

FYNX CAPITAL LIMITED  
(formerly known as Rajath Finance Limited)

**RISK MANAGEMENT POLICY**

**Detailed Policy Document**

Document Prepared By	:	Fynx Capital Limited
Governing Guideline / Policy	:	Directions on Managing Risks in Financial Services by NBFC-s as part of Corporate Governance guidelines issued by the Reserve Bank of India (RBI)
Approval date	:	
Approved By	:	Board of Directors

**INTRODUCTION**

The Integrated Risk Management (IRM) Policy is the first step towards defining the risk management governance framework. It is the umbrella policy which will govern the various sub-components of the Risk Governance Framework.

The scope of the IRM Policy includes a Risk Governance Structure for Fynx Capital Limited, which will enable it to assess, manage and mitigate risks arising out of its business.

The IRM policy will assist Fynx in fulfilling the following major objectives:

- Adhere to regulatory guidelines/policies as specified by the Reserve Bank of India
- Develop and implement the mechanism of evaluating & quantifying risk with respective tolerance against business objectives and strategies, both at an organisational and individual business unit levels

The broad scope of the policy covers: Principles for Integrated Risk Management

Integrated Risk Management Policy Framework including

- Risk Appetite
- Risk Architecture and Governance
- Risk Policy & Process
- Risk Reporting

Fynx recognizes that risk management is essential to sound business practices and believes that effective risk management leads to informed decision-making within the organization's risk appetite. Hence, the monitoring and management of risks faced by the organisation is part of its internal improvement process which enables it to mitigate risks and maximise its opportunities.

For this purpose, Fynx has developed an Integrated Risk Management Policy and the policy aims to provide broad direction to all activities within the organisation, associated with risk management.

The process for developing this policy involved:

- **Critical Analysis of Internal Documentation** such as existing policies, process manuals, internal audit reports and credit policy documents
- **Interactions with stakeholders** including the Board of Directors, senior management, functional leads and the core business teams
- **Industry Interactions** with other similar private sector banks and NBFCs

This policy document is intended to provide broad guidelines for integrated risk management by articulating risk management principles, defining risk and establishing a common risk language across Fynx. Integrated Risk Management Policy can be considered as umbrella policy for all other risk related policies

#### DEFINITION:

Risk is not only an uncertainty about the future or the probability of suffering a loss. It also encompasses the danger that the actual future outcome of an event will deviate from the expected or planned outcome in a negative manner. Thus, risk is measured on the basis of the probability and the impact of a negative deviation. Risk is the potential for Loss, either directly through loss of earnings or capital or indirectly through the imposition of constraints on an organization's ability to meet its business objectives.

Integrated Risk Management is a holistic policy and process effected by an entity's Board of Directors, senior management and other stakeholders. It is an essential component of the strategy of the entity and is applicable across the organisation.

The definition reflects certain fundamental concepts. Integrated risk management is:

- A process – Continuous and across the entire organization
- Affected by people at every level of an organization
- Applied in defining the strategic goals of the organisation
- Able to provide reasonable assurance to an entity's management and board of directors

#### PRINCIPLES OF INTEGRATED RISK MANAGEMENT

An effective Integrated Risk Management Policy is based upon the following key principles:

##### Being an integral part of all Business Processes

Risk Management does not operate in a silo which is separate from the core business activities and processes of the organisation. It is an integral part of the responsibilities of the management and all processes within the organisation, including strategic and business planning, operational performance and project and change management processes. The detailed methodology to manage risk is detailed in subsequent sections of this policy.

##### Creates and protects value

Risk management contributes to the achievement of business and strategic objectives and performance improvement. Hence, it not only creates but also protects value.

##### Being part of decision-making

Risk management helps decision-makers make informed choices, prioritise actions and distinguish among alternative courses of action. Informed choices produce good business results.

##### Explicitly addresses uncertainty

Risk management explicitly takes account of uncertainty, the nature of that uncertainty, and how it can be addressed.

##### Is systematic, structured and timely

A systematic, timely and structured approach to risk management contributes to efficiency and to consistent, comparable and reliable results.

##### Based on the best available information

The inputs to the process of managing risk are based on information sources such as historical data, experience, stakeholder feedback, observation, forecasts and expert judgement. However, decision-makers shall inform themselves of, and shall take into account, any limitations of the data or modelling used or the possibility of divergence among experts.

#### This is tailored

Risk management is aligned with the organisation's external and internal context and risk profile. Internal risk management is disaster identification and mitigation. External risk management is about the probability of loss.

