RISK MANAGEMENT POLICY

Document Control Section

Document Name	:	Risk Management Policy
Abstract	:	'Risk Management' is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of uncertain events or to maximize the realisation of opportunities. Risk management also provides a system for the setting of priorities when there are competing demands on limited resources.
Location	:	New Delhi, India

Authorized by

Document Author	Document Owner	Reviewed By	Approved By
Chief Financial Officer	Finance & Operation Department	Audit Committee & Risk Management Committee	Board of Directors

Review & Amendment Log

Version	Date of Adoption	Amendment / Modification / Deletion Date	Amendment / Modification / Deletion
V-1	**17.02.2023**	**NA**	**NA**

I. 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 prepared in line with the RBI guidelines, as the Mufin Green Finance Limited (hereinafter referred to as "MGFL") needs to comply with certain risk organization and process requirement set out by Reserve Bank of India (RBI).

II. DEFINITION

Risk :

'Risk' can be defined as the effect of uncertainty on the objectives of the company. Riskis measured in terms of consequences and likelihood. Risks can be internal and external and are inherent in all administrative and business activities. Every member of any organisation continuously manages various types of risks. Formal and systematic approaches to managing risks have evolved and they are now regarded as good management practice also called as Risk Management.

Risk Management:

'Risk Management' is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of uncertain events or to maximize the realisation of opportunities. Risk management also provides a system for the setting of priorities when there are competing demands on limited resources and the systematic way of protecting business resources and income against losses so that the objectives of the Company can be achieved without unnecessary interruption.

Risk Management Process:

Risk Management Process: The systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analyzing, evaluating, treating, monitoring and communicating risk.

Risk Assessment:

Risk Assessment is systematic process of identifying and analysing risks. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks.

Risk Mitigation:

Risk mitigation involves taking action to reduce company's exposure to potential risks and reduce the likelihood that those risks will happen again.

III. OBJECTIVE

The main objective of this policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. In order to achieve the key objective, the policy establishes a structured and disciplined approach to Risk Management, including the development of the risk matrix, in order to guide decisions on risk related issues. The Risk Management Policy provides for the enhancement and protection of business value from uncertainties and consequent losses.

The specific objectives of this Policy are:

1. To ensure that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated and managed.

2. To establishes a framework for the company's risk management process and to ensure companywide implementation.

3. To ensure systematic and uniform assessment of risks related with construction projects and operational power stations.

4. To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.

5. To assure business growth with financial stability.

IV. RISK MANAGEMENT POLICY

In order to fulfill the objectives of this policy and lay a strong foundation for the development of an integrated risk management framework, the policy outlines the following guiding principles of Risk Management.

A. Principles of Risk Management

1. All business decisions will be made with the prior information and acceptance of risk involved.

2. The Risk Management Policy shall provide for the enhancement and protection of business value form uncertainties and consequent losses.

3. All employees of the company shall be made aware of risks in their respective domains and their mitigation measures.

4. 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 process of the company.

5. Risk tolerance levels will be regularly reviewed and decided upon depending on the change

in company's strategy.

6. The occurrence, progress and status of all risks will be promptly reported and appropriate action be taken thereof.

B. Risk Management Policy Statement

1. To ensure protection of shareholder value through the establishment of an integrated Risk Management Framework for identifying, assessing, militating, monitoring evaluating and reporting of all risk.

2. To provide clear and strong basis for informed decision making at levels of the organization.

3. To continually strive towards strengthening the Risk Management system through continues learning and improvement.

V. RISK MANAGEMENT FRAMEWORK

Risk management will protect and add value to the organization and its stakeholders through supporting the organization's objectives by improving decision making, planning and prioritization by comprehensive and structured understanding of business activity, volatility and project opportunity/threat. It will provide a framework that enables future activity to take place in a consistent and controlled manner. The framework will help in creating an environment in which risk management is consistently practiced across the Company and where Management can take informed decisions to reduce the possibility of surprises. The components of risk management are defined by the company's business model and strategies, organizational structure, culture, risk category and dedicated resources. An effective risk management framework requires consistent processes for assessment, mitigation, monitoring and communication of risk issues across the organization. Essential to this process is its alignment with corporate direction and objectives, specifically strategic planning and annual business planning processes. Risk management is a continuous and evolving process, which integrates with the culture of the Company.

