**MANAPPURAM FINANCE LIMITED (MAFIL)**

**RISK APPETITE AND TOLERANCE POLICY AND FRAMEWORK**

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# Introduction

MAFIL recognise that risk management is essential to sound business practices. Towards this MAFIL has adopted Enterprise Risk Management Policy, Credit Risk Management Policy, ICAAP Policy, Foreign Exchange Risk Management Policy etc which are complementing one another. The Risk Appetite and Tolerance policy and Framework shall be read in conjunction with these policies.

Riske appetite is the aggregate level and types of risks a NBFC is wiling to assume to achieve its strategic objectives and business plan. Risk appetite, as often described, is an upper amount of risk a NBFC is prepared to accept.

Risk Appetite Framework (RAF) is the overall approach, including policies, processes, controls and systems, through which risk appetite is established, communicated as well as monitored. It includes a risk appetite statement, risk limits, an outline of roles/responsibilities of those overseeing implementations and monitoring of the RAF.

The framework envisages that each risk is quantified and compared with the risk appetite tolerance levels. If the risk falls within the tolerance limits, no action is needed and if the risk is higher than the tolerance levels, controls must be added until it is within the limits. It also aims to raise awareness of all the stake holders of MAFIL in taking and dealing with risks within the risk capacity and provide guidance to them on which risk exposures are acceptable and unacceptable to MAFIL.

The diagram below highlights the various concepts that have been considered when defining the risk appetite of MAFIL

Strategy, Objectives and plans

Risk Tolerances

Control functions

Risk Limit

Risk Culture

Policies

Risk Appetite

Risk Capacity

Decision Making

Competitive & Regulatory landscape

# Definition of the concepts.

1. **Risk culture,** means MAFIL’s norms, attitudes, behaviors towards risk awareness, risk-taking, risk management and controls that shape decisions on risks. Risk culture influences the decisions of management/employees during the day-to-day activities and has an impact on the risks they assume.
2. **Risk Capacity,** is the maximum amount of risks MAFIL can assume given its capital base, risk management and control capabilities as well as regulatory constraints.
3. **Risk limits** are specific quantitative measures or limits based on, for example, forward looking assumptions that allocate MAFIL’s aggregate risk appetite to business lines, specific risk categories, concentrations etc.
4. **Risk tolerance:** The levels of variations MAFIL is wiling to accept around specific objectives or the maximum level and type of risks which MAFIL can operate and remain within the constraints of obligations to its stakeholders
5. **Control functions** means those functions who have the responsibility of provide objective assessment, reporting and / or assurance on revenue generating / risk taking activities.
6. **Strategy and objectives** includes the type of business activities, products and geographies MAFIL desires to engage in. If the strategy changes, risk appetite should also be revised.

The Board shall take an active role in defining risk appetite, ensuring its alignment with the MAFIL’s strategic, capital financial plans and compensation practices. MAFIL’s risk appetite shall be defined by considering the competitive along with regulatory landscape as well as its long term interest, risk exposure and ability to manage risk effectively.

# Objective

MAFIL’s guiding principles while defining the Risk appetite statement are as follow:

1. Key guiding approach for strategy, business decision and risk taking capacity of the company. Identifies acceptable types and amount of risks.
2. Growth and profitability - To meet shareholder demands for stable earnings. The parameters range from profitability indicators, earnings stability, return on assets and stock price.
3. Helps Business to understand the how much their business can grow and types of risk they are allowed to assume.
4. Key reference for Senior Management’s decision making.
5. Helps in capital allocation among various business verticals.
6. Reduce / eliminates concentrations risks in products, geographies etc.
7. Regulatory and Compliance - To ensure regulatory and compliance risks are well covered and captured.
8. Reputation – To strengthen the trust and confidence of the major stakeholders.

When an official or a business unit/vertical are making a significant business decision related to the business operations of MAFIL (Examples of such decisions may include, but not limited to, outsourcing significant processes or IT systems, acquiring new technology within products & expanding into new geographic locations, adding new product lines etc in such scenarios, the concerned official/department/vertical should consider MAFIL’s approach based on these guidelines whether the risks are acceptable or unacceptable.

When an official/ department/ business unit/vertical carry out risk assessment of any proposal such assessment should inter alia identify whether the risk exposures are aligned and in conformity with MAFIL’s approach towards acceptable and unacceptable operational risks.

# Scope

The scope policy shall cover the following.

* New initiatives including introduction of new products, changing basic processes, initiatives for outsourcing, venturing into new geographies for expanding business new business tie ups.
* Existing activities will also come under the scope at the time of any review based on external events (any change in regulations and other external factors requiring a relook at the activities already pursued. etc).
* Initiatives to raise new debts should take cognizance of various covenants and other conditions fixed by the lenders and we are not likely to breach it. .
* Existing directions placed by Regulator in Inspections or other interventions and no tolerance on such matters shall be allowed.
* Adherence to conditions imposed by SEBI as part of Listing Obligations.