#### Takes human and cultural factors into account

Risk management recognises the capabilities, perceptions and intentions of external and internal people that can facilitate or hinder achievement of the department's objectives.

#### Being transparent and inclusive

Integrated Risk Management practice includes decision-makers at all levels of the department, ensuring that risk management remains relevant and up-to-date. The implementation of Integrated Risk Management involves processes and policies enumerated in this policy.

### RISK MANAGEMENT POLICY FRAMEWORK

#### Objectives

The IRM policy is intended to support the following objectives:

- Defines the governance and oversight framework for Integrated Risk Management
- This policy lays down guidelines for monitoring risk centrally. Provides a framework for identification of Risk Appetite.
- Adhere to the guidelines / policies concerning risk management specified by the Reserve Bank of India, Government of India and other binding regulatory authorities
- Adhere to Industry "Best Practices" in respect of risk management
- Communicate uniform and consistent definitions across Fynx for measuring risk
- Assist Fynx in anticipating risk, thereby minimizing the cost and effort of reactive risk management and improving value to shareholders
- Improve the understanding and interrelationships between different risks and incorporate the results in active risk management
- Provide Fynx an objective mechanism for evaluating risk against business objectives, strategies and risk tolerances

#### Applicability

- This Policy governs Integrated Risk Management at Fynx
- This Policy will become applicable to Fynx on the date it is approved by the Board of Directors of Fynx.
- This Policy should be read in conjunction with the all other risk Management Policies mentioned in this policy
- This Policy is applicable to all persons who form part of Risk Management in Fynx
- The Policy shall supersede all previous policies, Board mandates or guidelines issued by any authority within PFL relating to risk management
- Any amendments to the Policy will take effect when they are approved by the Risk Management Committee of the Board and the PFL Board of Directors

## Distribution List

This Policy is a strictly confidential document. Access to the Policy is restricted to only those to whom the Policy applies.

Annexures to the Policy and other mandates that may become part of the Policy are also strictly confidential and may not be circulated.

## Frequency of Revision

The Policy may undergo a review process at least once every year. Every such review will require an approval by the Board of Directors of Fynx. Reviews and modifications during the year are permitted if there is a specific need for the same. Certain situations which necessitate a review of the Policy intermittently are:

- Changes in Regulatory requirements
- Change in the processes or control environment
- Change in the risk management systems
- Changes in the Business Plan
- Prolonged non adherence to the set thresholds

## Approval Process

Risk department should be the owner of the policy and should maintain proper version control documents for the changes done in the policy. Requests for modifications to the Policy can be initiated by any of the personnel to whom the Policy applies.

The Policy shall be initially reviewed by the relevant risk committee and then put up to the Risk Management Committee (RMC) of the Board. Once approved by the RMC, the policy should be put up to the Board of Directors for approval.

## OVERALL IRM FRAMEWORK

The overall IRM Framework for Fynx has been developed on the basis of the following risk governance principles:

- Risk Appetite
- Risk Architecture and Governance
- Risk Policy & Process
- Risk Reporting

While the IRM Policy provides the overall guidelines about the Risk Management at the organisation level, each of the functional areas should be governed by detailed policies which should include but not limited to:

- Credit Risk management
- Market Risk Management and Asset Liability Management (ALM)
- Operational Risk Management (ORM)

The policy aims to highlight the spirit of these principles and their practical implications for the Fynx's activities. The policy highlights the practical means of observing those principles and strives to demonstrate the associated actions and their effectiveness

## TYPES OF RISKS

### Credit Risk

All credit risk related aspects shall be governed by the Credit Policies (Credit Policy). The Credit Policy will outline types of products, customer categories, target customer profile, credit approval process, exposure limits

etc. The Credit Policy shall be approved by the Board of Directors or by the official(s)/ group of officials authorized by the Board of Directors.

The authority matrix for approval of credit limits shall be approved by the Board of Directors or by the official(s)/ group of officials authorized by the Board of Directors.

The Company, through its own or its service provider's Centralized Operations team, shall manage operating risks in various back-office processes of the Company's business except for a few operational activities, which would be decentralized to improve turnaround time for customers. The decentralized operations shall be managed by the Branch Operations team.

A Fraud Prevention and Control team shall be set up to manage fraud-related risks. Such a team will lay-down the systems and processes for fraud prevention and recovery of fraud losses. This team will also be required to evaluate various external agencies involved for facilitating the business.

