committee's with well-defined operation areas and structure including Risk Management Committee, structure of which is described below:

S. No.	Board/Management	Designation
1.	Whole Time Director	Member
2.	Whole Time Director	Member

➢ **RISK MANAGEMENT ENVIRONMENT - IDENTIFICATION AND ASSESSMENT**

Principle 6 - Senior Management should ensure the comprehensive identification and assessment of the Operational Risk inherent in all material products, activities, processes and systems to make sure the inherent risks and incentives are well understood. Both internal and external threats and potential failures in people, processes and systems should be assessed promptly and on an ongoing basis. Assessment of vulnerabilities in critical operations should be done in a proactive and prompt manner. All the resulting risks should be managed in accordance with operational resilience approach.

Following areas of operational risk with mitigation thereof has been identified and already incremented by the Company:

- **Document Storage and Retrieval**: RFL recognizes the need for proper storage of documents and also their retrieval for audit and statutory requirements. The Company is maintaining all the original documents in a fire proof vault at a dedicated space allocated for specific purpose.

- **Losses and near misses**: Some events lead to a financial loss or a gain; other events do not lead to a financial impact. Operational risk events that do not lead to a loss or gain are called "near misses". In other words, near miss is a risk event where failed or inadequate internal processes, people, system, or external event occurred but it did not result in a direct or indirect impact on the organization. Recording of near miss events gives important information for risk management purposes.

- **Compliance and Regulatory Oversight**: Maintaining strict adherence to regulatory requirements and compliance standards relevant to non-banking finance operations. Regular audits and assessments can help identify and address operational risks associated with non-compliance.

The above stated areas of operational risk are indicative and not exhausted, Company will time to time assess and mitigate the risk whenever an event would occur applying the mitigation tools available with the company.

➢ **CHANGE MANAGEMENT**

Principle 7 - Senior Management should ensure that the Company's change management process is comprehensive, appropriately resourced and adequately articulated between the relevant lines of defence.

The change of senior management of the Company does occur on exceptional basis. In the event of such a change, the Company ensures that the transition process would be comprehensive, sufficiently resourced, and effectively articulated. Governance of the transition process is overseen by the Company's management.

➢ **MONITORING AND REPORTING**

Principle 8 - Senior Management should implement a process to regularly monitor Operational Risk profiles and material operational exposures. Appropriate reporting mechanisms should be in place at the Board of Directors, Senior Management, and business unit levels to support proactive management of Operational Risk.

The Company, being relatively smaller in size as compared to other regulated entities subject to the aforementioned guidance note, intends to adhere to the ORMF as it grows and attains a reasonable size.

- **CONTROL AND MITIGATION**

Principle 9 - Company should have a strong control environment that utilises policies, processes and systems; appropriate internal controls; and appropriate risk mitigation and/or transfer strategies.

Company has policies, processes and systems in place to control and mitigate risk. Further, the Company, being relatively smaller in size as compared to other regulated entities subject to the aforementioned guidance note, intends to adhere to the ORMF as it grows and attains a reasonable size.

PILLAR 2: BUILD RESILIENCE

- **MAPPING OF INTERCONNECTIONS AND INTERDEPENDENCIES**

Principle 10 - Once the Company has identified its critical operations, it should map the internal and external interconnections and interdependencies that are necessary for the delivery of critical operations consistent with its approach to operational resilience.

The Company has reasonably identified interconnection and interdependencies of the critical operations. Further, the Company, being relatively smaller in size as compared to other regulated entities subject to the aforementioned guidance note, intends to adhere to the ORMF as it grows and attains a reasonable size.

- **THIRD-PARTY DEPENDENCY MANAGEMENT**

Principle 11 - Company should manage their dependencies on relationships, including those of, but not limited to, third parties (which include intra group entities), for the delivery of critical operations.

