CREST VENTURES LIMITED

POLICY ON RISK MANAGEMENT

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CREST
VENTURES

❖ Contents ❖

CREST VENTURES

POLICY ON RISK MANAGEMENT

1. INTRODUCTION

The Board of Directors ("**Board**") of Crest Ventures Limited ("**Company**" or "**CVL**"), has adopted the policy on risk management which encompasses practices relating to identification, assessment, monitoring and mitigation of various risks to the business. Risk Management Policy of the Company seeks to minimize unfavorable impact on the business objectives and develop stakeholder value. Further, the risk management practices seek to sustain and enhance long-term competitive advantage for the Company.

This policy shall be applicable from 01.10.2014 and revised by the Board of Directors on __ March, 2021.

This Policy has been framed in accordance with the Risk Management framework as issued by Reserve Bank of India ("**RBI**") vide Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 and amendments thereon and in compliance with the Companies Act, 2013 ("**the Act**") and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, ("**SEBI Listing Regulations**").

Pursuant to the provisions of the Companies Act, 2013, a statement indicating development and implementation of a risk management policy for the Company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company shall be included in the Board's Report.

2. OBJECTIVE

Objective of Risk Management Policy ("**the Policy**") is to enable the Company in achieving its strategic objectives and enhance stakeholder value. The Company understands that risk management is not a onetime event or exercise; so the Company has adopted Policy to bring the inherent level of risks to a desired level of acceptable risks.

The purpose of this policy is to address unanticipated and unintended losses to the human resources and financial assets of the Company without unnecessarily limiting the activities that promote its mission and goals.

The effective management of risk is vital to the continued growth of the Company.

3. REGULATORY RISK COMPLIANCE:

Company shall comply with organization of the risks associated and process requirements as set out by RBI and as relevant in certain cases by SEBI. These will relate both to its constitution as an NBFC and as related to the business that it is engaged in. These will also include a formal risk policy that can be reviewed by the RBI. While the overall risk management framework will need to ensure compliance and reporting on these elements, it will not be limited to meeting regulatory needs alone and shall include:

- NBFC exposure guidelines
- Real estate exposure guidelines
- Corporate governance guidelines
- Risk and Asset Management Liability Committee and reporting.

Principles of Policy:

Overall risk management at CVL shall be carried out through oversight at different levels of the organization. The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented an effective risk management framework. The Audit Committee shall assist the Board in overseeing the group's risk profile and is responsible for overseeing management's actions in the identification, management and reporting of material business risks.

The Board shall delegate authority for overall risk management to the Risk Management Committee ("**RMC**") to ensure focused oversight and committed Board level capacity for this task. However, the Board shall directly perform only the following roles:

- Delegation of authority to the Risk Management Committee initially and then review of powers as necessary from time to time;
- Reviewing the work of the Risk Management Committee once/ twice a year for directional guidance if any on the risk function of the company;
- Reviewing conflict issues if they cannot be resolved at the Risk Management Committee and are referred to it.

RMC will be responsible for managing risk at an overall level. It shall be accountable to the Board for managing risk parameters within expectations across time horizons.

Meeting frequency: Atleast two times a year and as may be needed for resolving issues referred to it.

4. RESPONSIBILITIES AND AUTHORITY:

The RMC shall periodically review the various types of risks identified that may threaten the existence of the Company and the effectiveness of the mitigation plans. They may advise for inclusion of new risks and modify the mitigation plans.

The crucial roles of the RMC includes:

- Review of all elements of risk guidelines and their execution for identification of future risks or risk management processes;
- Approval or review of, any exposures with conflict of interest: RMC, besides Audit Committee, shall review transactions or issues with any element of conflict of interests;
- Companies/ promoters in which any of the members of the Board or promoters or subordinate organs have material personal interests directly or indirectly
- Reviewing other elements of risk apart from under-writing and divestments using the findings of the Audit Committee;
- Ensuring legal risks of loan documentation are examined by internal and external counsel and provide adequate cover to the company;
- Ensuring all external partner agencies involved in all aspects of under-writing, valuation, documentation, divestments, among others, are examined for conflicts of interest in general and in each transaction and found to be non-conflicted;
- Ensuring compliance of all personnel to policies on conflicts of interest, insider trading, and other regulatory and internal declaration requirements;
- Recommending changes in overall risk framework if necessary with supporting arguments, after review of the internal and of the external environment.

5. COMPOSITION OF RISK MANAGEMENT COMMITTEE:

A Risk Management Committee ("**RMC**") comprising of atleast one Independent Director, Non-Executive Director, Chief Financial Officer and chaired by the Managing Director of the Company who shall be responsible for the identification of risk, review of risk management processes within the Company, and for overseeing the implementation of the requirements of this policy.

6. TYPE OF RISKS AND THEIR MITIGATION

A. STRATEGIC RISK

Risk:

It is the risk to earnings and capital arising from lack of responsiveness to changes in the business environment and/or adverse business decisions, besides adoption of wrong strategies and choices.

