RISK MANAGEMENT POLICY

Introduction

In compliance to the provisions of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 the Company has framed the risk management policy.

Scope & Objectives

Savani Financials Limited (hereinafter referred to as "Savani") aims to operate within an effective risk management framework to actively manage all the risks faced by the Company, in a manner consistent with its risk appetite. Savani aims to establish itself as an industry leader in the management of risks and strive to reach the efficient frontier of risk and return for itself and its shareholders, consistent with its risk appetite.

This document aims to establish a risk culture and risk governance framework to enable identification, measurement, mitigation and reporting of risks within the Company in line with the following guiding principles:

i. Promotion of a robust risk culture by ensuring that risks are clearly understood, measurable and manageable
ii. Accountability of risk management of the Company
iii. Senior Management engagement with each business vertical
iv. Diversification of risk across business lines, geographies, and customer segments
v. Objective matrix help to gauge the risk and articulate the Company's risk appetite. These measures include capital and earnings ratios, market and liquidity risk limits and credit and operational risk targets
vi. Risk-taking shall be within a clearly defined risk appetite. The alignment of risk appetite and business strategy would be a combined process between Risk and Business Units. Risk-taking units shall be aware of the risks related to the origination of respective businesses and the risk managing units shall ensure adequate processes are implemented to identify, measure, monitor, report and mitigate these risks
vii. Risk unit shall be empowered to take decisions and it will be ensured that they escalate issues
at appropriate forum/committee
viii. Expertise and independence of Risk unit shall be ensured

This document shall be approved by the Board of Directors and shall be reviewed at least annually.

Risk Culture

The Company seeks to promote a strong risk culture throughout the organization. A strong risk culture is designed to help reinforce the NBFC's efforts by encouraging a holistic approach to the management of risk and return throughout the organization as well as the effective management of the NBFC's risk, capital and reputation. The Company shall be involved in risks in connection with its businesses and the following principles underpin risk culture within the organization:

i. Every risk taken needs to be approved or within the risk management framework
ii. Risk is taken within a defined risk appetite
iii. Risk should be continuously monitored and managed
iv. Each business vertical is responsible for the development and execution of business plans that are aligned with the Company risk's management and are accountable for the risks they incur
v. Management team ensures that the inherent risks in each business vertical are comprehensively evaluated, mitigating controls built into the underwriting process and remedial measures put in place
vi. Documented policies and procedures along with regular training programs and reviews ensures that these are uniformly understood by all employees across the organisation

Employees at all levels are responsible for the management and escalation of risks. Savani expects employees to exhibit behaviours that support a strong culture to mitigate risk. To promote this, it will strive towards incorporating risk management culture across all levels in the organisation.

Risk Governance

The Company has set up a robust risk governance framework based on the following key principles:

i. Segregation of duties across front-office functions, risk management & oversight and Internal audit roles are played by functions independent of one another.

ii. Risk strategy is approved by the Board and reviewed on an annual basis and is defined based on the NBFC's risk appetite in order to align risk, capital and performance targets.

iii. All major risk classes are managed through focused and specific risk management processes; these risks include credit risk, market risk, operational risk and liquidity risk. As the Company gains sophistication in risk management, it shall put in place advanced risk management models to commensurate with the size, scale and complexity of its business.

iv. Policies, processes and systems shall be put in place to enable the risk management capability.

v. The Risk department / function shall have appropriate representation on management committees of the Company and its respective businesses to ensure risk view is taken in to consideration in business decisions.

vi. Risk monitoring, stress testing tools and escalation processes shall be established to monitor the performance against approved risk appetite

vii. The Company should have a risk appetite document which is presented and approved by the Risk Management Committee of the Board"

The Board of Directors

The Board has the ultimate responsibility for the Company's risk management framework. The Board is principally responsible for approving the Company's risk appetite, risk tolerance and related strategies and policies.