1. **Material risks affecting MAFIL and assignment of capital**

Apart from the Credit risks, Operations risks and Market risks under Pillar 1, MAFIL has also assessed capital requirement for the Pillar 2 risks. Details of the material risks and the capital allocation as per the ICAAP document is given in the following table:

|  |  |  |
| --- | --- | --- |
| Sr no. | Risk | Capital allocation methodology |
| 1 | Credit Risk | Existing regulatory directions cover charging of Capital on the risk weighted value of all the credit exposures at a minimum of 15%. In addition provisions are also made based on ECL calculations. (Pillar I).    Residual risk component of Credit risk is provided under Pillar 2. |
| 2 | Market Risk | Regulatory directions applicable for NBFCs do not specifically cover any capital towards the risk attributable to market risk under Pillar I. Therefore, capital for the market risks are covered under Pillar 2. |
| 3 | Operational Risk | Regulatory directions applicable for NBFCs do not specifically cover any capital towards the risk attributable to Operational risks under Pillar I.  Our approach to assess the Operational risk is based on the Basic indicator approach applicable to banks and the resultant value will be chargeable for capital under ICAAP pillar 2. |
| 4 | Interest rate risk in the banking book (IRRBB) | MAFIL has adopted traditional Gap Analysis to measure IRRBB risks. The gap analysis measures mismatches between rate sensitive assets and rate sensitive liabilities (including off balance sheet positions) as prescribed under the SBR guidelines. |
| 5 | Credit concentration risk | MAFIL has used Herfindahl Hirschman Index (HHI) methodology based on industry practice and qualitative indicators in order to assess the level of concentration in its credit portfolio and borrowings and the resultant value will be subject to capital charge. |
| 6 | Liquidity risk | MAFIL has considered the following approaches to assess the liquidity risk within its portfolio:  1. Assessment of additional cost for liquidity gap  2. Liquidity Coverage Ratio  3. Assessment of funding concentration risk  Any resultant amount will attract capital under Pillar 2. |
| 7 | Reputational risk | MAFIL has developed a Reputational Risk Assessment Scorecard in order to assess the level of reputational risk and will attract capital under Pillar 2. |
| 8 | Strategic risk | MAFIL has developed a Strategic Risk Assessment Scorecard in order to assess the level of strategic risk. Any resultant value on account of the estimated value will attract a capital under Pillar 2. |
| 10 | Cyber security/IT infrastructure risk | Capital for this has been covered under operational risk capital. |
| 11 | Human capital risk | Human capital risk is covered under operational and reputation risk and hence not considered separately. |
| 12 | Group risk | Group risk is covered under reputation risk and hence not considered separately. |
| 13 | Outsourcing / vendor management risk | Materiality of Outsourcing contracts will be assessed as per RBI Guidelines and the management of the same will be as prescribed by RBI at all times. The Third-Party Risk (TPRM) will encompass the Outsourcing Guidelines and the Procurement Practices - and will extend to all engagements involving Third Parties, including those parties that may be part of the Group. A detailed Third-Party Risk Management Policy and Procedures is approved by the Board and adhered to by the Company. Further details on outsourcing and third-party risk can be referred to under section 5.3.4.1 and 5.3.4.2 of the ERM policy. Since no major losses on account of outsourcing/vendor etc. this has been sufficiently covered under operational risk capital. |
| 14 | Model risk i.e., the risk of under-estimation of credit risk under the IRB approaches | Non-material risk for MAFIL |
| 15 | Collateral risk | Non-material risk for MAFIL |
| 16 | Residual risk | Non-material risk for MAFIL |

(For further details, please refer to para 1.6.1 of ICAAP document)

# Risk Criteria

The guidance on acceptable and unacceptable risks is defined in the form of risk criteria, which are covered within this document. The risk criteria have been categorized into two levels, which are Level 1 & Level 2.

Level 1 provides guidance on risks that are unacceptable under any circumstances. Level 2 provides guidance on risk including operational risks that are avoidable prima facie but can be considered subject to overwhelming economic reasons as assessed by the Management. Such reasons broadly, but not limited to, as under: -

* The benefits both tangible and intangible derived by taking on the project/activity proposed is significantly high.
* Existing resources are not stretched.
* Adequacy of the existing risk management system to effectively manage the risks associated in case of takin up.
* Necessity / compulsions to take up the project / activity.

The following table covers the details of the various criteria that are applied to identify if exposure of a risk is in breach of MAFIL’s risk appetite. Any risk that meets the criteria defined below should be covered within the “Risk Appetite Breach Report”.

