EQUITY

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INTEGRATED RISK MANAGEMENT POLICY

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Abbreviations Used in this document

EGHL	Equity Group Holdings Limited
SME	Small & Medium Enterprises
IRM	Integrated Risk Management Policy
GBRAC	Group Board Risk & ALCO Committee
GBAC	Group Board Audit Committee
MD	Managing Director
EXCO	Executive Committee
GALCO	Group Risk & ALCO Committee
COO	Chief Operations Officer
CRO	Chief Risk Officer
RMD	Risk Management Department
ICAAP	Internal Capital Adequacy Assessment Process
IT	Information Technology
HR	Human Resources
ORMF	Operational Risk Management Framework
RWA	Risk Weighted Assets
TAN	Total Assets-Net

1 EXECUTIVE SUMMARY

Equity Group Holdings Limited strives to "offer inclusive, customer focused financial services that socially and economically empower our clients and other stakeholders". The Group's strategic risk management objectives include;

- Limit Potential Losses
- Improve Profitability
- Support Growth
- Increase Quality of Strategic and Operational Decisions
- Improve Stakeholder Management
- Define Governance & Organization

As the Group seeks to socially and economically transform the lives and livelihoods by availing modern, inclusive financial services that maximize people's opportunities, it has developed a risk intelligent culture to help manage risks. The Group risk culture is founded on:

- The Group's Core Values
- Risk based incentives
- Group Risk Governance Structure
- Risk management tools and framework and accountability

In the context of the prevailing regulatory and economic environment, the Group assumes various kinds of risks in its business and support activities, in pursuit of attainment of its strategic objectives. The Group recognises that sound risk management contributes to its long-term financial stability.. Prudent Group risk management will contribute to sustainable growth through informed business decisions by facilitating a consistent assessment, measurement, quantification and management of material risks. This policy outlines the Group's risk management framework, risk appetite setting framework, risk evaluation and reporting and harmonized risk policies across the Group.

2 BACKGROUND AND RATIONALE

2.1 GROUP RISK CULTURE

The Group recognizes that the manner in which risk is understood and managed has an effect on the attainment of its vision and objectives.

Risk culture is the 'set of individual and corporate values, attitudes, competencies and behaviours that determine the Group's commitment to and style of operational risk management' (Basel Committee, 2011).

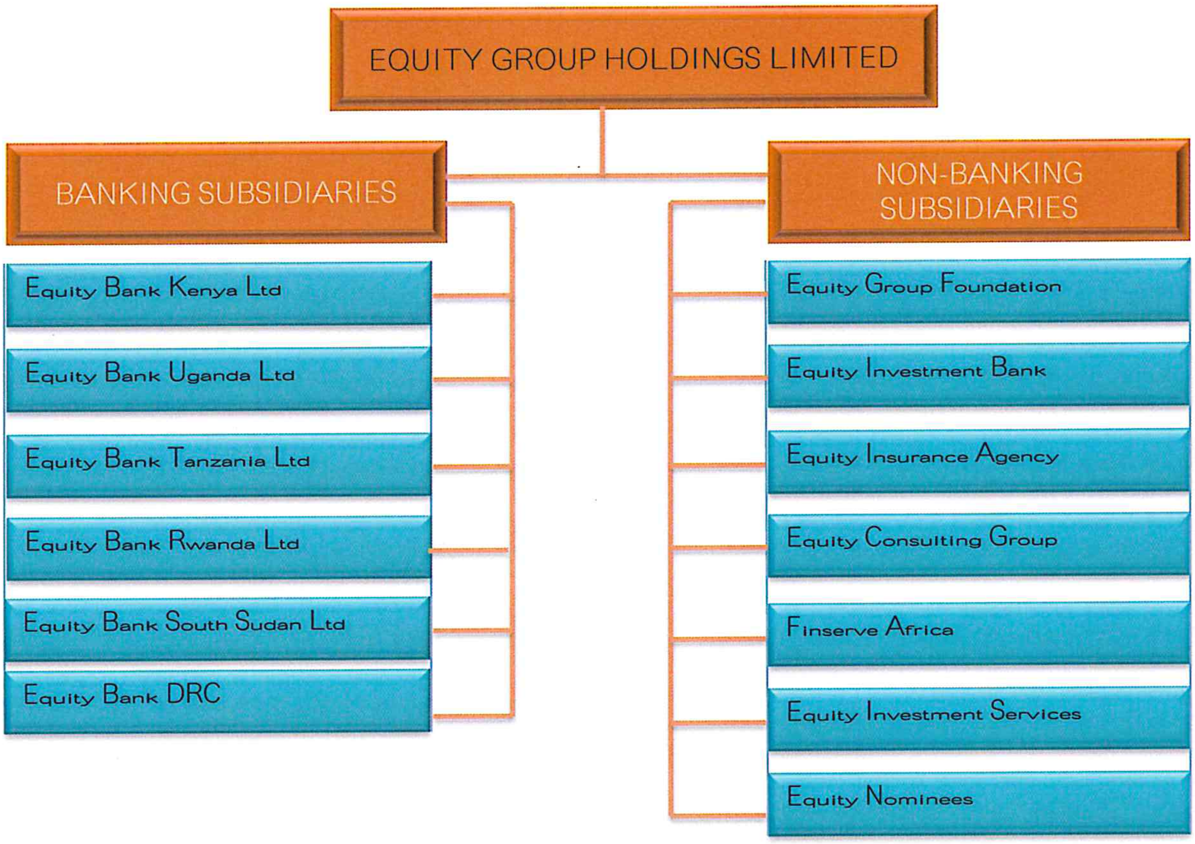
As the Group seeks to socially and economically transform the lives and livelihoods by availing modern, inclusive financial services that maximize people's opportunities, it has developed risk intelligent culture foundational elements as follows;

- The Group's Core Values that inform the ethics and code of conduct.
- Risk based Incentives.
- Risk Governance Structure and accountability.
- Risk management tools and framework.

