# RISK MANAGEMENT POLICY

Non Banking Financial companies (NBFCs) form an integral part of the Indian financial system. NBFCs are exposed to several major risks in the course of their business like operational risk, credit risk, liquidity risk, interest rate risk, , Compliance Risk, Strategic Risk etc. Being a NBFC, KLM Axiva Finvest Limited is required to ensure that a proper policy framework on Risk Management System is implemented to reduce the risk. Managing risk is fundamental and is the key to sustained profitability and stability. This policy document has been prepared in line with the RBI guidelines and will be reviewed by the Board. The various risks and mitigation strategies of the company are as follows;

## CREDIT RISK

A credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments.Loss of interest income and the Company's inability to recover of the principal amount of the loan disbursed to its customers are the major types of credit risks.

Unlike several developed economies, a nationwide credit bureau has only become operational in India in 2000, so there is less financial information available about individuals, particularly our focus customer segment from the low to middle income group who typically have limited access to other financing sources. It is therefore difficult to carry out precise credit risk analyses on our customers. Although we follow certain KYC procedures at the time of sanctioning a loan, we generally rely on the quality of the gold jewellery provided as collateral rather than on a stringent analysis of the credit profile of our customers.

Normally a credit risk arises from following factors.

- Credit Concentration arising from disbursement in a particular location or disbursement to customers engaged in same type of business or profession.
- Large tickets to a specific business concern.
- Excessive reliance on information from Credit Bureau leading to adverse selection of borrowers.
- Risk factor occurring from political influence in lending areas.
- Risk arising from funding to specific area overly depending on seasonal demands or on monsoons, etc.

For KLM Axiva Finvest Ltd.

KLM Axiva Finvest Ltd. (Seal)

Whole Time Director

**Mitigation Policy**

- Creditworthiness of the prospective customers is analysed through Credit Report. Currently Company is checking the credit score through EQUIFAX report.

- Company has established separate department for Customer relation to ensure the quality of customers acquired. Team of Credit Manager, Branch Manager and Customer Relation Executive [CRE] is responsible for customer acquisition, maintenance,follow up, credit recovery etc. Before each disbursement the aforesaid team carries out proper check on customer's identity through KYC documentation, customer visit, back ground verification etc.

- The loan application is processed only after the approval of Credit Manager who approves the customer upon physically verifying the customer's address and documents provided. For big tickets EQUIFAX report of the customer should be accompanied with loan application form. Discretion of loan sanctioning and disbursement of big tickets is entrusted with Managing Director of the company. This mitigates the risk of default up to an extent.

- Although we believe that our risk management controls are sufficient, we cannot be certain that they will continue to be sufficient or that additional risk management policies for individual borrowers will not be required. Failure to maintain sufficient credit assessment policies, particularly for individual borrowers, could adversely affect our credit portfolio which could have a material and adverse effect on our results of operations and financial condition.

**OPERATIONAL RISK**

Operational Risk is the risk arising from procedural failures, external issues, fraud-Internal and External, information security etc.

Operational risk may arise from following factors;

- Procedural failure may occur when there is higher volume of small ticket transactions.

- External issues include natural calamities which effect day to day functions of the company.

- Fraud may be both internal and external. Internal fraud includes manipulation of accounts ,unhealthy relationship with customers like spurious gold entertainment , KYC mismatch

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for theft gold ,malpractice etc .External fraud may include pledging theft gold as security ,pledging land in which the customer is not having legal title etc.

- Information security issues may be affected due to server failure, virus attack, changing security Environment, hacking etc.

- Another risk is that there is an ambiguity on whether or not NBFCs are required to comply with the provisions of state money lending laws that establish ceilings on interest rates.

**Mitigation Policy**

- Internal Audit at all the branches of the company was carried out on a concurrent basis by a team of internal auditors who are employees of the company. Internal audit team identifies and resolves failure in procedure implementation, identifying manipulations, malpractices, fraud, security issues etc. Internal auditors conducts regular checking ensures that all branch activities are carried out as per norms/procedures as mentioned in the operational policy.

- All the branches are reviewed monthly and were ranked based on their performance. The scope of these audits are reviewed periodically and modified to keep pace with a dynamic business environment. Branches which are not showing any improvement will be tracked and correcting measures are taken in consultation with HR department of the company.

