ORRISH FINANCE PRIVATE LIMITED

RBI REGISTERED NBFC

REGISTRATION NO. B-03.00208

RISK MANAGEMENT POLICY

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RISK MANAGEMENT COMMITTEE

1. Preamble :

Orrish Finance Private Limited is a Non-Banking Finance Company Non-Deposit Taking Non Systematically Important classified as NBFC-Base Layer as per Scale Based Regulation, 2023 holding valid COR since 2020

The Board of Directors (“**Board**”) of Orrish Finance Private Limited (“**Company**”) has adopted the Risk Management Policy (“**Policy**”) and constituted Risk Management Committee (“**RMC**”), which encompasses practices relating to identification, assessment, monitoring and mitigation of various risk to business.

2. Purpose

This policy has been framed in accordance with provision of ***Scale Based Regulation, 2023*** issues by Reserve Bank of India, Master Direction – Reserve Bank of India (Non-Banking Financial Company –Scale Based Regulation) Directions, 2023 dated October, 2023 as amended from time to time.

The purpose of this policy and RMC is to address unanticipated and unintended losses to the financial assets and resources of the company. Due to various risk of NBFC efficient and timely management of such risk is very essential to the survival and growth of the NBFC.

3. Risk Management Committee

(1) Composition of RMC

This Committee will be responsible for the identification and measurement of the risk and also taking suitable measures to prevent the occurrence of such risks.

RMC is empowered by the Board to manage the risk in the company and its manages the same through oversight of risk management functions and laying down risk measurements and risk mitigation.

- RMS shall comprise at least two directors of the board and COO of the company.
- CEO and CFO would be permanent invitees to RMC meetings
- The chairman of the RMC will be the Executive Director of the company.

(2) Frequency of the Meeting

RMC shall meet at least once in the quarter and its finding shall be presented to the board in the subsequent board meeting.

(3) Roles and Responsibility of RMC

- Recommend to the board for its approval / review of the policies, strategies, and associated framework for the management of risk.
- To identify area and type of various risk involved in the business
- To suggest the risk quantification method
- To mitigate and control various type of risk involved.

- To specify risk appetite or risk bearing capacity of the company
- To ensure concurrent review of Risk Matrix of the company
- To monitor non-compliance and regulatory / audit findings with respect to risk management.
- To ensure regulatory compliance on risk management and prudential norms prescribed by RBI.
- To improve the asset quality of the company.

4. Various Type of Risk

I. Strategic Risk: This risk is related to overall business strategies and the related business vertical, geographical area, business environment, outsourcing activities.

II. Operational Risk: date to day business operations, technology failures, fraud, theft, storage and security, human errors or omissions, inadequate financial capacity.

III. Market Risk : Risk related to changes in market conditions in which company is operations.

IV. Financial Risk : These risks includes movement in interest rates, liquidity risks, credit risks and political risk.

V. Credit and Concentration Risk : Credit risks incudes loss due to counterparty default in or failure of timely payment and loss due to a rating-downgrade. Concentration Risk is the risk to the company due to a very high credit exposure to a particular business segment, industry, geography, location, etc.

VI. Regulatory and Compliance Risk : non adherence to statutory and regulatory compliances, corporate governance, privacy leads towards Compliance risk.

VII. Human Resources Risk : Employee related factors, workplace safety and security, compensation.

VIII. Reputation Risk : Where the practices followed by the Company are not in consonance with industry as well as internally prescribed standards.

5. Risk Categories and Mitigation Factor

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

A. Strategic Risk

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

B. Operational Risk

Documents Storage and Retrieval – The Company shall maintain all original documents at a dedicated space allocated for specific purpose.

The Company shall store the scanned copies of the loan documents, statutory documents / papers / certificates, KYCs of all employees including Directors, KYCs of all customers for easy retrieval especially for audit purposes where physical documents are not required.

The Company shall encourage all its employees to report any instances or suspected instances of violation of the Code, malpractice, corruption, fraud or unethical conduct, leakage or suspected leakage of Unpublished Price Sensitive information of the Company.

Internal Audit at branch offices shall be carried out periodically by internal audit team of operations. Internal Audit at the Head Offices shall be carried out on a quarterly basis by an independent audit firm appointed by the Board. The scope of this Internal Audit shall cover all key functions including HR, Operations, Credit, Administration, Finance and Accounts. All significant audit observations of Internal Audits and follow-up actions shall be presented to RMC.

