



MUTHOOTTU MINI FINANCIERS LIMITED

Reviewed in the meeting of the Board of Directors held on 20-05-2022

RISK MANAGEMENT POLICY

Introduction: The main objective of the policy is to keep the Board of Directors and Top Management apprised of the applicable risks promptly and regularly. This risk management policy aims to protect the reputation of the organization, enable the Company to make consistently profitable and prudent business decisions and ensure an acceptable risk-adjusted return on capital. In a nutshell it seeks to ensure growth with profitability within the limits of risk absorption capacity. It is expected to facilitate the Company to maintain an eminent position amongst NBFCs, especially those engaged in the business of loans against gold jewellery.

Risk Management Committee:

Board level: The implementation of the Risk Management Policy will be overseen by the Risk Management Committee (RMC) of the Board of Directors of the Company. The Risk Management Committee was constituted vide a board resolution dated April 22, 2013 and was last reconstituted on October 9th 2020 with the following members;

1. Mr. Mathew Muthoottu - Managing Director.
2. Mrs. Nizzy Mathew - Whole time Director.
3. Mr. Rajagopal MS - Independent Director

The Risk Management committee shall meet on a quarterly basis.

The terms of reference of our Risk Management Committee are as follows:

- (a) To assist the Board in setting risk strategy policies in liaison with management and in the discharge of its duties relating to corporate accountability and associated risk in terms of management assurance and reporting;
- (b) To review and assess the nature, role, responsibility and authority of the risk management function within the Company and outline the scope of risk management work; and
- (c) To review and assess the quality, integrity and effectiveness of the risk management systems and ensure that the risk policies and strategies are effectively managed.

Executive level Committee:

The Senior Management comprising the following members shall review the risk on an ongoing basis and submit their reports to the Risk Management committee of the Board of Directors.

Mathew Muthoottu- Managing Director

Senmon- SVP Operations

Ann Mary George- Chief Financial Officer

Krishnan Y – Deputy Chief Financial Officer

PE Mathai – Chief Executive Officer

Sreejil Mukund – Chief Operating Officer

Major Risks:

Like most other financial undertakings / businesses such as Banks, NBFCs the Company too is faced with the same 3 broad categories of risks as listed under:

I) Credit Risk:**General:**

Credit risk is perceived to be relatively lower due to the secured nature of loans taken up by the Company viz. loans against gold ornaments. Credit risk denotes the risk of loss arising from a default committed by the borrower to repay the principal and interest as per the contractual obligation. The objective of credit risk management is to ensure the overall health of the credit portfolio through an evaluation of the credit process, creditworthiness of each customer, new or existing, assessment of the risks involved and ensuring a measured approach to address the risks. Scope for violations will be restricted through system based controls wherever feasible and desirable. In the business of gold loans the security is in the possession of the lender and is also comparatively liquid.

Credit risk management will include a continuous review of the existing controls and monitoring of the systems for identification and mitigation of the various risk factors.

Loan / Auction Policies:

Loans will be governed by the Loan Policy approved by the Board.

Credit risk management systems and practices will be in line with the approach laid down by the Loan and Auction policies.

Appraisal of gold – procedures and expertise:

Gold ornaments offered by loan applicants for availing loan will be correctly appraised for actual gold content i.e. purity. Employees at the branches will be provided regular and effective training from time to time to improve their gold appraisal skills using traditional tests such as nitric acid, smell, color, sound etc. Company has in-house gold appraisal experts whose skills are upgraded regularly.

Unique Customer Identification number:

A unique customer identification number will be provided to all customers in order to facilitate tracking exposures of each customer considering the nature of transactions and prevent the creation of new customer account for an existing customer.

Assuming and monitoring large individual exposures:

Like all other lending institutions large exposures to individual borrowers carry relatively higher credit risk. Sanction of large exposures will be subject to suitable checks, and thorough monitoring. In order to ensure adequate control, proper delegation has been assigned in sanctioning power, further detailed in the loan policy.

Servicing of interest & repayment of dues shall be closely and individually monitored. Additionally, the collateral coverage of each high exposure borrower will also be monitored. Assumption and monitoring of large exposures on individual borrowers will be made keeping in view as the directives of RBI relating to KYC and Anti-Money Laundering from time to time.

Risk gradation of borrowers:

System based controls will be put in place after taking into account the risks. Risk gradation of each customer and individual disbursements will be ensured and the parameters will be periodically reviewed.

Loan Documentation:

For all there shall be a standard loan application form to be submitted by applicants. After compliance with KYC procedures and verification of the gold ornaments sanction of the loan will be conveyed in a standard loan sanction format with all terms and conditions clearly listed therein. The documentation will be reviewed periodically.

Market Risk: It comprises pricing and liquidity.