The key responsibilities of the Board of Directors related to overall risk management of the Company include:

i. Approving and annually reviewing the Company's risk appetite, risk tolerance and related strategies
ii. Approving the business and risk governing policies and frameworks as required
iii. Ensuring the establishment of a robust risk management culture by delegating responsibilities to appropriate management authorities and fixation of accountability thereof
iv. Assessing the adequacy of capital needed to support business activities undertaken by the Company
v. Providing adequate guidance and supervision for decisions taken by the Risk Management Committee of the Board (RMCB)

To ensure that the Company has a sound system of risk management and internal controls in place, the Board has established the RMCB. The RMCB assists the Board in relation to the oversight and review of the Company's risk management principles and policies, strategies, appetite, processes and controls.

Risk Management Committee (RMC)

The Board has delegated authority to the RMC for oversight and review of the risk management in the Bank. The key responsibilities of the Risk Management Committee (RMC) relating to overall risk management of the Bank include:

i. Scope of work covered under credit risk management policy including adequacy and monitoring of risk limits for various actions of the Company to be covered under risk management committee.
ii. Review of compliance of NPA management policy.
iii. Review, approve or recommend and periodical updation of policies, strategies and frameworks for the management of risk to the Board for their review/approval
iv. To ensure that the procedures for identifying, measuring, monitoring and controlling risks are in place
v. Approve the risk appetite and any revisions to it with proper reasoning.
vi. Ensure appropriate risk organisation structure with authority and responsibility clearly defined, adequate staffing, and the independence of the Risk Management function
vii. Provide appropriate and prompt reporting to the Board of Directors in order to fulfil the oversight responsibilities of the Board of Directors.
viii. To continuously scan the environment for new and emerging risk coming up including changes in regulation/rules which could impact the performance of the Company.
ix. Review reports from management concerning the NBFC's risk management framework (i.e. principles, policies, strategies, process and controls) and to ensure that same is being communicated throughout.
x. Review reports from management concerning changes in the factors relevant to the NBFC's projected strategy, business performance or capital adequacy
xi. Review reports from management concerning implications of new and emerging risks, legislative or regulatory initiatives and changes, organisational change, and all other major initiatives, in order to monitor them.

xii. To review report on fraudulent transactions relating to internet banking and pointing out the deficiencies in the existing system including steps taken to prevent such cases under operational risk.

xiii. Ensure adherence to the extant internal policy guidelines and also regulatory guidelines published time to time

xiv. To review, consider and recommend to Nomination & Remuneration Committee (NRC) of the Company.

xv. Oversee statutory / regulatory reporting requirements related to risk management

xvi. Monitor and review capital adequacy computation with an understanding of methodology, systems and data

xvii. Approve the stress testing results / analysis and monitor the action plans and corrective measures periodically in line with internal guidelines

xviii. Monitor and review of non-compliance, limit breaches, audit / regulatory findings, and policy exceptions with respect to risk management as well as frauds, potential losses

xix. Assign clear accountability and responsibility for management of Outsourcing activities in the Company

xx. Assign clear accountability and responsibility of business verticals for Business Continuity arrangement in the Company

xxi. Review and ensure that all systems are being implemented in the Company with adequate security controls

xxii. Review Information security event sand security-related audit items periodically

xxiii. Review of any other risk related activities/events

a. Approve the funding strategy including contingency funding plan of the Bank.
b. Update and review various risk tools and its compliance of regulatory maintenance such as CRR, SLR, LCR, SLS, MVE, NSFR, CD ratio etc.
c. Ratify breaches, if any, to these policies including excess negative gaps, and ALM risk limits etc. and table the same to the Board for approval
d. Review and recommend revision in tolerance limits applicable on Treasury, Market Risk and ALM, to the Board, as deemed necessary
e. Review and approve the methodology and bucketing assumptions, including changes, if any, used for preparation of ALM reports.

f. Consider and approve any other ALCO related matter that might be required or introduced by RBI or otherwise

Composition of RMC

The Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 has mandated the creation of a Risk Management Committee by all NBFCs. This Committee will be responsible for the identification and measurement of risks and also taking suitable measures to prevent the occurrence of such risks and for evaluating the overall risks faced by the Company.

