



Amrit Malwa Capital Limited

(Formerly known as Amrit Hire Purchase Limited)

"Leading Automobile Financiers"

RISK MANAGEMENT POLICY

(As updated on June 28, 2022)



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1. BACKGROUND & LEGAL FRAMEWORK

The Board of Directors ("Board") of **Amrit Malwa Capital Limited** (hereinafter referred as "**the Company**" or "**Amrit**") has adopted the Risk Management Policy, which encompasses practices relating to identification, assessment, monitoring and mitigation of various risks to the business. Risk Management Policy of the Company seeks to minimize unfavorable impact on the business objectives and develop stakeholder value. Risk Management is a key aspect of the "Corporate Governance Principles and Code of Conduct" which aims to improvise the governance practices across the Company's activities. Risk Management Policy and processes will enable the Company to proactively manage uncertainty and changes in the internal and external environment to limit negative impacts and capitalize on opportunities.

The Company is prone to inherent business risks. This document is intended to formalise a risk management policy, the objective of which shall be identification, evaluation, monitoring and minimisation of identifiable risks.

2. OBJECTIVE & PURPOSE OF POLICY

The main objective of this policy is to ensure sustainable business growth with stability and to promote a proactive 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 has been framed in accordance with the Risk Management framework as issued by Reserve Bank of India ("RBI") vide Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 ("RBI Circular") and amendments thereon.

The purpose of this policy is to address unanticipated and unintended losses to the human resources & financial assets of the Company without unnecessarily limiting the activities that advance its mission and goals. The Company has introduced effective risk management systems that address the issues relating to various risks. The effective management of risk is vital to the continued growth of the Company.

The specific objectives of the Risk Management Policy are:

1. To ensure that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.
2. To establish a framework for the company's risk management process and to ensure its implementation.



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3. To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
4. To assure business growth with financial stability.

3. RESPONSIBILITIES

The Risk Management Policy of the Company falls under the authority of the Board of Directors. The formulation, revision and administration of the Policy is assigned to the Risk management Committee which will advise the Board to take strategic decisions.

The Chief Financial Officer shall be responsible for the implementation and compliance of the Policy

3.1 Board of Directors

The Board of Directors has the ultimate responsibility for the implementation of and ensuring adherence to this policy. The Board will at least annually, formally review this policy.

3.2 Risk Management Committee (RMC)

3.2.1 Constitution

The Risk Management Committee shall constitute of 3 (Three) members with majority to be members of the Board of Directors with at least 1 independent director and Chief Executive Officer (CEO)/ Managing Director. The constitution of the Committee can be modified by the Board in accordance with the applicable laws and guidelines.

3.2.2 Meetings

a) Quorum

Minimum 2 (two) or 1/3rd (one-third) Members whichever is higher shall constitute the quorum.

b) Periodicity of Meeting

The Company Secretary of the Company shall be responsible for convening the meetings of the Committee and may arrange to convene the Meetings of RMC as and when needed depending upon the necessity in consultation with MD/CEO and CFO. RMC may convene a meeting on interval for review and taking corrective action, if required. However, Minimum 2 meetings shall be held during the financial year.

c). Recording of Minutes

Minutes of the meeting shall be prepared and preserved in the Minutes Book and the same shall be approved as per the Secretarial Standard-1



