Introduction:

Kuhoo Finance Private Limited (the "Company") is registered with RBI as a Base Layer NBFC. The company is primarily engaged in the retail lending activities primarily in the segment of student education.

As per the company's strategy, its target markets are primarily students and its lending products include education loan for tuition fees and living expenses and other education related expenses, etc. For smooth functioning of its lending activity the company understands the requirement to adhere with RBI guidelines issued from time to time.

This policy is prepared in line with the requirements prescribed by Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 and various RBI notifications / directions ["RBI Regulations"] issued in this regard

Roles and Responsibilities

Board of Directors shall:

- Oversee the effective functioning of the Risk Management Committee as per the procedures and practices prescribed in this document.
- Establish and clearly define the company's risk appetite and tolerance levels . and ensure that these parameters are clearly communicated.
- Review the periodic risk reports and observations of the RMC to ensure that risks are being effectively monitored and managed.
- Incorporate risk considerations into strategic decision-making processes to proactively identify and address potential risks.
- Ensure that the necessary resources, including technology and personnel, are allocated for effective risk management
- Ensure compliance with regulatory requirements on risk management from time to time

Risk management Committee

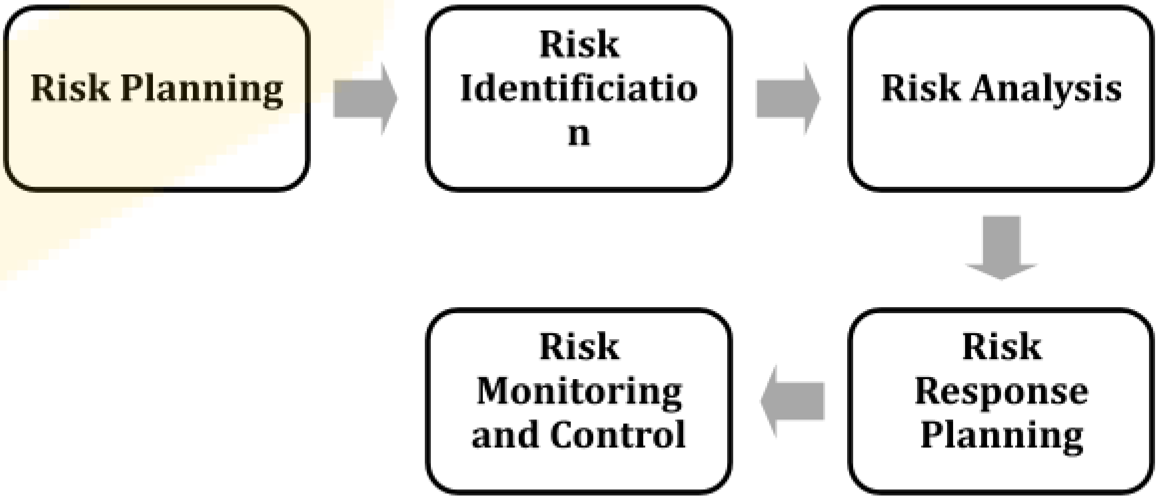
The board of directors shall constitute a Risk Management Committee, and will be entrusted with the following responsibilities

- Periodically review the risk management policy, at least annually, taking into account changing industry dynamics and increasing complexity.
- To ensure that appropriate risk methodology, processes and systems are in place.
- To monitor and evaluate risks associated with the business of the Company and to ensure appropriate mitigation measures are put in motion.
- To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems.
- Review reports and significant findings from Risk and Compliance assessments conducted by regulatory bodies, focusing on risk management and compliance activities, along with management's responses and follow-up actions.
- To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken.
- Establishing appropriate Risk tolerance benchmarks for the company.

- Periodically update the Board on the effectiveness of the risk management framework and process of risk management.

Risk Assessment & Controls:

The Risk Management Framework shall provide an outline to address the overall risk faced at the company's end as well as Transaction end. The Risk Management Framework of the company shall consist of 5 steps as shown in below diagram



1. **Risk Planning**

The planning phase of Risk shall involve following parameters:

1.1. Objective Setting: Define clear objectives for risk management aligned with organizational goals.

1.2. Framework Development: Establish a framework that outlines roles, responsibilities, and processes for managing risks.

