Vivardhana Microfinance Limited

Chennai

Memorandum To The Board

Date:

Agenda:

The Risk Management Policy of the Company for the period 2021-2022 is placed to the Board for approval. The Policy shall come in to force immediately on approval by the Board and shall be valid till 31-03-2022.

The Board is requested to pass necessary resolution for approving the policy as per the annexure enclosed.

Director- Credit

VIVARDHANA MICROFINANCE LIMITED

(VMFL)

CHENNAI

RISK MANAGEMENT POLICY V1.0

2021-2022

A. Overview

Non- Banking Financial companies (NBFCs) form an integral part of the Indian Financial system. NBFCs are required to ensure that a proper policy framework on Risk Management Systems with the approval of the Board is formulated and put in place. This Policy document has been prepared in line with the RBI guidelines.

The Risk Management (RM) at VMFL encompasses practices relating to identification, assessment, monitoring and mitigation of various risks to our business. Risk Management Policy of our Company seeks to minimize unfavorable impact on our business objectives and develop stakeholder value. Further, our risk management practices seek to sustain and enhance long-term competitive advantage of the Company.

B. Purpose

The purpose of this policy is to address unanticipated and unintended losses to the human resources, financial assets and property of the Organisation without unnecessarily limiting the activities that advance the Organisation's mission and goals. The Board or its representatives at the top management level by appointing Chief Risk Officer, is responsible to frame, implement and monitor the Risk Management Plan of the Company.

This Policy represents the basic standards of Risk Assessment to be followed by the company. Changes in the Policy will become effective upon approval by the Board of Directors of the Company. All relevant employees must be thoroughly familiar or made familiar with it and make use of the material contained in this Policy.

C. Principles

Risk management is a business facilitator by making more informed decision with balanced risk-reward paradigm. The Company shall follow a disciplined risk management process and shall be taking business decisions, ensuring growth and balancing approach on risk reward matrix. The effective management of risk is vital to be continued growth and success of VMFL. For risk management to be effective, all operations must apply the following principles to the context of their particular business and its objectives.

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

D. Risk Management Policy Statement

VMFL recognizes that Risk management is one of the key principles of effective Corporate Governance. The Risk management policy is given below: -

i. To continuously thrive for available risks in the Organisation which directly or indirectly effect the functioning of the Organisation.
ii. To ensure the protection of rights & values of Shareholders by establishing a well-organized Risk Management Framework.
iii. Selecting, maintaining and enhancing the risk management tools used by the Program to provide analyses that inform and support the investment actions of the entire Organisation.
iv. Operate within the framework of regulator issued periodically.

E. <u>Identification, Measurement and Assessment of Risk</u>

i. Management ‘s responsibility, as delegated by the Board, is to operationalize the Risk Management Program and ensure that formal procedures are in place to identify and define risk with input from representatives across the enterprise.
ii. Measurement of risk is completed considering both quantitative and qualitative means using the likelihood and impact criteria as developed by Management and as reviewed by the Board.

F. <u>Risk Categories</u>

The following broad categories of risks have been considered in our risk management framework as the company is in the business of financing Micro Finance Institutions and in investments as on ongoing business as permitted by Reserve Bank of India as and when deemed necessary:

<u>Market Risk:</u>

Risks emanating out of the choices we make on markets, investments, resources and delivery model that can potentially impact our long-term competitive advantage. This is majorly external market dynamics, which gives rise to Risk like Liquidity risk, Interest risk and Funding risk.

<u>Liquidity Risk:</u>

Liquidity Risk is a inability to meet financial obligations in a timely manner and without stress.

By planning the monthly cashflows from corrections process of outside borrowings and ALM (Asset Liability Management) will be addressing risk. The collection inflows are readily available in our software.

<u>Risk Mitigation:</u>

- As a contingency plan the Company shall arrange for sufficient approved but undrawn credit lines in emergent situation as buffer to manage eventuality of liquidity constraints as permitted by the regulators.
- The Company shall be complaint in terms of regulatory norms and therefore shall effectively manage regulatory risk. Effective Customer redressal mechanism and fair practices shall keep legal risk under control.
- The Company shall have processes in place, to manage the risk of fraud and the suspected frauds that are reported, wherever necessary.

<u>Interest Risk:</u>

Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC’s financial condition. As such VMFL is into funding of loans which are always fixed rate loans.

Basically, it is the risk of pricing of loans and price of borrowings in a different rate of time which may affect the profit of the company either way.

The pricing of loans is fixed in relation to the cost if funds (as per RBI regulations). Interest rate is mitigated to large extend. The Reserve Bank of India publishes the benchmark rate based on which the pricing of the loan to be done. The beginning of every quarter which be valid through the quarter.

Credit Risk:

A risk of loss due to failure of a borrower / counterparty to meet the contractual obligation of repaying his debt as per the agreed terms, is commonly known as risk of default.

Ownership structure could have a key influence on an NBFC's credit profile in that a strong promoter and strategic fit with the promoter can benefit an NBFC's earning, liquidity and capitalization, and hence its credit profile.

The company shall follow the following broader guidelines as per the regulators prescription and shall monitor and modify or add additional parameters going forward based on the experience gained.

