

Yunus Social Business Fund Bengaluru Private Limited Risk Management Policy

(Revised Version approved by the
Board of Directors on 28th November 2024)

Risk Management Policy

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1. INTRODUCTION

1.1 COMPANY

Yunus Social Business Fund Bengaluru Private Limited (YSBFB) was incorporated in 2016. It subsequently received a Type I Non-Banking Financial Company (NBFC) license from the Reserve Bank of India (RBI) on February 9, 2017, categorized as a Non-Systemically Important Loan Company. In November 2019, the Company upgraded its license to a Type II NBFC. As per the latest RBI scale based regulations, YSBFB is currently categorized as an NBFC-ICC-BL (Non-Banking Financial Company-Investment & Credit Company-Base Layer). The Company primarily raises capital through equity and debt financing from domestic and foreign institutions. It does not accept public deposits.

YSBFB is inspired by Nobel Laureate Prof. Muhammad Yunus's Social Business Philosophy. A social business is one with a social mission at its core, and 100% dedicated to solving human problems. A social business either creates income for the poor or provides them with essential products and services like healthcare, safe water or clean energy. They operate exactly like normal companies except for a few small differences: i) the primary aim of Social Business is to solve a social problem; ii) unlike a charity, a social business generates profit and reinvests these profits back into generating impact; iii) a social business aims to be financially self-sustaining.

We aim to achieve this through providing patient finance to businesses that are driven by ambitious local entrepreneurs with a strong focus on solving social / environmental problems with sustainable business principles and creating impact.

1.2 VISION

YSBFB's vision is to have a "World of Three Zeroes" i.e.

- Zero Poverty;
- Zero Unemployment;
- Zero Net Carbon Emissions

1.3 MISSION

YSBFB's purpose is to harness the power of business to end poverty and the climate crisis.

1.4 LEGAL

This Risk Management policy is also in compliance with the requirements under Section 134(3)(n) of the Companies Act, 2013, which requires the Company to lay down procedure for risk assessment and procedure for risk minimization. The extract of the said provision is as follows:

"Section 134(3)(n) : 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 of the Company."

Accordingly, the Risk management Policy has been adopted by the Board on 25th February 2022 and now revised taking into consideration of the updates of the Risk management policy by RBI.

1.5 OBJECTIVES:

The objectives of Risk management policy is to provide a system

- i. For identifying risks,
- ii. For managing risks, and
- iii. For mitigating risks.
- iv. For protecting the capital and for avoiding potential loss in income through prudent risk management.

2. RISK GOVERNANCE STRUCTURES:

2.1 BOARD OF DIRECTORS:

Board of Directors of YSBFB have a key role in putting in place the risk management system by approving a risk management framework. As the risk scenarios are dynamic in both the internal and external environments, Board of Directors of YSBFB shall keep on collecting the feedback from the staff and shall continue to revise the risk management policies and shall always have the risk oversight.

Risk management policies shall be revised by the Board of Directors of YSBFB when

- a) The RBI brings out any new regulations or changes to the existing regulations.
- b) When YSBFB changes its lending processes due to the emerging competition or any other external factor.
- c) When YSBFB alters its growth plan, business plan & the risk management system.

2.2 RISK MANAGEMENT COMMITTEE:

As prescribed by RBI in its circular on Scale Based Regulations issued on 22nd Oct 2021, In order that the Board is able to focus on risk management, NBFCs shall constitute a Risk Management Committee (RMC) either at the Board or executive level. The RMC shall be responsible for evaluating the overall risks faced by the NBFC including liquidity risk and will report to the Board. YSBFB has put in place a Risk Management Committee at executive level.

Meetings & Quorum	Risk Management Committee shall meet at such intervals as may deem necessary but not less than once in a Financial Year. Quorum shall be minimum 2 members.
Terms of Reference	The Risk Management Committee is responsible for analyzing matters relating to the institution's risk control and management strategy and policy, and assessing and approving risk operations that could be significant. <ol style="list-style-type: none">i. The Risks Management Committee has powers over controlling financial risks generated by the business.ii. It must approve the methods and models to identify, measure, monitor, control, report and reveal different risk types.iii. Its other duties include: reporting regularly to the Board of Directors on risk exposure and the measures taken to manage it; adjusting or authorizing overruns on exposure limits for the different risk types; and

	adopting, implementing and disseminating contingency plans in the event of acts of nature or force majeure to avoid breach of the set risk exposure limits.
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3. RISK MANAGEMENT:

While YSBFB has adopted a risk-based approach to the implementation of this Policy, it is necessary to establish appropriate framework covering proper management oversight, systems, controls and other related matters. Risk management is about understanding and managing YSBFB's risk environment and taking measures, where necessary, to ensure those risks are contained to acceptable levels.

