Infinity Fincorp Solutions Pvt. Ltd.

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Risk Management Policy

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INFINITY FINCORP SOLUTIONS PVT LTD (hereinafter "(IFSPL)") is registered as Non-Bank Financial Company with Reserve Bank of India (RBI). The main target client segment of IFSPL are Agriculture, Loan against property, Loans to Micro, Small and Medium Enterprises (MSME), Traders, Suppliers and Mid corporates.
In pursuing its business, IFSPL will operate according to the highest ethical and compliance standards and constantly seek to follow best practices in the industry. Under no circumstances will contravention of laws and relevant regulations be tolerated. This Policy shall be effective from the date of approval of the Policy.

I. Introduction

The Risk Management 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 Risk Management Policy includes a Risk Governance Structure for Company, which will enable it to assess, manage and mitigate risks arising out of its business.

The Risk Management policy will assist in fulfilling the following major objectives:

• Adhere to regulatory guidelines/policies as specified by the Reserve Bank of India from time to time.

• 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.

Company 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, Infinity has laid out 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, Credit, and operations teams.

• **Industry Interactions** with other similar private sector banks and NBFCs

This policy document is intended to provide broad guidelines by articulating risk management principles, defining risk and establishing a common risk language.

II. Key Objective of Risk Management Policy

Key objectives of this policy are to:

• Endorse a structured approach to identify current and future potential risks to organization.

• To establish and maintain a system of internal controls to promote effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

• Facilitate the making of informed decisions including the prioritization of identified risks consistent with risk tolerance

• To facilitate the monitoring and reporting on status of all key risks to appropriate management/committees & Board of Directors.

• Provide reasonable assurance with respect to organization's ability to achieve its strategic and business objectives.

The overall Risk Management Framework has been developed based on the following risk governance principles:

• Risk Appetite

• Risk Governance

• Risk Policy & Process

• Risk Reporting

While the 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)

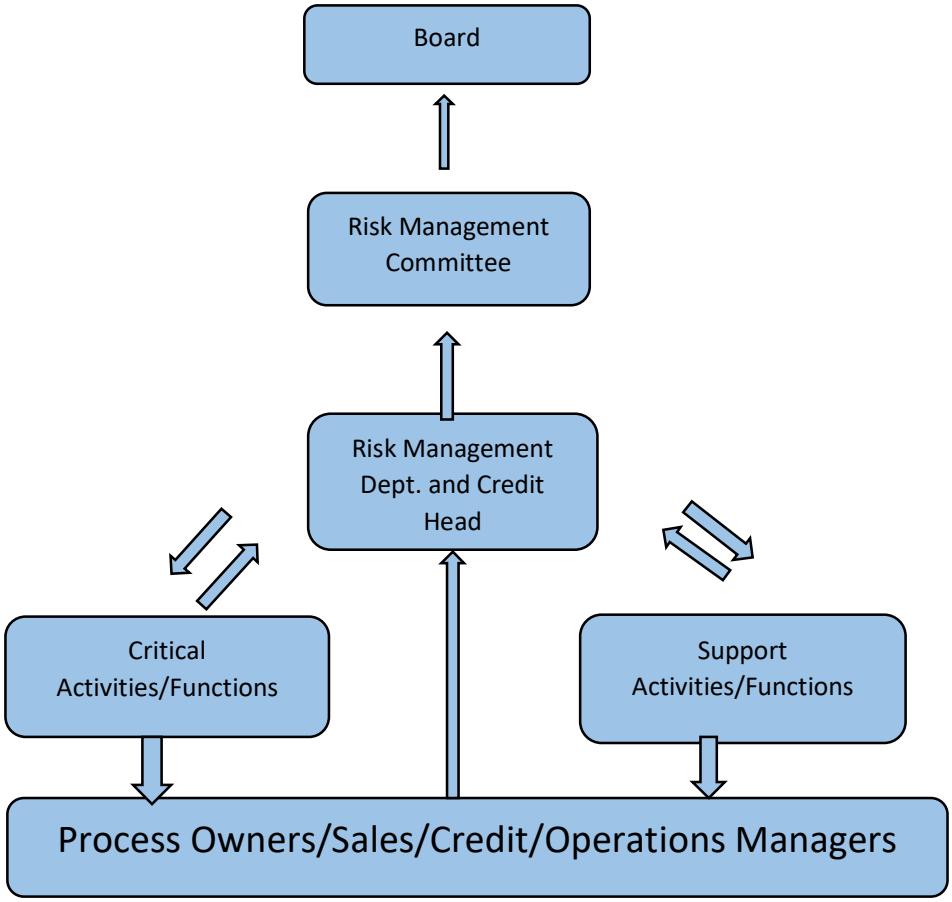
The policy aims to highlight the spirit of these principles and their practical implications for the Infinity activities. The policy highlights the practical means of observing those principles and strives to demonstrate the associated actions and their effectiveness