The Company or its service provider shall have a Collections and Recovery unit structured along various segments and geographical locations, to manage delinquency levels. The collections unit shall operate under the guidelines of a standardized recovery process.

The segregation and audit/ oversight by designated independent officials/ group of officials shall ensure adequate checks and balances.

- Market and Liquidity Risk

The management of interest rate and liquidity risks shall be articulated in the Asset Liability Management (ALM) Policy. The ALM policy covers the functioning of Asset Liability Management Committee (ALCO), ALM process and the limits pertaining to interest rate and liquidity risks. The ALM Policy will be approved by the Board of Directors.

Investment Policy shall address issues related to treasury investments as well as long-term investments. The Investment Policy should cover the authorization, product guidelines, limits, classification, valuation norms, audit control and reporting. Investment Policy will be approved by the Board of Directors.

- Operational Risk

Operational risk arises due to errors in processes, frauds and unforeseen natural calamities/ events. Though the occurrence of such instances could be less, the impact in value terms could be significant.

Operational risk will be managed through sound operational processes, robust IT systems and back-up plans that help minimize errors and fraud occurrence.

A fraud prevention and control team shall manage fraud-related risks through fraud prevention and through recovery of fraud losses. It will evaluate and screen various external agencies involved for facilitating the business.

- Money Laundering Risk

The Audit Committee shall have oversight on the Anti-Money Laundering (AML) initiatives of the Company. The AML Policy and framework shall be put in place, in line with the statutory/ regulatory requirements. Pursuant to the AML Policy, adequate Know Your Customer (KYC) procedures shall be framed for identification and verification of customers of different business groups and for monitoring/ reporting of suspicious transactions. The Company shall appoint a senior level officer as the Principal Officer (PO)/ Money Laundering Reporting Officer (MLRO) who has the executive responsibility for monitoring day-to-day implementation of the AML Policy and Procedures.

- Regulatory Compliance

The designated Compliance Officer shall ensure that all regulatory guidelines are disseminated across the Company and are adhered to. He shall also have the responsibility of coordinating the regulatory audits and correspondence with the regulatory authorities.

- Credit Concentration Risk

The Company shall endeavour to spread the business across different customer profiles, programmes and product segments. The business mix would be governed by stipulated distribution as provided in the Credit Policy which would be reviewed periodically.

The Company shall ensure adherence with the credit concentration norms prescribed by Reserve Bank of India.

- Legal Risk

FCL shall have standardized documentation for various business purposes which shall be approved by the group Legal Department. If required, opinions will be sought from internal and external legal counsel.

- Reputational Risk

Reputational risk could be defined as the risk of potential damage to any enterprise owing to deterioration of its reputation and/or standing because of negative perceptions of the Company's image among its different stakeholders, namely, its customers, employees, shareholders, suppliers and regulatory authorities.

It may arise when some incident leads to reputation damage due to various factors including mis-selling, adverse media campaign, unfair trade practices, regulatory action, liquidity issue, etc.

To manage this risk, the Company shall, inter alia, ensure the following:

- All media communications would be handled by the group corporate communication team.
- Timely response to statutory/ regulatory queries/ requirements.
- Training of employees and FOS,
- Respond to the customers' queries and needs within committed turn-around time.

**Be vigilant to customers/ stakeholders/ media feedback (including social media) and take quick remedial actions.**

#### RISK APPETITE

A key step in the effective risk management of an organisation is to gain a good understanding of its appetite towards risk. An organisation considers its circumstances and the demands placed upon it by various stakeholders. To meet these competing demands, senior management and the Board need to set out a clear risk appetite statement and put in place a framework to both measure and monitor performance against this statement.

Risk appetite is as much about enabling an organisation to take on calculated risks in pursuit of its objectives and long-term strategy as it is about placing constraints on activities and the level of risk being borne on a daily basis. In an environment where risk is minimised, the earning potential of the organisation may be restricted. Of course, if risk is not closely monitored and understood there can be even more undesirable consequences. Risk appetite, as often described, is an upper amount of risk an organization is prepared to accept and is often viewed as something relatively fixed and driven by goals. The idea is that each risk is quantified in some way and then compared with the risk appetite. If the risk falls within the appetite, then no action is needed. If the risk is higher than the appetite, then controls must be added until it is within the appetite.

#### Definition

The risk appetite is the risk that an organization would want to take in pursuit of value. Risk appetite is a function of the organisation's capacity to bear risk and of its attitude towards risk. Risk appetite can also be viewed as assigned or allocated risk capacity. Some components of the risk appetite can be quantified accurately with proven risk models while others are based on more subjective and qualitative evaluations.

