

RAINBOW INVESTMENTS LIMITED

RISK MANAGEMENT POLICY

INTRODUCTION

Non-Banking Financial companies (NBFCs) form an integral part of the Indian financial system. NBFCs are required to ensure that a proper policy framework on Risk Management Systems with the approval of the Board is formulated and put in place. This policy document has been prepared in line with the RBI guidelines.

GENERAL PROVISIONS

This Policy represents the basic standards of Risk Assessment to be followed by the Company. Changes in the Policy will become effective upon approval by the Board of Directors of the Company.

Risk Management Policy Framework:

Objectives

The Integrated Risk Management policy is intended to support the following objectives:

- Defines the governance and oversight framework for Integrated Risk Management
- This policy lays down guidelines for monitoring risk centrally. Provides a framework for identification of Risk Appetite.
- Adhere to the guidelines / policies concerning risk management specified by the Reserve Bank of India, Government of India and other binding regulatory authorities
- Adhere to Industry "Best Practices" in respect of risk management
- Communicate uniform and consistent definitions across company for measuring risk
- Assist company in anticipating risk, thereby minimizing the cost and effort of reactive risk management and improving value to shareholders
- Improve the understanding and interrelationships between different risks and incorporate the results in active risk management
- Provide company an objective mechanism for evaluating risk against business objectives, strategies and risk tolerances

Applicability

This Policy governs Integrated Risk Management of the Company.

This Policy will become applicable to Company on the date it is approved by the Board of Directors of Company.

This Policy should be read in conjunction with the all other risk Management Policies mentioned in this policy

This Policy is applicable to all persons who form part of Risk Management in Company.

RISK MANAGEMENT

Risk management is a business facilitator by making more informed decision with balanced risk reward paradigm. The Company shall follow a disciplined risk management process and has been taking business decisions, ensuring growth and balancing approach on risk reward matrix.

Different types of risk associated with our business which are detailed as under:

CREDIT RISK

A risk of loss due to failure of a borrower/counterparty to meet the contractual obligation of repaying his debt as per the agreed terms, is commonly known as risk of default.

INVESTMENT RISK

Investment risk is defined as the probability or likelihood of occurrence of losses relative to the expected return on any particular investment. Stating simply, it is a measure of the level of uncertainty of achieving the returns as per the expectations of the investor. It is the extent of unexpected results to be realized. The Company will have to set internal levels and controls defining the level of risk that it associates with a particular investment or asset class typically correlates with the level of return the investment might achieve.

EFFICIENCY RISK

Risk efficiency criteria are an attempt to reduce the collection of all possible alternatives to a smaller collection of risky alternatives that contain the optimum choice.

LEGAL NON-COMPLIANCE RISK

Compliance with legal aspects of the business is a worldwide necessary phenomenon. Non-compliance with this aspect leads to unnecessary complications and delays in business which results in loss. The Company shall endeavour to be legally complied with all applicable laws pertaining to its business.

OPERATIONAL RISK

Any eventuality arising from the act relating to people, technology, infrastructure and external factors, which can give rise to some type of loss in the organisation, is termed as Operational Risk. Majorly it is internal and unknown. Therefore, the persons responsible shall keep continuous watch and shall gather the symptoms/warning signals to manage Operational risk.

MARKET RISK

This is majorly external market dynamics, which gives rise to Risks like Liquidity risk, Interest Rate risk and Funding risk. Liquidity risk is the inability to meet financial obligations in a timely manner and without stress. The Company shall resort to proper ways to manage such risks.

RISK MITIGATION

Credit risk shall be managed using a set of credit norms and policies. The Company shall have defined roles and responsibilities for originators and approvers. All credit exposure limits shall be approved by authorized persons.

There shall be a structured and standardized credit approval process to ascertain the credit worthiness of the borrower.

The Company shall develop internal evaluation team to make credit decisions more robust and in line to manage collateral risk.

The Company shall follow a process of time-to-time revisiting the credit policy and processes, on the basis of experience and feedback.

The Company shall be compliant in terms of regulatory norms and therefore shall effectively manage regulatory risk. Effective Customer redressal mechanism and fair practices shall keep legal

risk under control.

The Company shall have processes in place, to manage the risk of fraud and the suspected frauds are reported, wherever necessary.

RISK ASSESSMENT OF BORROWERS

It is generally recognized that certain borrowers may be of a higher or lower risk category depending on the customer's background, type of business, our references, borrowers net worth and the ability to refund and pay interest etc. As such, based on the due diligence measures on risk sensitive basis each of the customers shall be divided in three categories HIGH, MEDIUM AND LOW which shall be reviewed every year. The basic principal enshrined in this approach is that the concerned persons should adopt an enhanced customer due diligence process for higher risk customers. Conversely, a simplified customer due diligence process may be adopted for lower risk of categories of customers. In line with risk based approach, the type and amount of information and documents shall vary depending on the risk category of a particular borrower and should be collected from the client. The beneficial owners working should be done for all corporate clients and background check of all directors. In case of a borrower who subsequently has turned out to be a Politically Exposed person, proper risk management system should be put in place to determine the beneficial ownership from such clients or potential clients. Once we are privy to such publicly available information or the commercial electronic database of PEPs, we should seek additional relevant information from such client pertaining to ownership issues and other risks associated with such persons and take call whether such exposure to him or his company we should continue or terminate the relationship after giving notice in advance. As a policy without concurrence of top management, no such identified PEP account is to be granted loan.

Risk Appetite:

A key step in the effective risk management of an organisation is to gain a good understanding of its appetite towards risk. An organisation considers its circumstances and the demands placed upon it by various stakeholders. To meet these competing demands, senior management and the Board need to set out a clear risk appetite statement and put in place a framework to both measure and monitor performance against this statement.

Risk appetite is as much about enabling an organisation to take on calculated risks in pursuit of its objectives and long-term strategy as it is about placing constraints on activities and the level of risk being borne on a daily basis. In an environment where risk is minimised, the earning potential of the organisation may be restricted. Of course, if risk is not closely monitored and understood there can be even more undesirable consequences.

Risk appetite, as often described, is an upper amount of risk an organization is prepared to accept and is often viewed as something relatively fixed and driven by goals. The idea is that each risk is quantified in some way and then compared with the risk appetite. If the risk falls within the appetite, then no action is needed. If the risk is higher than the appetite, then controls must be added until it is within the appetite.

The risk appetite is the risk that an organization would want to take in pursuit of value. Risk appetite is a function of the organisation's capacity to bear risk and of its attitude towards risk. Risk appetite can also be viewed as assigned or allocated risk capacity. Some components of the risk appetite can be quantified accurately with proven risk models while others are based on more subjective and qualitative evaluations.

Risk Appetite Statement(RAS):

Company has defined the following items under its RAS framework for effective monitoring. More items will be added commensurate with business expansion.

Item	Threshold
Tier I CRAR	The Company will maintain minimum Tier 1 CRAR of 11% at all times
Total CRAR	The Company will maintain minimum Total CRAR of 15% at all times
Leverage Ratio	The Company will maintain Leverage ratio at 7:1 at al times
Liquidity Coverage Ratio(LCR)	The Company will maintain Liquidity coverage ratio as prescribed by RBI
Profitability	The Company will not be in loss
NPA	The Company will maintain NPA maximum at 10% of outstanding loans

BOARD OF DIRECTORS MEETINGS AND REVIEW

The Board of Directors, in their board meetings, will oversee the implementation of the system and review its functioning periodically.