III. Implementation & Monitoring of Policy

The Risk Management Committee (RMC) will monitor and supervise implementation of the Policy.

I. Risk Organization

IFSPL will gradually develop a robust organizational structure for managing and reporting on risks is a pre-requisite for an effective risk management process.The following framework to evolve over a period after crossing Rs 1000 Crore AUM.



II. Risk Management Architecture

a) Board of Directors

The Company's Board of Directors has the responsibility for overseeing all risks associated with the activities of business, establish a strong internal control environment and risk framework that fulfills the expectations of stakeholders of business.

The Board of Directors will review this policy statement as and when required depending on the circumstances facing the organization.
The active monitoring and execution of the risk management strategies will be delegated to the Risk Management Committee and further sub-delegated to Management Risk Committee viz. the Asset Liability Management Committee (ALCO).

b) Risk Management Committee:

Risk Management Committee is in place to assist the Board in its responsibility for ensuring that appropriate risk management and internal control system is in place and for regularly reviewing the effectiveness of same. The company has framed the risk assessment and minimization procedure. Risk Committee is responsible for monitoring the adherence to the risk policy and guidelines and reviewing the overall risk management system in light of changes in external and internal environment within which the Company operates.

The RMC's main responsibility is

- To manage risk, by review of the annual Risk Appetite Statement.
- Identify, assess and manage the actions over key risk exposures.
- Review and assess the adequacy and compliance of the entity's risk management policies & procedures, systems and internal controls.

Senior Management is responsible for implementing risk management practices and ensuring compliance with approved policies.

c) Three Lines of Defense for Risk Management

Risk management responsibilities shall be structured in accordance with the **Three Lines of Defense Model**, ensuring an appropriate segregation of duties between Business functions, the Risk Management and Compliance Department, and the Internal Audit function. Each line shall perform its designated role independently, thereby strengthening the Company's governance, risk management, and internal control framework.

- **The First Line of Defense** consists of Business units and Support functions that own and manage risks arising from their day-to-day activities.It is responsible for day-to-day risk identification and executing the risk controls during client onboarding and loan disbursal.

- **The Second Line of Defense**, represented by the Risk Management Committee (RMC), Chief Risk Officer (CRO), and Compliance Department.It provides independent oversight of the risk management activities undertaken by the First Line of Defense. It is responsible for developing and maintaining the risk management framework, policies, reporting processes, and monitoring the approved risk parameters,limits and oversee regulatory adherence.

- **The Third Line of Defense** will be the Audit Functions – primarily the Internal Audit functions that are supported by External Audits. Internal Audit provides independent assurance on the effectiveness of governance, risk management, and internal controls.

IV. Policy Guidelines & Principles

These guidelines recognize that the activities undertaken by organization with respect to the achievement of its strategies and business objectives are ultimately tied to decisions about the nature and level of risk it is prepared to take and the most effective means to manage and mitigate those risks.

The risk management framework which shall govern the related management policies and procedures shall be premised upon common understanding and application of following principles:

• The informed acceptance of risk is an essential element of good business strategy.

• Risk management is an effective means to enhance and protect the value of business over time.

• A common definition and understanding of risks is necessary, in order to better manage those risks and make more consistent and informed business decisions.