#### Need for Risk Appetite

Setting up a robust risk appetite statement helps achieve the following objectives:

- Clear alignment of risk appetite within Senior Management
- Having a common language of risk in the organization
- Better understanding of risk measures
- Better understanding of the main risk drivers and risks across the organization
- Better prioritization of the risks across the organization

#### Key Questions to Consider When Setting Risk Appetite

Consideration of the following questions will be of help when considering how to express risk appetite: When setting risk appetite, have the following been considered

- investor expectations
- the financial strength of the organisation
- the attitude to risk taking by the senior management
- the proposed business plan, including risk classes and exposures, taking account of:
  - the range of expected performance
  - minimum legal and regulatory requirements
- Is the expression of appetite clear in respect of what risks you are willing to accept and what risks are you unwilling to accept
- Has risk appetite been communicated in a way that is readily understood by managers and staff
- How are you measuring performance against stated risk appetite
- Does the measurement and reporting of risk relate to stated risk appetite
- What limits or thresholds are most relevant for each risk and control

#### DEFINING RISK APPETITE AT FCL

Guiding principles followed while defining the Risk appetite statement for Fynx are as follow:

- **Growth and profitability** - To meet shareholder demands for stable earnings. If the organization has aggressive growth targets the organization's appetite for risk could also be higher. The financial objectives for an organization may range from profitability indicators, earnings stability, return on assets and stock price.
- **Regulatory and Compliance** - To ensure regulatory and compliance risks are well covered and captured
- **Risk return Trade off** - To manage trade-off of increased risks vs. potential for high earnings/ growth. It allows organization to attribute capital to cover the economic effects of risk-taking activities
- **Reputation** – To strengthen the trust and confidence of the major stakeholders, which serves to bolster competitiveness and business value.
- **Ensuring organisation robustness** -To make the organisation robust to absorb unexpected event and losses

#### Framework to Formulate Risk Appetite Statement

Risk appetite tends to be defined using a combination of quantitative and qualitative measures. An organization can develop its risk appetite by employing the top down or the bottom-up approach. Typically, a top-down

approach is preferred and setting the risk appetite starts from an analysis of the business strategy of the organization.

The Risk Appetite Statement has been developed in the following manner:

**Step 1:** Analysis of key risk principles to be considered for development of the Risk Appetite Statement

**Step 2:** Preliminary assessment of stakeholder expectations, including shareholders, employees, customers and regulators.

**Step 3:** Detailed discussions with the Board and Senior Management to develop and define the Organisational Level Risk Appetite Statement

**Step 4:** Detailed discussions with the Business Heads to develop and define the business unit level Risk Appetite Statement. This is done by cascading the organisational level Risk Appetite Statement to the business unit level (top-down approach)

**Step 5:** Selection and finalisation of risk dimensions of the Risk Appetite Statement. The risk dimensions can include Profitability, Earning Stability, Capital Adequacy, Credit Risk, Operational Risk, Concentration Risk, Compliance Risk, etc.

**Step 6:** Selection of key risk metrics under each risk dimension and determination of the risk appetite and tolerance levels for each metric.

## APPLICATIONS OF RISK APPETITE STATEMENT

Apart from the area of risk governance, the risk appetite statement can also be used in:

Strategy setting:

Risk appetite and tolerance definitions acts as a balancing act as an organization's

- stakeholders may have varying philosophies on how much risk should be pursued or retained
- The approved risk appetite statement helps businesses to understand how much their balance sheets can grow and the types of risk they are allowed to assume in pursuing their operating plan.
- The businesses should build their operating plans (both base case and stress scenarios) in the context of the RWA allocations they've been given and the other qualitative and quantitative risk metrics within which they are expected to operate.

Business Planning & budgeting:

- Risk Appetite acts as a key reference point for senior executive decision-making committees
- The desired risk appetite helps facilitate business portfolio decisions based on a comparison of risk-return profiles

Capital allocation:

- Fynx should undertake periodic reviews as part of the risk appetite reporting to Analyse capital adequacy under different scenarios
- This would help the organisation in choice of appropriate capital targets and allocate capital more judiciously

Setting Limits framework:



- Risk Appetite Statement is cascaded to risk taking at lower levels of the organisation to ensure that aggregate risks are within appetite.
- Risk appetite should be supported with Concentration frameworks to provide protection to the organization from Earnings loss and/or headline risk arising from concentrations to single names, geographies, etc.
- Proposed operational limits should be guided from the thresholds proposed and approved by the board as part of the Risk Appetite Statement
- Proposed Risk Appetite at the organization level

The proposed Risk appetite for the organization has been finalized to consist of the below mentioned metrics post discussions with relevant stakeholders.