An effective Risk Management Framework comprises of:

- Risk management process; and
- Risk management organization structure

Risk management Process can be defined as the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities.

VI. RISK MANAGEMENT PROCESS

Effective risk management process requires continuous & consistent assessment, mitigation, monitoring and reporting of risk issues across the full breadth of the enterprise. Essential to this process is a welldefined methodology for determining corporate direction and objectives. The risk management process adopted by MGFL has been tailored to the business processes of the organization.

Categorizing, the process consists of the following stages/steps:

- Establishing the Context
- Risk Assessment (identification, analysis & evaluation)
- Risk Treatment (mitigation plan)
- Monitoring, review and reporting
- Communication and consultation

[Refer figure 1 below for detailed flow of the risk management process]

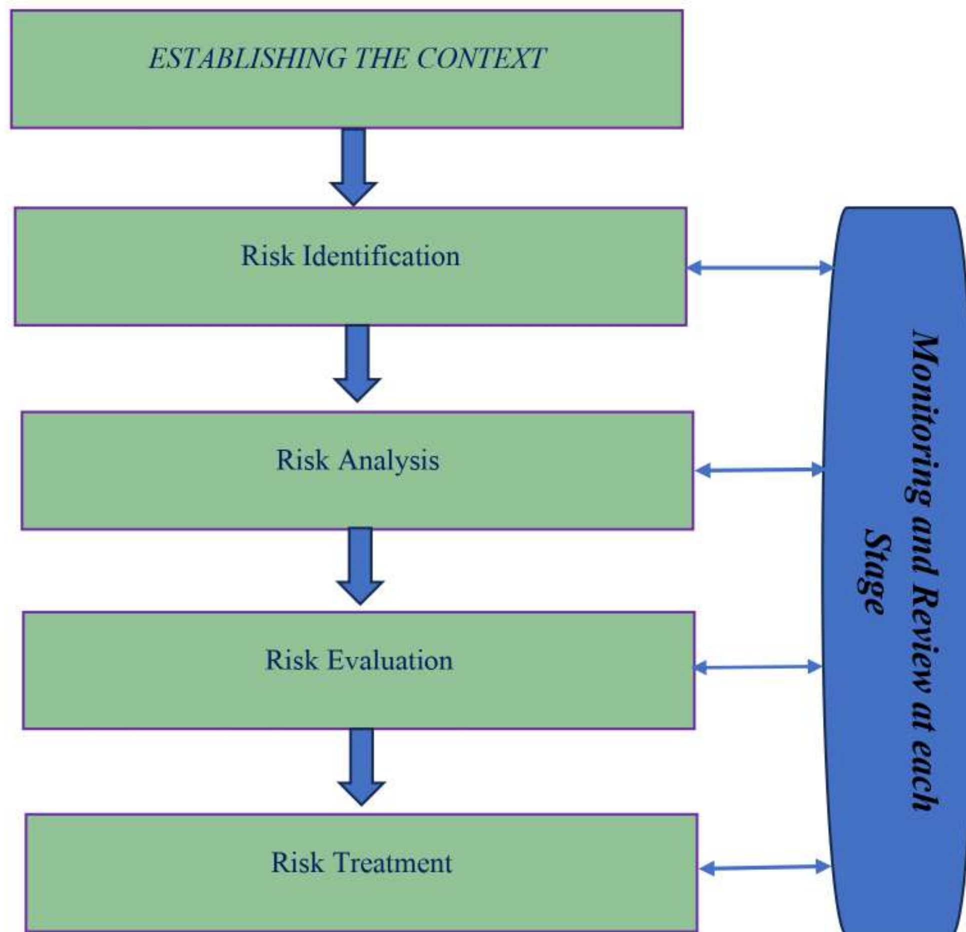

Figure -1 – Risk Management Process

Risk Assessment

Risk assessment is the overall process of risk identification, risk analysis and risk evaluation.

