HI KLASS TRADING AND INVESTMENT LIMITED

RBI REGISTERED NBFC

REGISTRATION NO.____________

RISK MANAGEMENT POLICY

1. Preamble:

Hi-Klass Trading and Investment Limited ("Company") is a Non-Banking Financial Company – Non-Deposit Taking, Non-Systemically Important, classified as **NBFC–Base Layer (NBFC-BL)** under the **Scale Based Regulation (SBR)** framework issued by the Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025 dated November 28, 2025. The Company holds a valid Certificate of Registration (CoR) issued by RBI. has adopted the Risk Management Policy ("Policy") which encompasses practices relating to identification, assessment, monitoring and mitigation of various risk to business.

This policy also includes:

(a) Comprehensive Fraud Risk Management (FRM) framework, ensuring compliance with the RBI Master Directions for Fraud Risk Management in NBFCs, as per RBI Master Directions on Fraud Risk Management in NBFCs, 2024 as amended until date.

(b) Governance Framework - In view of the criticality of the nature of the business model in determining the classification of financial assets and restrictions on subsequent reclassification, the RBI has vided mandated every NBFC to put in place Board approved policy that clearly articulate and document its business models and portfolios which includes Expected Credit Loss (ECL) policy as part of the Governance Framework required for prescribing the guiding principles for assessing and measuring credit risk on all lending exposures of the Company commensurate with the size, complexity and risk profile specific of the Company as applicable

Accordingly, this policy includes the Governance Framework related provisions to the extent applicable to the Company in accordance with Reserve Bank of India (Non-Banking Financial Companies – Financial Statements: Presentation and Disclosures) Directions, 2025.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

2. Purpose:

This policy has been formulated in accordance with the **Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2025**, as amended from time to time, the Board of Directors ("Board") has adopted this Risk Management Policy ("Policy") to establish a structured and comprehensive framework for identification, assessment, monitoring, and mitigation of risks inherent in the Company's business operations.

3. Various Type of Risk

I. Strategic Risk: This risk is related to overall business strategies and the related business vertical, geographical area, business environment, outsourcing activities.

II. Operational Risk: date to day business operations, technology failures, fraud, theft, storage and security, human errors or omissions, inadequate financial capacity.

III. Market Risk: Risk related to changes in market conditions in which company is operations.

IV. Financial Risk: These risks include movement in interest rates, liquidity risks, credit risks and political risk.

V. Credit and Concentration Risk: Credit risks incudes loss due to counterparty default in or failure of timely payment and loss due to a rating-downgrade. Concentration Risk is the risk to the company due to a very high credit exposure to a particular business segment, industry, geography, location, etc.

VI. Regulatory and Compliance Risk: non adherence to statutory and regulatory compliances, corporate governance, privacy leads towards Compliance risk.

VII. Human Resources Risk: Employee related factors, workplace safety and security, compensation.

VIII. Reputation Risk: Where the practices followed by the Company are not in consonance with industry as well as internally prescribed standards.

4. Risk Categories and Mitigation Factor

The following broad categories of risks have been identified in our risk management framework along with possible mitigation factors.

A. Strategic Risk
The management will adopt a proactive approach towards changes in the economic and business environment. Business strategies will be regularly reviewed and discussed with senior officials of the organization to ensure timely and appropriate actions. Additionally, critical strategic matters will be referred to the Board or its Committees, comprising members with diverse expertise in their respective fields, for thorough deliberation, thereby leveraging collective wisdom in decision-making.

B. Operational Risk
Documents Storage and Retrieval – The Company shall keep all original documents in a designated area reserved for this purpose.

The Company shall store the scanned copies of the loan documents, statutory documents / papers / certificates, KYCs of all employees including Directors, KYCs of all customers for easy retrieval especially for audit purposes where physical documents are not required.

The Company shall encourage all its employees to report any instances or suspected instances of violation of the Code, malpractice, corruption, fraud or unethical conduct, leakage or suspected leakage of Unpublished Price Sensitive information of the Company.

Internal Audit at branch offices shall be carried out periodically by internal audit team of operations. Internal Audit at the Head Offices shall be carried out on a quarterly basis by an independent audit firm appointed by the Board. The scope of this Internal Audit shall cover all key functions including HR, Operations, Credit, Administration, Finance and Accounts. All significant audit observations of Internal Audits and follow-up actions shall be presented to RMC.