The Company has been ahead of other similarly placed NBFCs in adoption of a fully computerized environment for conducting its business operations. Redundancy of leased lines / broadbands for data transmission will be provided at each branch office and Head office. The adequacy of the bandwidth of the leased line / broadband will be reviewed periodically and upgraded as per need. Company should host its database on cloud and take services of data security team expert in data security and management. Only authorized personnel will have access to the data base. Scope to tamper or alter the database will be eliminated through controls. A secured system of access control, both on-site and remote, including password management and secrecy will be in place and reviewed periodically. A regular 'system audit' will be conducted to cover both hardware and software and the irregularities immediately addressed. An efficient system to report and manage IT incidents and problems will be in place across the network of branch offices.

C. Market Risk

Management shall regularly review its business model including area of operations, and prospective area of operations. Management shall carry out regular competitive analysis of its peers in the industry on macro level and in the area of operation on Micro level, so as to remain in competition and change its market if required.

D. Financial Risk

Interest Rate 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 company's earnings by changing its Net Interest Income (NII). The Company shall manage 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 shall be done at the time of deciding rates to be offered to customers. Once interest rate risk is measured, lending rates shall be finalized. Given the interest rate fluctuation, the Company shall adopt a prudent & conservative risk mitigation strategy to minimize interest risk.

Liquidity 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 / Committee shall 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 shall be adopted as a standard tool. Due to the high reliance on external sources of funds, Company may get exposed to various funding and liquidity risks comprising:

- 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 skewed maturity profile of liabilities and resultant Asset-Liability mismatch. Board / Committee should meet regularly to identify any short term / long term liquidity gaps and thereby takes immediate steps and corrective action to bridge the gap.
- Market Perception Risk - Due to inherent industry characteristics, the Company may get exposed to perception risks, which can lead to decline in ability of a lender to increase exposure to the Asset Finance and MSME sector and result lack of adequate and timely inflow of funds. The exposure profile to the lenders shall be regularly updated to ensure that skewness does not creep in in respect of the sources of external funds
- Leverage Risk - A high degree of leverage can severely impact the liquidity profile of the Company and lead to default in meeting its liabilities. Company shall target a leverage between 5x to 6x in light of the business model and adequately safeguard itself against the impact of adverse market conditions. It also affords Company reasonable time to tie-up timely equity infusion. Company shall target to maintain healthy levels of capital adequacy. The Company shall maintain a strong capital position with the capital ratios well above the thresholds defined by the regulatory authorities through continuous and timely capital infusion.

E. Credit and Concentration Risk

Credit Risk:

Any lending activity by the Company may get exposed to credit risk arising from repayment default by customers. 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 may not be able to realize the full value of its financial assets or there could be delayed in realizing such value. Any such losses could adversely affect the Company's financial condition and results of operations. There can be a significant loss due to a rating-downgrade.

A strong credit risk management process will help 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.

Portfolio Concentration 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.

Company shall maintain a diversified exposure across various sectors and geographies 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. Various 3rd party verifications shall also be carried out to secure credit facilities.

F. Regulatory and Compliance Risk

The company may get 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. 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:

- Non-Compliance with RBI Regulations
- Non-Compliance with Statutory Regulations
- Non-Compliance with SEBI Regulations
- Non-Compliance with covenants laid down by Lenders

The Company shall implement a Compliance Management System within in the organization to track, update and monitor compliances.
Internal Audit shall also be conducted on a quarterly basis wherein all regulatory compliances will get reviewed in detail.
Quarterly compliance certificate certified by the CEO and legal firms on boarded for compliance shall be submitted to the Board on quarterly basis.

G. Human Resource Risk

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 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.
Various programs and initiatives shall be carried out by the HR to retain talent and motivate them on a regular basis.

H. Reputation Risk

Reputation 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, and the customers. These risks can be:

- Non-Compliance with Regulations
- Customer Dissatisfaction
- Misrepresentation of facts and figures in public

Considering the business model the following aspects shall put in place to reduce vulnerability related to reputational risk.

- Compliance with Fair Practice Code
- Grievance Redressal Mechanism
- Delinquency Management
- Stringent Selection Criteria
- Legal Obligations

6. Responsibility

Responsibility for risk management shall be shared across the organization. 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 risk.

- The Board shall be responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented an effective risk management framework.
- The Risk Management Committee shall assist the Board in overseeing the Company's risk profile and shall be responsible for overseeing management's actions in the identification, management and reporting of material business risks.

7. Amendments:

This policy may be amended subject to the approval of ***Board of Directors***, from time to time in line with the business requirement of the Company or any statutory enactment or amendment thereto.