The Company has reasonably identified dependencies on relationships with third parties and intragroup entities, if any. Further, the Company, being relatively smaller in size as compared to other regulated entities subject to the aforementioned guidance note, intends to adhere to the ORMF as it grows and attains a reasonable size.

- **BUSINESS CONTINUITY PLANNING AND TESTING**

Principle 12 - Company should have business continuity plans in place to ensure their ability to operate on an ongoing basis and limit losses in the event of a severe business disruption. Business continuity plans should be linked to the Company's ORMF. Company should conduct business continuity exercises under a range of severe but plausible scenarios in order to test their ability to deliver critical operations through disruption.

The Company conducts regular business continuity exercises encompassing various severe yet plausible scenarios. These exercises serve prepare and enhance our ability to deliver critical operations seamlessly through any potential disruption.

- **INCIDENT MANAGEMENT**

Principle 13 - Company should develop and implement response and recovery plans to manage incidents that could disrupt the delivery of critical operations in line with the

Company's risk appetite and tolerance for disruption. Company should continuously improve their incident response and recovery plans by incorporating the lessons learned from previous incidents.

We prioritize continuous improvement by incorporating lessons learned from past incidents into our response and recovery strategies. This iterative approach ensures that we remain agile and resilient in effectively managing future disruptions.

- **INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) INCLUDING CYBER SECURITY**

Principle 14 - Company should implement a robust Information and Communication Technology (ICT) risk management programme in alignment with their ORMF and ensure a resilient ICT including cyber security that is subject to protection, detection, response, and recovery programmes that are regularly tested, incorporate appropriate situational awareness and convey relevant timely information for risk management and decision-making processes to fully support and facilitate the delivery of the Company's critical operations.

The Company places significant emphasis on maintaining a resilient Information and Communication Technology (ICT) infrastructure, which is crucial for supporting our critical operations. Further, the Company, being relatively smaller in size as compared to other regulated entities subject to the aforementioned guidance note, intends to adhere to the ORMF as it grows and attains a reasonable size.

PILLAR 3: LEARN AND ADAPT

- **DISCLOSURE AND REPORTING**

Principle 15 - Company's public disclosures should allow stakeholders to assess its approach to Operational Risk management and its Operational Risk exposure.

The Company, being relatively smaller in size as compared to other regulated entities subject to the aforementioned guidance note, intends to adhere to the ORMF as it grows and attains a reasonable size. Even though Company adheres to disclose and report every compliance which is applicable to the Company, to the public (wherever applicable) and to every applicable regulatory authority and stakeholder.

- **LESSONS LEARNED EXERCISE AND ADAPTING**

Principle 16 - A lessons learned exercise should be conducted after a disruption to a critical or important business service to enhance the Company's capabilities to adapt and respond to future operational events.

After any disruption to a critical or important business service, the Company conducts a comprehensive lessons learned exercise. This exercise serves as a vital opportunity to enhance our capabilities to adapt and respond to future operational events more effectively. By analyzing the root causes and impacts of the disruption, we identify areas for improvement and implement corrective actions to strengthen our resilience. This proactive approach ensures that we continually learn from our experiences and remain agile in mitigating future risks.

- **CONTINUOUS IMPROVEMENT THROUGH FEEDBACK SYSTEMS**

Principle 17 - Company should promote an effective culture of learning and continuous improvement as operational resilience evolves through effective feedback systems.

As any other prudent business entity, RFL also have approach of continuous improvement and learned from its own experiences, we will continue to do so and will improve our self from every experience. We recognize the importance of feedback mechanisms in this process, which enable us to gather insights from various stakeholders and adapt our practices accordingly.

POLICY REVIEW AND APPROVAL

The Policy would be reviewed at the discretion of the Board of Directors. However, the policy can be reviewed at short notice depending on the exigencies/extraordinary situations, which may emanate during the course of Company's business. Such extraordinary situations may include significant changes in Government/Reserve Bank of India policies, global/national economic conditions, financial performance, etc. This Policy shall remain in force till the next revision is carried out and disseminated.

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