Risk Identification:

Risks are about events that, when triggered, cause problems. Hence, risk identification can start with the source of problems, or with the problem itself. This stage involves identification of sources of risk, areas of impacts, events (including changes in circumstances) and their causes and their potential consequences. The aim of this step is to generate a comprehensive list of risks based on those events that might create, enhance, prevent, degrade, accelerate or delay the achievement of objectives. It is important to identify the risks associated with not pursuing an opportunity. Comprehensive identification is critical, because a risk that is not identified at this stage will not be included in further analysis.

Risk Analysis:

Risk analysis involves:

- consideration of the causes and sources of risk
- the trigger events that would lead to the occurrence of the risks
- the positive and negative consequences of the risk

Factors that affect consequences and likelihood should be identified. Risk is analyzed by determining consequences and their likelihood, and other attributes of the risk. An event can have multiple consequences and can affect multiple objectives. Existing controls and their effectiveness and efficiency should also be taken into account.

Risk Evaluation:

The purpose of risk evaluation is to assist in making decisions, based on the outcomes of risk analysis, about which risks need treatment and the priority for treatment implementation. Risk evaluation involves comparing the level of risk found during the analysis process with risk criteria established when the context was considered. Based on this comparison, the need for treatment can be considered. Decisions should take account of the wider context of the risk and include consideration of the tolerance of the risks borne by parties, other than the organization, that benefit from the risk.

Decisions should be made in accordance with legal, regulatory and other requirements.

[Refer Appendix I for details of the risk criteria definitions required for analysing risk impact and likelihood]

Risk Treatment:

Risk treatment involves selecting one or more options for modifying risks, and implementing those options. Once implemented, treatments provide or modify the controls. Risk treatment involves a cyclical process of:

- Assessing a risk treatment;
- Deciding whether residual risk levels are tolerable;
- If not tolerable, generating a new risk treatment; and
- Assessing the effectiveness of that treatment.

Based on the Risk level, the company should formulate its Risk Management Strategy. The strategy will broadly entail choosing among the various options for risk mitigation for each identified risk

a) Avoidance (eliminate, withdraw from or not become involved)
As the name suggests, risk avoidance implies not to start or continue with the activity that gives rise to the risk.

b) Reduction (optimize - mitigate)
Risk reduction or "optimization" involves reducing the severity of the loss or the likelihood of the loss from occurring. Acknowledging that risks can be positive or negative, optimizing risks means finding a balance between negative risk and the benefit of the operation or activity; and between risk reduction and effort applied.

c) Sharing (transfer - outsource or insure)
Sharing, with another party, the burden of loss or the benefit of gain, from a risk

d) Retention (accept and budget)
Involves accepting the loss, or benefit of gain, from a risk when it occurs. Risk retention is a viable strategy for 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.

MONITORING AND REVIEW

In order to ensure that risk management is effective and continues to support organizational performance, processes shall be established to:

- Measure risk management performance against the key risk indicators, which are periodically reviewed for appropriateness
- Periodically measure progress against, and deviation from, the risk management plan
- Periodically review whether the risk management framework, policy and plan are still appropriate, given the organizations' external and internal context
- Report on risk, progress with the risk management plan and how well the risk management policy is being followed
- Periodically review the effectiveness of the risk management framework.
- Structured scientific and analytical tools may be used for this purpose.

VII. SCOPE AND EXTENT OF APPLICATION

The policy guidelines are devised in the context of the future growth objectives, business profile envisaged and new business endeavors including new products and services that may be necessary to achieve these goals and the emerging global standards and best practices amongst comparable organizations. interests of the investors and thus covers all the activities within the company and events outside the company which have a bearing on the company's business. The policy shall operate in conjunction with other business and operating/administrative policies.

