

Alpha Alternatives Financial Services Private Limited
(Formerly Known as Provincial Finance and Leasing Co Private Limited)

Outsourcing Policy (including Group Outsourcing)

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Contents

1. Scope.....	3
2. Outsourcing Definition	3
3. Key Outsourcing Risks	3
4. Core Business Functions	3
5. Outsourcing within Group	3
6. Material Outsourcing	4
7. Role of the Board and Senior Management.....	4
8. Risk Management Practices	5
9. Evaluation of Service Provider	6
10. The Outsourcing Agreement.....	6
11. Confidentiality and Security.....	7

1. Scope

This policy outlines the framework to be adopted by Alpha Alternatives Financial Services Pvt Ltd (AAFSPL) while outsourcing any of its business activity to external entity. This policy shall be approved by Board or Board Committee. Policy shall be reviewed annually.

2. Outsourcing Definition

'Outsourcing' is defined as the NBFC's use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on continuing basis that would normally be undertaken by the NBFC itself, now or in the future. 'Continuing basis' includes agreements for a limited period.

3. Key Outsourcing Risks

Some key risks in outsourcing are Strategic Risk, Reputation Risk, Compliance Risk, Operational Risk, Legal Risk, Exit Strategy Risk, Counterparty Risk, Country Risk, Contractual Risk, Concentration and Systemic Risk.

The failure of a service provider in providing a specified service, a breach in security/confidentiality, or non-compliance with legal and regulatory requirements by the service provider can lead to financial losses or loss of reputation for the NBFC and could also lead to systemic risks.

Alpha Alternatives Financial Services Private Limited (AAFSPL) shall take steps to ensure that the service provider employs the same high standard of due diligence in performing the services as.

4. Core Business Functions

AAFSPL shall not outsource core management functions including strategic business decisions, policy formulation, internal audit and compliance, compliance with KYC norms, credit sanction and management of investment portfolio. However, these functions can be outsourced within group subject to compliance with Group outsourcing guidelines as mentioned in this policy.

5. Outsourcing within Group

AAFSPL may have back-office and service arrangements with group entities e.g. sharing of premises, legal and other professional services, hardware and software applications, centralize back-office functions, outsourcing certain financial services to other group entities provided serve level agreement is in place.

AAFSPL shall ensure that such serve level arrangements are –

- Appropriately documented with details like scope of services, charges for the services and maintaining confidentiality of the customer's data;
- do not compromise the ability to identify and manage risk of the NBFC on a stand-alone basis;

- do not prevent the Reserve Bank from being able to obtain information required for the supervision of the NBFC or pertaining to the group as a whole;
- incorporate a clause under the written agreements that there is an obligation for any service provider to comply with directions given by the Reserve Bank in relation to the activities of the AAFSPL.

AAFSPL shall ensure that their ability to carry out their operations would not be affected, if premises or other services (such as IT systems, support staff) provided by the group entities become unavailable.

The risk management practices expected to be adopted by an AAFSPL while outsourcing to a related party (i.e. party within the Group) would be identical to those practices adopted for outsourcing to third party.

6. Material Outsourcing

Material outsourcing arrangements are those which, if disrupted, have the potential to significantly impact the business operations, reputation, profitability or customer service. Outsourcing arrangement will be classified as material if any of below criteria are met along with materiality threshold of annual outsourcing cost of Rs 50 lacs or above.

- (i) the level of importance to the AAFSPL business as well as the significance of the risk posed by the same;
- (ii) the potential impact of the outsourcing on the AAFSPL on various parameters such as earnings, solvency, liquidity, funding capital and risk profile;
- (iii) the likely impact on the AAFSPL's reputation and brand value, and ability to achieve its business objectives, strategy and plans, should the service provider fail to perform the service;
- (vi) the significance of activities outsourced in context of customer / investor service and protection.

7. Role of the Board and Senior Management

The Board or Risk Management Committee of Board of AAFSPL shall be responsible for:

- (i) approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing and the policies that apply to such arrangements;
- (ii) laying down appropriate approval authorities for outsourcing depending on risks and materiality;
- (iii) setting up suitable administrative framework of senior management for the purpose of these instructions;
- (iv) undertaking regular review of outsourcing strategies and arrangements for their continued relevance, and safety and soundness and

(v) deciding on business activities of a material nature to be outsourced and approving such arrangements.