The Company has been ahead of other similarly placed NBFCs in adoption of a fully computerized environment for conducting its business operations. Redundancy of leased lines / broadbands for data transmission will be provided at each branch office and Head office. The adequacy of the bandwidth of the leased line / broadband will be reviewed periodically and upgraded as per need. Company should host its database on cloud and take services of data security team expert in data security and management. Only authorized personnel will have access to the data base. Scope to tamper or alter the database will be eliminated through controls. A secured system of access control, both on-site and remote, including password management and secrecy will be in place and reviewed periodically. A regular 'system audit' will be conducted to cover both hardware and software and the irregularities immediately addressed. An efficient system to report and manage IT incidents and problems will be in place across the network of branch offices.

C. Market Risk

Management shall regularly review its business model including area of operations, and prospective area of operations. Management shall carry out regular competitive analysis of its peers in the industry on macro level and in the area of operation on Micro level, so as to remain in competition and change its market if required.

D. Financial Risk

Interest Rate Risk: Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The immediate impact of changes in interest rates is on company's earnings by changing its Net Interest Income (NII). The Company shall manage this risk on NII by pricing its loan products to customers at a rate which covers interest rate risk. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM). Measurement of such risk shall be done at the time of deciding rates to be offered to customers. Once interest rate risk is measured, lending rates shall be finalized. Given the interest rate fluctuation, the Company shall adopt a prudent & conservative risk mitigation strategy to minimize interest risk.

Liquidity Risk: Measuring and managing liquidity is critical for the effective operation of an NBFC, as a shortfall in one institution can impact the entire financial system. The Board shall monitor the company's liquidity positions continuously and assess how requirements may change under different scenarios. Even traditionally liquid assets, such as government securities and money market instruments, can become illiquid in certain market conditions, so liquidity must be tracked through maturity or cash flow mismatches. A maturity ladder and cumulative surplus/deficit calculation at selected dates will be used as standard tools to manage net funding requirements. Given the high dependence on external funding, the Company may be exposed to various funding and liquidity risks, including:

● Funding Concentration Risk - Concentration of a single source of funds exposes the Company to an inability to raise funds in a planned and timely manner and resort to high-cost emergency sources of funds. Further, concentration of funding sources can also result in a skewed maturity profile of liabilities and resultant Asset-Liability mismatch. Board should meet regularly to identify any short term / long term liquidity gaps and thereby takes immediate steps and corrective action to bridge the gap.

● Market Perception Risk - Due to inherent industry characteristics, the Company may get exposed to perception risks, which can lead to decline in ability of a lender to increase exposure to the Asset Finance and MSME sector and result lack of adequate and timely inflow of funds. The exposure profile to the lenders shall be regularly updated to ensure that skewness does not creep in in respect of the sources of external funds

● Leverage Risk - A high degree of leverage can severely impact the liquidity profile of the Company and lead to default in meeting its liabilities. Company shall target a leverage between 5x to 6x in light of the business model and adequately safeguard itself against the impact of adverse market conditions. It also affords Company reasonable time to tie-up timely equity infusion. Company shall target to maintain healthy levels of capital adequacy. The Company shall maintain a strong capital position with the capital ratios well above the threshold defined by the regulatory authorities through continuous and timely capital infusion.

E. **Credit and Concentration Risk**

Credit Risk: Any lending activity by the Company may get exposed to credit risk arising from repayment default by customers. Despite best efforts, there can be no assurance that repayment default will not occur and, in such circumstances, may have an effect on its results of operations. The Company may not be able to realize the full value of its financial assets or there could be delayed in realizing such value. Any such losses could adversely affect the Company's financial condition and results of operations. There can be a significant loss due to a rating-downgrade. A strong credit risk management process will help in containing the portfolio quality of the Company. Key elements of the credit risk management include a structured and standardized credit approval process supported by a strong system, effective training programs, legal and technical due diligence, monitoring and robust credit risk management strategy at a senior management

The Company is not currently engaged in lending activities and, therefore, does not face traditional credit risk. However, in the event the Company undertakes lending in the future, all such exposures will comply with the Reserve Bank of India (Non- Banking Financial Companies – Credit Risk Management) Directions, 2025, including the computation of Expected Credit Loss (ECL), proper document and requisite security filings.