1	Capital Adequacy	Total Capital Adequacy Ratio	Regulatory Driven Forward looking metric to track organization's robustness
		Tier 1 capital	

2	Earnings	Return on Equity (ROE) Defined as: (PAT / Average Net-worth)	Measures return on equity
		Asset Turnover Ratio Defined as: (Total Revenue / Average AUM)	Topline metric tracking overall efficiency of asset utilization to generate revenue
		Return on Assets (ROA) Defined as: (PAT / Average Total Assets Under Management)	Primary bottom-line metric tracking profitability
3	Profitability	Net Interest Margin (NIM) without other income Defined as: ((Total Interest Income – Interest Expense) / Average AUM)	For tracking organizations performance on two major cost components: Finance and operational costs
		Net Interest Margin (NIM)- with other income	

		Defined as: (Net revenue / Average AUM)	
		<b>Opex as % of AUM (excl. Brokerage)</b> Defined as: (Operational expenses) / Average Assets under Management	
4	<b>Credit Risk</b>	<b>Stressed Assets as % of AUM</b> Defined as: (60+ DPD assets* / Total Assets under Management (AUM))	Tracks the portfolio health on an ongoing basis
		<b>Net NPA as % of Net worth</b> Defined as: (Net NPA/ Net- worth)	Tracks preparedness of organization for absorbing losses
5	<b>Concentration Risk</b>	<b>Exposure to unsecured lending as % of total outstanding</b>	Aims to strike the risk return trade off balance
6	<b>Credit Rating</b>	<b>Maintaining External Credit Rating</b>	Important for overall brand and competitiveness

7	<b>People Risk</b>	<b>Attrition Rate</b>	Tracks the people, process, system related issues of the organization
8	<b>Compliance</b>	<b>Regulatory breaches</b>	
9	<b>Volatility of Earnings</b>	<b>Interest rate risk</b> Increase in weighted average cost of funds	For tracking the increase in average cost of funds

10	<b>Liquidity</b>	<b>Liquidity Coverage Ratio</b> 1) Undrawn bank lines/ Net cash outflows for the next 30 days 2) Stock of HQLA / Total net cash outflows for next 30 days HQLA is defined as: Liquid assets that can be readily sold or immediately converted into cash at little or no loss of value or used as collateral to obtain funds in a range of stress scenarios Regulatory benchmark from Dec 1, 2020: 50%, Dec 1, 2021: 60%	For tracking the liquidity with respect to the cash outflows
		<b>Cumulative liquidity mismatch</b> Regulatory benchmark 15%	For monitoring regulatory benchmark
		<b>Single lender concentration</b> Maximum % of contribution of a single lender	For tracking the single lender concentration
11	<b>Operational</b>	<b>RCSA control failure</b> % of Control fails in testing during quarterly RCSA exercise	For tracking the effectiveness of existing controls
		<b>Operational Loss</b> Operational losses (including fraud losses) % Net Revenue (month wise cumulative)	Tracking the operational losses

		<b>Uptime of Critical (Core) IT systems</b> Uptime of Critical IT systems (Excluding scheduled downtime)	Monitoring the uptime of critical IT systems
		<b>IT Continuity</b> Number of unsuccessful/ incomplete DR tests	For monitoring the IT continuity preparedness through successful DR tests
		<b>Attrition rate</b> Attrition rate in GM and above in last one year	Tracking the attrition rate of the organization
		<b>Audit reports</b> % of failed audit reports in last 12 months	For tracking the percentage of failed audit reports in last 1 year

1 2	Reputati on	<b>Breaches in regulatory reporting</b> Number of delays in regulatory reporting/ submission in last recorded quarter	Delays if any in regulatory reporting / submission
		<b>External audits</b> Number of overdue major audit findings (all external audits)	Tracking major overdue audit findings
		<b>Major monetary fines</b> Number of monetary fines in last recorded quarter	Monitoring the fines imposed on the organization
		<b>Training completion</b> % of all employees (with a tenure more than 90 days) who have completed mandatory trainings	Tracking the status of completion of mandatory training by employees
		<b>Customer complaints</b> % of genuine customer complaints to customer base	For tracking the actual customer complaints