Responsibilities of the Senior Management:

(i) evaluating the risks and materiality of all existing and prospective outsourcing;

(ii) developing and implementing sound and prudent outsourcing policies and procedures;

(iii) reviewing periodically the effectiveness of policies and procedures;

(iv) communicating information pertaining to material outsourcing risks to the Board;

(v) ensuring that contingency plans, are in place and tested;

(vi) ensuring that there is independent review and audit for compliance with set policies and

(vii) undertaking periodic review of outsourcing arrangements to identify new material outsourcing risks as they arise

8. Risk Management Practices

AAFSP shall evaluate and guard against the following risks in outsourcing:

(i) Strategic Risk – Where the service provider conducts business on its own behalf, inconsistent with the overall strategic goals of the AAFSP.

(ii) Reputation Risk – Where the service provided is poor and customer interaction is not consistent with the overall standards expected of the AAFSP.

(iii) Compliance Risk – Where privacy, consumer and prudential laws are not adequately complied with by the service provider.

(iv) Operational Risk - Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/or to provide remedies.

(v) Legal Risk– Where the AAFSP is subjected to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements due to omissions and commissions of the service provider.

(vi) Exit Strategy Risk– Where the AAFSP is over reliant on one firm, the loss of relevant skills preventing it from bringing the activity back in-house

(vii) Counter party Risk– Where there is inappropriate underwriting or credit assessments.

(viii) Contractual Risk– Where the AAFSP may not have the ability to enforce the contract.

(ix) Concentration and Systemic Risk– Where the overall industry has considerable exposure to one service provider and hence the AAFSP may lack control over the service provider.

(x) Country Risk– Due to the political, social or legal climate creating added risk.

9. Evaluation of Service Provider

In considering or renewing an outsourcing arrangement, appropriate due diligence shall be performed to assess the capability of the service provider. Due diligence shall take into consideration following parameters:

- whether the service providers' systems are compatible with their own
- whether their standards of performance including in the area of customer service are acceptable
- Undue concentration of outsourcing arrangements with a single service provider
- experience and competence to implement and support the proposed activity over the contracted period
- financial soundness and ability to service commitments even under adverse conditions
- business reputation and culture, compliance, complaints and outstanding or potential litigation
- security and internal control, audit coverage, reporting and monitoring environment, business continuity management

10. The Outsourcing Agreement

The service agreement between AAFSPL and service provider shall be vetted by AAFSPL's legal counsel. The agreement shall bring out the nature of legal relationship between the parties - i.e. whether agent, principal or otherwise. Some of the key provisions of the contract shall be the following:

- (i) clearly define what activities are going to be outsourced including performance standards;
- (ii) AAFSPL must ensure it can access all books, records and information relevant to the outsourced activity available with the service provider;
- (iii) the contract shall provide for continuous monitoring and assessment by the AAFSPL of the service provider so that any necessary corrective measure can be taken;
- (iv) a termination clause and minimum period to execute a termination provision;
- (v) controls to ensure customer data confidentiality and service providers' liability in case of breach of security and leakage of confidential customer related information;
- (vi) there must be contingency plans to ensure business continuity;
- (viii) it shall provide the AAFSPL with the right to conduct audits on the service provider whether by its internal or external auditors, or by agents appointed to act on its behalf and to obtain copies of any audit or review reports and findings made on the service provider in conjunction with the services performed for AAFSPL;
- (ix) outsourcing agreements shall include clauses to allow the Reserve Bank or persons authorised by it to access the NBFC's documents, records of transactions, and other necessary information given to, stored or processed by the service provider within a reasonable time;

(x) outsourcing agreement shall also include a clause to recognise the right of the Reserve Bank to cause an inspection to be made of a service provider of an NBFC and its books and account by one or more of its officers or employees or other persons;

(xi) the outsourcing agreement shall also provide that confidentiality of customer's information shall be maintained even after the contract expires or gets terminated;

11. Confidentiality and Security

AAFSPL shall ensure:

- the preservation and protection of the security and confidentiality of customer information in the custody or possession of the service provider
- access to customer information by staff of the service provider shall be on 'need to know' basis function
- service provider shall be able to isolate and clearly identify the AAFSPL's customer information, documents, records and assets to protect the confidentiality of the information
- where service provider acts as an outsourcing agent for multiple NBFCs, care shall be taken to build strong safeguards so that there is no comingling of information/documents, records and assets

AAFSPL shall review and monitor the security practices and control processes of the service provider on a regular basis and require the service provider to disclose security breaches.

AAFSPL shall immediately notify the Reserve Bank in the event of any breach of security and leakage of confidential customer related information.