Risk Assessment

The process of Risk Assessment of MGFL shall cover the following:

a) Risk Identification and Categorization – the process of identifying the MGFL's exposure to uncertainty classified as Strategic / Business / Operational.

b) Risk Description – the method of systematically capturing and recording the MGFL's identified risks in a structured format.

c) Risk Estimation – the process for estimating the cost of likely impact either by Quantitative, semi-quantitative or qualitative approach.

VIII. IDENTIFICATION OF RISKS AND MANAGEMENT THEREOF:

Risks are events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the organization's business objectives.

Key characteristics by which risks will be identified are:

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

Recognizing the kind of risks that MGFL will be exposed to, risks will be classified broadly into the following categories:

A. Credit Risk

Lending involves a number of risks. Credit risk or default risk involves inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions.

The management of credit risk would receive the top management's attention and the process would encompass:

a) Measurement of risk through credit rating/scoring;
b) Quantifying the risk through estimating expected loan losses
c) Controlling the risk through effective Loan Review Mechanism and portfolio management.

Credit Risk Management

Instruments of Credit Risk Management

Credit Risk Management encompasses a host of management techniques, which help the MGFL in mitigating the adverse impacts of credit risk.

Credit Approving Authority

MGFL would carefully formulate the scheme of delegation of powers. MGFL would evolve multi-tier credit approving system where the loan proposals are approved at various stages.

Risk Rating

MGFL would have a comprehensive risk scoring / rating system that serves as a single point indicator of diverse risk factors of counterparty and for taking credit decisions in a consistent manner. To facilitate this, a substantial degree of standardization is required in ratings across borrowers. The risk rating system would be designed to reveal the overall risk of lending, critical input for setting pricing and non-price terms of loans as also present meaningful information for review and management of loan portfolio. The risk rating, in short, would reflect the underlying credit risk of the loan book. The rating exercise would also facilitate the credit granting authorities some comfort in its knowledge of loan quality at any moment of time.

The risk parameters are risk aversion, prudence or downside risk aversion. The risk parameters are to measure the risk accurately includes probability of default, which is likelihood that a borrower will not be able to repay in a given time and the loss given default, which is portion of funds that the MGFL expect to lose when the borrower defaults.

The prominent risk parameters has been introduced during the MGFL loan processing through those benchmark:

- Age
- Credit Score
- Education
- Property-Rented/Owned

The various process controls such as KYC check, Credit Bureau Report analysis are undertaken. In addition to due diligence process including visits to offices and homes in the case of loans made to retail borrowers done by External agencies such as field investigation agencies, company's staff also performs comprehensive due diligence process including visits to customer's business and residence premises.

Company analyses the portfolio performance of each product segment regularly, and use these as inputs in revising the product programs, target market definitions and credit assessment criteria to meet the twin objectives of combining volume growth and maintenance of asset quality. The loans are secured by the mortgage of the borrowers' property and third party guarantee

B. Market Risk

Traditionally, credit risk management is the primary challenge for Company. Market risk is the possibility of loss caused by changes in the market variables. It arises from adverse changes in the market variables which, inter alia, include liquidity risk, interest rate risk and commodity price risk.

Market Risk Management

Management of market risk would be the major concern of top management. The Board would clearly articulate market risk management policies, procedures, prudential risk limits, review mechanisms and reporting and auditing systems. The operating prudential limits and the accountability of the line management would also be clearly defined. The Asset- Liability Management Committee (ALCO) would function as the top operational unit for managing the balance sheet within the performance/risk parameters laid down by the Board. To tackle Market Risk the following efforts are taken:

- Transparent and comprehensive policies are framed.
- We fix prudential risk limits for the various categories of loans.
- We monitor the quality of credit portfolio on a monthly basis.
- A robust auditing system is in place.

C. Interest Rate Risk:

Interest rate risk is the risk where changes in market interest rates might adversely affect an HFC's financial condition.