|  |  |
| --- | --- |
| **Level 1** | |
| * Features of unacceptable Risk in any circumstances   The Level 1 unacceptable risk criteria will have the following features   * Where the Activity / proposal if taken up/continued will lead to breaching one or more statutory or Regulatory prescriptions. Examples may include, but not limited to the following that may lead to: -   + Mis-selling products/services to clients   + Selling products/services to clients who are covered by national or international embargoes and sanctions   + Misrepresenting or providing incorrect information to regulators or law enforcement agencies   + Exposure that could breach regulatory limits.   + Delinquency level of portfolios breaches corporate guidance.   + Any breach in internal prudential limits prescribed in the loan policy.   + Capital adequacy goes below the corporate aspirations.   + Non compliance of any statutory guidelines in accounting, filing of returns etc. * Where the Activity involves potential exposure to significant physical injury or loss of life for employees. Examples include: -   + Harassment of employees by their managers or colleagues   + Discrimination of employees by their managers or colleagues   + Exposing employees to faulty machines or equipment leading to Health and safety related issues   + Exposing employees to machines or equipment, where this may result in detrimental known impact on health of the employee * Where the risk involves potential exposure to significant physical injury or loss of life for external stakeholders such as customers and suppliers. Only the risks owned by MAFIL should be considered. Examples include: -   + Harassment of external stakeholders by staff or executives   + Exposing external stakeholders to faulty machines or equipment   + Exposing stakeholders to machines or equipment, where this may result in a known detrimental impact on health of the stakeholders * Where the risk may breach MAFIL’s s zero tolerance for the following types of fraud and corruption: -   + Accepting or offering bribes by any employee   + Embezzlement or misuse of assets for personal gains by employees and senior executives, including board members.   + Financial statement fraud by employees and senior executives, including board members.   + Any action which is violation of Civil / Criminal laws of the country. | |
| **Level 2** |
| Features of Level 2: -   * Risks which are avoidable under normal circumstances will be as under   + The Overall risk assessed by Mail is “High” however;   + MAFIL has resources to knowingly take the risk by effectively managing and;   + the benefits associated vis a vis the risk carried with appropriate controls justifies the action   + and that there are no Regulatory or statutory restrictions are in force   The following features shall be considered under this level: -  **Customers**  In respect of Customer impacting actions MAFIL shall have to take such calculated risk in the absence of which may result in the following;   * Customers being unable to access or operate their accounts held with MAFIL, due to system failure/downtime. * MAFIL unintentionally providing incorrect information to customers regarding their accounts, funds or products. * incorrect charges or transactions added to the customer accounts. * unintentional damage (including theft) to customer funds and/or assets. * increase in the level of yearly customer churn beyond the prescribed limits * decrease in the level of new customer acquisition below the prescribed limits * undervaluation of the asset of the customer.   **Information & IT Systems**  In respect of Information & IT systems impacting actions MAFIL shall have to take such calculated risk in the absence of which may result in the following   * unintended sharing information (e.g. about customers, employees, suppliers) with inappropriate individuals, business units or external organizations. * disruption to key non-customer related IT Systems (e.g., Payroll Processing)   **Statutory, Regulations & Obligations related**  In respect of **Statutory, Regulations & Obligations related** impacting actions MAFIL shall have to take such calculated risk in the absence of which may result in the following   * MAFIL, unintentionally breaching one or more laws or regulations. * MAFIL unintentionally breaching its contractual obligations to third parties.   **Theft & Fraud**  In respect of Theft & Fraud related impacting actions MAFIL shall have to take such calculated risk in the absence of which may result in the following   * theft or fraud committed by employees directly * theft or fraud committed by external parties including customers   **Employee**  In respect of Employees relatedimpacting actions MAFIL shall have to take such calculated risk in the absence of which may result in the following   * An increase in the level of staff turnover more than the prescribed levels   **Financial**  In respect of Financialimpacting actions MAFIL shall have to take such calculated risk in the absence of which may result in the following   * total potential negative financial consequences of a risk are more than the prescribed levels the total budget of the business unit where the risk is owned. * overvaluation of the asset of the customer |

# Responsibilities

## Responsibility – Senior Management

* + Work with the Board to set corporate strategies that is consistent with the risk appetite.
  + The Senior Management shall ensure that the risk appetite is percolated to the entire business verticals of the company.
  + Senior management / RMCB shall review the risk tolerance parameters periodically and shall suggest variables in tune with dynamics of risks.
  1. **Responsibility – Risk Management Committee of the Board (RMCB)**
  + The Risk Management Committee of Board of MAFIL shall have oversight of this policy and related activities to be undertaken under the policy.
  + RMCB shall ensure that all risks relevant to MAFIL are taken into account, including those that are not quantifiable (e.g. reputation risks).
  + Monitoring of the risk tolerance limits vs actual performance.
  1. **Responsibility – Board**

Board shall have oversight on the risk appetite statement and it shall ensure the following:

* + - Assess qualitative and quantitative aspects that impact both financial and non financial elements of all relevant risks.
    - Set up / approve individual risk limits for quantifiable risks.
    - Determine the aggregate level of risk exposures that the company is willing to assume.
    - Approval of any changes in the risk appetite statements, with justifications for such changes.
    - Ensure that the Senior Management promotes a risk culture consistent with the risk appetite statement.
    - Oversee adherence of Risk Appetite Statement, risk policies and risk limits.
    - Modify the risk appetite statement, according to changes in the business strategies.
  1. **Responsibilities of Policy Owner:** As delegated by the Board from time to time, the Policy Owner as constituted by the Board, the Chief Risk officer shall have the overall responsibility to oversee and implement the policy as follows:
  + Ensuring the implementation of the Board’s/Senior Management’s decisions on this policy as applicable.
  + Developing, implementing and periodically reviewing this policy and related procedures to ensure that it conforms to the scope of this policy.
  + Informing the Senior Management & Board on the all risks and provide periodical reports through “Risk Appetite Breach Report” (See Reporting Section of the ERM Framework)

## Responsibilities of Units covered under the policy

Entire business verticals and operations including HR, Accounts, Collections, IT etc are covered the policy. The Business units and other units shall conduct their business activities consistent with the risk appetite and risk tolerance limits.

1. **Three lines of defense under the risk appetite framework:**

MAFIL follows the three lines of defense framework with respect to risk management and risk appetite. While the Senior Management and the Board are responsible for establishing the company’s strategy and providing input to and approving the risk appetite statement, the business units, risk management function and internal audit provides, first, second and third lines of defense. Illustrative responsibilities of the three lines of defense are depicted in the following table.

* **Three lines of defense**

Role

1st line of defense

Business unit

Take and manage risk

* Conduct business in accordance with agreed strategy and related risk appetite and limits
* Promote a strong risk culture and sustainable risk-return decision- making
* Conduct rigorous self-testing against established policies, procedures, and limits
* Perform thoughtful, periodic risk self- assessments
* Report and escalate risk limits breaches

2nd line of defense

Risk management

Set risk policy and monitor

* Establish risk management policies and procedures, methodologies and tools.
* Facilitate establishment of risk appetite statement set risk limits with the approval of the Board.
* Monitor risk limits and communicate with RMC and Senior Management regarding exceptions
* Provide independent risk oversight across all risk types, business units, and locations

3rd line of defense

Internal audit

Validate

* Perform independent testing and assess whether the risk appetite framework, risk policies, risk procedures, and related controls are functioning as intended
* Perform independent testing and validation of business unit risks.
* Provide assurance to the quality and effectiveness of the risk management program, including risk appetite processes

Illustrative responsibilities

# Risk Appetite Breach Report

The Risk Appetite Breach Report is the main channel used for escalating risks to the Board, RMCB, Audit committee and senior executives. The report is created quarterly by the Risk Reporting team and shall be presented to the Risk Management Committee of the Bord.