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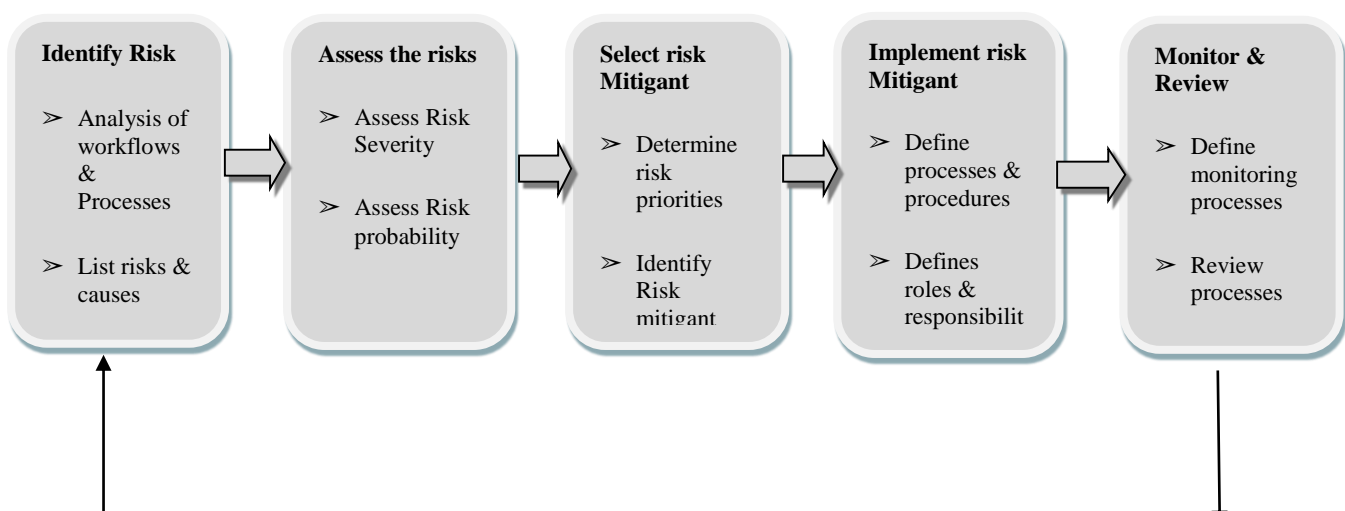
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3.2. Scope & Role and Responsibilities

- i. To formulate a detailed risk management policy which shall include:
 - a. a framework for identification of internal and external risks specifically faced by the entity, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.
 - b. measures for risk mitigation including systems and processes for internal control of identified risks.
 - c. business continuity plan.
- ii. To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;
- iii. To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;
- iv. To periodically review the risk management policy, at least annually, including by considering the changing industry dynamics and evolving complexity;
- v. To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;
- vi. The committee will coordinate its activities with the Audit Committee in instances where there is any overlap with audit activities (e.g. internal or external audit issue relating to risk management policy or practice).
- vii. The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary

4. RISK MANAGEMENT PROCESS

Risk management process is systematic application of management policies, procedures and practices to the tasks of identifying, analysing, assessing, treating and monitoring risk. The main elements of the risk management process is as follows:





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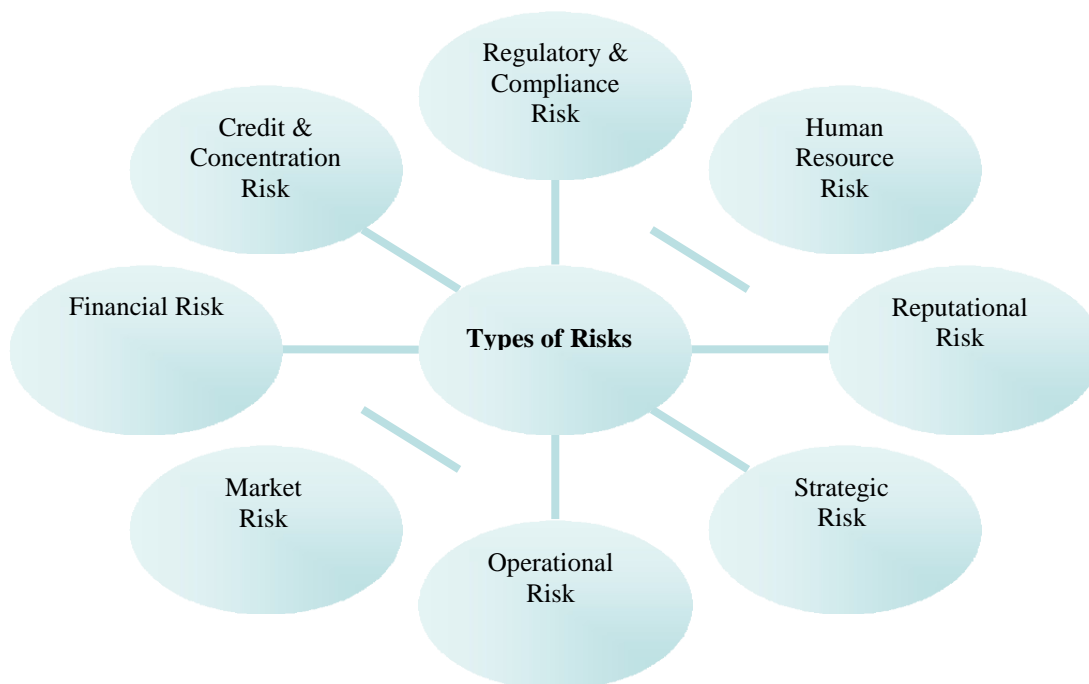
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Feedback