1. The borrowers shall include individuals both men and women, SHG as per the regulator's prescription and any other constitution as permitted by the regulators.
2. The per borrower limit shall be restricted to 60000/- per borrower with a maximum period of 60 months and shall be subject to change in accordance with the regulators prescription from time to time.
3. The qualifying assets as per the regulator shall not be less than 85% of the total assets of the company.
4. Qualifying asset shall inter-alia mean a loan which satisfies the following criteria.
   a) Loan disbursed by the NBFC-MFI to a borrower with a rural household annual income not exceeding Rs.1,00,000 or urban and semi-urban household income not exceeding Rs.1,60,000
   b) The total indebtedness of the borrower does not exceed Rs. 1,00,000. Education and medical expenses will be excluded while arriving at the total indebtedness of a borrower.
   c) Loan amount does not exceed Rs.60,000 in the first cycle and Rs.1,00,000 in subsequent cycles.
   d) Total indebtedness of the borrower does not exceed Rs.60,000/- at any point of time.
   e) Tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 30,000 with prepayment without penalty
   f) Loan to be extended without collateral
   g) Aggregate amount of qualifying loan assets, given for income generation, is not less that 50 per cent of the total loans given by the MFIs: and the remaining 50 percent can be for other purposes such as housing repairs, education, medical and other emergencies
   h) Loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower.
   i) The loan borrowed by the borrower can be only from any two MFIs.

Risk Assessment of Borrowers

It is generally recognized that certain borrowers may be of a higher or lower risk category depending on the customer's background, type of business, our references, borrowers net worth and the ability to refund and pay interest etc. As such, the sanctioning officer shall apply to each of the customers due diligence measures on a risk sensitive basis as stipulated below:

1. Minimum loan amount of Rs. 5000/- to a maximum of Rs. 50,000/-
2. No delinquency as per the credit report
3. Total Borrowings including proposed one not to exceed Rs.1,00,000/-
4. Monthly payment including proposed payment should be reasonable say Rs. 5000/- or in some cases Rs.6000/-

5. Credit information report should not be older than a week

In as much as, RBI has prescribed the guidelines and loans are priced at fixed rate, interest rate risk and credit risk are minimum in respect of loans provided.

Risk Mitigation:

- ✓ Credit Risk shall be managed using a set of credit norms and policies. The Company shall have defined roles and responsibilities for originators and approvers. All credit exposure limits shall be approved by authorized persons.
- ✓ There shall be a structured and standardized credit approval process to ascertain the credit worthiness of the borrower.
- ✓ The Company shall develop internal evaluation team to make credit decisions more robust and in line to manage collateral risk.
- ✓ The Company shall follow a process of time to time revisiting the credit policy and processes on the basis of experience and feedback
- ✓ Further the Company for investments except for short term deposits which will be done only with Banks the same is not disclosed specifically.

Operational Risk

Any eventuality arising from the act relating to people, technology, infrastructure and external factors, which can give rise to some type of loss in the Organisation, is termed as Operational Risk. Majorly it is internal and unknown. Therefore, the persons responsible shall keep continuous watch and shall gather the symptoms/ warning signals to manage Operational risk.

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 shall be monitored implicitly.

Human Resource Risk

The other risk is turnover the employees which is more than the normal in this type of industry towards the medicating risk. The company will ensure the employees are committed and satisfied besides. Compensation inline with the industrial practices. The Company will also adopt suitable incentive policy to the field staff to keep the morale high.

The Company will also arrange for fidelity insurance for the field staff and cash in transit insurance.

Legal Risk

As the loan amount is small and with the minimum recovery, resorting to legal action may not be prudent. Hence no legal risk in respect of loan sanction other legal risks through external factors such as competition, borrowers and regulators is being addressed through Compliance risk.

Reputation Risk:

The employees by their actions, behaviors may put the reputation of the Organisation at risk. This will be addressed adequately by the HR policy and constant interaction with the staff by the top management.

G. Responsibility

Responsibility for risk management is shared across the organisation. Key responsibilities include-

Controlling the risks through a formal program is necessary for the well-being of the organization and everyone in it. The jobs and services the organization provides the safety of the workplace and other benefits all depend to an extent on our ability to control risks.

The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented an effective risk management framework.

The Board will be overseeing the group's risk profile and is responsible for overseeing management's actions in the identification, management and reporting of material business risks.

H. Reporting Requirements

The Organisation Enterprise reporting process will evolve as requirements and risk management leading practice evolve. Annual content will include a risk profile setting out the most significant risks faced by the enterprise.

Further, on a quarterly basis, updated information materially affecting the risk profile (e.g. market developments) will be provided which will be enable the Board to understand the likely future risk profile of the Enterprise. These will be reported to the Board by the Audit Committee as soon as practicable and at least quarterly.

I. Validity of the Policy

The Policy is valid from the date of approval by Board till 2019-2020. In the interim, any changes as announced by the regulators shall apply automatically and shall be placed to board for information in the subsequent meeting at least once in a quarter.

J. Review

This policy will be reviewed every year or as and when warranted by changes in IT/ Business/ Regulatory environment and suitable modifications will be made to this policy.

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