- Company has insured all its assets to cover the risks of loss due to theft, fire and other natural calamities.

**LIQUIDITY RISK**

Liquidity risk is the non-availability of cash to pay a liability that falls due. A company is deemed to be financially sound if it is in a position to carry on its business smoothly and meet all the obligations - both long term as well as short term - without strain. Assessment of the efficiency with which the funds are put to use is very important for credit analysis.

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

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The major funding source for the company is by way of equity share capital ,debentures and subordinated debts. Though these are external sources of funds the company is exposed to following risks;

- Interest Rate risk arises because of increase in cost of funds due to an overall increase in the interest rates economy.
- Asset-Liability Mismatch can lead to severe liquidity shortfall and result in significantly higher costs of funds
- A high degree of leverage risk can severely impact the liquidity profile of the company and lead to default in meeting its liabilities.

**Mitigation Policy**

- Company has implemented liquidity management policy for reducing the risk relating to liquidity issues. Currently the policies relating to liquidity are as follows;
- The company is maintaining high capital adequacy ratio over and above limits prescribed by regulators.
- The company ensures to keep liquidity to cover unexpected repayment obligation.
- Promoting fund infusion by way of Non-Convertible debentures [NCD] and subordinated debts so that due date for interest and maturity can be pre known.
- Funding from long terms sources and lending as short term loans.
- Reducing the percentage of unsecured lending so that repayment upto a level is not affected.

**COMPLIANCE RISK**

We are regulated principally by and have reporting obligations to the RBI. We are also subject to the corporate, taxation and other laws in effect in India. The regulatory and legal framework governing us may continue to change as India's economy and commercial and financial markets evolve.

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. These risks can take the form of:

- Non-Compliance with RBI Regulations.

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- Non-Compliance with Income tax Act, Companies Act and other applicable statutory regulations.

**Mitigation Policy**

Company has various departments working together for monitoring, review and compliance of the applicable provisions reporting to Board of Directors.

**REPUTATION RISK**

Reputation risk is the risk to earnings and capital arising from adverse perception of the image of the company from the part of various stakeholders and regulators. This risk may 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.

**Mitigation Policy**

Company has trained all its employees for ensuring customer satisfaction, ensuring compliance of fair practice code, reducing the level of stakeholder complaint etc. In case of any complaints Grievance Redressal Mechanism was implemented by company through which complaint / dispute are redressed. The Grievance Redressal committee was headed Deputy General Manager who will be acting as the Grievance Redressal Officer of the company and the address of the officer will be displayed in all branches.

**INTEREST RATE RISK**

Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The changes in interest rates affect NBFCs in a larger way. The immediate impact of changes in interest rates is on NBFC's earnings by changing its Net Interest Income .The interest rate risks are viewed from earnings perspective and economic value perspective', respectively. It is the intention of RBI to move over to the modern techniques of Interest Rate Risk measurement like Duration Gap Analysis, Simulation and Value at Risk over time when NBFCs acquire sufficient expertise and sophistication in acquiring and handling MIS.

Over the last several years, the Government of India has substantially deregulated the financial sector. As a result, interest rates are now primarily determined by the market, which has increased the interest rate risk exposure.

Our results of operations are substantially dependent upon the level of our net interest margins. Interest rates are sensitive to many factors beyond our control, including the RBI's monetary policies,

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domestic and international economic and political conditions and other factors. Rise in inflation, and consequent changes in bank rates, repo rates and reverse repo rates by the RBI has led to an increase in interest rates on loans provided by banks and financial institutions.

**Mitigation Policy**

Following is the Interest Policy implemented by company in order to reduce the risk.

- Interest rate will be quoted only on annualized basis.
- The Rate of Interest will be determined after considering cost of debt, Operation cost, risk factor, tenure, market liquidity, competition etc.
- Risk Interest shall be determined by taking into account the degree of risk involved in loans under each loan.
- Based on following factors like value of collateral securities offered by customers, tenure of the loan, financial position of the customer, credit reports of the customer, stability in earnings etc company may charge discrete interest rate for different customers.
- The company may levy penal interest for any delay or default in making payments of any dues besides normal interest and will be mentioned bold in the loan agreement.
- Any changes in the interest will be applicable only on prospective basis.
- Decision for waiver of any of the charges or interest would normally not be entertained by the company and it is the sole and absolute discretion of the company to deal with such requests.

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