RISK IDENTIFICATION:

EARNING PERSPECTIVE: The immediate impact of changes in interest rates is on Earnings (i.e. reported profits) by changing its Net Interest Income (NII) and can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM).

ECONOMIC VALUE PERSPECTIVE: A long-term impact of changing interest rates is on Net Worth as the economic value of the assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates.

IX. RISK MANAGEMENT AND RISK MEASUREMENT:

The operational flexibility given to MGFLs in pricing most of the assets and liabilities imply the need for the financial system to hedge the interest rate risk.

The company being in initial phase of ALM System, the traditional Gap analysis is considered to be a suitable method to measure the interest rate risk.

The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets including off-balance sheet positions. An asset or liability is normally classified as rate sensitive if:

- within the time interval under consideration, there is a cash flow;
- the interest rate resets/re-prices contractually during the interval;
- it is contractually pre-payable or withdrawable before the stated maturities;
- It is dependent on the changes in the Bank Rate by RBI.

The Gap Report should be generated by grouping rate sensitive liabilities, assets and off balance sheet positions into time buckets according to residual maturity or next re-pricing period, whichever is earlier. All investments, advances, borrowings, etc. that mature/re-price within a specified time-frame are interest rate sensitive. Similarly, any principal repayment of loan is also rate sensitive if the company expects to receive it within the time horizon. This includes final principal repayment and interim installments. Certain assets and liabilities carry floating rates of interest that vary with a reference rate and hence, these items get re-priced at pre- determined intervals. Such assets and liabilities are rate sensitive at the time of re-pricing. While the interest rates on term deposits are generally fixed during their currency, the tranches of advances are basically floating. The interest rates on advances could be re-priced any number of occasions, corresponding to the changes in PLR. The interest rate gaps may be identified in the various buckets as defined in ALM Policy.

MGFL will set prudential limits on individual Gaps in various time buckets with the approval of the Board/Management Committee. Such prudential limits should have a relationship with the Total Assets, Earning Assets or Equity. In addition to the interest rate gap limits, MGFL will set the

prudential limits in terms of Earnings at Risk (EaR) or Net Interest Margin (NIM) based on their views on interest rate movements with the approval of the Board/ALCO.

D. Liquidity Risk

RISK PARAMETER:

Risk of insufficient liquid assets or limited access to market financing to meet contractual maturities of liabilities, regulatory requirements or the investment needs of the Company.

RISK IDENTIFICATION:

LIQUIDITY CRUNCH : Non- Accessing of Liquidity Risk on timely basis will lead shortage of funds, to meet the Net Outflows.

BUSINESS LOSS : Shortage of Funds will be neglecting of perspective business and will lead to moving of customers to competitors. The same will also lead to Reputation Loss.

INCOME LOSS : The immediate impact of changes in interest rates is on Earnings (i.e. reported profits).

Liquidity Risk Management

Managing liquidity needs are vital for effective operation of MGFL. By assuring the company's ability to meet its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system.

The management of MGFL will measure not only its liquidity positions on an ongoing basis (to be reviewed minimum on quarterly basis), but also examine how liquidity requirements are likely to evolve under different assumptions. Therefore, liquidity has to be tracked through maturity or cash flow mismatches. For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as a standard tool.

E. Operational Risk

Operational risk is synonymous with settlement or payments risk and business interruption, administrative and legal risks. It arises from human or technical error. Operational risk has some form of link between credit and market risks. An operational problem with a business transaction could trigger a credit or market risk.

X. SALIENT FEATURES OF PROCEDURES ADOPTED BY MGFL TO MITIGATE THE RISKS.

Loan Appraisal and credit processing:

- The loan applications would be sourced by Marketing Team, who are employees of the company.
- Log in of loan proposals is system driven to avoid duplication.
- In case of self-employed applicants, MGFL would verify from the website of the government authorities such as Aadhaar portal, Income Tax Portal the genuiness and correctness of the return submitted.
- MGFL would periodically conducts FPC workshops for both the Marketing and Credit Teams. The importance of KYC / AML / adherence is stressed to ensure 100% compliance. Training on Credit processes and procedures would also given to enhance the quality of credit appraisal.
- Similarly frequent interaction and discussions with all Branch managers will help the company to revise the credit policy norms and present it to the Board. This will certainly bring perceptible improvement in our functioning.
- To meet any unforeseen adverse development for the property and /or to the personnel, the MGFL would educate the customer on the importance of insuring self and the property and ensures that insurance of the property and the life of the applicant.