1.3. Resources Allocation: Identify and allocate necessary resources (staff, tools, budget) to implement the risk management process effectively.

2. **Risk Identification Techniques:**

2.1. Use various techniques such as:

- SWOT analysis (Strengths, Weaknesses, Opportunities, Threats)
- Interviews and surveys with stakeholders and industry
- Historical data analysis
- Cause and Effect Analysis

2.2. Creation of a list for risk: Document identified risks in a risk register, detailing the nature of each risk, potential impact, frequency of the risk and the source of the risk.

Following are types of risks to the Company and its operations:

- Credit Risks
- Technology Risk
- Liquidity Risk
- Operational Risks
- Reinvestment Risks
- Regulatory Risks
- Strategic Risk
- Market Risks
- Financial Risk
- Reputational Risk
- Human Resource Risk
- Outsourcing Risks

2.3. Stakeholder Involvement: Engage key stakeholders across departments to gather diverse perspectives on potential risks.

2.4. General Risk Categorizations

The categorization of the risks identified on the basis of following parameters:

Effect of Risks	Frequency of Risks
▪ Catastrophic ▪ Critical ▪ Marginal ▪ Negligible	▪ Frequent ▪ Likely ▪ Occasional ▪ Seldom ▪ Unlikely

3. Risk Analysis

An analysis of risks identified shall be performed to enable the company to prepare appropriate response to mitigate / avoid risk:

3.1. Qualitative Analysis: Assess risks based on their likelihood of occurrence and potential impact. Use a risk matrix to categorize risks as low, medium, or high.

3.2. Quantitative Analysis: For significant risks, conduct quantitative assessments using statistical methods to estimate potential losses.

3.3. Prioritization: Rank identified risks based on their severity and likelihood, focusing resources on the most critical risks.

3.4. Documentation: Maintain detailed records of the analysis process and results in the risk register.

4. **Risk Response Planning**

4.1. Response Strategies: Develop strategies for each prioritized risk in consultation with the board, which may include:

- **Avoidance**: Altering plans to sidestep potential risks.
- **Mitigation**: Implementing measures to reduce the impact or likelihood of risks.
- **Transfer**: Sharing the risk with third parties (e.g., insurance).
- **Acceptance**: Acknowledging the risk and preparing to manage its consequences if the risk is within the acceptable industry and the tolerance limits set by the board

4.2. Action Plans: Create detailed action plans specifying tasks, responsible parties, timelines, and required resources for each response strategy.

4.3. **Intimation :** : Present risk response plans to the RMC for approval of risk response plans and resource allocation with intimation of adopted risk response plan to the board of directors.

5. **Risk Monitoring & Control**

5.1. Continuous Monitoring: Regularly monitor risks and risk management activities, adjusting strategies as needed based on changing circumstances. Risk Management is a continuous process and not to be performed in point in time

5.2. Key Risk Indicators (KRIs): Establish KRIs to provide early warning signals of potential risk exposure in future.

5.3. Reporting: Prepare periodic risk reports for the Board and management, summarizing risk status, monitoring results, and any required actions.

5.4. Review and Update: Conduct regular reviews of the risk management process, including the risk register, to ensure relevance and effectiveness. RMC shall update the risk management framework as may be necessary

5.5. Document the lessons: After any risk event or near-miss, conduct a review to identify lessons learned and improve future risk management practices.

Potential Significant Risk to the company

1. **Credit Risk:** The risk of borrowers defaulting on their loans can significantly impact the company's financial stability. Retail lending involves:
   - Possibility of losses associated with decline in the credit quality of borrowers or counterparties
   - Default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending,

Ideally Credit Risk increases due to increase / existence of following risks

- **Default Risk**: The possibility that a borrower will be unable to make the required payments on their debt. This can stem from various factors, including loss of income, unexpected expenses, or poor financial management.
- **Counterparty Risk**: Involves the risk that the other party in a financial transaction will not fulfill their obligations, which can impact the company's financial position.
- **Concentration Risk**: When the company has a significant portion of its loan portfolio exposed to a single borrower, sector, or geographic area, increasing vulnerability to localized economic downturns.