• The management of risk is an anticipatory, proactive process, to be embedded in corporate culture and a key part of strategic planning & operational management.

• All risks are to be identified, assessed, measured, managed, monitored and reported on in accordance with management policies and procedures.

• All business activities are to adhere to risk management practices which reflect effective internal controls that are appropriate for business.

V. Risk Management Process

Risk management process of the company aims at providing reasonable assurance that the policies and procedures that are in place are adequate considering the scope of business and its activities, and are reviewed on an ongoing basis.

As a financial intermediary, Company is exposed to various types of risks including the following Key risk

- **Credit Risk**
- **Market & Liquidity Risk**
- **Operational Risk**
- **Legal & Compliance Risk**

The objective of the Risk Management Policy is to ensure that various risks are understood, monitored and managed properly. Any deviation in this policy shall be approved by CEO.

1) CREDIT RISK

All credit risk relating to any product/ exposure will be governed by the respective Credit Policy.

Objective of Credit Policy

- To prescribe a broad framework of guidelines for credit function.
- To put in place, guidelines for types of credit facilities, lending norms including assessment of credit requirement, security, margin, pricing, delivery system etc.
- To achieve credit growth with asset quality, optimum yield and enduring business relationship.
- To ensure balanced growth of credit
  (i) Across various sectors,
  (ii) Asset liability profile,
  (iii) type of facility and
  (iv) Within the ambit of prudential norms.

- To provide flexibility in decision-making and credit operations but within prudential and other norms so that (i) good business opportunity is not lost, (ii) business relationship is sustained (iii) new business is built up on a regular basis; (iv) customer experiences satisfaction.

Productwise Credit Policies to be approved by the CEO after testing Pilot run and at the time of Launch.

Risk Identification

Identification of risk is the first step in the Credit Risk assessment system. The credit risk inherent in credit proposal is a function of certain risk factors, such as function of certain factors, some of which are specified below:-

1. **Financial risk**

   This would include assessment of the entity's overall financial strength based on performance and financial indicators, as derived from its financial statements- historical and projected.
2. **Business Risk:**

Business risk analysis assesses the business fundamentals of the unit, the competitive market position in the industry and its operational efficiency. Key factors would include its geographic reach, distribution and selling arrangements, capacity utilization, nature of the technology employed. The business risk associated with the unit would be reflected in its financial risk ratios and their comparison with the industry average, which are covered under financial risk parameters.

3. **Industry Risk:**

   This relates to the industry of which the unit is a constituent. The unit/ firm will be subject to the risk factors to which the industry is exposed. In assessing the industry risk, the key parameters would be competition, entry barriers, cyclicality, industry outlook, regulatory risk/ government policies and other contemporary issues.

4. **Management risk:**

   It involves evaluation of the management of the enterprise, their risk philosophy, competence and past track record. The key parameters are the integrity (corporate governance), managerial competence and commitment, credibility (ability to meet the sales/income and profit projections), payment track record, management system, capability of the management to bailout the entity in case of distress, and the structure and length of relationship with IFSPL. While some subjectivity may creep in while evaluating these parameters, it should be minimized.

CREDIT RISK CONTROL AND REPORTING

Restrictions of lending:

a) IFSPL will not grant any loans/advances to or on behalf of any of its directors or to any firm in which any of its directors is interested as a partner/manager/ employee/guarantor, or to a company or subsidiary or holding company in which any of the directors of IFSPL is a director/ manager/ employee/ guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor.

b) IFSPL will not grant any loans and advances, without the prior approval of the Board, to the 'relatives' of IFSPL's Managing Director or to Directors of other banks and their relatives.

c) IFSPL will not grant loans and advances to industries producing or consuming Ozone Depleting Substances, in terms of Montreal Protocol to which Government of India is a party.

Restrictions relating to security for lending

IFSPL will not grant loans and advances against the security of
a) Its own shares
b) Partly paid shares of a company
c) Certificates of Deposits (CDs); an
d) Money Market Mutual Funds and
e) Fixed Deposit Receipts(FDRs) issued by Banks

Moreover, IFSPL will not hold shares in a company in the management of which Managing Director of IFSPL is interested, excluding cases of subsidiaries and associates/ assisted companies where he is a part of the Board/ Nominee Director in his official capacity.

