NIXA FINCAP PRIVATE LIMITED (Formerly known as XANDER FINANCE PRIVATE LIMITED) (NFPL)

RISK MANAGEMENT FRAMEWORK
Date of last review: Reviewed and approved in the Board Meeting held on March 28, 2025

A. INTRODUCTION

The objective of risk management is not to prohibit or prevent risk taking activity, but to ensure that the risks are consciously taken with full knowledge, clear purpose and understanding so that they can be mitigated. It also prevents NFPL from suffering losses causing it to materially damage its competitive position. Balancing risk and return is not an easy task as risk is subjective and not quantifiable whereas return is objective and measurable. Hence, there is a need to establish a risk management framework to manage, mitigate and attempt to build an estimate of the various components of risk that exist at any point in time. As the complexity and scale of the organization increases, risk increases disproportionately. Hence, it is suggested to implement such progressive practices within NFPL to ensure a solid foundation for long term growth and value creation.

B. PURPOSE OF RISK MANAGEMENT FRAMEWORK (RM)

The purpose of this framework is to define a set of risk management norms for NFPL. The broad considerations that drive the risk management framework encompass:

- organizational structure and delegation of powers;
- risk taking approach and policies approved by the Board which should be consistent with the broader business strategies, capital strength, leveraging philosophy, management and group expertise and overall willingness to assume risk given the strengths and market dynamics;
- guidelines and other parameters used to govern risk taking including detailed structure of prudential limits;
- strong MIS for reporting, monitoring and controlling risks; and
- well laid out procedures and controls

C. RISK MANAGEMENT COMMITTEE (RMC)

RMC shall be responsible for managing risk. The functions of RMC should essentially be to identify, monitor and measure the risk profile of NFPL arising from its business activities. RMC shall be responsible for developing policies and procedures, approve the structure of the models that are used for providing credit, reviewing the risk mitigation mechanisms as development takes place in the markets and identify new risks.

Composition of Risk Management Committee:

The Risk Management Committee shall comprise of the Board of Directors of NFPL. The composition shall undergo a change in line with the NFPL's expansion plan, wherein the Risk Management Committee should comprise of such members as decided by the Board from time to time and there should be minimum three (3) members in RMC at any point in time.Meetings of the Risk Management Committee:

The Committee will meet at least once in every half year or as and when required and minutes will be kept of the meetings.

Risks:

RMC shall focus on the following risks and determines means of mitigating them:

- Credit Risk
- Market Risk and
- Operational Risk
- Liquidity Risk
- Integrated Risk

RMC committee can also operate by delegation of authorities and responsibilities to the following committees:

- Credit Committee (CC)
- Asset Liability Committee (ALCO)

The risks run by NFPL need to be understood and properly addressed and effectively controlled. Each transaction that NFPL undertakes changes the risk profile of NFPL marginally since it is at a stage of evolution as a diversified corporate entity.

The losses (if any) need to be borne by:

- the margins/spread earned in the course of the lending business
- capital base of NFPL

Thus, the losses are covered by reserves/provisions and capital allocation. Thus, it has been decided by the RMC that NFPL shall maintain moderate leverage and be well capitalized.

There are five major types of risks encountered by NFPL and these are Credit Risk, Market Risk, Operational Risk, Liquidity Risk and Integrated Risk.

(i) Credit Risk

This is the biggest risk to NFPL. NFPL has also developed a detailed Credit Policy and shall adhere to the same. Credit Risk is the potential that a borrower/counter party fails to meet the obligations on pre- agreed terms. The objective of credit risk management is to minimize the risk and maximize NFPL's risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters. The interest rate charged to the borrower would be a function of risk perceived, cost of funds, margin, competitive forces, potential reinvestment risk and period of funding.

Credit risk consists of primarily two components, i.e., quantity of risk, which is the outstanding loan balance as on the date of default and the quality of risk, i.e., the severity of loss defined by both probability of default as reduced by the recoveries that could be made in the event of default. Thus, credit risk is a combined outcome of default risk and exposure risk. As mentioned earlier, due to the nature of business of NFPL, it is imperative to have sufficient capital cushion against default risk and hence, adequate leverage will be taken with careful balancing of interests of shareholder returns and risk prudence.

Since default is not an abrupt process and the borrower's creditworthiness and asset quality declines gradually, it is essential to carefully monitor the developments of the asset post disbursement for operational progress, accounting and financial information, sales and collections. One also needs to assess the overall financial health of the borrower group at regular intervals and attempt to getinformation.

The tools through which credit risk management can be carried out are detailed below:

a) ***Credit Exposure Limits:*** Credit exposure limits have been defined in detail in the Credit Policy of NFPL and shall be adhered to. This shall also be in line with RBI defined directive as amended from time to time.

b) ***Active approach:*** Instead of passive approach of originating the loan and holding it till maturity, active approach of credit portfolio management needs to be adopted through partial sell down of positions. It is also encouraged to bring in co-lenders at the initial stage itself, to not only validate NFPL's credit assessment and lending practices but also do larger / more prestigious transactions which are less risky in nature. NFPL with increasing seasoning shall look to partial sell down as and when such opportunity arises.

c) ***Approval authorities:*** All authorities for lending approval are held by the Board of Directors and Credit Committee (as per the Credit Policy and Delegation of Power).

d) ***Credit audit:*** Atleast on a yearly basis, NFPL should undertake a credit audit (as a part of internal audit) covering review of sanction process, compliance status and review of risk with the objective of improving credit quality. It should target all loans above certain cut-off limit ensuring that at least 25-33% of the portfolio is subjected to the audit so as to ensure that all major credit risks embedded in the balance sheet have been tracked. This is done to bring about qualitative improvement in credit administration.

e) ***Monitoring of Credits advanced:*** Constant monitoring of credit advanced has been defined in the Credit Policy of NFPL and shall be adhered to.