Credit risk management will encompass identification, measurement, monitoring and control of the credit risk exposures. The objective will be to minimize the risk and maximize company's risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters.

Few prominent mechanism to mitigate credit risk are as follows:

- Assess risk factors and potential scenarios
- Set credit limits and review them regularly
- Consider credit risk from the start of loan appraisal
- Monitor customers' performance and payments
- Review assistance offered to customers

Credit Policy as adopted by the board of directors shall be a useful tool for the company to manage the credit risk as it shall specify Target segments, Concentration Limits, Basic customer eligibility and Credit Underwriting Process.

The company will have a structured and standardized credit underwriting / approval process to ascertain the credit worthiness of the borrower. The Credit Department will have a four-eye process for scrutinising a file (over and above the scrutiny done by the Business Department).

- The digital verification aspect would be covered by the company employees or outsourced party (LSP) and the final sanction of a file, after taking a comprehensive view of various inputs, would be done by delegated authority of Credit Team.
- Approval limits have been established for the loan amount and other parameters specified in the policy, requiring appropriate approvals from higher authorities, such as the COO or MD.
- The cases whereby a higher authority approval is taken due to adverse parameters, the borrower shall be tracked much more closely by the company. The company ensures that sufficient training is given to its employees on the credit and KYC procedures for onboarding and evaluation of its customers. The company has constituted a KYC policy in line with the regulatory requirements.

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

2. **Technology Risk**

The company uses information technology (IT) systems to process their information and risk management plays a critical role in protecting an organization's information assets, from IT-related risks.

The principal goal of company's risk management process will be to protect the organization in its entirety and its ability to perform their mission, and not restricted to its IT assets.

Some of the key risk areas are as given below:

- Infrastructure management
- Cyber Security is a major threat to company as weconducts business over internet
- Security Threats and Vulnerabilities
- Data management and protection risk
- IT Architecture risk
- Technology vendor and third-party risk
- Ability to upskill or reskill employees in fast changing technology landscape

. To address regulatory and compliance risks in key areas, the Company will develop comprehensive IT Policies and Procedures. The IT Resource Committee is responsible for establishing the framework for the IT policy, as well as drafting and implementing it.

- **Liquidity Risk**

. The third key risk faced by the Company is liquidity risk, which is both specific and essential. Liquidity risk refers to the potential inability to meet short-term financial obligations due to an imbalance between cash inflows and outflows. To effectively manage this risk, the Company will formulate and adopt a robust liquidity policy to ensure that sufficient liquid assets are readily available to meet all financial commitments as they arise.

3. **Operational Risk Management and Operational Resilience**

Operational Risk: Risk of loss due to inadequate internal processes, people, systems, or external events. It is inherent in all financial products and activities.

Operational Resilience: The ability to deliver critical functions despite disruptions. It involves identifying threats, mitigating risks, responding to disruptions, recovering, and learning from them

Operational Risk Management and Operational Resilience will be built on three pillars as prescribed by regulatory which are as follows: -

- Prepare and Protect
- Build Resilience
- Learn and Adapt

ese pillars	Pillar 1: Prepare and Protect	Pillar 2: Build Resilience	Pillar 3: Learn and Adapt
	• Governance and Risk Culture	• Business Continuity Planning and Testing	• Disclosure and Reporting
	• Responsibilities of	• Mapping	• Lessons

d sharing,

Other Associated Risks and mitigation measures for the same: -

1. Re-investment Risk
   reinvestment risk is a critical factor affecting the stability and profitability of the company . Reinvestment risk arises from the potential inability to reinvest cash flows at a rate equal to the original investment's return, particularly in a declining interest rate environment.