Rating-wise Exposure Ceilings

As part of RBI guidelines on CR(applicable to banks), the NBFCs have to eventually move over to internal Rating Based approach for Capital Adequacy standards. Accordingly, as a best practice, IFSPL shall endeavour to restrict its exposure under the lower rated categories of borrowers. In the case of industries/ sectors that are not performing well or in which the outlook in the near future is not likely to improve, the exposure shall be taken only in respect of better rated clients as determined/advised by CEO.

Credit Delivery

Types of Facilities The types of facilities would comprise of Term Loans, Loan against Property, Demand Loans, , Working Capital Demand Loan, Advances against Bills, Purchase / Discount of Cheques / Bills, Invoice Discounting / financing, Discounting of future cash flows / rent receivables.

Sourcing Models in retails Assets

i) Direct Sourcing .
ii) Indirect (DSA/Connector)

Provisioning Norms

A non-performing asset (NPA) is a loan or an advance where;

1. Interest and/ or instalment of principal remain overdue for a period of more than 180 days* in respect of a term loan,
2. the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops agriculture loans
3. The instalment of principal or interest thereon remains overdue for one crop season for long duration crops for agriculture loans,
4. A bill which remains overdue for a period of six months or more.

The period of more than 180 days for NPA classification as mentioned above shall be adjusted as per glide path outlined in RBI Scale based regulations.

Income Recognition:

The income recognition shall be based on recognised accounting principles. Income including interest/discount or any other charges on NPA shall be recognised only when it is actually realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed.

Reversal of income:

If any advance, including bills purchased and discounted, becomes NPA, the entire interest accrued and credited to income account in the past periods, will be reversed if the same is not realised. In respect of NPA accounts, fees, commission and similar income that have accrued will also cease to accrue in the current period and should be reversed with respect to past periods, if uncollected.

Interest Application

On an account turning NPA, Infinity Fincorp Solutions Pvt Ltd (IFSPL) will reverse the interest already charged and not collected by debiting Profit and Loss account, and stop further application of interest. However, (IFSPL) may continue to record such accrued interest in a Memorandum

account in their books/System. For the purpose of computing Gross Advances, interest recorded in the Memorandum account will not be taken into account.

Computation of NPA levels

IFSPL will compute their Gross Advances, Net Advances, Gross NPAs and Net NPAs and report to the concerned authority as per the requirement.

Asset Classification

Infinity Fincorp Solutions Pvt Ltd shall, after taking into account the degree of well defined credit weaknesses and extent of dependence on collateral security for realisation, classify its, loans and advances and any other forms of credit into the following classes, namely

(i)Standard
Assets
(ii)Sub-standard Assets
(iii)Doubtful
Asset
(Iv)Loss Asset

IFSPL will classify non-performing assets based on the period for which the asset has remained non performing and the realisability of the dues as given below.

Substandard Assets

A substandard asset would be one, which has remained NPA for a period less than or equal to 18 months.

Doubtful Assets

An asset would be classified as doubtful if it has remained in the substandard category for a period of more than 18 months.

Loss Assets

A loss asset is one where loss has been identified by the internal or external auditors or but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Provisioning requirements
Infinity Fincorp Solutions Pvt Ltd shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided hereunder:-

(i)**Standard Assets:** - Infinity Fincorp Solutions Pvt Ltd shall make provision for standard assets at 0.25 percent of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets' in the balance sheet.

(ii)**Sub-standard Assets:** - A general provision of 10 percent of total outstanding/Account wise shall be made for secured advances .However for any ab initio unsecured loan straightway 25% provision will be made of total outstanding/Account wise .

(iii)**Doubtful Asset:-** Provisioning for doubt assets will be decided based on the period for which the asset has been considered as doubtful in consonance with the RBI guideline for NBFC-NSI (Base layer) as under provided they are backed by the realisable security .