Accounting and Financial Management

- Our effective control on Finance management improves the profitability of the company which is strengthened by high net interest margin due to higher yield on our portfolio.
- In order to mitigate various risks, Quarterly file audit and Quarterly Review meeting are conducted which includes ALCO meeting wherein the financial bearing aspects are discussed.
- Balances in current accounts would be reviewed closely and appropriate investment decisions would be taken to ensure maximum returns.
- Review of cash holding position and cash –in-transit amounts across branches to ensure the sums transacted would be within the policy limits.
- Focused attention on controlling expenditure at all levels and in all activities.

Recovery System

- A vibrant system in the procedure of follow up of defaulting loan accounts would be in place to mitigate any adverse impact on the funds lent.
- Watch category account status would be reviewed for all loans periodically from the date of disbursement
- Staff Accountability formats would in place to mitigate non- performing assets by following up on the deficiencies, if any.

XI. RISK REPORTING

Reporting is an integral part of any process and critical from a monitoring perspective. Results of risk assessment need to be reported to all relevant stake holders for review, inputs and monitoring. Approach for Implementation at MGFL:

Quarterly Risk Review Report

The Risk Owners shall review the Risk and identify any emerging/new risk and the existing control to mitigate that risk. They must ensure robustness of design and operating effectiveness of existing mitigating controls. If required, re–rate (existing risks)/rate (emerging risks) and prepare, implement action plan for risk treatment in situations where the existing controls are inadequate. The Quarterly Risk Review Report shall include:

- Risk rate movements, if any, along with reasons for changes in the impact and/or likelihood ratings
- New key risks identified, if any, along with risk criteria ratings and mitigation plans
- Status of the implementation of mitigation plans and reasons for any delays

The Risk owner will be responsible for preparing and consolidating the report and the same shall be reviewed by the Risk Management Committee by 10th day following the quarter end the Risk Management Committee submit detailed report to Audit Committee and Board in next immediate meeting.

Annual Risk Review Report

The Risk Owners shall review the respective Risk Database annually and evaluate if any changes are requisite to the impact and likelihood assigned to the risks and, re-rate the risks if applicable as per the guidelines and ensure effectiveness of design and operating effectiveness of existing mitigating controls. The Annual Risk Database Review Report shall include:

- Risk rate movements, if any, along with reasons for changes in the impact and/or likelihood ratings
- New key risks identified, if any, along with risk criteria ratings and mitigation plans
- Status of the implementation of mitigation plans and reasons for any delays or non-implementations.

XII. RISK MANAGEMENT COMMITTEE

The Risk Management Policy will be implemented through the establishment of a Risk Management Committee At the core, a Risk Management Committee will consist of the following Persons:

Name	Role in the Committee	Designation in the Organization
Ms. Gunjan Jain	Chairperson	Chief Financial Officer
Mr. Kapil Garg	Member	Managing Director
Mr. Pankaj Gupta	Member	Chief Executive Officer
Mr. Madhur Goel	Member	Head-Credit
Mr. Mayank Pratap Singh	Secretary	Company Secretary & Compliance Officer

The overall monitoring of the Risk Cell will be done by the Managing Director of Company. The Board will review the status and progress of the risks and risk management system on a regular basis through the Audit Committee.