Expected Credit Loss (ECL)

The parameters and assumptions considered in the ECL estimation as well as their sensitivity to the ECL output as and when required to be documented shall prescribe the guiding principles for assessing and measuring credit risk on all lending exposures of the Company commensurate with the size, complexity and risk profile specific of the Company as fitting in the Company's Financial Statements as per Indian Accounting Standard (Ind AS) prepared updated or amended from time to time

The Company's approach towards computation of ECL, segmentation of loan portfolio, mechanics for computation of ECL, changes in assumptions, prudential floor for provisioning against assets as per or applicable regulatory framework as amended from time to time and commensurate with the size and business operation of the company shall be complied with before such credit is availed and reported to the risk management committee and board.

<u>Portfolio Concentration Risk</u> - Portfolio Concentration Risk is the risk to the Company due to a very high credit exposure to a particular business segment, industry, geography, location, etc.
Company shall maintain a diversified exposure across various sectors and geographies to mitigate the risks that could arise due to political or other factors within a particular

state. The Company has steadily diversified into various sectors and geographies and consequently the portfolio has become diversified. Various 3rd party verifications shall also be carried out to secure credit facilities.

F. **Regulatory and Compliance Risk**

The company may get exposed to risk attached to various statutes and regulations. The company is mitigating the risk through regular review of legal compliances carried out through internal as well as external compliance audit. Company is present in an industry where the Company has to ensure compliance with regulatory and statutory requirements. Non-Compliance can result in stringent actions and penalties from the Regulator and/or Statutory Authorities and which also poses a risk to Company's reputation.

G. Human Resource Risk

The Company's Human Resources function adds value by ensuring the right people are in the right roles and are empowered to contribute to organizational excellence. Growth is driven by attracting top talent and engaging them effectively. HR risks are minimized by promoting equal opportunity, fostering commitment and belonging, and providing training beyond specialization. Employees are encouraged to share ideas, innovations, and cost-saving suggestions, creating an environment that reduces risk exposure. Compensation is based on fair appraisal systems, reflecting job responsibilities, peer comparison, and individual performance. HR initiatives and programs are regularly conducted to retain and motivate talent.

H. Reputation Risk

Reputation Risk arises from negative perceptions of the Company by customers, counterparties, shareholders, investors, or regulators. It can result from unethical practices, regulatory actions, customer complaints, or negative publicity, and can significantly impact the Company's brand and credibility in a regulated and socially sensitive industry. Key sources of reputational risk include:

- Non-compliance with regulations
- Customer dissatisfaction
- Misrepresentation of information

To mitigate these risks, the Company will implement:

- Compliance with the Fair Practice Code
- Grievance redressal mechanisms
- Delinquency management
- Stringent selection criteria
- Adherence to legal obligations

5. <u>Responsibility</u>

Responsibility for risk management shall be shared across the organization. Key responsibilities include:

- Controlling the risks through a formal program is necessary for the well-being of the organization and everyone in it. The jobs and services the organization provides, the safety of the workplace and other benefits all depend to an extent on our ability to control risk.

- The Board shall be responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented an effective risk management framework.

6. Amendments:

This policy may be amended 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 or amendment thereto.

7. MONITORING/REPORTING PROCESS:

a. A risk register providing all details of risk and action plans will be maintained so that tracking is done at regular intervals.
b. Internal Auditor will develop review reporting templates for risk reports to RMC/AC/Board.
c. Internal Auditor will evolve an audit plan based on the nature of risk.
d. Risk management is a continual activity. For ease of implementation and convenience risk review will be carried out on half yearly quarterly basis and reports also will be tabled before audit committee every six months for subsequent action.
e. All fraud cases must be reported as follows:

- To RBI via Fraud Monitoring Returns (FMRs) within 14 days of classification.
- To Law Enforcement Agencies (LEAs) immediately upon detection.
- Regular fraud case updates will be submitted to the Board and Audit Committee.

8. CONCENTRATION RISK MANAGEMENT FOR SENSITIVE SECTOR EXPOSURE:-

8.1.1 Internal Limits for Sensitive Sector Exposure (SSE)

8.1.2 The Company shall maintain Board-approved internal limits for exposure to sensitive sectors. These limits are given separately in the Investment Policy of the Company

.