S.No.	Period for which Asset has remained in Doubtful category	Category	Provisioning (% of Loan Outstanding)
1	Up to one year	Doubtful 1	20%
2	One year to three years	Doubtful 2	30%
3	More than three years	Doubtful 3	50%

Doubtful cases which are not covered by the realisable value of the security 100% provision to the extent of loan outstanding shall be made. The realisable value is to be estimated on a realistic

- The entire asset shall be written off. If the assets are permitted to remain in the books basis

(iv)**Loss Assets:** for any reason, 100% of the outstanding will be provided for;

For fraud cases declared by the IFSPL 100% provisioning will be made

General Guidelines for classification of assets.

Broadly speaking, classification of assets into above categories will be be done taking into account the degree of well-defined credit weaknesses and the extent of dependence on collateral security for realisation of dues.

IFSPL will establish appropriate internal systems (including technology enabled processes) for proper and timely identification of NPAs.

The availability of security or net worth of borrower/ guarantor should not be taken into account for the purpose of treating an advance as NPA or otherwise, except to the extent permitted by the RBI guidelines.

If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account will no longer be treated as nonperforming and may be classified as 'standard' accounts.

Asset Classification will be to be borrower-wise and not facility-wise i.e all the facility of the borrower will be considered as NPA if one facility is declared as NPA.

Accounts where there is erosion in the value of security/frauds committed by borrowers

In respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers such serious credit impairment, the asset will be straightaway classified as doubtful or loss asset as appropriate:

Erosion in the value of security can be reckoned as significant when the realisable value of the security is less than 50 per cent of the value assessed by the IFSPL or accepted by RBI at the time of last inspection, as the case may be. Such NPAs will be straightaway classified under doubtful category.

If the realisable value of the security, as assessed by the IFSPL is less than 10 per cent of the outstanding in the borrower accounts, the existence of security will be ignored and the asset will be straightaway classified as loss asset.

Agricultural advances

A loan granted for short duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons. A loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season. For the purpose of these guidelines, “long duration” crops would be crops with crop season longer than one year and crops, which are not “long duration” crops, would be treated as “short duration” crops.

Company shall recognize incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the categories specified ie SMA -0, SMA-1, SMA. The borrower accounts shall be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes. Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

Enforcement of security and recovery actions

In cases where client has failed to meet their debt servicing requirements, IFSPL may need to enforce security and recover its dues. Important aspects to be followed in such an event:

In all action being undertaken for recovery, IFSPL will strictly follow the law of the land and will act as a responsible member of the community. While ensuring that our rights are protected and dues recovered, we will treat our counter-parties with respect and fairness.

OPERATIONAL RISK

Operational Risk is the risk of possible losses, resulting from inadequate or failed internal processes, people and systems or from external events, which includes legal risks but excludes strategic and reputation risk. The risk can emanate from:

Lapses in compliance with established norms; regulatory as well as internal guidelines

Misplaced/lost documents, collusion and fraud Breakdown or non-availability of core business applications.

Skill gap and sudden attrition of key personnel in the organisation, is also an operational risk, which needs to be countered and addressed by the application of appropriate HR strategies.

Mitigation

Process Compliance

IFSPL will develop an independent process compliance department which carries out surprise checks on field branches and rates them on pre-defined compliance parameters, identifies gaps in process compliance and rolls out initiatives to correct loopholes. This is done primarily to

Ensure that the designed processes are being followed on the field – including interaction with the customers during various stages of the relationship lifecycle.

Ensure all branch activities are carried out as per norms/procedures as mentioned in the operational manual.

Identify any process lapses/deviations and provide guidance to branches/employees to ensure compliance.

This ensures that risks arising out of process lapses are mitigated.

Document Storage and Retrieval:
IFSPL recognizes the need for proper storage of documents as also their retrieval for audit and statutory requirements. We have put in place

Physical Storage: We have entered into an agreement with an established record management company so all the physical loan documents are bar-coded and stored in a specialized secure facility.

Operational risk will be managed through sound operational processes, robust IT systems, Disaster Recovery & Business Continuity Plans and standardized Policy & Process framework that help minimize errors & fraud occurrence.