The Group risk culture is intended to achieve the following strategic risk management objectives:

- Limiting Potential Losses
- Improving Profitability
- Support Growth
- Increase Quality of Strategic and Operational Decisions
- Improve Stakeholder Management
- Define Governance & Organization

The Group risk culture and risk management applies for both the banking and non-banking subsidiaries. The Group's subsidiaries are as indicated below;



2.2 CONTEXT

Equity Group Holding Ltd (EGHL) envisages transforming the lives and livelihoods of the diverse populations in the countries it works in socially and economically by availing them modern, inclusive financial services that maximize their opportunities

Equity Group Holdings Limited (hereinafter referred to as "the Group" or "EGHL" in this document) strives to offer inclusive, customer focused financial services that socially and economically empower our clients and other stakeholders.

In line with the vision of the Group articulated above, EGHL's long term strategy is based on reaching customers with innovative technology platforms and value added services, increased penetration to under banked groups with expansion of existing channels, increased role in financing the SME and corporate investment cycle in the country and creation of a strong analytics platform to understand and forecast trends in the behaviour of customers and the macro-environment.

As EGHL implements its long term strategy of transformation, it aspires to play a leading role in the economic growth of the countries it has a presence in as the countries transform themselves into middle income countries and experience accelerated all round development.

In the context of the prevailing regulatory and economic environment, the Group assumes various kinds of risks in its business and support activities in pursuit of attainment of its strategic objectives. The Group recognises that sound risk management contributes to its long-term financial stability. Prudent risk management will contribute to sustainable growth through informed business decisions by facilitating a consistent assessment, measurement, quantification and management of material risks. Besides, pro-active risk management assists in improved decision-making and optimisation of resource allocation.

The Integrated Risk Management (IRM) policy encompasses the Organisation Structure, Policy & Strategy and Systems & Procedures.

2.3 POLICY OWNERSHIP, COMMUNICATION AND OWNERSHIP

The oversight responsibility for the management of risk shall be delegated to the Group Risk and ALCO Committee of the Board (GBRAC). All references in this document to GBRAC shall be to the Committee of the Board delegated the responsibility of group-wide risk management.

Integrated risk management policy shall be approved by the GBRAC and reported to the Group Board of Directors. The policy shall be owned by the Risk Management Department (RMD), which shall initiate timely action for reviewing and updating the policy. It is recognized that vital inputs emanating from business owners shall be incorporated into the policy stance under a due process. Group heads of the respective business departments and Chief Risk Officer (CRO) shall have the coordinated ownership responsibilities for the policy.

The contents of this policy shall be communicated enterprise wide to all the stakeholders, for implementation and compliance.

The policy Review shall be initiated by the RMD, at its own instance or at the instance of any other stakeholder, through the RMD.

The Policy shall be subject to annual review or at such periodic intervals where changes in the market or regulations necessitate review of the policy.

The policy review shall be initiated two months before the end of the yearly cycles by the Head of Risk in consultations with the Head/s of respective business departments associated with specific risks.

2.4 SCOPE AND APPLICATION

Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity enhancing the capacity to build value.

Integrated enterprise risk management is the process of identifying, assessing, measuring, monitoring, reporting, managing and/or mitigating risks emanating from the business and support functions of the Bank on a consolidated basis. The following risks shall be covered under the scope of risk management:

- Credit Risk
- Country and Transfer Risks
- Concentration Risks
- Market Risk (Trading book)
- Operational Risk (which will comprise of Information, Communication and Technology Risk, HR risk and other operational risks)
- Interest Rate Risk on the banking book
- Liquidity Risk
- Compliance Risk
- Strategic Risk
- Reputation Risk
- Any other risks as may be assessed by RMD to be material to the Group

This policy is derived from the EGHL Group objectives and to that extent, wherever inconsistencies exist, if at all, shall be guided by the Group policy on the subject.

This policy is intended to be applied across the Group as a solo entity and in its relation to transactions extending across other subsidiaries of EGHL.

3 INTEGRATED RISK MANAGEMENT PHILOSOPHY AND APPETITE

3.1 RISK MANAGEMENT PHILOSOPHY AND POLICY OBJECTIVES

In order to fulfil the group objectives of transforming livelihoods through provision of technology driven and socially beneficial financial and non-financial services, EGHL has to proactively identify, assess and monitor all possible risks that can affect the core values that the Group stands for while enabling a sound financial basis for sustaining its objectives.

In order to sustain its competitive position, EGHL needs to continuously and proactively identify, evaluate and avail market opportunities in a competitive environment within the regulatory requirements. Integrated risk management is a vital element in this endeavour.

The key objective of integrated risk management is to protect the Group's solvency through the preservation of high asset quality, efficient operations and forward looking capital management resulting in sustained earnings that augment core capital enabling regulatory compliance and enhancing market reputation and stakeholder support.

The Group integrated risk management policy objectives are derived from the overall group business strategy to which its strategic business objectives are linked and the prudential risk management and stakeholder considerations mentioned above.