This report contains risks covered under the following levels defined earlier in this document: -

* Level 1
* Level 2

This report is presented to the following stakeholders: -

* Risk Committee/RMCB
* Audit Committee
* Heads of Departments, CEO, CRO, CCO, CFO etc.

**Business Unit Level**: The business units may maintain a KRI (Key Risk Indicator) & highlighting their risks & thresholds for their monitoring at unit level,

The format in which the KRI for the units to be prepared is as under:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **MANAPPURAM FINANCE LIMITED (MAFIL)** | | | | | | | |
| # | (NAME OF DEPT) XXXXX | Threshold | FROM 1ST APRIL …...TO 31ST MAR …… | | | | Brief Explanation & actionable if recommended threshold is breached |
| Key Risk Indicator | APR - JUN  QUARTER 1 | JUL - SEP  QUARTER 2 | OCT – DEC  QUARTER 3 | JAN - MAR  QUARTER - 4 |
| (The numbers/figures updated in the monthly columns need to be in **red** in case of breach of threshold) | | | | | | | |
| The Business Units shall identify the unique   risks ( i.e.  repetitive risks) to bring out strategies for elimination of such risks. They should also propose mitigants to manage the risk and the progress of the mitigation plans. | | | | | | | |

# Evaluating Threats & Opportunities

The current level of threat related measures is mainly used to include a risk within the Risk Appetite Breach Report. However, in certain cases the decision makers would also need to consider any opportunities corresponding to the threat related measures included in the report. Any decision related to implementation of further risk treatment for risks included in the report should be based on a balanced view of the level of threat and any corresponding opportunities. This will enable the decision makers to take a holistic view and balance the various strategic and operational objectives that may be influenced by the risk.

# Implementing Risk Appetite through Risk Tolerances

Any business decision taken within MAFIL that may impact a given business objective should consider the defined thresholds. All business decisions should aim to maintain the performance within the defined thresholds. If a business decision needs to be taken which may breach the defined threshold, then the BU/SU level head is responsible for the business unit (where the decision needs to be taken) should justify & recommend such business decisions, with an approval from MD & CEO of MAFIL.

# Implementing Risk Appetite through policies

The risk appetite levels and their associated criteria should also be implemented through new policies or clauses within existing policies, where appropriate.

Example: -

* The criteria defined in Level 1 around safety of employees and external stakeholders should be implemented through clauses within the Health & Safety Policy
* The criteria defined in Level 1 around zero tolerance for bribery should be implemented through clauses within the Anti-Bribery Policy.
* The criteria defined in Level 2 around unintentionally sharing customer information should be implemented through clauses within the Information Security Policy.

# Implementing Risk Appetite through controls

The risk appetite levels and their associated criteria should also be implemented through implementation of controls, where appropriate.

Example: -

* The criteria defined in Level 1 around safety of employees and external stakeholders should be implemented through controls such as Fire Safety training, performing health and safety due diligence when buying new equipment etc.
* The criteria defined in Level 1 around zero tolerance for bribery should be implemented through controls such as yearly anti-bribery training, performing corruption related due diligence before starting conducting business with any external organization etc.
* The criteria defined in Level 2 around unintentionally sharing customer information should be implemented through controls such as classification of information based on level of confidentiality, approval process before authorizing an individual access to IT systems with sensitive information etc.

# Aligning Risk Appetite with Risk Bearing Capacity

MAFIL has a finite amount of risk bearing capacity, which is defined as “The maximum level of resources MAFIL can outlay or expose in managing its risks without requiring a significant change to its business objectives and strategy”.

As of now there is no Regulatory directives or any internal guidance for allocating capital specifically for the operational risks that MAFIL carries at any point in time. However, with the introduction of Scale based Regulation it may become necessary to provide capital for all risks viz credit, Market, operational risks etc in line with ICAAP norms. As a gold lender MAFIL is likely to have savings in capital, (gold is a financial collateral which can be netted to exposures, with a haircut of 15%) once capital charge as per Basel III is introduced in NBFCs.

Accordingly, the risk bearing capacity of MAFIL vis a vis capital will be in place once the ICAAP driven model is evolved going forward. Given that MAFIL has high Capital Adequacy compared to its credit risks, the current capital is adequately cover all MAFIL’s risks. Incremental load on the capital emanating from market and operational risks are to be tightly controlled with appropriate under overall control of the Board and Risk Management Committee.

# Customise Risk Appetite Statement for Business Units

This risk appetite statement has been defined to be applicable for the company level and hence any context specific to business units has not been included. It is expected that individual business units will utilize this document as a basis for creating a risk appetite statement document for risk owners and other stakeholders within their business unit – if necessary, in consultation with the Chief Risk Officer. Such customized statements should include context information specific for the business unit, so its content can be relevant for the consumers of the statement within the business unit.

Such customization should retain the criteria defined within Level 1 of this document. New criteria can be added but existing criteria cannot be modified or removed. Business units can make any changes to criteria defined in all other levels.