NFPL shall ensure that at any time the Capital Adequacy ratio does not fall below 15%

(ii) Market Risk

Market Risk is the possibility of loss to NFPL caused by the changes in the market variables. It is the risk that the value of on and off-balance sheet positions (and hence profits and even financial stability) will be adversely affected by movements in equity and interest rate.

Asset Liability Management (ALM) is a part of the overall risk management system at NFPL and is focused on Market Risk. It implies examination of all the assets and liabilities simultaneously on a continuous basis with a view to ensuring a proper balance between funds mobilization and their deployment with respect to their a) maturity profiles, b) cost and c) availability. NFPL has a detailed ALM policy and it shall adhere to the same.

a) **Interest rate risk**: This is the potential negative impact on the Net Interest Income and it refers to the vulnerability of financial condition to the movement in interest rates. Changes in interest rate affect earnings, borrowing costs, value of assets and cash flow. Earnings perspective (impact on P&L) involves analyzing the impact of changes in interest rates on reported earnings and borrowings over the life of the asset or liability. This is measured by measuring the changes in the Net Interest Income equivalent to the difference between total interest income and total interest expense due to changes in interest rates. It is preferable to alter the approach of the interest rate policy to borrowers depending on the stage of interest rates in the cycle i.e. in a rising interest rate scenario, it is advisable to keep variable lending interest rates and keep fixed lending interest rates in a falling interest rate scenario and vis a versa for borrowings. This is a guiding indicator and may be adhered to as much as possible while keeping business interests in mind.

b) **Reinvestment risk**: Since prepayment risk is quite relevant in the business of NFPL, emphasis needs to be given to understanding the intensity and certainty of cash flows in the foreseeable future by in-depth understanding of the project cashflows, project construction progress, sales momentum and regular contact and feedback from the business personnel of the borrower. Continuous tracking of opportunities should be done regularly to redeploy unexpected inflows from borrowers at various points in time.

(iii) Operational Risk:

Companies are faced with inherent risks arising out of human error, financial fraud and natural disasters. Operational risk, though defined as any risk that is not categorized as market or credit risk, is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. In order to mitigate this, internal control and internal audit systems are used as the primary means.

Operational risk events are associated with weak links in internal control procedures. The key to management of operational risk lies in NFPL's ability to assess its processes and establish controls while providing for unanticipated worst-case scenarios. NFPL has well laid out authorization matrix for each of its operational activities and shall adhere to the same. Effective controls have been established within NFPL and these shall be verified by the internal auditors.

One of the major tools in managing operational risk is a well-established internal control system and flow of information, documents and reporting. Accordingly, the Credit Policy has been detailed out to provide a streamlined and process driven method to providing loans. Each activity from loan sourcing to final disbursement and closure has been clearly spelt out. Further a proper system of monthly reporting to the Board of Directors and investors has been established in order to take care of the timely reporting requirements. ALM Policy further defines the duties of the ALCO and ALCO's reporting requirements in order to manage the operational risk. Insurance is also one of the methods to mitigate some elements of operational risk and has been taken for all the physical assets of NFPL.

(iv) Liquidity Risk:

In order to ensure a sound and robust liquidity risk management system, NFPL has framed Asset/Liability Management Policy which includes liquidity risk management framework. NFPL ensures that it maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. NFPL determines the entity-level liquidity risk tolerance; funding strategies; prudential limits; system for measuring, assessing and reporting/reviewing liquidity; framework for stress testing; liquidity planning under alternative scenarios/formal contingent funding plan; nature and frequency of management reporting; periodical review of assumptions used in liquidity projection; etc.

(v) Integrated Risk:

Companies are faced with varied categories of risk such as personnel risk, financial risk, legal risk etc. Thus, integrated risk can be defined as attached with various activities, operations or transactions and with external risks (risks related to legislative changes etc.) that may affect overall organization.

The main objective to identify integrated risk is to protect assets, ensure continuity of organization's activities and adopting effective risk mitigation strategy.

NFPL ensures to manage the integrated risk by identifying all risks that affect the implementation of processes and activities attached to an organizational goal; it can assess the overall consequences and adopt measures depending on the level of uncertainty and the existing inherent risk that affects achieving objectives set. Integrated risk mitigation exercise helps to increase efficiency within the organization by administrative or managerial ways, such as better allocation of resources.

D. REVIEW

This policy shall be reviewed by the Board of Directors on an annual basis..

E. ADOPTION

This policy and any changes made during the annual reviews shall be adopted by resolution of the Board of Directors.

Approved for and on behalf of the Board of Directors of
Nixa Fincap Private Limited
(formerly known as Xander Finance Private Limited)

MANSI CHINKIT GANDHI

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Mansi Gandhi
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Place: Mumbai

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