In this context, the policy objectives are to:-

i. Articulate, as guiding principles, integrated risk management philosophy.

ii. Define the Group's risk appetite for credit/counterparty, market, operational (including information communication and technology), liquidity, interest rate, concentration, compliance, strategic, reputation and country risks.

iii. Set risk tolerance limits in pursuit of the achievement of strategic business objectives.

iv. Ensure that the senior management maintains a portfolio quality that enables the Group to optimize its capital requirements and protect its risk adjusted net interest margin, contribute to sustained profitability and asset growth in alignment with business strategy.

v. Enable the establishment and sustenance of frameworks, policies, procedures and tools for credit quality assessment, provisioning, loan review, delinquency management, credit monitoring and risk based loan pricing.

vi. Enable the establishment and sustenance of proper identification, measurement and monitoring of trading, interest rate, forex and liquidity risks for establishing a sound market risk and ALM framework in the Bank.

vii. Enable the establishment and sustenance of a framework to manage people risk, process risk, information, and communication and technology risks and ensure a proactive process to identify and resolve inadequate or breached controls at the process level.

viii. Ensure that risks associated with non-compliance, inadequate performance of strategy are pre-emptively identified and managed through specified action plans for strategy modifications/compliance controls.

ix. To identify, assess, measure and monitor levels and direction of country and transfer risk.

x. To determine key identifiers impacting reputation of the Group and assess scenarios affecting the image of the Group and methods to manage potential adverse outcomes.

xi. Ensure diversification and concentration levels in portfolios that are consistent with the business strategy and regulatory guidelines as well as enable the Group to avail market opportunities while contributing to optimum risk adjusted return on capital.

xii. Ensure a uniform risk language throughout the Group via implementation of structured risk rating process as a bedrock for credit risk management.

xiii. Enable forward-looking risk measurement to support credit, operational and business decisions in alignment with the Group's risk appetite.

xiv. Ensure an integrated risk based capital management framework as stipulated under Internal Capital Assessment Adequacy Planning (ICAAP) and establish a framework for assessment of adequacy of current and projected capital position given the business forecasts and stress testing under different macro-economic and business scenarios.

xv. Assist the senior management to implement a robust bank-wide Management Information System on risk management activities that is appropriate and reliable.

xvi. Provide an analytical framework for stress testing to assess the impact of plausible events on the portfolio quality and capital.

xvii. Integrate risk management processes with other risk and business management processes/tools in a seamless manner to provide a holistic Group-wide view of risk profile and the changes to enterprise risk.

xviii. Enable the Group comply with regulatory risk management guidelines.

3.2 RISK PROFILE FOR EQUITY GROUP HOLDINGS LIMITED (EGHL)

The Group, as a risk strategy based on the circumstances of each case, may avoid, accept, accept and mitigate or transfer risk (through insurance).

The risk profile shall be evaluated on -2- dimensions, viz. Level and Direction. In turn, there are -3- Levels, viz. Low, Moderate and High and -3- directional movements, viz. Decreasing, Stable and Increasing. At an enterprise wide level, the integrated risk profile matrix shall be an aggregate of the individual risk profile matrix for credit, operational, market, concentration, strategic, reputation, country, liquidity, interest rate risk in banking book and compliance risk.

		◄ Level of Risk ►		
▲ Direction of Risk ▼		Low	Moderate	High
	Increasing	3	6	9
	Stable	2	5	8
	Decreasing	1	4	7

- The Group shall review the risk profile as per the above mentioned format on an annual basis based on revisions in weights as indicated above. The risk profile along with the risk appetite shall determine the strategic direction of the Group and provide the boundaries for strategic, business and operational decision making
- With the approval of the GBRAC, the management may fix, for each Business Line or Product a different risk profile based on revenue generation and risk considerations. Such consideration shall specifically mention the time horizon for which such risk profile shall prevail and the impact of such a strategy on capital requirements.
- The risk profile for EGHL shall be based on a consolidated view of the risk profiles of the various banking and non-banking subsidiaries.
- EGHL shall ensure that the group and subsidiary strategy conforms to the group and subsidiary risk profiles respectively.

3.3 RISK APPETITE

A risk appetite statement is the articulation in written form of the level and types of risk that a financial institution is willing to accept, or to avoid, in order to achieve its business objectives. A risk appetite statement is a mix of qualitative and quantitative indicators with well-defined thresholds of risk tolerance or risk capacity called "tolerance limits".

In order to capitalize on the direct relationship between risk and reward, it is imperative that Group should assume risks in pursuit of its business objectives, but to sustain this fine balance and keep credit risk within manageable limits, risk tolerance limits are necessary.

Breach of the limit, as a general rule, should be strictly avoided. Flexibility in the limits is provided through linkage to the basis of measurement.

The Risk profile determines the tolerance level for the risk appetite. In case the risk profile of the Group is at variance than the desired level, the tolerance thresholds shall be made stricter (in case of higher risk profile score than desired)/have room for flexibility (in case of lower risk profile score than desired).

Further the Group's risk appetite statements are also articulated / embedded in risk limits and in other qualitative terms in relevant places within the various risk management policies of the Group.

It is recognized that in the course of Group's operations some exceptions may be inevitable. Therefore, where, in the opinion of the sanctioning authority, including a Committee, exceptions overriding this policy statements are warranted, such exceptions shall be referred to and considered by the GALCO at the minimum and where such sanctioning authority falls within the powers of GALCO itself, by the GBRAC and where such sanctioning authority falls within the GBRAC and by the full board.

In cases falling within the powers of the GALCO, the Group CEO may, if the business exigency is such as to warrant immediate action, approve such an exception and seek ratification from the GBRAC. The circumstances warranting such exceptions and the justification therefore, shall be documented and preserved. All such exceptions to risk appetite/tolerance may also be discussed on a Video Conference, proceeds of which may be appropriately documented.

In order to achieve strategic goals while optimizing capital requirements, the following risk Credit Risks and Market Risk metrics shall be observed as a general rule.