If a business unit does not define a customized version of the risk appetite statement, then this document will be applicable for all risk appetite related activities (e.g. reporting) of such business units.

The format to be used by units & at entity level to identify performance indicators with acceptable risk Appetite/Tolerances is given as Annexure 1.

# Monitoring Risk Appetite through Key Risk Indicator

Risk appetite breach Report including any breaches in the loan covenants thresholds shall be submitted to the Senior Management at periodical intervals. In addition, risk owners should also define one or more indicators for their risks to monitor potential or actual breach of any criteria defined earlier in this document. Continuous monitoring risks using such indicators aka known as Key Risk Indicator can provide risk owners with information on a timely basis. Without such information, risk owners may only find out about potential breaches during the quarterly assessments and this may sometimes restrict the amount of time available to risk owners for making decisions related to potential breach of risk appetite.

Examples of such Key Risk Indicator monitoring may include: -

* Number of whistle blowing issues reported.
* Number of new loss events reported.
* Number of exceptions raised for specific policies such as Gift Policy, Information Security Policy etc.
* Number of audit findings raised.
* Increase indelinquency in the portfolios.
* Deterioration in liquidity.
* Instances of breaches in individual/group exposure limits.
* Instances of breaching prudential ceilings for individual/ group exposure / industry exposure prescribed by regulators or the Board.
* Instances of breaches in mix of funding. (Liquidity risk)
* Instances of delay/default in repayment of debt by MAFIL.
* Instances of fines/adverse comments from regulators. viz; RBI, SEBI etc.
* Instances of breaches in any covenant thresholds set by Risk Management committee or any lenders to MAFIL.
* Losses on account of frauds.
* Instances of IT or security incidents.
* Incidences that may affect reputation of the company.

# Risk Appetite & Risk Culture

MAFIL recognizes that risk culture is a very important factor driving the risk appetite. However, MAFIL also pro-actively intends to use the risk appetite to influence the risk culture, so the risk culture can facilitate MAFIL to achieve its business objectives.

1. **Misconduct and remedial measures**

Gross violation (substantial deviation) in breaching the unit level threshold /tolerance levels will be looked into in order to examine the causes and circumstances. In cases where there is reason to believe that there is mala fide intention on the part of staff involved, this will be referred to internal Vigilance /HR for suitable action.

# Review of Risk Appetite Statements

The entity level and Unit Level Risk Appetite Statements may be reviewed and updated on an annual basis, at a minimum or more frequently based on the changes in strategies, risk capacity, market conditions etc.

Chief Risk Office shall present compliance and deviations to the Key Risk Indicators to the Risk Management Committee of the Board (RMCB) on a quarterly basis. RMCB based on the review of the presentation may recommend to the Board for introducing additional controls or risk indicators so that the risks in the company are properly managed.

RMCB may also review the breaches that occur repeatedly and shall advise the Senior Management to take corrective actions and if required to modify the tolerance limits, if such relaxations are acceptable.

RMCB while reviewing the deviations may guide the Senior Management to take appropriate disciplinary actions to be taken against the officials for excessive risk taking.

**19**. **Variance of the Risk Appetite Statement during the abnormal situations.**

The risk tolerance limits prescribed are for the normal circumstances. In situations like down turn of economy, natural calamities or black swan events like Covid – 19 pandemic, the tolerance limits shall be revised temporarily subject to close supervision.

# 20.Review of the policy

The Policy will be reviewed annually to ensure that the Policy remains current and relevant and with changes/amendments, as required & will follow the review / approval / ratification process.

This policy will be owned by the CRO who will be responsible for the maintenance of this policy.