The Risk/Credit function will ensure proper mitigation of the fraud related risk. It will lay-down the systems and processes for prevention of frauds and recovery of fraud losses. It will also be required to evaluate various external agencies involved for facilitating the business

MARKET AND LIQUIDITY RISK
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.

Due to the high reliance on external sources of funds, IFSPL is 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.

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.

Interest Rate risk—Interest Rate risk comprises the risk of increase in cost of funds due to an overall increase in the interest rates economy as well as sharp movements in interest rates across maturity profiles of the liabilities.

COMPLIANCE RISK
IFSPL 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 IFSPL's reputation. These risks can take the form of:

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

Credit Concentration Risk
The Company will endeavor to spread the business and exposures across different customer profiles, products, industries, geographies etc. Broadly, distribution of exposures would be governed by the Credit Policy which would be reviewed periodically.

The Company shall ensure adherence with the credit concentration norms prescribed by the Reserve Bank of India and as defined in the respective Credit Policies.

LEGAL & COMPLIANCE RISK

To contain any kind of legal risk in its documentation, the Company will have standardized documentations for various business purposes which shall be approved by the internal legal team or any external legal counsel.

To manage any major litigation risk which may emanate, external legal counsels may be engaged and periodical review of major litigation risks at the Board or or by senior management as and when applicable.

PERIODIC REVIEW OF KEY RISK AREAS.

The purpose of this framework is to establish a structured and periodic review process to ensure that the Company's risk profile remains within approved risk appetite levels.

The Company shall conduct periodic reviews of key risk areas at frequencies appropriate to the nature, complexity, and materiality of the risks involved. The risk mitigation plans shall be reviewed annually to evaluate the need for additional controls or corrective actions.

Sr No	Parameters	Owners	Frequency	Reviewed by
1	Credit Risk Portfolios	Risk Head	Monthly	MD and CEO
2	Risk Appetite and Risk Acceptance Criteria	Risk and Functional heads	Bi-Annually	RMC
3	Market Risk (including Liquidity and Interest rate Risk)	Treasury and Finance Head/CFO	Quarterly	ALCO
4	Information Technology and Information Security Risk	CTO and CISO	Quarterly	ITSC
5	Operational Risk	Operations Head	Quarterly	RMC

RISK MANAGEMENT FRAMEWORK

Risk Type	Description & Measurement	Mitigation Strategies	Key Regulatory Guidelines
Credit & Concentration Risk	Risk of default by borrowers; high exposure to a single sector or borrower group.	Board-approved concentration limits, Risk Weight adjustments, strict collateral norms.	Maintain CRAR of ≥ 15%. Restrict exposure caps per borrower/group.

Risk Type	Description & Measurement	Mitigation Strategies	Key Regulatory Guidelines
Liquidity & ALM Risk	Mismatch between asset maturities and liability payouts causing cash flow crunches.	Strict Liquidity Risk Management Framework, dynamic cash flow forecasting, and maintaining High-Quality Liquid Assets (HQLA).	Mandatory submission of structural liquidity and interest rate sensitivity statements to the RBI.
Operational & Cyber Risk	Human errors, system failures, cyber breaches, or fraud.	Robust IT audits, Business Continuity Plans (BCP), and multi-level authorization for fund disbursals.	Implementation of comprehensive Risk Based Internal Audit (RBIA).
Compliance & Legal Risk	Fines or penalties for failing to adhere to RBI Master Directions or other statutory laws.	Centralized compliance tracking, independent internal audits, and automated legal tracking tools.	Quarterly reporting on Corporate Governance and statutory auditor certifications.
Outsourcing Risk	Vendor failures, loss of data privacy, or breach of service level agreements (SLAs).	Diligent due diligence on third-party service providers and enforceable legal covenants.	Self-assessment of outsourcing arrangements according to RBI Guidelines.

Review & Amendment of the Policy

This Policy may be amended from time to time based on the inputs from various stakeholders to ensure robust Risk management process. Changes required due to business exigencies or due to regulatory / audit requirements, can be approved by the Chief Executive Officer which shall be further taken up during annual review by Risk Management committee / Board as applicable from time to time.