3.3.1 CREDIT RISK APPETITE

Metric	Formula	Measurement Basis	Benchmark
RWA_{CR} as a percentage of RWA_T	RWA(CR)/RWA(T)	Total RWA	≤ 85%
RWA_{CR} as a percentage of Net Total Assets (TA_N)*	RWA(CR)/TA_N	Net total Assets	≤ 85%
Return on Average Assets (RoAA)	PAT/Average Assets	Average Assets	≥ 4.5%
Risk Adjusted Net Interest Margin (NIM_{RA})	(NII-Provisions)/Average Earning Assets	Provisions for Loan losses/Expected Losses	≥ 7%
Ratio of Overall Gross Non-Performing Loans (NPL) to Total Loans	NPL/Total Loans	Loans	≤ 3%
Overall unsecured loans to net loans	Unsecured loans/Net loans		≤ 40%
Gross loans to customer deposits	Gross loans/Total deposit	Kenya shillings	95%
Gross loans to customer deposits and borrowings	Gross Loans/(Total deposits + Borrowings)	Kenya shillings	85%
Gross USD loans +investment to subsidiaries to USD borrowings	(Gross USD Loans +subsidiary investments)/USD Borrowings	Dollar	95%
(Gross loans +investment) to (deposits +Borrowings)	(Gross Loans+ investments)/(Deposit + Borrowings)	Kenya shillings	95%

Note * Keeping in view the Group's traditional niche areas of retail banking and the overarching objective of financial inclusion and the socio economic transformation, the management shall progressively reduce the unsecured advances from the existing levels to the levels indicated here over a three year span commencing from the date of approval of this policy by the board.

Note: All the components shall have the same meaning/computational formula as is being currently used by the Group while evaluating performance for internal, regulatory and public disclosure.

3.3.2 MARKET RISK APPETITE

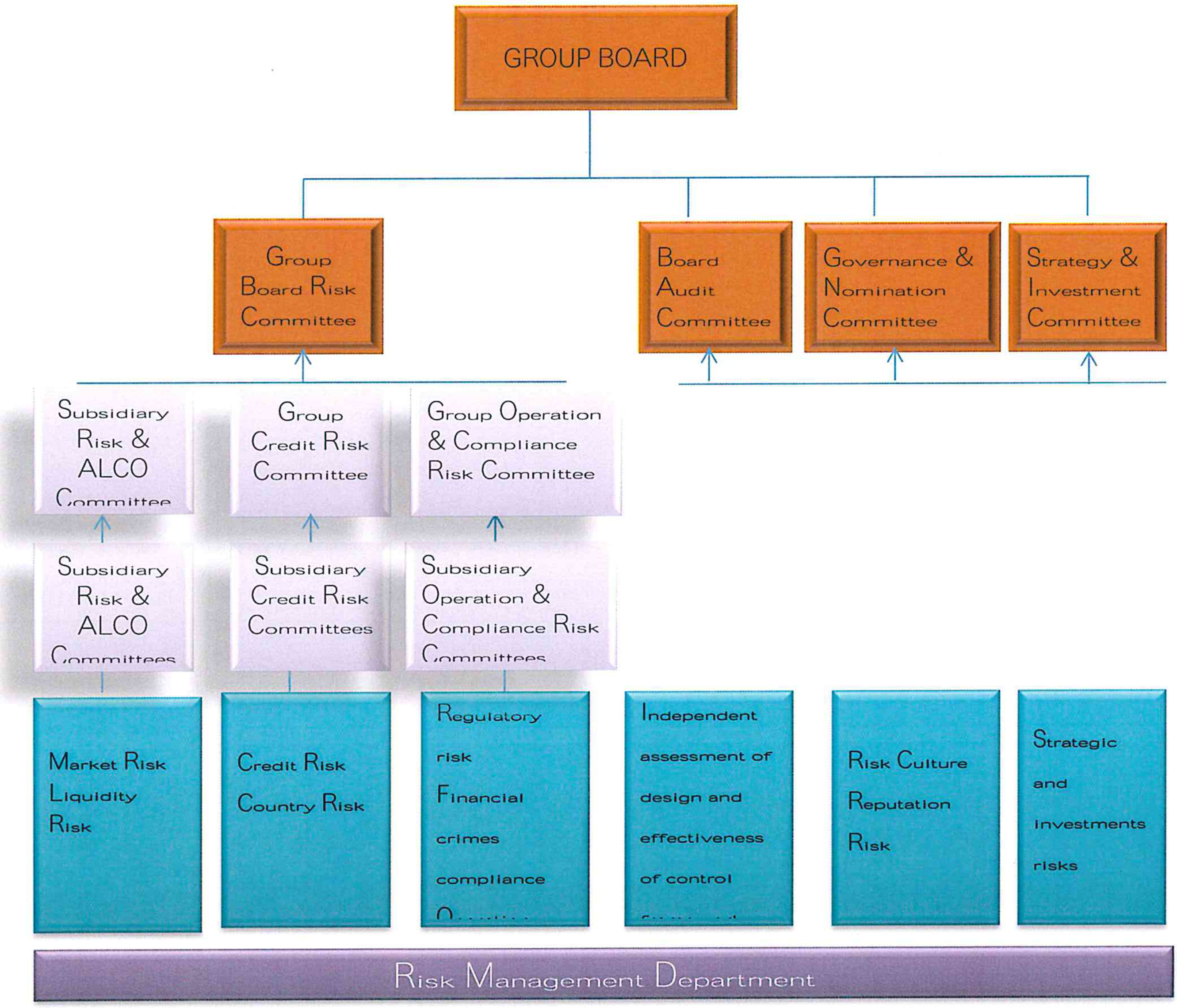
Metric	Formula	Measurement Basis	Benchmark
Return on Average Assets (RoAA)	PBT/Investment Assets	Average Assets	≥ 4.5%≤6
Ratio of Credit + Investments to Customer Deposits +Borrowings		Kenya shillings	100% ± 10%
		Dollar	100%
Duration for AFS Porfolio	Modified duration		≤ 6 years
Proportions of Banking Book	AFS+HTM/Total investment securities		90%
proportions of Trading Book	Trading book/Total investment securities		10%
Maximum period for Trading book	Maximum period an instrument remains in trading book		9 Months
Holding Period in Banking Book	Minimum period for which an instrument must be held		3 Months
VAR for the Banking book			≤ 10% of the Banking book.
Management Action Trigger (MAT) for the Trading book	PV01(Impact on portfolio of a 1 Basis point increase in yield)		1 million assuming a 3 billion trading book portfolio.
liquidity ratio			≥ 25%
Daylight Limit:			≤10 million
Overnight Limit:			≤2.5 million
open exposure in all currencies			≤10% core capital
Currency Swap limit		Kenya shillings	≤20% of Forex Assets