Roles and Responsibilities of Committee

a) The committee will review the risk management policies and system periodically and submit to Audit Committee for their comments and Board for approval.

b) Development of risk mitigation plans and the implementation of risk reduction strategies.

c) Periodic review & risk assessment

XIII. COMPLIANCE AND CONTROL

All the Senior Executives under the guidance of the Chairman and Board of Directors has the responsibility for over viewing management's processes and results in identifying, assessing and monitoring risk associated with Organization's business operations and the implementation and maintenance of policies and control procedures to give adequate protection against key risk. In doing so, the Senior Executive considersand assesses the appropriateness and effectiveness of management information and other systems of internal control, encompassing review of any external agency in this regards and action taken or proposed resulting from those reports.

XIV. UNDER THE PREVIEW OF LAW

This policy represents the basic standard of Risk Assessment to be followed by the company.

All relevant employees must be thoroughly familiar or made familiar with it and make use of the material contained in this policy.

The provisions of Section 134(3)(n) of the Companies Act, 2013 necessitate that the Board's Report should contain a statement indicating development and implementation of a risk management policy for the Company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence ofthe Company. Further, the provisions of Section 177(4)(vii) of the Companies Act,2013 require that every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall inter alia include evaluation of risk management systems.

XV. AMENDMENTS

This policy may be amended by Risk Management Committee subject to the approval of Board of Directors, from time to time in line with the business requirement of the company or any statutory enactment oramendment thereto and shall be reviewed at least every year to ensure it meets the requirements of legislation and the needs of organization.

FOREX RISK MANAGEMENT POLICY

POLICY GUIDELINES:

The company is bound by all the Comprehensive Guidelines issued by the Reserve Bank of India as amended from time to time as applicable on the MGFL. The provisions of Foreign Exchange Management Act (FEMA) and other RBI & Government notifications are also applicable to transactions in foreign currencies, subject to some limitations as prescribed by laws, rules circulars, notifications etc.

OBJECTIVE:

The objective of this Foreign Exchange Risk Management is to :

(i) assess the impact of foreign currency on operations conducted by the MGFL responsible for transaction in foreign currency.

(ii) establish the protection strategy, defining permitted financial instruments (hedge instruments) and limits.

(iii) Restrict the unexpected difference due to unfavorable conditions arising from Foreign Exchange Risks, which would affect the earnings of a particular period;

(iv) Protect MGFL's cash flows within a given time frame, as well as the operating results (cost of inventory);

(v) Serve as a hedging strategy and economic basis for applying special accounting (hedge accounting), according to an internal document defined for this purpose.

Foreign Exchange Risk:

Foreign Exchange Risk that is due to the fluctuation of market prices of foreign exchange rates, which include but are not limited to:

- Risks coming from MGFL's operations, from revenues, costs, operating expenses, investments, contracts, and commercial transactions;
- Risks related to existing operations and firm commitments, as well as those related to expected and highly probable future transaction.

PURPOSE AND SCOPE:

- This Policy is an integral part of the Company's Risk Management Policy approved at the Meeting of the Company's Board of Directors; therefore, it must be followed in conjunction with said policy.
- This Policy applies to the operations of MGFL.

011-42610483 www.mufingreenfinance.com connect@mufingreenfinance.com

Corporate office : 202, 2nd Floor, Best Sky Tower, Netaji Subhash Place, Pitampura, New Delhi -110034
Registered Office : SP-147, RIICO Industrial Area, Bhiwadi, Distt. Alwar, Rajasthan-301019

- This Policy sets out the guidelines for the Company's foreign exchange risk management functions, policy and procedures.

RISK RECOGNITION

MGFL is exposed to the followings risks on its foreign exchange borrowings and trade related flows. Risk shall be recognized separately for Capital and Current account transactions:

Capital Account Transactions:

- Currency conversion risk on un-hedged amounts as on the date of repayment of principal and on interest payment dates.
- Interest rate risk on floating rate borrowings.
- Long tenor of forex borrowing and limitation to enter into INR swaps beyond 10 years due to absence of vibrant liquid market for the same

Current Account Transactions:

- Currency conversion risk on unhedged inward and outward remittances. This shall also
- include payable and receivable due, based on the nature of the transactions.

