“RISK MANAGEMENTPOLICY”

RAPID INVESTMENTS LIMITED

"RISK MANAGEMENTPOLICY"

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1. 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 Rapid Investments Limited , which will enable it to assess, manage and mitigate risks arising out of its business.

The IRM policy will assist Rapid Investments Limited 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

Rapid Investments Limited 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, Rapid Investments Limited 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.

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 Rapid Investments Limited . Integrated Risk Management Policy can be considered as umbrella policy for all other risk related policies.

2. PRINCIPLES OF INTEGRATED RISK MANAGEMENT:

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

- Risk management must create and protect value
- Risk management is integrated into organisational processes.

- Explicit risk management helps decision-makers make informed choices.
- Risk management is focused on the sources of uncertainty around the achievement ofobjectives
- Risk management must be tailored to the context and fit for purpose
- Risk management is dynamic, iterative and responsive to change.

3. 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 Rapid Investments Limited for measuring risk
- Assist Rapid Investments Limited 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 Rapid Investments Limited an objective mechanism for evaluating risk against business objectives, strategies and risk tolerances

Applicability

- This Policy governs Integrated Risk Management at Rapid Investments Limited
- This Policy will become applicable to Rapid Investments Limited on the date it is approved by the Board of Directors of Rapid Investments Limited .
- 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 Rapid Investments Limited.
- The Policy shall supersede all previous policies, Board mandates or guidelines issued by any authority within Rapid Investments Limited 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 Rapid Investments Limited Board of Directors

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. Request 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 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.

4. OVERALL IRM FRAMEWORK:

The overall IRM Framework for Rapid Investments Limited 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)

TYPES OF RISKS

1. 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 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.

2. 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 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.

3. 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.

4. 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 Officer appointed by the Company shall have the executive responsibility for monitoring day-to-day implementation of the AML Policy and Procedures.

5. 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 co-ordinating the regulatory audits and correspondence with the regulatory authorities.

6. Credit Concentration Risk

The Company shall endeavour to spread the business across different customer profiles, programmes and product segment. 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.

7. Legal Risk

Rapid Investments Limited shall have standardized documentations 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.

8. ReputationalRisk

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:

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

5. 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, 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 alsobe 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

DEFINING RISK APPETITE AT Rapid Investments Limited

Guiding principles followed while defining the Risk appetite statement for Rapid Investments Limited are as follow:

1. **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.

2. **Regulatory and Compliance** - To ensure regulatory and compliance risks are well covered and captured

3. **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

4. **Reputation** – To strengthen the trust and confidence of the major stakeholders, which serves to bolster competitiveness and business value.

5. **Ensuring organisation robustness** -To make the organisation robust to absorb unexpected event and losses

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

6. RISK GOVERNANCE& RESPONSIBLITIES:

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

Primary Responsibilities	Functions
Board of Directors	• Approve the risk appetite framework for the organization and discuss with executive management about prevailing risks
Executive Management	• Define and monitor risk appetite statement • Evaluate strategies/ action based on findings
Risk Management Department	• Create a common risk framework • Provide direction on applying framework • Implement and monitor risk management frameworks • Define risk metrics and risk KPIs across all stakeholders • Prevention of conflict of interest • Provide timely risk-related information
Business Units	• Identify and assess risks • Monitors risk • Respond to risks
Internal Audit	• Independent review of effectiveness of the risk management practices • Evaluate controls and risk response plans for significant risks and enforce corrective action where necessary

7. ROLES AND RESPONSIBILITIES OF RISK MANAGEMENT COMMITTEE:

Department Structure

Reports to the Board of Directors.

Role

- Review and recommended to the Board on a regular basis the risk management policies.

- Final approval of risk management processes and framework

- Approval of risk management governance structure at Rapid Investments Limited

- Defining the risk appetite of Rapid Investments Limited

- Approval of revision in existing systems, policies and procedures to address risk management requirements and good practices

- Considering the overall risk management framework and reviewing its effectiveness in meeting sound corporate governance principals and identifying, managing and monitoring the key risks of the Group

- To oversee and monitor Rapid Investments Limited ’s compliance with regulatory capital requirements

- Obtain on a regular basis reasonable assurance that Rapid Investments Limited ’s risk management policies for significant risks are being adhered to

- Evaluate, on a regular basis, the effectiveness and prudence of senior management in managing the risks to which Rapid Investments Limited is exposed to

- Approve delegation of risk limits to management and approve any transactions exceeding those delegated authorities

- 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

- Review risk mitigation plans on significant risks which affects policy or procedure level changes for effective implementation

Composition

As per applicable law

Agenda and Meeting Frequency

- Overall Portfolio Review
- Credit Policy / Process& other relevant policies formulation, Review and Updates
- Update on Action Items
- Other notable items
- Meeting to be held quarterly

8. 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 Rapid Investments Limited. The risk management policies and procedures shall be applicable to all the products and services offered by Rapid Investments Limited , including existing as well as future products and services.

Risk management policies and procedures shall provide detailed guidance on Rapid

Investments Limited '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 Rapid Investments Limited work collaboratively to develop them to ensure that they encompass all aspects of risk management.

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 pro-active approach which shall be built into the risk management process and shall be ensured through periodic reviews and reviews contingent of 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.