For the purposes of credit, market and operational risk management, risk appetites shall be determined as in annexures 2, 3 and 4 respectively.

4 GOVERNANCE FOR INTEGRATED RISK MANAGEMENT

4.1 ORGANIZATION STRUCTURE FOR RISK MANAGEMENT AT EGHL

The summary structure of the risk management organization structure at EGHL is given in Figure 4.1. This only indicates linkages, departments and committees with relevance to risk management in EGHL.



4.2 INTEGRATED RISK MANAGEMENT COMMITTEES

This section deals with the Board risk committees and group risk management committees. All the committees' roles and responsibilities, membership and frequency of the meetings have been detailed in this policy.

The Group Board of Directors will be have an oversight over the group risk management and will approve all the group risk policies and will ultimately be responsible for ensuring effective risk management across the group.

4.3 GROUP BOARD RISK AND ALCO COMMITTEE

The Group Risk and ALCO Committee is appointed by the Board of Directors Equity Group Holdings Limited (EGHL) and is responsible for performing the duties set out in the Group Board Risk & ALCO Charter. The main purpose of the Committee is to assist the Board in discharging its duties relating to the identification of key risk areas and key performance indicators in EGHL group of companies "the Group".

4.3.1 PURPOSE

The purposes of the Group Board Risk and ALCO Committee are:

- To review and assess the quality, integrity and reliability of risk management and ensure that risk policies and strategies in the Group are effectively managed.
- To ensure the optimization of the Group's assets and liabilities.
- To ensure compliance with statutory and legal requirements and Group's policies and procedures.
- To have and exercise such powers and authority as the Board may from time to time delegate to it.

4.3.2 AUTHORITY

The Board is ultimately responsible for the Risk Management practices of the Group. The Board delegates to the Group Risk and ALCO Committee its oversight responsibilities for Risk Management and Assets and Liabilities Management. In performing its oversight role the committee has the authority to seek and obtain all the information it considers necessary to perform its role. The Committee, in carrying out its responsibilities under these terms of reference:

- Is authorized to investigate any activity within its terms of reference;
- May at the discretion of the Committee, require other employees of the company to attend meetings or parts thereof;
- May consult with and seek any information it requires from any employee, and all employees shall be required to co-operate with any request made by the Committee in the course of its duties;
- May obtain such outside or other independent professional advice as it considers necessary to carry out its duties.

4.3.3 COMPOSITION

The composition of the Group Risk and ALCO Committee shall consist of:

- Only non-executive directors with at least three members.
- The committee shall be chaired by an independent non-executive director.
- The Chief Risk Officer shall be the secretary to the committee.
- The committee may invite on a need basis, any other persons from management or otherwise e.g. consultants, advisors to attend.

4.3.4 MEETINGS

The committee shall meet at least four times annually, or more frequently as need arises. The quorum required for meetings shall be two members.

4.3.5 DUTIES AND RESPONSIBILITIES

- Risk Management – Review the risk philosophy, strategy and policies recommended by management and ensure compliance with such policies and with the overall risk profile of the Group.
- Risk Appetite – ensure that potential risks to the Group's capital base are within Group's tolerance level and prudential limits as set in the Group's risk management policies.
- Emerging risks – scan the Group's operating environment for emerging risks and initiate necessary mitigating actions.
- Compliance – ensure full compliance with all relevant laws and regulations.
- Assets and Liabilities – monitor and ensure optimal composition of assets and liabilities within the Group.
- Liquidity – Review the consolidated liquidity position for the banking subsidiaries against regulatory requirements, and solo liquidity positions for the non-banking financial institutions against their respective regulatory requirements.
- Funding – within the overall Group policy, ensure that appropriate levels of liquidity are maintained and that all future commitments are funded in the most appropriate and cost effective manner.
- Loan portfolio/delinquency management – review and ensure that the loan portfolio is well managed in terms of quality and provisioning.
- Capital Adequacy – review and ensure that the Group's capital adequacy is within the regulatory requirements.
- Review of the Group Risk and ALCO Committee Charter – review and reassess the adequacy of this Charter at least annually and submit to the Board for approval.

4.3.6 REPORTING

The Chairman of the Committee shall keep the Board informed on issues arising from the committee meetings and management actions taken to address them.

4.4 GROUP RISK MANAGEMENT COMMITTEES

4.4.1 GROUP CREDIT RISK COMMITTEE (CRC)

G-CRC shall be a Group level committee to proactively perform credit risk management and identify, assess, measure and monitor risks arising from the same.

4.4.1.1 Composition of G-CRC

The Chief Operating Officer shall be the chairman of the committee and the following senior management members shall be members of the committee.
COO, CFO, Director-Ops, Director-Corporate Banking, Director-Treasury, Director-Finance, Group Director-Legal and Corporate Strategy, Group director-Risk, Director-EIB, MD-EIA, Subsidiary MDs, treasury, finance and risk representatives from subsidiaries
Group Director-Risk shall be secretary to the G-CRC.