Risk management in YSBFB is a six steps process of

- i. Identifying, assessing & prioritizing the risks (Targetting on key risks based on the Frequency & Impact of risk events),
- ii. Developing strategies to measure risks (PAR, NPA and Provision for loan loss),
- iii. Designing policies & processes to mitigate risks,
- iv. Implementing & assigning responsibility,
- v. Testing effectiveness & evaluating results,
- vi. Revising policies & processes.

This risk management policy of YSBFB sets out key risks (Credit risk, Operational risk, Interest rate risk, Market risk and Compliance risk) in the lending business, at a high level, specifies how it will manage & control the risks.

Categorisation of Borrowers according to Risks:

As per KYC policy, for acceptance and identification, borrowers are categorized broadly into low risk, medium risk, and high risk categories.

Low Risk: Individuals whose identities and sources of income can be easily identified and transactions in whose accounts by and large conform to the known profile. People belonging to the Bottom of the Pyramid of the society and low-income households involved in business activities and services which are visible, verifiable and have limited turnover, daily wage earners employed in agriculture and unorganised sectors, industrial workers, domestic servant maids and salaried employees whose salary structures and place of employment are well defined and the businesses whose sources of income can be easily identified and who have structured turnover, a strong credit history and profile, regular turnover, and the transactions in whose accounts by and large conform to the known profile fall in this category.

Medium Risk: Individuals whose identities cannot be easily ascertained, have no documents to provide with respect to their current place of residence, sources of income are difficult to assess, and the living conditions of the family is beyond the visible sources of income and the businesses that have a sound business and profitable track record for a reasonable time period, and a relatively stable social and financial status shall fall in this category.

High Risk: Non-resident customers, high net worth individuals, trusts, charities, NGOs and organizations receiving donations, companies having close family shareholding or beneficial ownership, firms with 'sleeping partners', politically exposed persons (PEPs) of foreign origin, customers who are close relatives of PEPs and accounts of which a PEP is the ultimate

beneficial owner, non-face to face customers and those with dubious reputation as per public information available etc., and the businesses that do not have a profitable track record, have uncertain cash flows and questionable business model sustainability shall fall in this category.

YSBFB may at its discretion identify additional factors that it may wish to utilize for borrower acceptance based on risk profile determined by YSBFB. YSBFB's internal audit and compliance functions shall play an important role in evaluating and ensuring adherence to KYC policies and procedure, including legal and regulatory requirement. The compliance in this regard is being and will continue to be put up before the Board of Directors on a periodical basis.

4. RISK MANAGEMENT STRATEGIES:

The risk management strategy has 4 options.

Strategy	When to be opted and Example
Avoid	When frequency and impact is high, Avoid. E.g. Avoiding Big loans, Avoiding the problem areas. i.e. Default areas or Chronic disaster risk areas.
Transfer	When frequency is low and impact is high, Transfer. E.g. Insurance against fire risk or Insurance against crop failure.
Accept	When frequency and impact is low, accept. E.g. Loan losses in case, where all recovery measures are exhausted.
Control	When frequency is high and impact is low, control. E.g. Most of the operational risks. Mitigation through Product design, Operational Processes, HR policy & Performance measure (PAR and ratio analysis)

This risk management policy of YSBFB sets out key risks in the lending business, at a high level, specifies how it will manage & control the risks.

5. TYPES OF RISKS AND MITIGATION:

5.1 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.

Risk Mitigation:

- a) Credit risk shall be managed using a set of credit norms and policies. The YSBFB has defined roles and responsibilities for originators and approvers. All credit exposure limits shall be approved by authorized persons.
- b) YSBFB shall not have exposure (credit/investment taken together) exceeding
 - i) twenty-five percent of its Tier 1 capital to a single party/entity; and
 - ii) forty percent of its Tier 1 capital to a single group of parties/entities,
- c) YSBFB has put in place a structured and standardized credit approval process to ascertain the credit worthiness of the borrower.

- d) The YSBFB has developed an internal evaluation team to make credit decisions more robust and in line to manage collateral risk.
- e) The YSBFB follows a process of time-to-time revisiting the credit policy and processes, on the basis of experience and feedback.

