

## **CREDITACCESS GRAMEEN LIMITED**

### **POLICY FOR INTIMATION OF THE BOARD ABOUT RISK ASSESSMENT AND MINIMIZATION PROCEDURES**

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| Approving Authority | Board of Directors                      |
| Original Issue Date | January 12, 2018                        |
| Version No.         | 1.0                                     |
| Effective Date      | January 12, 2018                        |
| Review Cycle        | Annually or as recommended by the Board |

## **RISK ASSESSMENT, MANAGEMENT & MITIGATION - POLICY AND PROCEDURES**

Risk is an inherent aspect of the dynamic business environment. Risk Management Policy helps organizations to put in place effective frameworks for taking informed decisions about risks. To minimize the adverse consequence of risks on business objectives the Company has framed this Risk Management Policy. The guidance provides a route map for risk management, bringing together policy and guidance from Board of Directors.

CreditAccess Grameen Limited ("Company") is one of the leading microfinance institutions in India focused on providing financial support to women from low income households engaged in economic activity with limited access to financial services. The Company predominantly offers collateral free loans to women from low income households, willing to borrow in a group and agreeable to take joint liability. The wide range of lending products address the critical needs of customers throughout their lifecycle and include income generation, home improvement, children's education, sanitation and personal emergency loans. In 2016, with a view to diversifying the product profile, the company introduced individual retail finance loans for customers who had been the customers of the Company for at least three years. These loans are offered to customers, for establishing a new enterprise or expand an existing business in their individual capacity.

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks inter-alia are operational, business environment, political, regulatory, concentration, expansion and liquidity. As a matter of policy, these risks are assessed and steps as appropriate, are taken to mitigate the same.

| <b>Area</b>                         | <b>Description</b>   |
|-------------------------------------|--|
| <b>Risk</b>                         | Risk is defined as events that may prevent achievement of the aims or goals of one or more key business or project stakeholders.   |
| <b>Risk Management</b>              | Risk Management is a systematic way of protecting business resources and income against losses so that the objectives of the Company can be achieved without unnecessary interruption.   |
| <b>Risk Strategy</b>                | The Risk Strategy of a Company defines the Company's standpoint towards dealing with various risks associated with the business. It includes the Company's decision on the risk tolerance levels, and acceptance, avoidance or transfer of risks faced by the Company. |
| <b>Risk Assessment</b>              | Risk Assessment is the systematic process of identifying and analysing risks.  |
| <b>Risk Estimation</b>              | Risk Estimation is the process of quantification of risks.   |
| <b>Risk Tolerance/Risk Appetite</b> | Risk tolerance or Risk appetite indicates the maximum quantum of risk which the Company is willing to take as determined from time to time in accordance with the Risk Strategy of the Company.  |
| <b>Risk Description</b>             | A Risk Description is a comprehensive collection of information about a particular risk recorded in a structured manner.   |

| Area | Description |
|------|-------------|
|      |             |

### **Requirement as per Companies Act, 2013**

Responsibility of the Board: As per Section 134 (n) of the Act, the Board of Directors' report must include a statement indicating development and implementation of a risk management policy for the Company including identification of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company.

Responsibility of the Audit Committee: As per Section 177 (4)(vii) of the Act, the Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter-alia, include evaluation of internal financial controls and risk management systems.

Responsibility of the Independent Directors: As per Schedule IV [Part II-(4)] of the Act, Independent directors should satisfy themselves that financial controls and the systems of risk management are robust and defensible.

### **Requirement of the SEBI (Listing Obligations and Disclosure Regulations)**

Responsibility of the Audit Committee: The role of the Audit Committee shall include the reviewing of the Company's financial and risk management policies.

The Company through its Board of Directors shall constitute a Risk Management Committee. The Board shall define the roles and responsibilities of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit. The Risk Management Committee would oversee working of risk management practices/strategies by approving Key Results Expected and reviewing the same. The committee would also review action taken report in respect of suggestions/recommendations made in the previous meeting.