4.4.1.2 Responsibilities of G-CRC

The following shall be the responsibilities of the G-CRC:

- Monitor Group credit Risk appetite parameters periodically and assess potential and actual breaches for mitigation
- Periodically monitor concentrations in credit portfolio as per economic sector/industry, product, and geographical region and assess efficacy of thresholds and action plans in case of threshold breach in the Group
- Review credit vintages
- Discuss possible early warning indicators for specific credits and also portfolio segments
- Monitor the adherence to risk acceptance criteria, restricted/prohibited lists, rating outputs, transition of ratings, credit limits, and provisioning, delinquency management standards as performed during the credit cycle processes.
- Review and monitor the credit portfolio quality and also trends and changes to rating/default incidence per sector, product, and group of borrowers and/or geography. Also review the sanctioning decisions of specific cases/industries

/borrowers as may be deemed fit to ensure the adherence of prudent credit risk management practices and credit risk policy guidelines.

- Ensure implementation of framework for identification, assessment and measurement of interest rate risk on the banking book

4.4.1.3 Frequency and quorum

The committee shall meet at least quarterly. The Committee shall also meet at such other times as considered necessary to discharge its role effectively.

The quorum of the Committee is the majority with a minimum of ten including the chairman.

4.4.2 GROUP COMPLIANCE & OPERATIONAL RISK COMMITTEE (G-ORC)

GORC shall be a management level committee to proactively perform operation management and identify, assess, measure and monitor risks arising from the same.

4.4.1.1 Composition of G-ORC

The Chief Operations Officer shall be the chairman of the committee and following senior management members shall be members of the committee.

Director Operations, Chief Information Officer, Chief officer, Human Capital and Administration, Subsidiary General Managers Risk and Compliance and risk representatives from the Group.

GM- Operation Risk shall be secretary to the G-ORC.

4.4.1.2 Responsibilities of G-ORC

The following shall be the responsibilities of the G-ORC:

- Ensure implementation of operational policies.
- Monitor compliance with internal policies and procedures and the regulatory environment.

- Review operation risk management tools, procedures, methodologies.
- Understand and discuss emerging trends in operational risk profile.
- Keep track and discuss changes (potential and actual) to the regulatory landscape for compliance.
- Review and proactively identify vulnerable control and potential risk sources arising from Information, Communication and technology systems.
- Review and ensure effective implementation of a robust Business Continuity (BC) and Disaster Recovery (DR) framework.
- Review and discuss operational risk appetite, trends and composition of operational risk loss data, Risk Control Self-Assessment (RCSA) results, Key Risk Indicator (KRI) breaches and Risk library maintenance and usage.

4.4.1.3 Frequency and quorum

The committee shall meet at least quarterly. The Committee shall also meet at such other times as considered necessary to discharge its role effectively.

The quorum of the Committee is the majority with a minimum of ten including the chairman.

4.4.3 GROUP RISK AND ALCO COMMITTEE (G-ALCO)

4.4.3.1 Responsibilities

The following shall be the responsibilities of the G-ALCO

- Review state of the group balance sheet.
- Review of trading portfolio on regular basis in line with limits structure.
- Review Capital adequacy to Risk Weighted Assets (CRAR), identify trends and sources of RWA intensity and finalize on methods to reduce/stabilize the same in line with the subsidiaries and the consolidated Risk Appetite.
- Review methodology for risk appetite determination, risk profile articulation and tolerance level.

- Understand and discuss emerging trends in the market risk profile, risk tolerance levels and gaps as indicated in the liquidity statement.
- Keep track and discuss changes (potential and actual) to the regulatory landscape.
- Evaluate the overall market and liquidity risks faced by the entities and integrate market and liquidity risks into the overall risk profile and outlook.
- Review, discuss and ensure implementation of frameworks for interest rate, project, strategic, reputation risks.
- Review, discuss and ensure that all the subsidiaries are adhering to the risk limits as set by their Board and the regulators governing their operations.
- Review & discuss ICAAP results and ensure implementation of ICAAP policy.
- Review and discuss stress testing results.
- Review and approve new products.

4.4.3.2 Composition

COO, CFO, Director-Ops, Director-Corporate Banking, Director-Treasury, Director-Finance, Group Director-Legal and Corporate Strategy, Group director-Risk, Director-EIB, MD-EIA, Subsidiary MDs, treasury, finance and risk representatives from subsidiaries

4.4.3.3 Frequency and Quorum

At minimum quarterly intervals or as and when the chairman sees it fit to convene the committee.
At least 10 persons including the chairman and a representative from each subsidiary

4.4.4 BOARD AUDIT COMMITTEE (BAC)

4.4.4.1 Responsibilities

- Assist the Group Board in carrying out their responsibilities relating to accounting policies, internal control and financial reporting functions.
- Monitor the effectiveness of Group Internal Audit activities.
- Assist on such other matters as may be referred to it by the Group Board.

4.4.5 GOVERNANCE, NOMINATIONS & COMPENSATION COMMITTEE

4.4.5.1 Responsibilities

- Discharge responsibilities relating to the compensation of the directors and executive officers of Equity Group Holdings and its subsidiaries ('the Group').
- Assist the Equity Group Holdings Board of Directors ('the Group Board') in identifying individuals qualified to serve as Board members.
- Assist the Group Board in the implementation of sound corporate governance principles and practices.

4.4.6 STRATEGY & INVESTMENTS COMMITTEE

4.4.6.1 Responsibilities

- Consider the various strategic options available to Equity Group Holdings Limited and its subsidiaries (the Group) and makes recommendations to the Board regarding the development and implementation of the long-range strategic plans.
- Consider the proposed strategic investments and makes recommendations to the Board.