Mitigation:

The management is proactive in its approach towards changes in economic/business environment as the business strategies are regularly discussed with the senior officials of the organization so that adequate steps can be taken. Also, important strategic matters are referred to 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. REPUTATIONAL RISK

Risk:

Reputational 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, banking industry and the customers.

The risk can emanate from:

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

Mitigation:

Considering the business model, the following aspects have been put in place to reduce vulnerability related to reputational risk:

- **Compliance with Fair Practices Code:** All employees are trained and instructed to follow fair practices as per RBI prescribed guidelines in all their dealings with the customers.
- **Delinquency Management:** The Company does not resort to any coercive recovery practices and all recoveries are made in accordance with the Recovery policy and Fair Practice Code of the Company.
- **Stringent Selection Criteria:** Vendors, employees and other associates of the Company are selected after confirming to the stringent criteria's prescribed by the management.
- **Reference Check:** The management carries out a reference check for all the vendors from the market before having them on Board so as to ensure utmost integrity while carrying out their duties.

- **Legal Obligations:** All employees and associates are required to sign contracts wherein specific clauses related to non-disclosure are entered so as to ensure the Company from any reputational risks.

C. MARKET RISK

Risk:

Risks emanating out of the choices we make on markets, resources and delivery model that can potentially impact our long-term competitive advantage. Risks relating to inherent characteristics of our industry including competitive structure, extent of linkage to economic environment and regulatory structure need to be monitored.

Mitigation:

Management regularly reviews its business model including the areas it wants to operate. The management carries out regular competitive analysis of its peers in the industry so as to remain in competition and change its markets, if required. The investments in equity and debt instruments are primarily for strategic purposes, but the periodical reviews in the RMC and the Board meetings are being undertaken to ensure that the investments remain remunerative and / or serve the purposes for which these investments were made.

D. OPERATIONAL RISK

Risk: Risks inherent to business operations including those relating to client acquisition, service delivery to clients, business support activities, information security, physical security, human resource and business activity disruptions.

Mitigation:

- **Document Storage and Retrieval:** CVL recognizes the need for proper storage of documents as also their retrieval for audit and statutory requirements. The Company is maintaining all the original documents in a fire proof vault at a dedicated space allocated for specific purpose.
- **Insurance coverage:** CVL recognizes the importance of insurance and has availed insurance coverage for its assets like immoveable properties, office equipment's, for Key Management Personnel Liability, Employees, etc.

E. INTERNAL AUDITS:

Internal Audit is carried out on a quarterly basis by an independent audit firm appointed by the Board. The scope of this Internal Audit covers all key functions including HR, Operations, Credit, Administration, Finance and Accounts. The firm also audits the company's adherence to all Statutory and Regulatory Guidelines. The scope of these audits are reviewed periodically and modified to keep pace with a dynamic business environment. All significant audit observations of Internal Audits and follow-up actions are presented to the Board and Audit Committee.

F. INTERNAL FINANCIAL CONTROL:

In compliance with requirement of the new Companies Act 2013, the company focuses on Corporate Governance, IT Infrastructure, Enterprise Risk Management, Operating Effectiveness and Continuous Monitoring.

G. TECHNOLOGY INFRASTRUCTURE:

The company has all data secured with mirrored redundancies such that in the event of any system going down, an alternate system is made operational within hours. At the facilities where back office and financial operations take place, alternate/ back-up connectivity has been provisioned such that in the event connectivity is lost, the alternate connection can be utilized.

H. FINANCIAL RISK

a) Interest Risk:

In line with the guidelines issued by the Reserve Bank of India ("**RBI**") vide its Circular DNBS/PD/CC No. 95/03.05.002/2006-07 dated May 24, 2007 reiterated vide RBI's circular DNBS (PD) C.C. No. 133/03.10.001/2008-09 dated January 2, 2009, advising the Boards of NBFC's to lay out appropriate internal principles and procedures in determining interest rates, processing and other charges, the Company has adopted Interest Rate Policy in order to adopt a prudent and conservative risk mitigation strategy to minimize interest rate risk.

b) 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 measures not only the liquidity positions of company on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions.

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 is adopted as a standard tool and periodically reviewed by ALCO.

c) Maturity Mismatch:

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.

d) External Source of funds:

CVL is exposed to various funding and liquidity risks comprising:

i. **Asset-Liability Mismatch:**

A skewed asset-liability profile can lead to severe liquidity shortfall and result in significantly higher costs of funds; especially so during times of crises.

ii. **Market Perception Risk:**

Due to inherent industry characteristics, the Company is exposed to perception risks, which can lead to decline in ability of a lender to increase exposure to the Microfinance sector and result lack of adequate and timely inflow of funds.

iii. **Leverage Risk:**

A high degree of leverage can severely impact the liquidity profile of the company and lead to default in meeting its liabilities.

Mitigation:

The key liquidity management policies being followed at CVL include:

- **Leverage Ratio**

  The Company shall ensure to restrict its leverage ratio within the regulatory limits prescribed by RBI. For the present, the leverage ratio shall not exceed one time of the Owned Fund.