\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*

**Annexure-1:** **Risk Tolerance limits (Current Board approved thresholds)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **OPERATIONAL RISK** | | | | | | | | |
| **#** | **Key Risk Indicators (KRIs)** | **Impact** | **Metric Used** | **Tolerance Limit/ Threshold** | **Actual Figures** | **Threshold Period - Date** | **Data Source/ Dept** | **Remarks** |
| **1** | Staff Attrition monthly - Entity level (critical resource affecting the business & operations. | Potential for Disruption to business & operations across MAFIL & employee morale | % | 2 |  | Monthly | HR |  |
| **2** | Number of key open positions in terms of staff vacancies pending > 1 month to fill, that may affect business performance | Potential for Disruption to business /company performance/profitability of business, growth of business | NOS | 4 |  | Quarterly | HR-TA |  |
| **3** | Critical customer complaints received by Customer Relationship Management and through any other sources in a month | Can attract reputational loss and financial loss o/a customer disputes/ court cases | NOS | 100 |  | Monthly | CRM |  |
| **4** | Critical customer complaint pending for resolution > 2 months, which can lead to disputes/court cases | Can attract reputational loss and financial loss o/a customer disputes/ court cases | NOS | 0 |  | Quarterly | CRM |  |
| 5 | Open Audit Points : High & very high findings from statutory/financial/RBI /Internal audits, crossing deadlines for resolution/completion of action plan | Regulatory/ Reputational risk -can attract fines/ penalties leading to financial losses. | NOS | 0 |  | Quarterly | AUDIT |  |
| 6 | Inaccurate appraisal of gold pledged & spurious cases identified against total co-lateral - on weight | Can affect business performance/ budget plans; leading to financial loss | % | 0.5 |  | Quarterly | Operations/ Gold Loan |  |
| **7** | Un-identified major thefts/frauds in all branches/Divisions,/HO of MAFIL | Potential for both Financial losses and high reputational risk | NOS | 0 |  | Quarterly | Compliance |  |
| **8** | Amount of loss written off due to thefts/frauds at company level in a Financial Year. | Potential for both Financial losses and high reputational risk | AMOUNT (INR CR) 25 Cr -Yearly | 6.25 Cr |  | Yearly | vigilance |  |
| **9** | Instances of KYC Norms not met/pending for rectification > 2 months | Potential regulatory violations & financial losses due to penalty/fines | NOS | 0 |  | Monthly | Operations/KYC Unit |  |
| **10** | Number of branches (pan-India) on lease, without valid lease agreements (pending for renewal/not in place etc) | This can lead to litigations between owners of premises & company and can have an Financial loss impact. | NOS | 200 |  | Yearly | RIIM |  |
| **11** | Instances of disaster Recovery Planning failed - during the half year | High risk on branch performances & potential to impact business continuity & customer service | NOS | 0 |  | Half year | IT |  |
| **12** | Instances of critical IT issues reported - annually affecting the business performance. | Potential for Disruption to business /company performance/profitability of business, growth of business | NOS | 2 |  | Yearly | IT |  |
| **13** | Number of critical IT issues pending for resolution > 1 month, affecting company businesses. | Potential for Disruption to business /company performance/profitability of business, growth of business | NOS | 0 |  | Monthly | IT |  |
| **14** | Instances of suspicious transactions of customers noticed monthly | Regulatory requirement & any violation can lead to fines and penalties, causing financial loss. | NOS | 120 |  | Monthly | AML Monitoring dept |  |
| **15** | Instances of any information security voilations & sensitive data leakage result in financial loss/reputation loss | violations can attract fines/penalties leading to financial losses. Potential for reputational risk also. | NOS | 0 |  | Monthly | IT |  |
| **16** | Number of instances crossing deadlines on completion of projects  > 2 months  (for project value > 25 lacs), across company | Risk on escalation of prices and can lead to financial loss | NOS | 0 |  | End of Month | Civil |  |
| **17** | eSecurity monitoring failed during the period due to pan India connection issue | Potential for un-detected frauds/thefts - can result in financial loss & reputational damages | NOS | 3 |  | Yearly | E-Security |  |
| **18** | Number of staff who have not attended mandatory eLearning courses | potential for Internal Policy violation | NOS | 0 |  | Monthly | Training |  |
| **19** | Number of un-reconciled bank accounts at entity level in a month or delayed reconciliation. | Un-identified/un-reconciled entries can cause delay in accounting to correct revenue/asset or liability - can impact wrong profit reporting/wrong balance sheet | NOS | 0 |  | Monthly | F & A |  |
| **20** | Irregular money transfers, (not in line with regulations) & wrong amount remitted, amount paid to wrong customers | Potential for fines/penalties - & financial losses | NOS | 0 |  | Monthly | Money Transfer |  |

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| **STATUTORY RISK** | | | | | | | | |
| **#** | **Key Risk Indicators (KRIs)** | **Impact** | **Metric Used** | **Tolerance Limit/ Threshold** | **Actual Figures** | **Threshold Period - Date** | **Data Source/ Dept** | **Mitigants for deviations** |
| **1** | Instances of non-adherence to taxation guidelines, omissions/errors, wrong calculations & remittances/return submissions & delayed compliances (TDS, GST, Income Tax   etc) | Regulatory/Reputational risk -can attract fines/penalties by regulators leading to financial losses. | NOS | 0 |  | Quarterly | Taxation |  |
| **2** | Statutory deductions based on Monthly Salary statement towards Income Tax / ESI /PF and timely remittance as per statutory requirements | Employee disputes/litigations, statutory violations - can lead to fines/penalties thereby financial loss | AMOUNT | 0 |  | Monthly | HR-E |  |
| **3** | Statutory Filing of returns-Instance of non-filing/delayed filing of returns pertaining to TDS,Bonus, Professional Tax. | Regulatory/Reputational risk -can attract fines/penalties leading to financial losses. | NOS | 0 |  | Yearly | HR-E |  |
| **4** | Deviations to Accounting processes (delay, wrong entries with incorrect amount, wrong classification, delay in capitalisation etc) | Wrong presentation of books of accounts of company | NOS | 0 |  | Monthly | F & A |  |
| **5** | Errors /omissions in maintenance of assets, valuation, delay in accounting depreciation entries etc) - pending for rectification beyond a quarter | Wrong representation of books of accounts of company | NOS | 0 |  | End of Month | F & A |  |

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| **BUSINESS RISK** | | | | | | | | | |
| **#** | **Key Risk Indicators (KRIs)** | **Impact** | **Metric Used** | **Tolerance Limit/ Threshold** | **Actual Figures** | **Threshold Period - Date** | **Data Source/ Dept** | **Mitigants for deviations** |
| **1** | Deviations on business targets observed from the Yearly Business Plan in terms of growth , volume and other parameters which can cause performance of business - viz., | Potential for Disruption to business /company performance/profitability of business, growth of business |  |  |  |  | Gold Loan |  |
| a) New Customer Acquisition ( Nos) | % | 15 |  | Quarterly |
| b) Collateral Growth ( Kg) | % | 15 |  | Quarterly |
| c) Customer base increase ( Nos) | % | 10 |  | Quarterly |
| **2** | Breaches of budgeted percentage of Gold Auction amount v/s corresponding realisable amount  (auction Reduction) | Potential to affect the budgeted profit in case of the recovery is quite low | % | 1 |  | Yearly | Gold Loan (Auction) |  |
| **3** | Portfolio growth: Deviations from the budget | Potential for Disruption to business /company performance/profitability of business, growth of business | % | 15 |  | Annually | All the non gold loan vertical |  |