The above proposed RAS has been further cascaded down to the individual business units by:

- Calibrate metric selected for RAS for different BU's
- Identify metrics particular to each BU
- Reconcile calibrated RAS to org level RAS

#### Monitoring of Risk Appetite Statement

Fynx should assess performance in terms of its compliance with the proposed risk appetite. Performance with respect to the compliance with the proposed thresholds should be tracked on a periodic basis and should be put up for discussion with top management as part of the RMC agenda. Risk Management Dept. would be responsible for publishing the compliance report with the proposed thresholds on a periodic basis

#### Governance and Review of Risk Appetite

The Risk Appetite is arrived at taking into consideration the risks faced at the Business Unit level and at the overall Organisational Level. Hence, it is the responsibility of all levels of the organisation to implement and actively monitor the various components of the Risk Appetite Statement.

The overall governance of the Risk Appetite Statement should rest with the Risk Management Committee and with the Fynx Board of Directors.

A yearly review of the Risk Appetite Statement is to be done.

#### Responsibilities of the Board in Setting up Risk Appetite

- The Board is responsible for setting and approving the overall risk appetite of the organization. The organization's risk appetite statements should be comprehensive and include appropriate risk limits that are consistent with one other.
- In setting the risk appetite, the Board should ensure that all risks relevant to the organization are taken into account, including those that are less quantifiable (e.g. reputation risks).
- The tone of the risk appetite statement should match the nature and complexity of the organization.
- During the process of evolving the Risk Appetite statement the Board should:
  - assess qualitative and quantitative aspects that impact both the financial and non- financial elements of all relevant risks,
  - set up/approve individual risk limits for quantifiable risks
  - determine the aggregate level of risk exposures that the organization is willing to assume
  - assess current economic and competitive environment and its impact on the organization
  - establish a link between the stress tests and risk appetite
- The Board should approve any changes to the organization's risk appetite statements. The justification for change should be adequately documented

#### Responsibilities of Executive Management in implementing the Risk Appetite

- The management should ensure that the risk management framework is implemented throughout the organization and the risk appetite is percolated to each level
- The management should ensure that the Board is satisfied with Risk Management initiatives regarding monitoring of the Risk Appetite.
- The management should make regular presentations to the Board, regarding:
  - risk metrics in use as set by the risk appetite
  - status of risk limits vis-a-vis tolerance levels set by the risk appetite
  - risk capacity of the organization in terms of economic capital required to meet its current and future business objectives
  - Current economic scenario and its impact on the risk appetite of the organization, along with the need to revise it.
- The actions that management has taken in cases the risk limits were breached.

#### Responsibilities of the Risk Managers in implementing the Risk Appetite

- Determine the risk profile of the organization periodically
- Monitor the risks in line with risk limits
- Report any limit breaches by following the prescribed escalation matrix
- Responsible for generating management information system

### RISK ARCHITECTURE & GOVERNANCE

#### Risk Governance

Typically, the risk management department has co-jurisdiction over IRM. The risk management department is responsible for setting up the appropriate risk control mechanism, quantifying and monitoring risks, and responsible for allocating risk capital to business units after assessing return.

Though it is the risk management department that is primarily responsible for IRM, it is also the responsibility of everyone within the organisation, across levels and businesses. All decisions and actions of the management and employees should take into account the risk perspective.

#### Key Responsibilities

Independent Control Functions	Key Responsibilities
-------------------------------	----------------------

<b>Board of Directors</b>	Approve the risk appetite framework for the organization and discuss with executive management about prevailing risks
<b>Executive Management</b>	<ul style="list-style-type: none"> <li>• Define and monitor risk appetite statement</li> <li>• Evaluate strategies/ action based on findings</li> </ul>
<b>Risk Management Department</b>	<ul style="list-style-type: none"> <li>• Create a common risk framework</li> <li>• Provide direction on applying framework</li> <li>• Implement and monitor risk management frameworks</li> <li>• Define risk metrics and risk KPIs across all stakeholders*</li> <li>• Prevention of conflict of interest*</li> <li>• Provide timely risk-related information*</li> </ul>
<b>Business Units</b>	<ul style="list-style-type: none"> <li>• Identify and assess risks</li> <li>• Monitors risk</li> <li>• Respond to risks</li> </ul>
<b>Internal Audit</b>	<ul style="list-style-type: none"> <li>• Independent review of effectiveness of the risk management practices</li> <li>• Evaluate controls and risk response plans for significant risks and enforce corrective action where necessary</li> </ul>

\*Compliance team shall conduct these audits and the findings would form part of Risk Management's report

## RISK GOVERNANCE STRUCTURE

The organisational set-up for risk management under the governance structure presented below is aligned to good corporate governance practices. The structure is independent of the risk management section such that it is not biased by consideration of profits or performance evaluation.