- **Lender Exposure Updates:**

  The exposure profile to the lenders is regularly updated to ensure that skewness does not creep in respect of the sources of external funds.

- **Capital Adequacy:**

  CVL targets to maintain healthy levels of capital adequacy. The Company maintains and shall continue to endeavour to maintain a strong capital position with the capital ratios well above the thresholds defined by the regulatory authorities.

I. CREDIT AND CONCENTRATION RISK:

Credit Risk:

Credit Risk refers to risk that a counter party will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises primarily from financial assets such as receivables, investments, balances with banks, loans and other receivables. Any lending activity by the Company is exposed to credit risk arising from repayment default by borrowers and other counterparties. 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.

Mitigation:

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, coupled with ability of the management to effect timely recoveries from the borrowers. Credit periods and payment terms laid down by the Company for the existing and new customers are being prescribed after carefully taking into account the borrowers cash generation ability as per their projection.

J. REGULATORY AND COMPLIANCE RISK

Risk:

The company is 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. CVL, apart from being a listed entity, 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 under the Companies Act as also the SEBI / stock exchange regulations.
- Non-Compliance with covenants laid down by Lenders

Mitigation:

The Company has a strong compliance culture and the Compliance team together with Secretarial team are ensuring periodical reviews and filings, as mandated by the applicable Regulations. Internal Audit also conducts audit of compliance function on a quarterly basis wherein all regulatory compliances are reviewed in detail.

K. HUMAN RESOURCE RISK.

Risk:

CVL'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 is 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 his best and create an atmosphere that can 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.

Mitigation:

Human Resources Policy and initiatives: Various programs and initiatives are carried out by the HR to retain talent and motivate them on a regular basis.

7. RISK MANAGEMENT METHODOLOGY

Risk Management methodology explains the process that the Company should follow. It has four phases.

I. Risk Identification

The Company may use following ways to identify new risks that may have emerged or risks that would have changed over a period of time:

- Review of documents such as strategic plans, board and audit committee meeting minutes, risk management committee meeting minutes, policies and procedures, internal audit reports, financial statements, press releases, analyst reports etc.;
- Structured workshops, brainstorming sessions; and
- Interviews with Top and Senior Management.

II. Risk assessment and prioritization

Risk may be high, medium or low. The objective of Risk Assessment to assist the organization lies in prioritizing risk treatment strategies to ensure that appropriate attention is given to risks based on their criticality and that the Company resources are effectively utilized in managing these risks.

III. Risk Treatment

Risk treatment involves identifying the range of options for treating risk, assessing those options, preparing risk treatment plans and implementing them. Risk treatment plans, as and when formed, should be profiled in the Risk Profile. Action plans need to be time bound and responsibility driven to facilitate future status monitoring.

Treatment plan should ensure that existing level of risks is brought down to tolerance levels as prescribed / reviewed by RMC from time to time.

TREATMENT OPTIONS:

a) Eliminate

Action is taken to exit the activities giving rise to risk, where either the cost of other responses would exceed the desired benefit, or no response option was identified that would reduce the impact and likelihood to a tolerance level.

b) Reduction

Action is taken to reduce the risk likelihood or impact, or both to reduce the risk to a tolerance level. This may involve any of a variety of everyday business decisions.

c) Sharing

Action is taken to reduce risk likelihood or impact by transferring or otherwise sharing a portion of the risk with a third party, such as Purchasing insurance products, pooling risks, engaging in hedging transactions, outsourcing an activity, etc.

d) Tolerance

No action is taken to mitigate the risk. Business is willing to continue taking the risk at the same level.

IV. Implementation of decisions

The last step in the risk management process is the implementation of the decision. The Risk Manager should recommend to the appropriate sub-committee / RMC / Board various alternatives of tackling the emerging risks. After getting it approved, the Risk Manager should initiate measures to implement it, as per the calibrated plan.

8. REVIEW

Head of Departments/ senior executives shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and report to the Board and the Audit Committee.

The Board of Directors of the Company and the Audit Committee of Directors shall periodically review the risk management policy of the Company so that management controls the risk through properly defined network.

9. AMENDMENTS

The Board may, subject to applicable laws amend any provision(s) or substitute any of the provision(s) with the new provision(s) or replace the Policy entirely with a new Policy, based on the recommendations of the Board.

The Board may also establish further rules and procedures, from time to time, to give effect to this Policy and to ensure governance of Material Subsidiary Companies.

10. SCOPE AND LIMITATION

In the event of any conflict between the provisions of this Policy and the SEBI Listing Regulations/ Companies Act, 2013 or any other statutory enactments, rules, the provisions of such SEBI Listing Regulations/ Companies Act, 2013 or statutory enactments, rules shall prevail over this Policy.

11. DISSEMINATION OF POLICY

This policy shall be hosted on the intra-net and website of the Company and a web link thereto shall be provided in the annual report of the Company.

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