MANAGEMENT & HEDGING STRATEGY

Risk management strategy shall be separate for current and capital account transactions.

The broad guidelines which shall be applicable to both set of transactions which are as follows:

i. MGFL's policy for Foreign Exchange Risk Management shall be restricted to hedging the exchange and interest risks of the underlying foreign exchange assets &liabilities.

ii. The hedging transactions will be undertaken with approved counterparties only. There will be Board approved limits for each counterparty.

iii. Responsibilities of transaction, follow-up, reporting, monitoring and management roles are to be defined through clear functional demarcations.

iv. The policy will be updated in a timely manner to comply with requirements of the Reserve Bank of India in this regard.

Sensitivity analysis

- Sensitivity to changes in any risk factor is determined by the relationship between the change in the price of an asset or portfolio in relation to a certain change in a risk factor that affects its price.

- The procedure for determining sensitivity to changes in a given risk factor is simply to apply the changes to the risk factor in the pricing an asset or portfolio, and observing its impact on the value of that portfolio.

- In the case of the Hedge Operations mentioned in this document, for each hedged risk and for each scenario, the Company must include a line to evidence the hedged exposure and another to evidence the hedge instrument.

APPENDIX I

RISK RATING CRITERIA

The Risk Rating Criteria, a key element of the risk management framework seeks to establish the standard for prioritizing the risk based on the assessment of the following:

• Impact of the risk on the stated objectives and goals: The degree of consequences to the organization should the event occur

• Likelihood of occurrence of the risk: The likelihood of the event occurring expressed as an indicative annual frequency

Impact Criteria Definitions

	Consequence Descriptions				
Impact	Profit Reduction/ Loss in % per year	Health and Safety	Natural Environment	Community, Government, Reputation, Media	Legal & Compliance
1 - Negligible		No medical treatment required	Minor effects on biological or physical environment	Minor, adverse local public and media attention	Minor legal & compliance issues
2 - Minor	< 1 %	Objective but reversible disability requiring hospitalization	Moderate, short-term effects but not affecting ecosystem functions	Attention from media; heightened concern by local community	Noncompliance and breaches of regulation
3 - Moderate	1 % - 5 %	Moderate irreversible disability or impairment to one or more persons	Serious medium-term environmental effects	Criticism by national government	Serious breach of regulation with investigation or report to authority with prosecution or moderate fine possible
4 – Major	5 % - 15 %	Single fatality or severe, irreversible disability to one or more persons	Very serious, long-term environmental impairment of ecosystem functions	Significant adverse national media or public or national government	Major breach of regulation; major litigation

				attention	
5 - Severe	> 15 % or #	Multiple fatalities or significant, irreversible effects to >50 persons		Serious public or media outcry; international coverage	Significant prosecution and fines; very serious litigation including class actions

Likelihood Criteria Definitions

	Probability Descriptions		
Likelihood	Occurrence in future	% Chance	Occurrence in past
1 – Rare	Not likely, almost impossible to occur between two (from now) to five years.	Less than 5%	Similar instances have never occurred in the past.
2 – Not Likely	May occur once or twice between two (from now) to five years.	5 to 9%	Though not routinely but there have been instances in the last 2 to 5 years.
3 – Likely	Possible, may arise once or twice within the next year.	10 to 49%	There have been one or two similar instances in the past year
4 – Highly Likely	High, may arise several times within the next year.	50 to 80%	Similar instances have occurred several times in the past year
5 – Expected	Very high, will be almost a routine feature every month within the immediate next year.	Over 80%	Similar instances have commonly occurred every year in the past.

Scoring MAP:

	Impact				
Likelihood	1 - Very Low	2 – Low	3 – Moderate	4 - High	5 - Very High
1 – Rare	Low	Low	Low	Low	Low
2 – Not Likely	Low	Low	Low	Medium	Medium
3 – Likely	Low	Low	Medium	High	High
4 – Highly Likely	Low	Medium	High	High	High
5 – Expected	Low	Medium	High	High	High

******* *End of Document* *******