The roles and responsibilities of Risk Management Committee shall include the following:

- To assess the Company's risk profile and key areas of risk in-particular;
- To examine and determine the sufficiency of the Company's internal process for reporting on and managing key risk areas;
- To develop and implement a risk management framework and internal control system;
- To assess the changes in the Company's risk profile, and assess specific risks and adequacy of the risk management process;
- To examine and determine the sufficiency of the Company's internal processes for reporting on and managing key risk areas.
- To review the monitoring updates and actions taken as reported by the Management Level Risk Committee

## **Risk Management Framework**

A systematic approach is adopted to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. This would ensure mitigating steps proactively and help achieve stated objectives. The entity's objectives can be viewed in the context of four categories: (i) Strategic, (2) Operations, (3) Reporting and (4) Compliance. The activities at all levels of the organization are considered, viz. (1) Head Office, (2) Region/Division, (3) Department and (4) Branch level, in the risk management framework. These eight components are interrelated and drive the Enterprise Wide Risk Management with focus on three key elements, viz. (1) Risk Assessment; (2) Risk Management; (3) Risk Monitoring.

To meet the stated objectives, it is imperative to make effective strategies for exploiting opportunities and as a part of this the Company has identified key risks and developed plans for managing the same.

### **Organizational Objectives**

#### **Strategic:**

1. Organizational growth.
2. Comprehensive range of loan products.
3. Sustenance and growth of strong relationships with customers.
4. Expanding presence in existing markets and penetrating new geographic markets.
5. Continuing to enhance industry expertise.
6. Enhancing capabilities through technology alliances and in house technology developments.

#### **Operations:**

7. Consistent & Quality portfolio growth.
8. Consistent profitability.
9. High Customer retention
10. Stringent internal controls
11. Maintain and Develop organization culture.
12. Attracting and retaining human talent and augmenting their training.

#### **Reporting:**

13. Maintaining high standards of Corporate Governance and disclosure.

#### **Compliance:**

14. Ensuring strict adherence to policies, procedures and laws / rules /regulations / standards.

### **Principles of Risk Management**

Risk Management Department (RMD) will carry out risk assessments regularly at all levels of the organization, record the findings and ensure appropriate management actions in a timely fashion.

Risk reviews will specifically address credit, operational, financial, political, regulatory and reputational risks. In particular, the following activities will be undertaken:

- Comprehensive risk assessment performed during product launch, policy and/or process change and any other new proposal for business activity
- Integrated risk management processes in all activities
- Regular review and update of risk register
- Monitoring of Key Risk Indicators
- Preparation of contingency plans for high risks
- Early identification of emerging risks and initiation of risk reduction or mitigation action
- Where appropriate, the RMD may need to consider specialist advice for areas such as:
  - Disaster Recovery
  - Media/ Public Relations
  - Non-compliance Risk for Insider Trading

In addition to the above principles, the following are also to be followed by the Company:

- The Risk Management guidelines shall provide for the enhancement and protection of business value from uncertainties and consequent losses;
- All employees of the Company shall be made aware of risks in their respective domains and their mitigation measures;
- The risk mitigation measures adopted by the Company shall be effective in the long-term and to the extent possible be embedded in the business processes of the Company;
- Risk threshold levels will be regularly reviewed and decided upon depending on the change in Company's strategy;
- The occurrence, progress and status of all risks will be promptly reported and appropriate actions be taken thereof.

### **Risk Control and Self-Assessment (RCSA)**

Risk assessments shall be conducted for all business activities. The assessments are to address potential risks and to comply with relevant legal and regulatory requirements. Risk assessments are performed by competent personnel from individual departments and risk management department including, where appropriate, expertise from outside the Company.

Procedures shall be established to update risk assessments at appropriate intervals and to review these assessments regularly.

The process of Risk Assessment shall cover the following:

- **Risk Identification and Categorization** – the process of identifying the Company's exposure to uncertainty classified as Strategic / Credit/ Operational / Regulatory / Political.
- **Risk Description** – the method of systematically capturing and recording the Company's identified risks in a structured format
- **Risk Impact** – the process for estimating the likely impact either by quantitative, semi-quantitative or qualitative approach.