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| **CREDIT RISK** | | | | | | | | | | | | | | | | | | | | | | | |
| **#** | | | **Key Risk Indicators (KRIs)** | | | **Impact** | | | | **Metric Used** | **Tolerance Limit/ Threshold** | | | **Actual Figures** | | | **Threshold Period - Date** | | | **Data Source/ Dept** | | | **Mitigants for deviations** |
| **1** | | | Delinquency levels - Non-Performing Assets - % of excess than the budgeted NPA as per yearly business plan. | | | Potential for both financial loss as well as reputational risk | | | | % | 3 | | |  | | | Yearly | | | All non gold verticals | | |  |
| **2** | | | Gold Loan Portfolio Delinquency levels - Non-Performing Assets - % of excess than the budgeted NPA as per yearly business plan. | | | Can affect business performance/ budget plans; leading to financial loss | | | | % | 0.5 | | |  | | | Yearly | | | Gold Loan | | |  |
| **3** | | | Instances of breaching individual /group exposure ceilings prescribed by regulators | | | Regulatory/Reputational risk -can attract fines/penalties leading to financial losses. | | | | Nos | 0 | | |  | | | Quarterly | | | Treasury | | |  |
| **4** | | | Instances of breaches in industry/sector exposure ceilings | | | Can increase concentration risk in credit portfolios. | | | | Nos | 0 | | |  | | | Quarterly | | | Treasury | | |  |
| **8** | | | Cheque Bounce | | | Can affect business performance/ budget plans; leading to financial loss | | | | % | 5 | | |  | | | Quarterly | | | All non gold verticals | | |  |
| First EMI Bounce | | | % | 0 | | |  | | | Quarterly | | | All non gold verticals | | |  |
| **Delinquency** | | |  | | | | | | | | | | | | | |
| Upto 30 days | | | % | 8 | | |  | | | Quarterly | | | All non gold verticals | | |  |
| 31-60 days | | | % | 5 | | |  | | | Quarterly | | | All non gold verticals | | |  |
| 61-90 days | | | % | 4 | | |  | | | Quarterly | | | All non gold verticals | | |  |
| Above 90 days | | | % | 3 | | |  | | | Quarterly | | | All non gold verticals | | |  |
| **REGULATORY RISK** | | | | | | | | | | | | | | | | | | | | | | | | |
| **#** | | **Key Risk Indicators (KRIs)** | | | **Impact** | | | | **Metric Used** | | **Tolerance Limit/ Threshold** | | | **Actual Figures** | | | **Threshold Period - Date** | | **Data Source/ Dept** | | | | **Mitigants for deviations** | |
| **1** | | Instances of breaches on regulatory/statutory compliance, non- reporting, or delayed/incorrect reporting in adherence to various statutory requirements, pending renewal of licences etc. | | | Regulatory/Reputational risk -can attract fines/penalties leading to financial losses. | | | | NOS | | 0 | | |  | | | Quarterly | | Compliance | | | |  | |
| **2** | | Non-adherence in relation to SEBI/RBI Company's Act/ Board Of Directors requirements, & regulatory norms/mandatory disclosures - and all other compulsory & important related norms. | | | Regulatory/Reputational risk -can attract fines/penalties by regulators leading to financial losses. | | | | NOS | | 0 | | |  | | | Quarterly | | Secretarial | | | |  | |
| **3** | | Instances observed where the Gold loan amount disbursed, which has exceeded more than 75% of the price of gold pledged by customer - to adhere to RBI guidelines on Gold Loans. | | | Violation to Reserve Bank of India guidelines; this can attract fines/penalties by Reserve Bank of India | | | | NOS | | 0 | | |  | | | Quarterly | | Operations/Gold Loan | | | |  | |
| **4** | | Breaches on the laid down processes/Internal Policies/RBI directives in relation to managing Gold Auctions | | | Violation to Reserve Bank of India guidelines; this can attract fines/penalties by RBI. | | | | NOS | | 0 | | |  | | | Monthly | | Auction | | | |  | |
| **5** | | Instances of CRAR going below regulatory limit. | | | We need to raise capital or reduce our assets. | | | | Nos | | 0 | | |  | | | Quarterly | | Treasury | | | |  | |
| **6** | | Instances of fines/adverse comments from regulators. Viz; RBI, SEBI etc | | | Regulatory/Reputational risk -can attract fines/penalties by regulators leading to financial losses. | | | | Nos | | 0 | | |  | | | Quarterly | | Secretarial | | | |  | |
| **7** | | IRAC norms | | |  | | | |  | | 0 | | |  | | | Daily | | Accounts | | | |  | |
| **8** | | Provisioning | | |  | | | |  | | 0 | | |  | | | Monthly | | Accounts | | | |  | |
| **9** | | Instances of realisation of gold below 85% of market value. | | |  | | | | Nos | | 0 | | |  | | | Monthly | | Auction | | | |  | |
| **10** | | Delay in filing of records of mortgages with the Central Registry | | |  | | | | Nos | | 0 | | |  | | | Daily | | NGL verticals | | | |  | |
| **11** | | Disbursal of loan in cash in excess of Rs 20,000/- | | |  | | | | Nos | | 0 | | |  | | | Daily | | All business verticals | | | |  | |
| **LIQUIDITY RISK** | | | | | | | | | | | | | | | | | | | | | | | | |
| **#** | | | **Key Risk Indicators (KRIs)** | | | **Impact** | | **Metric Used** | | **Tolerance Limit/ Threshold** | | | **Actual Figures** | | | **Threshold Period - Date** | | | | **Data Source/ Dept** | | **Mitigants for deviations** | | |
| **1** | | | Instances of breaches in mix of funding | | | Can affect Asset Liability Management | | % | | 5 | | |  | | | Quarterly | | | | Treasury | |  | | |
| **2** | | | Instances of delay /default in repayment of debt by us. | | | Can affect business performance/ budget plans; leading to financial loss | | Nos | | 0 | | |  | | | Quarterly | | | | Treasury | |  | | |
| **3** | | | LCR below prescribed limit | | | Regulatory | | % | | 0 | | |  | | |  | | | |  | |  | | |
| **4** | | | Single lender concentration (<15% of Total borrowings) | | | Higher dependency on a few lenders | | % | | 0 | | |  | | |  | | | |  | |  | | |
| **5** | | | Foreign currency exposure (<25% of total borrowings) | | | Higher dependency on few lender | | % | | 0 | | |  | | |  | | | |  | |  | | |
|  | | | **FINANCIAL RISKS** | | | | | | | | | | | | | | | | | | | | | |
| **1** | | | CRAR | | | Regulatory | | % | | 25% | | |  | | |  | | | |  | |  | | |
| **2** | | | DER | | | Can impact financial flexibility | | Times to NOF | |  | | |  | | |  | | | |  | |  | | |
| **3** | | | Deviations on business targets observed from the Yearly Business Plan in respect of: | | | | |  | |  | | |  | | |  | | | |  | |  | | |
|  | | | 1. ROE | | |  | | % | | 5 | | |  | | |  | | | |  | |  | | |
|  | | | 1. ROA | | |  | | % | | 5 | | |  | | |  | | | |  | |  | | |
|  | | | 1. NIM | | |  | | % | | 5 | | |  | | |  | | | |  | |  | | |
|  | | | 1. Opex | | |  | | % | | 5 | | |  | | |  | | | |  | |  | | |
| **4** | | | Unhedged forex exposure | | |  | | USD | | 1 million | | |  | | |  | | | |  | |  | | |
| **5** | | | Breaches in covenants with the lenders | | |  | | No. | | 0 | | |  | | |  | | | |  | |  | | |