- Facilitate deliberations of the Board by enabling additional focus on strategic and investment matter proposed by the Management, so as to provide more informed, objective input to Board discussions on these issues.
- Consider capital raising and capital allocation for the group.

4.4.7 RISK MANAGEMENT DEPARTMENT (RMD)

RMD conduct independent evaluation of Group risks and report to various Management and Board Risk Committees. It will have linkages with other support, control and business departments. These linkages are explained below:

- The Compliance function shall share its databases with RMD and report on compliance issues which shall be included in the measurement of Compliance Risk.
- The Internal Audit function shall conduct an independent review and assurance of risk management framework and shall share relevant audit issues to be incorporated in the operational risk databases
- The Finance Department shall work in close coordination with the RMD for ICAAP and capital computation purposes
- Information technology (IT) and Human Resources (HR) department share relevant data on risk incidents, new product/procedure designs for risk review and assistance in resource assessment and procurement/recruitment
- All other departments hall have linkages for data submission and implementing risk mitigation plans in coordination with the RMD

4.5 SUBSIDIARIES' RISK MANAGEMENT FRAMEWORKS

Risk management is a process, implying that risk management is not a specialised activity performed by a Department or select individuals in the Group but an integral part of the business management, though risk management does have certain specialised areas and requires skill sets. These relate to the area of integration of business strategy with risk management and design of risk management systems that ultimately assist the management in optimal capital allocation.

Subsidiaries' risk management frameworks will be contained in various risk management policies. Harmonized risk management structure for credit, market and operation risk is provided in annexures 1.

5 POLICY GUIDELINES FOR RISK MANAGEMENT

5.1 RELEVANT POLICIES LINKED TO IRM POLICY

Generally, the following policies will provide a risk management framework for the Group:

a. Credit and Credit Risk policy
b. Operational Risk Policy
c. Market Risk Policy
d. Proactive Intelligent Risk Culture and Framework
e. Code of Ethics
f. Speak-Up Policy

In Summary high level guidelines are given in this section with cross references to the relevant policies. All changes affected during reviews in the individual risk policies shall be reflected in this document in parallel

RESIDUAL RISK MANAGEMENT

5.1.5.1. Residual risks shall include all risks not covered in the policies mentioned above. These include Strategic risk, Reputation risk and Compliance risk. Country/transfer risk and Concentration guidelines shall be given as part of the ***ICAAP*** and ***Credit Risk policies***.

*5.1.5.2. Detailed guidelines on residual risks extending the above guidelines and which shall provide direction to the conduct for management of these risks shall be followed as per the **ICAAP policy** document.*

5.2 RISK MONITORING AND REPORTING

5.2.1. Procedures, formats and templates for reporting specific risks by subsidiaries to the group risk committees will be done according to the harmonised risk management policies across subsidiaries.