5. CATEGORIES OF RISK & THEIR IDENTIFICATION

Following risks are associated with the Company:

The following broad categories of risks have been identified in our risk management framework along with possible mitigation factors:



5.1 Strategic Risk

Risk: 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: The management is proactive in its approach towards changes in economic/business environment as the business strategies are regularly discussed with the senior officials of the organization so that adequate steps can be taken. Also, important strategic matters are referred to the Board, consisting of members with diversified experience in the respective fields, for intense deliberations, so as to derive the benefit of collective wisdom.



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5.2. Operational Risk

Risk: Risks inherent to business operations including those relating to client acquisition, service delivery to clients, business support activities, information security, human resource and business activity disruptions internal processes. It includes legal risk but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. In order to mitigate this, internal control and internal audit systems are used as the primary means.

Mitigation:

- i. *Risk Education:* Risk education for familiarizing the complex operations at all levels of employees. To ensure the same, the Company should put in place Training and Development Policy for the employees and the HR department of the Company shall conduct regular induction and refreshers training in pursuance to the same.
- ii. *Document Storage and Retrieval:* The Company recognizes the need for proper storage of documents as also their retrieval for audit and statutory requirements.
- iii. *Whistle Blower/Fraud Prevention Policy-* The Company encourages all its employees to report any non-compliance of stated company processes or policies without fear as we have a clearly stated "no-retaliation" policy. The Company shall have a formal policy that details the manner in which such issues are handled – background investigation, holding a hearing by a committee, and ensuring that action as per the committee's recommendations is carried out. All issues reported shall be categorized for nature and severity:
 - Financial or Non-Financial
 - Major or Minor
 - Procedural Lapse or Gross Violation
 - Breach in Process or Disciplinary Issue
- v. *Internal Audits:* Internal Audit at Branch Offices and at the Corporate/Regional Offices are carried out by Internal Auditor on quarterly basis as appointed by the Board. The scope of this Internal Audit covers all key functions including HR, Operations, Credit, Finance and Accounts. The scope of these audits are reviewed periodically and modified to keep pace with a dynamic business environment. All significant audit observations of Internal Audits and follow-up actions are presented to the Audit Committee.
- vi. *Technology Infrastructure:* Technological innovation in general and information technology (IT) applications in particular, have major effect in NBFC sector. To protect the Company against operational risk, IT Services must be delivered on a consistent and timely basis in accordance with high customer expectations for constant and rapid availability and potentially high transaction demand. To mitigate this risk, the Company should keep IT policy updated. Further, the Company should have a Business Continuity Plan, which should be reviewed on yearly basis by the Board.



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viii. *Assets Insurance*: The Company should sufficiently insure its assets to protect itself from future unforeseeable events as a part of its operational risk management.