# Prudential Exposure Ceilings

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| **Description** | **Exposure ceiling (Cr)** | **Actual**  **(Cr)** |
| **Gold loan** |  |  |
| Single borrower | 10.00 |  |
| Substantial exposure (Rs 10 lakh & above) | Maximum 20% of the portfolio |  |
| Portfolio ceiling | 30000.00 |  |
| **SME** |  |  |
| Single borrower | 1.00 |  |
| Group | 2.00 |  |
| Portfolio ceiling | 200.00 |  |
| **Corporate** |  |  |
| Individual | 100.00 |  |
| Group | 150.00 |  |
| Portfolio ceiling | 150.00 |  |
| **NBFCs / MFIs / HFCs** |  |  |
| Individual | 100.00 |  |
| Group | 150.00 |  |
| Portfolio ceiling | 2000.00 |  |
| **Digital Personal Loan** |  |  |
| Individual | 0.05 |  |
| Portfolio ceiling | 500.00 |  |
| **Secured Personal Loan** |  |  |
| Individual | 0.50 |  |
| Portfolio ceiling | 1000.00 |  |
| **Micro Home Finance** |  |  |
| Individual | 0.50 |  |
| Portfolio Ceiling | 1500.00 |  |
| **MSME** |  |  |
| Single borrower | 0.50 |  |
| Portfolio ceiling | 1500.00 |  |
| **Loan to Consumer Durables** |  |  |
| Single borrower | 0.03 |  |
| Portfolio ceiling | 100.00 |  |
| **Loan to Food Industry** |  |  |
| Single borrower | 0.25 |  |
| Portfolio ceiling | 100.00 |  |
| **Restaurant Finance** |  |  |
| Single borrower | 0.15 |  |
| Portfolio ceiling | 100.00 |  |
| **Small Scale Industrial Loan** |  |  |
|  |  |  |
| Single borrower | 0.25 |  |
| Portfolio ceiling | 100.00 |  |
| School Finance |  |  |
| Single borrower | 0.25 |  |
| Portfolio ceiling | 100.00 |  |
| **Health Care Industry Loan** |  |  |
| Single borrower | 0.03 |  |
| Portfolio ceiling | 100.00 |  |
| **Mahila Micro Credit Loan** |  |  |
| Single borrower | 0.15 |  |
| Portfolio ceiling | 100.00 |  |
| **Traders Micro Credit Loan** |  |  |
| Single borrower | 0.03 |  |
| Portfolio ceiling | 100.00 |  |
| **Micro Credit Loan** |  |  |
| Single borrower | 0.25 |  |
| Portfolio ceiling | 100.00 |  |
| **Vehicle loans** |  |  |
| Individual | 1.00 |  |
| Strategic Customers | 3.00 |  |
| Large Strategic Customers | 15.00 |  |
| Group | 20.00 |  |
| Portfolio ceiling | 5000.00 |  |
| **Commercial Real Estate** |  |  |
| Individual | 25.00 |  |
| Group | 50.00 |  |
| Portfolio ceiling | 1000.00 |  |
| Of which ceiling for financing Land Acquisition | 300.00 |  |
| **Unsecured loans** | 2000.00 |  |
| Portfolio buyout | 25% of the AUM |  |
| Unhedged forex exposure | Overnight |  |
| Exposure under joint /Co-lending | 500.00 |  |
| Exposure to subsidiaries | Regulatory limit |  |
| **Consumer Credit Exposure** | 5% of standalone AUM |  |
|  |  |  |
|  |  |  |