## **Identification and categorization of risks**

As defined earlier, risk is defined as events that may prevent achievement of the aims or goals of one or more key business or project stakeholders. Risk is also an event or condition that may occur and whose occurrence, if it does not take place, has a harmful or negative impact on the achievement of Company's business objectives.

Key characteristics by which risks can be identified are:

- Risks are adverse consequences of events or changed conditions
- Their occurrence may be identified by the happening of trigger events
- Their occurrence is uncertain and may have different extents of likelihood

Recognizing the kind of risks that Company is/may be exposed to, risks will be classified broadly into the following categories:

**Strategic Risk:** include the range of external events and trends (like Government policy, competition, court rulings, change in regulations or a change in stakeholder requirements) that can adversely impact the Company's strategic growth trajectory and destroy shareholder value.

**Credit Risks:** Credit risk is the potential that a borrower will fail to meet his/her obligations in accordance with agreed terms. It is the risk of losses because one or more counter parties fail to meet all or part of their obligations towards Company. This risk also translates into provision for sub-standard and doubtful assets.

**Operational Risks:** These risks relate broadly to the Company's organization and management, such as planning, monitoring and reporting systems in the day-to-day management process including, but not limited to the following:

- (i) Process risks,
- (ii) Internal Fraud risks,
- (iii) Business interruption risks,
- (iv) Profitability risks,
- (v) Client preferences; and
- (vi) Increase in competition

**Political risk:** These risks relate to negative impact on business operations due to political activism, changes, interference or adverse decisions.

**Regulatory risk:** These risks related to risk of changes in regulations and law that might affect the industry or business. Such changes in regulations can make significant changes in the framework of an industry, changes in cost-structure etc.

**Liquidity Risks:** These risks relate to debt financing, including, but not limited to the following:

- (i) Financial Solvency and liquidity risks
- (ii) Borrowing limits

(iii) Cash management risks

**Human Resource Risks:** These risks relate to personnel employed by the Company, including but not limited to the following:

- (i) Employee Turnover Risks, involving replacement risks, training risks, skill risks, etc.
- (ii) Lapses in processes leading to dilution of organization culture and discipline

**Disaster Risks:** These risks relate to force majeure events that may adversely impact the Company including but not limited to the following:

- (i) Natural calamity risks like fire, Floods, Earthquakes, etc.
- (ii) Terrorist attacks;
- (iii) Insurgency;

**Legal Risks:** Legal risk is the risk in which the Company is exposed to legal action. These risks shall include, but not limited to the following:

- (i) Contract Risks
- (ii) Contractual Liability
- (iii) Frauds

**Insider Trading:** is the risk involved in illegal practice of trading on the stock exchange to one's own advantage through having access to the Company's confidential information.

### **Risk Identification Procedure**

The heads of all the departments in association with risk management department will be responsible for coordinating the systems for identifying risks within their own department or business activity through RCSA exercise to be conducted at regular intervals.

- The respective departments will liaise with each supervisor within their group to ensure that they are aware of their duties regarding the risk management system. It is the responsibility of each supervisor to identify the risks associated within their particular operational area. As part of this risk identification process, supervisors should seek the involvement and comments of their team. This will enable ownership of the process to be shared throughout Company.
- Supervisors should consult their team members what they perceive to be the risks to achieving each of these objectives.
- Details of all risks identified must be recorded
- The completed Risk Register will be sent to the senior management for approval either as Risk Register or through agreed status reports or as per defined and agreed formats as specified in the group's process definitions. Risk Management Department is responsible for maintaining the Risk Registers.