5.3 Market Risk

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

Mitigation: Management regularly reviews its business model including the areas it wants to operate. The management carries out regular competitive analysis of its peers in the industry so as to remain in competition and change its markets if required.

5.4 Financial Risk

5.4.1 Interest Rate Risk

Risk: Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The immediate impact of changes in interest rates is on the Company's earnings (i.e. reported profits) by changing its Net Interest Income (NII). As such The Company is into funding of loans which are always fixed rate loans very from case to case. The Company manages this risk on NII by pricing its loan products to customers at a rate which covers interest rate risk. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM). Measurement of such risk is done at the time of deciding rates to be offered to customers. Once interest rate risk is measured, lending rates are finalized. Given the interest rate fluctuation, the Company has adopted a prudent & conservative risk mitigation strategy to minimize interest risk.

Risk Measurement and Management

Gap management

The interest rate gap is a common form of interest rate sensitivity measurement. GAP is equal to rate sensitive assets (RSA) minus rate sensitive liabilities (RSL). A rate sensitive asset/liability is one whose yield/cost varies with base rate fluctuations. With the GAP methodology the Company's assets and liabilities will be organised into repricing "buckets" using book values. The analysis will allow the Company to determine the effect in the Company's income due to a change in interest rates. A positive GAP exists when there is more RSA than RSL, and a negative GAP exists when there is more RSL than RSA.

The Company will strive to achieve a balance between reducing risk to earnings from adverse movements in interest rates, and enhancing net interest income through correct anticipation of the direction and extent on interest rate changes.

Liquidity Risk Tolerance Limit in Different Time Buckets is tabulated as under:



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Time Bucket	Liquidity Risk Tolerance Limit Cumulative Mismatch
1 day to 7 days	10%
8 days to 14 days	10%
15 days to 30/31 days (One Month)	20%
Over One Month and up to 2 Months	25%
Over 2 Months and up to 3 Months	30%
Over 3 Months and up to 6 Months	30%
Over 6 Months and up to 1 Year	35%
Over 1 Year and up to 3 Years	40%
Over 3 Years and up to 5 Years	50%
Over 5 Years	60%

5.4.2 Liquidity Risk

Risk: Measuring and managing liquidity needs are vital for effective operations of an NBFC. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. Board/ALM Committee should measure not only the liquidity positions of company on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. Experience shows that 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 a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as a standard tool.

i. **Maturity Mismatch:** Liquidity Risk arises largely due to maturity mismatch associated with assets and liabilities of the company. Liquidity risk stems from the inability of the company to fund increase in assets, manage unplanned changes in funding sources and meet financial commitments when required.

ii. **External Source of funds:** Due to the high reliance on external sources of funds, The Company is exposed to various funding and liquidity risks comprising:

iii. **Funding Concentration Risk—**Concentration of a single source of funds exposes the Company to an inability to raise funds in a planned and timely manner and resort to high cost emergency sources of funds. Further, concentration of funding sources can also result in a



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skewed maturity profile of liabilities and resultant Asset-Liability mismatch.

- iv. Asset-Liability Mismatch—A skewed asset-liability profile can lead to severe liquidity shortfall and result in significantly higher costs of funds; especially so during times of crises.
- v. Market Perception Risk—Due to inherent industry characteristics, the Company is exposed to perception risks, which can lead to decline in ability of a lender to increase exposure to the Microfinance sector and result lack of adequate and timely inflow of funds.
- vi. Leverage Risk— A high degree of leverage can severely impact the liquidity profile of the company and lead to default in meeting its liabilities.