   To mitigate this risk, the company will implement a proactive investment strategy that includes diversifying our asset portfolio, monitoring market conditions, and utilizing financial instruments to hedge against potential rate fluctuations

2. Regulatory Risk
   The Company, being an NBFC registered with the RBI under Section 45-IA of the RBI Act, 1934, is required to comply with the directions, instructions, and regulations prescribed by the RBI, along with other applicable laws and regulations. Recognizing that the regulatory landscape is subject to periodic review, the Company is committed to proactively preparing to address the challenges posed by these changes.
   The Company aims to respond effectively and competitively to regulatory changes, maintain appropriate relationships with regulators and authorities, strengthen capital reliance, and enhance the quality of in-house compliance. All reports, returns, and disclosures required under regulations are submitted promptly and accurately to reflect the Company's correct position.

3. Strategic Risk – This risk is related to the overall business strategies and the related economic/business environment. In order to mitigate the same, the company shall regularly assesses the business and economic environment and take adequate steps.

4. Market Risk- Risks related to changes in various markets in which the Company operates. In order to mitigate the same, the company will regularly review its business model.

5. Financial Risk- These risks include movement in interest rates and also liquidity risks inherent to the business. In order to mitigate the same, the company will adopte a liquidity risk management policy to address the same.

6. Reputational Risk – This risk arises when the practices followed by the Company are not in consonance with industry as well as internally prescribed standards. In order to mitigate the same, the company shall implemente a fair practice code and Grievance redressal mechanisms as required under the RBI regulations.

7. Human Resource Risk- Where the employee related factors are not handled cautiously such as safety, security, compensation, etc. In order to mitigate the same, various programs and

initiatives shall be carried out to retain talent and motivate them on a regular basis. Some of the tenets of the risk management framework to manage the HR risk are given below:

- Ensure availability of a dedicated workforce of good vintage
- Ensure a pool of resources which can be tapped into should there be a need for additional resources
- Benchmarking salaries and incentives with industry standards so that the attrition levels are managed
- Ensure minimal attrition
- Have a well-defined HR Policy, which addresses all HR related aspects like recruitment, performance management, career progression, smooth separation and exits, employee grievance redressal, etc.

8. Outsourcing Risk – Risk associated with activities outsourced by the company and which can lead to disruption in the ongoing business activities of the company on account of any default from the service provider. A detailed outsourcing policy will be adopted by the Company which shall help in countering such risk.

Risk Appetite

The Board shall define the Company's overall risk appetite, aligning it with the Company's long-term objectives. This shall be formulated while considering the potential impact of the risk appetite on financial and other parameters that could materially affect the Company's operations. The Company will ensure that all transactions are conducted within the prescribed risk limits, taking into account their adversity and materiality.

KEY RISK APPETITE INDICATORS

To measure and monitor risk quantitatively, establishing KRAIs (Key Risk Appetite Indicators) is essential. These KRAIs are developed by the RMC by analyzing various Board-approved policies and identifying key parameters critical to achieving the Company’s risk policies and objectives.

Adherence to these KRAIs will be monitored quarterly by the RMC. Any breaches will be escalated to the Board, and appropriate measures will be taken to address them.

As a good practice, the RMC will also establish an Early Warning Signal (EWS). An EWS will be triggered and reported to the Board if any measured KRAI parameter exceeds 90% of its defined threshold range.

Risk Reporting and Monitoring

The identified risks shall be reported to the Risk Management Committee on a real-time, reasonable basis. Any unfavorable deviations from the Company’s acceptable risk appetite will be addressed accordingly.

The Risk Management Committee will ensure an effective monitoring mechanism through the utilization of MIS systems on an ongoing basis. Additionally, a summary report detailing the identified risks, actions taken, and instances requiring attention will be submitted to the Risk Management Committee. In the case of major deviations or findings, these will also be brought to the attention of the Board of Directors.

The Board of Directors will review the risk management process and any material instances of deviations on an annual basis.

Internal Controls And Risk Management

Internal Controls play an essential part in the prevention and detection parameters of risk identification. Therefore, the Company may formulate internal control mechanisms. The internal controls are to be independently reviewed internally and correct the unwanted deviations in their functioning.

Exception Handling

The policy shall always be updated with extant regulatory provisions. However, in case of conflict between the Policy and regulations, the regulatory provisions shall always supersede the policy.

The updated policy shall be adhered at all the times and exceptions if any to the policy shall be approved by the board of directors after recording a reason in writing.