**Fynx's                      Risk                      Governance                      Structure**

## ROLES AND RESPONSIBILITIES OF COMMITTEES

The roles and responsibilities of the above Committees are given below:

<b>Risk Management Committee of Board</b>	
<b>Department Structure</b>	Reports to the Board of Directors

<b>Role</b>	<ul style="list-style-type: none"> <li>• Review and recommended to the Board on a regular basis the risk management policies recommended by Credit Risk Management Committee (CRMC), Asset Liability committee (ALCO) and other policies concerning credit risk, market risk</li> <li>• Final approval of risk management processes and framework</li> <li>• Approval of risk management governance structure at Fynx</li> <li>• Defining the risk appetite of Fynx</li> <li>• Approval of revision in existing systems, policies and procedures to address risk management requirements and good practices</li> <li>• Considering the overall risk management framework and reviewing its effectiveness in meeting sound corporate governance principles and identifying, managing and monitoring the key risks of the Group</li> <li>• To oversee and monitor PFL's compliance with regulatory capital requirements</li> <li>• Obtain on a regular basis reasonable assurance that Fynx's risk management policies for significant risks are being adhered to</li> <li>• Evaluate, on a regular basis, the effectiveness and prudence of senior management in managing the risks to which Fynx is exposed to</li> <li>• Approve delegation of risk limits to management and approve any transactions exceeding those delegated authorities</li> <li>• Review risk reporting on significant risks, including the amount, nature, characteristics, concentration and quality of the credit portfolio, as well as all significant exposures to credit risk through reports on significant credit exposure presented to the Committee</li> <li>• Review risk mitigation plans on significant risks which affects policy or procedure level changes for effective implementation</li> </ul>
<b>Composition</b>	<ul style="list-style-type: none"> <li>• As per applicable law</li> </ul>
<b>Agenda and Meeting Frequency</b>	<ul style="list-style-type: none"> <li>• Overall Portfolio Review</li> <li>• Credit Policy / Process &amp; other relevant policies formulation, Review and Updates</li> <li>• Update on Action Items</li> <li>• Other notable items</li> <li>• Meeting to be held quarterly</li> </ul>

<b>Asset Liability Management Committee</b>	
<b>Department Structure</b>	<ul style="list-style-type: none"> <li>• Reports to the Board of Directors</li> </ul>

<b>Role</b>	<ul style="list-style-type: none"> <li>• Product pricing for advances</li> <li>• Deciding on desired maturity profile and mix of incremental assets and liabilities</li> <li>• Articulating interest rate view of PFL and deciding on the future business strategy</li> <li>• Reviewing and articulating funding policy</li> <li>• Reviewing economic and political impact on the balance sheet</li> <li>• Ensuring adherence to tolerance/ risk limits set by the Board of Directors</li> <li>• Ensuring market risk management processes in terms of changes in interest rate &amp; liquidity</li> <li>• Reviewing and approving policy level changes if any</li> <li>• Other notable items</li> </ul>
<b>Composition</b>	<ul style="list-style-type: none"> <li>• As per applicable law</li> </ul>
<b>Agenda and Meeting Frequency</b>	<ul style="list-style-type: none"> <li>• Overall Portfolio Review</li> <li>• ALM Policy/Securitization &amp; Assignment Policy/Investment Policy &amp; other relevant policies if any for Review and Updates</li> <li>• Update on Action Items</li> <li>• Other notable items</li> <li>• <b>Meeting to be held quarterly</b></li> </ul>

<b>Credit Risk Management Committee</b>	
<b>Department Structure</b>	<ul style="list-style-type: none"> <li>• Reports to the Board RMC</li> </ul>
<b>Role</b>	<ul style="list-style-type: none"> <li>• Identifies and manages credit risk inherent in all products and activities</li> <li>• Review of current portfolio health versus defined guardrails and cascaded limits</li> <li>• Governance of pan-India branch risk rating and associated action points</li> <li>• Ensures risks of products and activities new to the organization are subject to adequate procedures and controls before being introduced or undertaken</li> <li>• Responsible for approving change in credit policy/ associated credit processes based on recommendations/ observations from National Policy Head</li> <li>• Ensures credit risk mitigation action points are properly documented, updated and actioned</li> <li>• Formulates key agenda items from a credit perspective to be discussed in RMC</li> </ul>