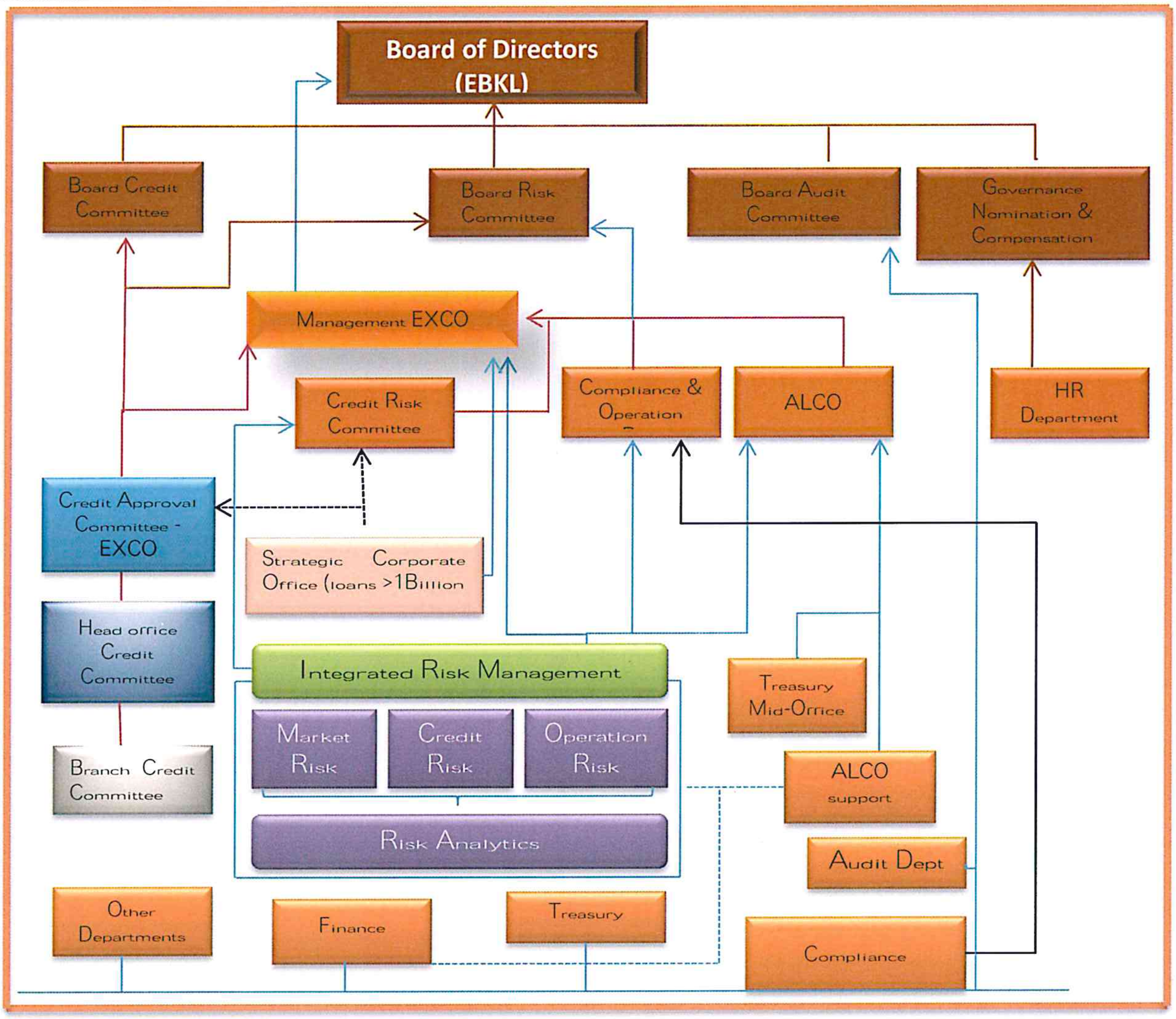
6 RISK BASED CAPITAL MANAGEMENT

6.1 RISK BASED CAPITAL MANAGEMENT PRINCIPLES

Risk Based Capital Management refers to the process of incorporating risk estimates into assessment of capital adequacy, mobilization of capital and allocation. The risk parameters in capital planning have both historical and futuristic elements making them function as predictors of possible periods of capital stress or otherwise.

In addition to the above, detailed guidelines on the framework and implementation of ICAAP shall be followed as directed in the ICAAP policy.

7. ANNEXURE 1: SUBSIDIARY RISK MANAGEMENT FRAMEWORK



8. ANNEXURE 2: CREDIT RISK APPETITE

Metric	Formula	Measurement Basis	Benchmark
RWA_{CR} as a percentage of RWA_{T}	$\frac{RWA(CR)}{RWA(T)}$	Total RWA	
RWA_{CR} as a percentage of Net Total Assets (TA_{N})*	$\frac{RWA\ (CR)}{TAN}$	Net total Assets	
Return on Average Assets (RoAA)	$\frac{PAT}{AVERAGE\ ASSETS}$	Average Assets	
Risk Adjusted Net Interest Margin (NIM_{RA})	$\frac{NII - Provisions}{Average\ Earning\ Assets}$	Provisions for Loan losses/Expected Losses	
Ratio of Overall Gross Non-Performing Corporate Loans (NPL_{GC}) to Total Corporate Loans	$\frac{GNPA(Corp)}{Gross\ Corporate\ Advances}$		
Ratio of Overall Gross Non-Performing SME (NPL GC) to Total SME	$\frac{Gross\ NPA(SME)}{Total\ SME\ advances}$	corporate	
		large	
		medium	
		small	
		micro	
Ratio of Overall Gross Non-Performing Retail Loans (NPL_{GR}) to Total Retail Loans	$\frac{GNPA\ (Retail)}{Gross\ Retail\ Advances}$	Retail loans(Equiloan, Biashara Imara, Salary Advance etc.	
		Eazzy loans	
		Credit cards	

***Overall unsecured loans to net loans**	Unsecured loans/Net loans		
Gross loans to customer deposits	Gross loans/Total deposit		
Gross loans to customer deposits and borrowings	Gross Loans/(Total deposits+ Borrowings)		
Gross USD loans +investment to subsidiaries to USD borrowings	(Gross USD Loans +subsidiary investments)/USD Borrowings	Dollar	
(Gross loans +investment) to (deposits +Borrowings)	(Gross Loans+ investments)/(Deposit +Borrowings)		

9. ANNEXURE 3: OPERATIONAL RISK APPETITES

Metric	Formula	Benchmark
Average Operational risk loss value	Total notional Operational risk loss/Number of Operational risk incidents	
Average Fraud loss value	Sum of net losses from internal and external fraud incidents/total number of internal and external fraud incidents	
People readiness score	(Validated RCSA enterprise residual risk/ Un validated RCSA enterprise residual risk) - 1	
Process control breach	Proportion of KRI's in alert or trigger to KRI's in alert	
Process control breach	Enterprise wide validated Residual Risk score for RCSA	
Process control breach	Number of KRI's triggers in past quarter	
System readiness	Gross value of system related Operational risk Loss	
System readiness	Customer channel related system loss	
Futuristic Business risk outlook	Residual risk score from RMD from pan enterprise scenario assessment + Enterprise RCSA residual score	
Futuristic HR risk outlook	Residual risk score from RMD from pan enterprise scenario assessment + Enterprise RCSA residual score	
Futuristic System risk outlook	Residual risk score from RMD from pan enterprise scenario assessment + Enterprise RCSA residual score	
Futuristic Channel risk outlook	Residual risk score from RMD from pan enterprise scenario assessment + Enterprise RCSA residual score	

ANNEXURE 4: MARKET RISK APPETITES.

Metric	Formula	Measurement Basis	Benchmark
Return on Average Assets (RoAA)	PBT/Investment Assets	Average Assets	
Ratio of Credit + Investments to Customer Deposits +Borrowings			
Duration for AFS Portfolio	Modified duration		
Proportions of Banking Book	AFS+HTM/Total investment securities		
proportions of Trading Book	Trading book/Total investment securities		
Maximum period for Trading book	Maximum period an instrument remains in trading book		
Holding Period in Banking Book	Minimum period for which an instrument must be held		
VAR for the Banking book			
Management Action Trigger (MAT) for the Trading book	PV01(Impact on portfolio of a 1 Basis point increase in yield)		
liquidity ratio			
Daylight Limit:			
Overnight Limit:			
open exposure in all currencies			
Currency Swap limit			