The 'Risk Register' should contain the following information:

- Description of the risk
  - Type of Risk
  - Severity of the Risk
  - Probability and/or impact of the event
  - A summary of the mitigation plan (i.e. the actions taken in advance to reduce the impact)
  - The responsible function / person (risk owner)
- Risks may also be identified from a number of other sources including:
- Workplace / Field Incident reports
  - Complaints and grievances
  - External and internal audit reports
  - Quality Control and Field Risk Reports
  - Business Plan
  - Vendors dependencies
  - Business Decisions

### **Risk Description**

A risk description helps in understanding the nature and quantum of risk and its likely impact and possible mitigation measures. Risk descriptions for each of the risks are to be documented and recorded in a structured format in each area where the risk is identified. The suggested format is provided below:

| <b>Area</b>              | <b>Definition</b>  |
|--------------------------|--|
| Risk Description         | Qualitative description of the events by which the occurrence of the risk may be identified  |
| Type of the Risk         | Strategic/ Credit / Operational / Political / Regulatory etc.  |
| Likelihood of Occurrence | Loss potential and financial impact of risk on the business<br>Probability of occurrence and size of potential losses<br>Objective(s) for control of the risk and desired level of performance<br>To assimilate Risk Trigger |
| Risk Index               | Impact, if risk materializes, provides guidance in terms of monitoring the risk frequently to control and treat.   |
| Mitigation Plan          | Primary means by which the risk is currently being managed<br>Levels of confidence in existing control system<br>Identification of protocols for monitoring and review of the process of treatment and control               |
| Contingency Plan         | Proper and immediate follow-up steps to be taken   |
| Status                   | Risk Status Open / Close / Pending   |

### **Risk Estimation**

In this process, the consequences of the risk occurrences have to be quantified to the maximum extent possible, using quantitative, semi-quantitative or qualitative techniques.

Process of risk quantification for the company has to be qualitative, supported by quantitative impact analysis. To apply this approach, the chain of adverse consequences, which may occur in case the identified risk materializes, should be enlisted and mitigation plan should be put in place. For each of the chains of adverse consequences, the cost impact needs to be calculated and attributed to the particular risk. In such an exercise, actual cost impacts as well as opportunity costs must be captured to arrive at the total cost impact of materialization of the risk. According to the adverse impact analysis for identified risks, an appropriate risk rating shall be determined for each risk identified. This exercise will be done by each department head in association with Risk Management Department.

### **Risk Mitigation & Management Strategy**

Based on the RCSA, the Company shall formulate its Risk Management Strategy / Risk Management plan on annual basis. The strategy will broadly entail choosing among the various options for risk mitigation for each identified risk. The risk mitigation can be planned using the following key strategies:

Risk Avoidance: By not performing an activity that could carry risk. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed.

Risk Transfer: Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging.

Risk Reduction: Employing methods/solutions that reduce the severity of the loss

Risk Retention: Accepting the loss when it occurs. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater over time than the total losses sustained. All risks that are not avoided or transferred are retained by default. This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums would be infeasible.

### **Proposed Risk Mitigation Strategy**

The following table summarises the management strategies and policies adopted by the Company to manage the various key risks.

#### **Political Risk mitigation measures:**

- Low cost operations and Low pricing for customers
- Customer centric Approach, High Customer Retention
- Rural Focus
- Systematic customer awareness activities
- High Social Focused Activities
- Adherence to client protection guidelines
- Robust Grievance Redressal Mechanism
- Adherence to regulatory guidelines in letter and spirit

**Concentration Risk mitigation measures:**

- District Centric Approach
- District Exposure Cap
- Restriction on growth in urban locations
- Maximum Disbursement Cap per loan account
- Maximum loan exposure Cap per customer
- Diversified Funding Resources

**Operational & HR Risk mitigation measures:**

- Stringent customer enrolment process
- Multiple products
- Proper recruitment policy and appraisal system
- Adequately trained field force
- Weekly & fortnightly collections – higher customer touch, lower amount instalments
- Multilevel monitoring framework
- Strong, Independent and fully automated Internal Audit Function
- Strong IT system with access to real time client and loan data

**Liquidity Risk mitigation measures:**

- Diversified funding resources
- Asset Liability management
- Effective Fund management
- Maximum Cash holding Cap

**Expansion Risk mitigation measures:**

- Contiguous growth
- District centric approach
- Rural focus
- Branch selection based on Census Data & Credit Bureau Data
- Three level survey of the location selected

**Insider Trading mitigation measures**

The Company will comply with the provisions of SEBI (Prohibition of Insider Trading) Regulations, 2015 on the listing of its shares on BSE and NSE. The Company Secretary and Compliance Officer, will set forth policies, procedures, monitoring and adherence to the rules for the preservation of price sensitive information and the implementation of the code of conduct under the overall supervision of the Board.