Mitigation: The key liquidity management policies being followed at the company include:

- i. Regular ALM Meetings: This is done to identify any short term liquidity gaps and thereby take immediate corrective actions to bridge the same.
- ii. Lender Exposure Updates: The exposure profile to the lenders is regularly updated to ensure that skewness does not creep in in respect of the sources of external funds.
- iii. Floating Rates: The Company currently borrows majority of its loans on a floating basis as against the entire lending on a fixed rate basis. This minimizes the impact of any adverse impact in the event of a credit shock in the banking system and any continuing effects of the same on overall interest rates in the economy and on the Company.
- iv. Defined Leverage Levels: The Company targets a leverage of maximum 4x in light of the business model and adequately safeguard itself against the impact of adverse market conditions. It also affords The Company reasonable time to tie-up timely equity infusion.
- v. Capital Adequacy: The Company targets to maintain healthy levels of capital adequacy - historically, in excess of 20%. The Company maintains a strong capital position with the capital ratios well above the thresholds defined by the regulatory authorities through continuous and timely capital infusion.
- vi. Structured Liquidity Statement: ALCO will be reviewing the Structured Liquidity management (SLM) Statement on an ongoing basis and should ensure that mismatch in the different time bucket remain within the tolerance limit as stated herein and in the Asset Liability Management Policy.
- vii. Dynamic Liquidity Statement: In order to enable the Company to monitor its short-term liquidity on a dynamic basis over a time horizon spanning from 1-90 days, companies may estimate their short-term liquidity profiles on the basis of business projections and



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other commitments. The Company shall prepare Short-term Dynamic Liquidity as prescribed in the Asset Liability Management Policy.

- viii. **L**iquidity Ratios: The Company shall ensure the compliance of the ratios effecting the liquidity as prescribed in the Asset Liability Management Policy

5.5 Reputational risk

5.5.1 **Risk:** Reputational risk is related to adverse perception of the image or 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. 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 the customers. The risk can emanate from:

- i. Non-Compliance with Regulations
- ii. Customer Dissatisfaction
- iii. Misrepresentation of facts and figures in public

Mitigation: Considering the business model the following aspects have been put in place to reduce vulnerability related to reputational risk:

- i. Compliance with Fair Practices Code: All employees are trained and instructed to follow fair practices as per RBI prescribed guidelines in all their dealings with the customers.
- ii. Grievance Redressal Mechanism (GRM): The Company has a defined GRM in place and the same is communicated to all customers at the time of sanction of loan. This is also available on the website of the Company.
- iii. Delinquency Management: The Company does not resort to any coercive recovery practices and all recoveries are made in accordance with the Recovery policy and Fair Practice Code of the Company.
- iv. Stringent Selection Criteria: Vendors, employees and other associates of the Company are selected after confirming to the stringent criteria's prescribed by the management.
- v. Reference Check: The management carries out a reference check for all the vendors from the market before having them on Board so as to ensure utmost integrity while carrying out their duties.
- vii. Legal Obligations: All employees, vendors and associates are required to sign legal contracts



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wherein specific clauses related to non-disclosure are entered so as to ensure the Company from any reputational risks.

6. Credit and Concentration Risk

6.1. Credit Risk

Risk: Any lending activity by the Company is exposed to credit risk arising from repayment default by borrowers and other counter parties. Despite best efforts, there can be no assurance that repayment default will not occur and, in such circumstances, may have an effect on its results of operations. The Company and its subsidiaries may not be able to realize the full value of its collateral or be delayed in realizing such value, due to, among other things, legal proceedings by defaulting borrowers and/ or security providers, and stagnation or reduction in market value of collateral. A failure to recover the expected value of collateral security could expose the Company to a potential loss. Any such losses could adversely affect the Company's financial condition and results of operations.

Mitigation: A strong credit risk management process helps in containing the portfolio quality of the company. Key elements of the credit risk management include a structured and standardized credit approval process supported by a strong system, effective training programs, legal and technical due diligence, monitoring and robust credit risk management strategy at a senior management level.

The Credit Risk Management Department (CRMD) is empowered to formulate clear policies on standards on the following issues:

- Presentation of credit proposals.
- Prudential limits on large credit exposures.
- Assets concentration
- Standard for loan collateral.
- Portfolio Management.
- Loan review mechanism
- Risk concentration.
- Pricing of loans.
- To monitor quality of loan portfolio.
- In Identify problems and correct deficiencies.
- Develop MIS and undertake loan review of large accounts.

