

# **AQUILA FINANCE LIMITED**

## **ENTERPRISE RISK MANAGEMENT FRAMEWORK**

**AFL/POL/10/25-R004-09**

<b>History of the Document</b>	<b>Adopted by</b>	<b>Date of Adoption/Review</b>
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### **1. FOUNDATION & PHILOSOPHY**

#### **1.1 Preamble**

Aquila Finance Limited operates in a dynamic environment where risk is an inherent aspect of creating value. This Comprehensive Risk Management Framework establishes a structured and proactive approach to identifying, assessing, monitoring, and mitigating risks. Our goal is not risk elimination, but intelligent risk management that supports strategic objectives, protects stakeholder interests, and ensures long-term resilience.

#### **1.2 Purpose & Objectives**

This Framework is designed to:

**Integrate Risk into Strategy:** Embed risk considerations into all strategic and operational decision-making processes.

**Protect Assets and Reputation:** Safeguard the Company's financial, human, and intellectual capital, as well as its brand reputation.

**Ensure Regulatory Compliance:** Maintain robust adherence to all guidelines issued by the Reserve Bank of India (RBI) and other statutory bodies.

**Promote a Risk-Aware Culture:** Foster an organizational culture where every employee understands their role in managing risk.

#### **1.3 Governing Principles**

Our risk management practices are guided by the following principles:

**Proactive & Forward-Looking:** Anticipating risks rather than merely reacting to events.

**Integrated & Systematic:** Embedding risk management into all business processes and activities.

**Customized & Proportional:** Tailoring the Framework's application to the scale, complexity, and nature of our operations.

**Dynamic & Adaptive:** Continuously evolving to address emerging risks and a changing business landscape.

## **2. RISK GOVERNANCE & THE THREE LINES OF DEFENSE**

A clear governance structure is critical for effective risk management.

**First Line of Defense – Business Units:** Management and staff in operational units own the risks inherent in their activities. They are responsible for implementing and executing corrective actions to manage these risks daily.

**Second Line of Defense – Risk & Compliance Oversight:** The independent Risk and Compliance functions establish the risk framework, provide expert guidance, monitor compliance, and challenge the first line on risk management practices.

**Third Line of Defense – Independent Assurance:** Internal Audit provides independent and objective assurance to the Board and Audit Committee on the effectiveness of the entire risk management and control environment.

### **2.1 Board of Directors**

The Board holds ultimate responsibility for the Framework, including approving the risk appetite, overseeing the risk culture, and reviewing the Company's risk profile.

### **2.2 Risk Management Committee (RMC)**

A Board-level committee, the RMC provides focused oversight. Its composition and duties are defined in a separate charter, but its mandate includes reviewing risk policies, monitoring key risk exposures, and overseeing the functioning of management committees.

### **2.3 Management Committees**

**Asset Liability Committee (ALCO):** Manages market, liquidity, and interest rate risks.

**Credit Committee:** Oversees underwriting standards, portfolio quality, and concentration risks.

## **3. CORE RISK CATEGORIES & MITIGATION STRATEGIES**

The Company is exposed to the following key risk categories:

### **3.1 Strategic Risk**

**Definition:** The risk of loss due to adverse business decisions, improper implementation of strategies, or lack of responsiveness to industry shifts and competition.

#### **Mitigation:**

- Regular strategic reviews and environmental scanning by senior management.
- Robust business planning and budgeting processes.
- Diversification of products and geographies to avoid over-reliance.
- Board-level deliberation on major strategic initiatives.

### **3.2 Credit & Counterparty Risk**

**Definition:** The risk of financial loss arising from a borrower's or counterparty's failure to meet its contractual obligations.

#### **Mitigation:**

- \* A Board-approved Credit/Loan Policy governing underwriting, appraisal, and approval.
- \* For Gold Loans: Rigorous KYC, scientific assaying, secure custodial practices (dual control, secure vaults, insurance), prudent LTV ratios, and a systematic auction process.
- \* For Non-Gold Loans: Comprehensive assessment of repayment capacity, cash flow analysis, credit bureau checks, collateral verification (legal and technical), and insistence on co-obligors where appropriate.
- \* Active portfolio monitoring and a disciplined collections process.

### **3.3 Operational Risk**

**Definition:** The risk of loss resulting from inadequate or failed internal processes, people, systems, or external events.

#### **Mitigation:**

- \* Process & Fraud Risk: Detailed Standard Operating Procedures (SOPs), staff rotation and mandatory leave policy, Whistleblower mechanism, and fidelity insurance.
- \* Technology & Cyber Risk: Robust IT infrastructure with disaster recovery capabilities, regular security audits, data encryption, and a comprehensive IT Security Policy.
- \* Physical Security Risk: High Graded approved safes, CCTV surveillance, and surprise audits for high-value assets.
- \* Human Error: Continuous training, performance management, and a strong internal control environment.

- \* Legal & Documentation Risk: Legal vetting of contracts, CERSAI registration, and secure document storage (physical and digital).

### **3.4 Market & Liquidity Risk**

#### **Definition:**

Market Risk: The risk to earnings from adverse movements in interest rates.

Liquidity Risk: The risk of being unable to meet financial obligations as they fall due.

#### **Mitigation:**

- Active management by ALCO.
- Maintaining a diverse funding base as per the Resource Mobilisation Policy.
- Conducting regular liquidity stress tests.
- Maturity matching of assets and liabilities to minimize gaps.
- Maintaining a conservative leverage ratio and strong capital adequacy.

### **3.5 Compliance & Regulatory Risk**

**Definition:** The risk of legal penalties, financial loss, or reputational damage due to failure to comply with laws or regulations.

#### **Mitigation:**

- A dedicated Compliance Department.
- Automated compliance tracking systems where feasible.
- Regular internal and external compliance audits.
- Continuous training programs on regulatory updates.
- Quarterly compliance certifications to the Board.

### **3.6 Reputational Risk**

**Definition:** The risk of damage to the Company's brand and public standing from perceived or real failures in conduct, ethics, or performance.

#### **Mitigation:**

- \* Strict adherence to the Fair Practices Code.
- \* An efficient and responsive Customer Grievance Redressal Mechanism.
- \* Transparent communication and ethical marketing practices.
- \* Proactive media and stakeholder engagement.
- \* A strong Code of Conduct reinforced through training.

#### **4. RISK ASSESSMENT, MONITORING & REPORTING**

Identification & Assessment: Risks are identified and assessed periodically using a Risk Control Matrix (RCM). This involves evaluating the inherent likelihood and impact of risks and the effectiveness of controls to determine the residual risk.

Monitoring: Key Risk Indicators (KRIs) are established to provide early warning signals of increasing risk exposure.

Reporting: A structured reporting mechanism ensures that risk information flows to the appropriate levels of management and the Board. The RMC shall receive a comprehensive risk report at least quarterly, detailing the status of key risks, mitigation efforts, and emerging threats.

#### **5. BUSINESS CONTINUITY MANAGEMENT**

The Company shall maintain Business Continuity Plans (BCPs) to ensure the resilience of critical operations in the event of a disruption. This includes technology disaster recovery, alternative work arrangements, and succession planning for key roles.

#### **6. POLICY ADMINISTRATION**

Review: This Framework shall be reviewed annually by the RMC and the Board to ensure its continued relevance and effectiveness.

Amendments: Any amendments to this policy require the approval of the Board of Directors.

Severability: If any provision is deemed unenforceable, the remainder of the policy shall continue in effect.

**BY THE ORDER OF THE BOARD OF DIRECTORS**

**For AQUILAN FINANCE LTD.**