5.2 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.

Risk mitigation:

The persons/employees responsible shall keep continuous watch and shall gather the symptoms/warning signals to manage Operational risk.

5.3 INTEREST RATE RISK:

Interest Rate Risk is the risk where changes in the market interest rates might adversely affect an NBFC's financial condition. The immediate impact of changes in interest rates is on NBFC's earnings by changing its Net Interest Income. The interest rate risks are viewed from earnings perspective and economic value perspective respectively.

Risk Mitigation:

YSBFB has a Board approved Interest Rate Policy which is implemented by YSBFB to reduce the Interest Rate Risk. Below are the few clauses of the Policy:

- a) Interest rate models, base lending rate and other charges, and their periodic revisions are made available to our prospective and existing customers through our Portfolio Team. Prior to entering into an agreement with our customers, YSBFB provides them with the schedule of charges and interest and address their queries and questions on the same, to their satisfaction.
- b) Interest rates would be intimated to the customers at the time of sanction / availing of the loan and EMI apportionment towards interest and principal dues would be made available to the customer.
- c) Annual Percentage Rate (APR), which includes the interest rate and any associated fees shall also be disclosed in the Sanction Letter and Loan Agreement.
- d) The interest shall be deemed payable immediately on the due date as communicated. Applicable grace period for payment of principal is allowed.
- e) Changes in the interest rates and charges would be prospective in effect and intimation of change of interest or other charges would be communicated to our customers in writing.
- f) Besides interest, other financial charges like processing fees, origination fees, late payment charges, pre-payment / foreclosure charges, would be levied by the us wherever considered necessary as per the terms of the loan communicated. Besides these charges, stamp duty, service tax and other cess would be collected at applicable

rates from time to time. Any revision in these charges would be from prospective effect.
A schedule of charges

- g) Claims for refund or waiver of charges / penal interest / additional interest would normally not be entertained by us and it is at the sole discretion of the YSBFB to deal with such requests.
- h) Any revision in our interest rates applicable to business would be reviewed and approved by the Investment Committee

5.4 MARKET RISK:

This is majorly external market dynamics, which gives rise to Risks like Liquidity risk, Foreign Exchange 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:

- a) As a contingency plan, YSBFB shall maintain sufficient approved but undrawn credit lines on a continuous basis as buffer to manage eventuality of liquidity constraints.
- b) The YSBFB shall be compliant in terms of regulatory norms and therefore shall effectively manage regulatory risk.
- c) Effective Customer redressal mechanism and fair practices shall keep legal risk under control.
- d) The YSBFB shall have processes in place, to manage the risk of fraud and the suspected frauds are reported, wherever necessary.
- e) The YSBFB shall take any foreign exchange risk exposures after the due approval from the Managing Director of YSBFB.
- f) The YSBFB shall not borrow foreign currency loans without hedging for potential foreign exchange losses.

5.5 COMPLIANCE RISK:

YSBFB is regulated principally by RBI and SEBI and are having reporting obligations to them. YSBFB is also subject to the corporate, taxation and other laws in effect in India. The regulatory and legal framework governing the company may continue to change as India's economy and commercial and financial markets evolve. YSBFB has to ensure compliance with regulatory and statutory requirements. Non-Compliance can result in stringent actions and penalties from Regulators and/or Statutory Authorities. These risks can take form of:

- Non- Compliance with RBI Regulations;
- Non- Compliance with SEBI Regulations;
- Non-Compliance under the Income Tax Act;
- Non-Compliance under the Companies Act;
- Non-Compliance under various other Applicable Statutory Regulations.

Risk Mitigation:

YSBFB has an in-house Secretarial team for monitoring, review and compliance of the applicable provisions and are directly reporting to the Managing Director of the Company.

6. REVIEW AND REVISION:

The Risk Management Committee of YSBFB shall review the policy annually and shall recommend to the Board of all necessary changes for adoption.

7. ADMINISTRATION & ADOPTION OF POLICY:

The Risk Management Committee of the Company shall be responsible for the administration, interpretation, and application of this policy. The Risk Management Committee of the Company also shall be empowered to bring about necessary changes to this Policy, if required at any stage with the concurrence of the Board. This policy and any changes made during the annual reviews shall be adopted by resolution of the Board of Directors.

8. DISCLOSURE ON THE WEBSITE:

The details of this policy shall be disclosed by the YSBFB in its website.