CRMD is also required to monitor compliance of the risk parameters and prudential limits set up in the credit policy of the company.

In order to achieve the above goals, CRMD is empowered as under:-

Prudential Limits: To monitor the stipulated benchmark of current ratio, debt equity, DSCR and profitability ratios. The CRMD is empowered to elaborate the conditions subject to which the deviations are permitted.



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Exposure Norms: To monitor the exposure norms as stipulated in the credit policy of the Company segment wise, industry wise and borrower wise.

6.2. Portfolio Concentration Risk

Risk: Portfolio Concentration Risk is the risk to the company due to a very high credit exposure to a particular business segment, industry, geography, location, etc. though in the context of micro finance, it pertains predominantly to geographical concentration.

Mitigation: The Company intends to maintain a diversified exposure in advances across various sectors and geographies but to mitigate the risks that could arise due to political or other factors within a particular state. The Company has steadily diversified into various sectors and geographies and consequently the portfolio has become diversified. The Company has also started lending for consumer durables, personal loans and consumption loans. As a part of credit appraisal process, before establishing any new relationship, various factors are taken including credit history, project size, other borrowings, etc. are considered.

7. Regulatory and Compliance Risk

Risk: The company is exposed to risk attached to various statutes and regulations. The company is mitigating the risk through regular review of legal compliances carried out through internal as well as external compliance audit. 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 Company's reputation. These risks can be:

- i. Non-Compliance with RBI Regulations
- ii. Non-Compliance with Statutory Regulations
- iii. Non-Compliance with covenants laid down by Lenders

Mitigation: Internal Auditor also conducts audit of compliance function on a quarterly basis wherein all regulatory compliances are reviewed in detail.

8. Human Resource Risk

Risk: The Company's Human Resource adds value to the entire company by ensuring that the right person is assigned to the right job and that they grow and contribute towards organizational excellence. Our growth has been driven by our ability to attract top quality talent and effectively engage them in right jobs. Risk in matters of human resources are sought to be minimized and contained by following a policy of providing equal opportunity to every employee, inculcate in them a sense of belonging and commitment and also effectively train them in spheres other than their own specialization. Employees are encouraged to make suggestions on innovations, cost saving procedures, free exchange of other positive ideas etc. It is believed that a satisfied and



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committed employee will give of his best and create an atmosphere that cannot be conducive to risk exposure. Employee- compensation is always subjected to fair appraisal systems with the participation of the employee and is consistent with job content, peer comparison and individual performance.

Mitigation: Various programs and initiatives are carried out by the HR to retain talent and motivate them on a regular basis.

6. STRESS TESTING

Stress tests are to be considered as an integral part of the overall governance and liquidity risk management culture and to carry out stress tests on a regular basis for a variety of short-term and protracted company specific and market specific stress scenarios (individually and in combination) keeping in view the Company's business, activities and vulnerabilities so that the scenarios incorporate the major funding and market liquidity risks to which the Company is exposed.

7. IMPLEMENTATION

Process owners and functional heads shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and report to the Managing Director who shall communicate to the Risk Management Committee.

8. DISCLOSURE IN BOARD'S REPORT

The Board of Directors shall include a statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company.

9. EXCEPTION TO THE POLICY

Exception to policy may be approved by the Risk management Committee or, in the event the Committee is unable to convene, by the Chairman of the Risk management Committee.

Exception to the policy granted by the Chairman of the Risk Management Committee shall be submitted to the Risk management Committee at the next regularly scheduled meeting for approval, which shall further be placed before the Board for their approval Exceptions.

10. POLICY REVIEW

The Policy would ideally be reviewed shall be reviewed annually by the Risk Management Committee and thereafter by the Board. 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.

This Policy shall remain in force till the next revision is carried out and disseminated.