<b>Composition</b>	<ul style="list-style-type: none"> <li>• Chief Executive Officer</li> <li>• Chief Credit Officer</li> <li>• National Business Head</li> <li>• National Policy Head</li> <li>• National Underwriting Head</li> <li>• National Product Head</li> <li>• National Collection Head</li> </ul>
<b>Agenda and Meeting Frequency</b>	<ul style="list-style-type: none"> <li>• Overall Portfolio Review</li> <li>• Credit Policy /Process Review and Updates</li> <li>• Update on Action Items</li> <li>• Other notable items</li> <li>• Meeting to be held monthly</li> </ul>

## RISK MANAGEMENT POLICY & PROCESS

### Risk Policies

Risk management policies and procedures shall be developed using a top-down approach to ensure that they are consistent with one another and appropriately reflect the strategic objectives and the overall risk appetite of the institution. This means that corporate risk management policies and procedures are endorsed by senior management who shall actively work towards infusing them into the culture of Fynx. The risk management policies and procedures shall be applicable to all the products and services offered by Fynx, including existing as well as future products and services.

Risk management policies and procedures shall provide detailed guidance on Fynx's risk management approach. They clearly communicate how the risk management infrastructure will work on a daily basis with respective roles, responsibilities and accountabilities towards risk management. Given the importance of policies and procedures it is critical that different departments within Fynx work collaboratively to develop them to ensure that they encompass all aspects of risk management.

List of sub-policies of Integrated Risk Management Policy:-

- Credit Risk Management Policy
- Market Risk Management Policy
- Asset Liability Management Policy
- Operational Risk Management Policy

Governing Risk Policies and Processes should cover all the above-mentioned aspects. Separate policies for each of these risk dimensions is to be formulated, in addition to the IRM Policy.

An ideal set of risk management policies are:

- Comprehensive, covering all the potential risks that the financial institution is exposed to
- Approved by the Board
- Policies define risk acceptance criteria, credit approval authority, credit origination/ maintenance procedures and guidelines for portfolio management
- Board approved policies are communicated to branches/controlling offices

### Risk Processes

Risk shall be managed through a proactive approach which shall be built into the risk management process and shall be ensured through periodic reviews and reviews contingent on information made available towards setting risk limits, monitoring etc.

An ideal Risk Process contains:

- Processes that are well defined and exhaustive (from customer on boarding to collection & recovery) for each of the products offered
- Processes that are properly documented and provided to team members across the process value chain
- Clearly defined roles & responsibilities for each process owner to avoid overlaps/conflict of interest
- Well defined processes to capture all deviations
- Processes for each product should be reviewed and modified to mitigate the potential areas of conflict
- The Risk Management Dept. should have greater control and accountability over parts of the credit process having risk implications viz. credit decisioning, post disbursement monitoring & collections
- Loopback of findings from collections, recovery and hind sighting process should be used to increase efficacy of origination.

#### Risk Reporting

A Risk Management Information System (MIS) is a key component of the Risk Management infrastructure. The risk MIS for each department and customer should be credible, regular and useful to business management. An efficient risk reporting process is the foundation for clear and timely communication of risk across an enterprise. Risk reports shall be produced and distributed to many individuals and businesses. Risk reporting within the organisation should be holistic and at intended intervals across the reporting hierarchy. Many risks that are managed at the desk level must be summarized in order to create meaningful information for management.

The guiding principles for risk reporting are:

- Coverage of all risk types, products, business lines, legal entities and geographical areas
- Extensive but not excessive information, technically advanced but understandable by intended audience with actionable insights
- Combination of daily, weekly and monthly reports, providing foundation for quarterly and annual summaries
- Ability to generate intraday/ instant on-demand reports
- Wide vertical and horizontal coverage - both to supervisory and collaborating functions, for all relevant product and business areas across physical locations
- Coverage of all existing regulatory and external reporting requirements
- Risk reporting framework should be formalized, all data dimensions and data sources should be captured
- Risk reports should have drill down capabilities
- Should Identify business and risk owners for smooth data capture, collation & analysis
- Reports should use relevant market information/ external data sources
- Report outputs should provide actionable insights.

Page11

Page12

Page13

Page14

Page15

Page16

Page17

Page18

Page19

Page20

Page21

Page22