**Risk Management Guidelines Implementation**

The Risk Management guidelines will be implemented through the established organization structure of Risk Department. The overall monitoring of the Risks will be done by the Head-Risk

Management with the support from all the department heads of the Company. The Board will review the status and progress of the risk and risk management system, as and when considered necessary, through the Audit Committee and Risk Management Committee. All personnel forming a part of the Risk vertical will have to be trained on the company's risk management system.

### **Roles and responsibilities in Risk Structure**

The Board will review the risk management policies and system whenever required

The Managing Director/ CEO will be responsible for ensuring that the risk management system is established, implemented and maintained in accordance with this guidelines.

Assignment of responsibilities in relation to risk management will be the prerogative of the Heads of Departments, in coordination with Head-Risk.

Heads of Departments will be accountable to a Management-Level Risk Committee (MLRC) comprising of MD&CEO, CFO and Head-Risk. The departmental heads will report for the implementation of this guideline within their respective areas of responsibility. The department heads will also be accountable to the MLRC for identification, assessment, aggregation, reporting and monitoring of the risk related to their respective domain.

### **Evaluation and Control of Risk Management System**

- Identified risks will be assessed in terms of potential consequences and cost of impact
- Risks will be ranked in accordance with their likely impact
- The acceptability of each identified risk will be assessed
- Proposed actions to eliminate, reduce or manage each material risk will be considered and agreed
- Responsibilities for the management of each risk will be assigned to appropriate personnel

### **Monitoring**

Based on a cost / benefit assessment of a risk, as is undertaken, some risks may be judged as having to be accepted because it is believed mitigation is not possible or warranted.

As the risk exposure of any business may undergo change from time to time due to continuously changing environment, the updation of the Risk Register will be done on a regular basis.

All the strategies with respect to managing these major risks shall be monitored by the Head-Risk and MLRC.

The Management Level Risk Committee meetings shall be held as necessary or at least once a month. The Management Level Risk Committee would monitor the management of major risks specifically and other risks of the Company in general. The Committee shall take an integrated view of the risks facing the entity and monitor implementation of the directives received from Risk Management Committee and actionable items drawn from the risk management framework.

Accordingly, the Management Level Risk Committee would review the following aspects of business specifically from a **risk indicator perspective** and suitably record the deliberations during the monthly meeting.

- Review of business growth and portfolio quality.(District concentration being a KRI)
- Discuss and review the reported details of PAR, Key Risk Threshold breaches (KRIs), consequent responses and operational loss events.
- Breach of process compliances leading to enhanced risk
- Review of audit performance
- HR management, training and employee attrition
- Impact of new product/policy/process changes
- Performance of IT systems and their integration with existing IT structures, including extant IT Policy –
- Escalation of risks which have substantial impact to the business and meet determined escalation threshold levels to the relevant Department.
- Review the status of risks and treatment actions with key staff in their respective areas. Any new or changed risks will be identified and escalated, if deemed necessary. Particular emphasis is to be given to risks with high ratings and their corrective actions

#### **Risk Management Communication & Training:**

Effective internal communication of the Risk Management Strategy will be done by department heads to ensure that all employees of the Company are familiar with its aims and objectives. Training in the operation of the risk management processes periodically or as required shall be conducted.

#### **Review of the Guidelines**

The guidelines will be the guiding document for risk management at the Company and will be reviewed as and when required due to the changes in the risk management regulations/ standards/ best practices as appropriate. In any case, the guidelines will be reviewed by the Risk Management Committee set up by the Board of Directors of on annual basis.