9.GOVERNANCE FRAMEWORK

As per Reserve Bank of India (Non-Banking Financial Companies – Financial Statements: Presentation and Disclosures) Directions, 2025 dated November 28, 2025, as amended and/or any other applicable regulatory framework as amended from time to time, the Governance Framework forms part of this Policy In view of the criticality of the nature of the business model in determining the classification of financial assets and restrictions on subsequent reclassification, the RBI has mandated the Company being an NBFC to put in place Board approved policy that clearly articulate and document its business models and portfolios.

- **(i)** The Company is required to articulate the objectives for managing each portfolio, which the Company being an Investment Company is also appropriately captured in it Investment Policy.
- **(ii)** Any sales by the Company of amortised cost business model portfolios shall be disclosed in its notes to financial statements.
- **(iii)** The Board of Directors shall approve sound methodologies for computation of Expected Credit Losses (ECL) that address policies, procedures and controls for assessing and measuring credit risk on all lending exposures, commensurate with the size, complexity and risk profile specific to the Company's business. The parameters and assumptions considered as well as their sensitivity to the ECL output shall be documented.
- **(iv)** The Company shall not make changes in the parameters, assumptions and other aspects of its ECL model for the purposes of profit smoothening. The rationale and justification for any change in the ECL model shall be documented and approved by the Board. Similarly, the rationale and basis of any adjustments to the model output (i.e., a management overlay) shall be clearly documented and approved by the Audit Committee of the Board).
- **(v)** Although Ind AS 109 does not explicitly define default but requires entities to define default in a manner consistent with that used for internal credit risk management. It is recommended that the definition of default adopted for accounting purposes shall be guided by the definition used for regulatory purposes. The rationale for classification of accounts that are past due beyond 90 days but not treated as impaired shall be clearly documented and approved by the Audit committee of the Board of directors. Further, the number of such accounts and the total amount outstanding and the overdue amounts shall be disclosed in the notes to the financial statements. ECL shall be computed at each reporting period under different scenarios with weightages decided by management fromtime-to-time.

Expected Credit Loss = Exposure at default x Probability of default x Loss given default x Discounting Factor Discounting Factor (Df) will be EIR of the respective portfolio. The parameters such as PD and LGD shall be refreshed periodically.

Company shall provide impairment allowances as required by Ind AS. In parallel Company shall also maintain the asset classification and compute provisions as per extant prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP) including borrower/beneficiary wise classification, provisioning for standard as well as restructured assets, NPA ageing, etc.
A comparison between provisions required under IRACP and impairment allowances made under Ind AS 109 shall be disclosed by the Company in the notes to its financial statements to provide a benchmark to it Board, supervisors of the Reserve Bank and other stakeholders, on the adequacy of provisioning for credit losses. Where impairment allowance under Ind AS 109 is lower than the provisioning required under IRACP (including standard asset provisioning), the Company shall appropriate the difference from its net profit or loss after tax to a separate 'Impairment Reserve'. The balance in the 'Impairment Reserve' shall not be reckoned for regulatory capital. Further, no withdrawals shall be permitted from this reserve without prior permission from the Department of Supervision of the Reserve Bank.

- **(vi)** All other compliance and disclosure requirements in the Financial Statements or Reports as per applicable regulatory framework shall be adhered to

<u>10. GOVERNANCE & MONITORING:</u>

The Risk Management Committee (RMC) is responsible for monitoring adherence to the RAS Risk Appetite Statement (RAS) and reporting deviations. This statement will be reviewed annually, or earlier if there is a material change in business, regulation, or risk profile.
Lending and borrowing, if initiated in the future, will be conducted within the risk limit approved by the Board.

11. CONSTITUTION OF THE COMMITTEE:

Shri Dipak Sundarka – CHAIRPERSON

Kumari Sanskkrity Jaiin - MEMBER

Shri Sanjay Kumar Jain - MEMBER

Navin Kumar Jain – MEMBER

12. Review of Policy: -

The Policy is reviewed and recommended by the Audit Committee at its meeting held on 13th February 2026, approved by Board of Directors at its meeting held on 13.02.2026