- a. **Price & Interest Rate:** Loan to Value at which loan is sanctioned and the subsequent price movements in gold play a crucial role. Significant downward movement in the gold prices especially when accompanied by non-servicing of interest can impact the Company's financials. Gold loans are granted for a tenor of a maximum 1 year which is essentially short term. Interest rates to be charged on the gold loans are fixed from time to time based on the overall cost of borrowings / funds from the various funding sources.
- b. **Liquidity, Maturity Mismatch:** These are offset to a significant extent by the short term nature of the loans and the corresponding funding avenues for such assets. The source of funds and cost of funds to be deployed in lending against gold jewellery has to be constantly monitored. The ALM Committee meets at periodic intervals and the fund position is monitored on a regular basis.

The following aspects assume relevance and will be monitored on regular basis:

- i) Loans schemes are of short term nature with tenor not exceeding 1 year.
- ii) Funding of loans is done through a combination of equity, short term bank borrowings and debentures.
- iii) Aiming at continuous diversification of borrowings through various of banks.
- iv) Implementing a robust collection and recovery mechanism. This would include an efficient auction procedure for expeditious realization of security.
- v) Efficient cash management system to ensure optimum cash holding and reduce idle cash.
- vi) Calibrating business growth based on the funding level / options available.
- vii) Maintaining an adequate level of undrawn borrowing limits from banks for contingencies.
- viii) Deploying short term surplus, if any, in the form of liquid investments made in approved institutions / schemes.
- ix) Plough back of a major portion of the net profit into the business.
- x) Investing in fixed assets only to the bare minimum.
- xi) Reducing the level of non- performing loans.

II) Operational Risk: Given the inherent nature of the gold loan business operational risk is perceived to be comparatively higher and calls for implementation, development and continuous review of the existing internal checks and controls.

a) Storage of gold ornaments, Concept of joint custody:

Gold ornaments will be stored in a safe and secure manner in burglar proof safes of acceptable grade manufactured by reputed companies or in steel almirahs or storage bins kept within the 'strong' rooms built as per specifications. The principle of 'joint custody' will apply for custody of the valuable as well as for the operations of the safe / strong room and for locking arrangements.

b) Verification of gold:

Gold ornaments will be kept segregated account wise and subject to periodical verification by Internal Auditors and other authorized officials at such frequency as may be decided from time to time considering the risk factors. External agencies, such as lending banks or external auditors, may also be permitted access for verification of gold as may be stipulated in the loan agreement or terms of engagement. Clear instructions with suitable controls will be in place while permitting outside agencies access to verification. A history of verification of each pledge will also be maintained in the system.

c) Insurance:

Adequate insurance cover of the collateral (gold ornaments) will be obtained from a reputed Insurance Company encompassing risks such as burglary, fire and transit. As full compensation to the borrowers would have to be made the gold will be covered at replacement value which would include, apart from the metal value, the making charges of the jewellery. The clauses / covenants of the policy will be scrutinized minutely and fully understood by the concerned officials.

d) Opening and location of branches:

While branches will be located after the business potential is ascertained on the basis of an objective survey the assessment /perception of security threat will be given due weightage in the selection of premises considering the contractual liability of the Company to return the pledged gold to the borrowers without loss. Title of the lessor or landlord to the property will be confirmed and a legally enforceable 'lease agreement' executed by authorized persons before possession of the premises taken. In case of already existing premises with high risk perception or facing other operational problems appropriate mitigatory steps will be taken.

e) System & Procedures / Process improvements / Automation :

Definition of proper system & procedure for the various functions ensures uniformity in work processes, reduces errors, builds internal checks, speeds up work and enhances the overall efficiency. The existing system and procedures will be continuously reviewed to confirm its effectiveness and to plug the gaps, if any, across all offices of the Company.

f) Frauds:

Control systems will be defined and developed in a manner to prevent commission of frauds by employees and customers and also facilitate early detection of frauds. Control mechanisms, as far as feasible and desirable, will be system driven so that there is a clear trail to analyse the root cause and identify the culprits. A repository of information and analysis of major instances of fraud, giving the root causes along with remedial measures taken, will be compiled and periodically updated as a preventive tool.

g) Security Arrangements – Physical & Electronic:

Security arrangements to protect the employees, the assets of the Company and especially the gold pledged by borrowers are critical. Norms for providing Security Guards (armed or unarmed) at various offices will be laid down based on the risk perceptions, vulnerability and potential for loss. The Company will put in place an effective mechanism to monitor the security arrangements including adoption of centrally monitorable security solutions.

h) Business Continuity Plan:

A well drafted and vetted Business Continuity Plan (BCP) will be in place to ensure uninterrupted conduct of critical business operations through a detailed set of instructions and procedures to be observed in the event of any disruption, internal or external. The BCP shall be dovetailed into the IT System and the Disaster Recovery Plan. Risk Gradation of Branches:

Every branch will be graded into 3-4 risk tiers based on the various factors prevalent at the particular branch to facilitate focused monitoring. The factors will be financial Viz. business level, recovery, auction accounts, history of spurious pledges, new customer acquisition, diversified credit risk /customer concentration, operational and appraisal experience of employees, Audit

irregularities etc.& nonfinancial Viz. quantity of gold stored, location of premises, customer footfalls, protective arrangements, number of employees including male female composition, tenure of employees at the branch etc.

i) Human Resources:

The business of gold loans, which constitutes more than 95% of the business of the Company as of now, is significantly labour intensive and is highly dependent on quality and effectiveness of employees at various levels in the organization structure. HR policies will provide a suitable governance structure to enable the Company to grow and proactively meet with the emerging challenges in business

K) Know Your Customer & Anti Money Laundering norms :

The Company will adopt a KYC Policy in line with RBI directives duly approved by the Board. Strict compliance with KYC norms as laid down in the policy will be ensured by the Operations Dept. Cash Transaction Reports / Suspicious Transactions Report will be submitted to the Financial Intelligence Unit as mandated by RBI instructions.

III) Residual Risks:

IT Risk

A secured system of access control, both on-site and remote, including password management and secrecy will be in place and reviewed periodically. Password will be linked to the individual user. Access to data / applications will be on a 'need-to-know' basis. Transaction rights will be conferred only on those requiring it by virtue of the nature of their duties. Suitable anti- virus software will be loaded in the central server and at all user points and updated regularly. A regular 'system audit'

will be conducted to cover both hardware and software and the irregularities immediately addressed. Only authorized and licensed software will be loaded in to the system – central and at various user points. The licensing position will be reviewed periodically to guard against violations of IT Copyrights / Laws. Compliance with IT Master Directions issued by Reserve Bank of India is monitored on a quarterly basis.

Regulatory / Compliance Risk

The Company is an NBFC coming under the regulatory purview of the Reserve Bank of India, SEBI, Stock Exchange and Ministry of Corporate Affairs. In addition the Company is also required to comply with various central, state and commercial laws applicable in the conduct of the various activities of the business. The Company recognizes that the regulatory landscape is under periodical review and this requires the Company to be proactively prepared, as best as possible, to meet with the challenges posed by the changes.

Competition Risk:

Competition risk represents the challenges to business arising from an increasing number and intensity of other existing or new firms engaged in the same business which threaten business growth and could eat away the market share of the Company's business.

The Company will broadly address the risks of competition by:

- i) Accepting and recognising the presence of competitors as a fact of business. Such competition could be universal and area specific.
- ii) Identifying the major and nearest competitors for benchmarking performance.
- iii) Assessing the business strategies of competitors and ensuring suitable countervailing mechanisms to meet such threats.
- iv) Studying and comparing (with) the performances of the competitors with judiciously collected information and data.
- v) Continuously reviewing existing products and services to ensure that they are in tune with market demand and customer expectations keeping in view the regulatory guidelines.
- vi) Recognising the need to reduce unproductive costs and improve the productivity of employees to make the offerings more competitive.
- vii) Studying or anticipating customer preferences and accordingly developing new products and services with visible value addition to be ahead of other market players.
- viii) Ensuring transparency and fairness in dealings with customers and adopting / promoting customer service excellence as an important selling tool.

REPUTATION RISK :

Reputation risk is the loss caused to the Company due to its image or standing being tarnished by certain incidents or actions arising from its business operations. Such incidents or actions may be

attributable to the Company or any employee(s) or executive(s) committed either consciously or otherwise. Reputation risk could result in loss of revenues, and could even result in bankruptcy in extreme situations. Reputation loss can be caused by mere negative perceptions and could occur even if the Company is actually not at fault.

Mitigation:

Risks to the Company's reputation will be addressed by:

- i) Instituting a strong risk management system including fraud prevention and creating a culture of risk awareness across the organization.
- ii) A commitment to transparency, morality and accuracy in operations including the correctness of financial statements for public use.
- iii) Maintaining a robust and effective communication channel across the organization including all stakeholders such as Directors, Shareholders, Regulators, Lenders, Customers, Employees, Vendors etc.
- iv) Encouraging and rewarding ethical behavior amongst employees. Ensuring immediate but fair action against employees indulging in unethical action or behavior.
- v) Ensuring prompt compliance with regulatory directives and other laws both in letter and spirit.
- vi) Institutionalizing customer service excellence supplemented with an efficient complaint redressal mechanism.
- vii) Constituting a 'crisis management team' to address sudden and unanticipated events.
- viii) Maintaining effective liaison with media and issuing prompt clarifications or rebuttals to negative reports.

RESPONSIBILITY :

The responsibility for protecting the reputation of the Company and taking steps to enhance the Company's standing will lie across all functionaries in the organization which will be regularly overseen by the Top Management.