RMC is empowered by the Board of Directors to manage the risks in the Company and it manages the same through oversight of the risk management function and laying down risk measurements and mitigants.

i) RMC shall comprise of at least two directors of the board (of which at least one is an-independent director) and MD

ii) In case of exigencies, presence of any one independent director and MD is sufficient quorumfor RMC meetings

iii) CEO would be permanent invitees to RMC meetings

iv) Company Secretary shall be secretary of RMC

v) The Chairman and members of RMC will be approved by the Board of Directors

Credit concentration norms

The NBFC shall not have an exposure (credit/ investment taken together) exceeding a) twenty five percent of its Tier 1 Capital to a single party b) Forty percent of its Tier 2 Capital to a single group of parties.

Provided that the exposure limits may be increased by five percent to a single party and ten percent to a single group of parties, if the additional exposure is on account of infrastructure loan and/or investment.

The exposure norms shall not apply to:

(i) investments of NBFC in shares of (a) its subsidiaries; (b) companies in the same group, to the extent they have been reduced from Owned Funds for the calculation of NOF and (ii) the book value of debentures, bonds, outstanding loans and advances (including hire purchase and lease finance) made to, and deposits with - (a) subsidiaries of the NBFC; and (b) companies in the same group, to the extent they have been reduced from Owned Funds for the calculation of NOF.

Risk Category and Management

The Company has identified and classified the primary risks that it faces under the following:

a. Credit Risk

The key risk for NBFC or any other institutions involved in lending business is Credit risk. According to RBI, credit risk is defined as:

a. Possibility of losses associated with decline in the credit quality of borrowers or counterparties
b. Default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions
c. Loss from reduction in portfolio value (actual or perceived)

Hence it is imperative that the Company should have a robust credit risk management system to address the above risk. The effective management of credit risk is a critical component of comprehensive risk management and is essential for the long-term success of any lending organisation.

Credit risk management should encompass identification, measurement, monitoring and control of the credit risk exposures. The objective of the same should be to minimize the risk and maximize Company's risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters. The credit risk management shall include credit norms and policies approvedby Board. The credit policy shall include:

b. Credit Underwriting Process

There shall be 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 scrutinisinga file (over and above the scrutiny done by the Business Department). The verification aspect would be covered by Field Credit and the final sanction of a file, after taking a comprehensive view of various inputs, would be done by File Credit.

The Company shall follow a process of revisiting the credit policy and processes from time to time, based on experience and feedback. The latest Credit Policy of the Company covers in detail as to the variouspolicies and procedures to address this risk.

The Company ensures that sufficient training is given to its employees on credit and KYC procedures for onboarding and evaluation of its customers. The Company has constituted a KYC policy in line with the RBI requirements.

c. Liquidity Risk

The third risk that is very specific to NBFCs or other institutions involved in the activity of lending is liquidity risk or the risk of inadequate liquidity to further the business. NBFCs depend on banks, other NBFCs and other financial institutions for their funding needs. In addition, NBFCs also resort to issue of Non-convertible debentures, Commercial papers, Securitization transactions for meeting their funding requirements. Lack of adequate liquidity or non-availability of liquidity on time wouldseriously hamper the business prospects of NBFCs.

The RMC to review the Process of Resource Planning, Liquidity Risk Management & ALM, Securitisation and Investment norms in line with the RBI Master Direction and related regulations.

d. Product risk

The Company will offer multiple products spread across locations, Industry and borrower Profile. The risk appetite would be different for different product based on the nature of loans. The Company will review the Portfolio performance and overall exposure across various product categories and to take necessary remedial action if applicable.

e. Operational Risk

Another risk that is prevalent to many institutions is the inadequacy of processes to maintain checks and balances in the conduct of its operations, technology failure, fraud, error, inadequate financial capacity to fulfill obligations and to provide remedies. Necessary controls are essential to ensure that there are no intentional or unintentional errors that creep into the process.

In this regard, the Company has set up a dedicated operations department, who are responsible for maintaining the necessary controls over the various processes. The operations staff shall independently carry out or check the various processes like data entry, preparation and verification of MODs, necessary checks before disbursals, scrutiny of documents at each stage as required, ensuresafe custody of the property documents and the like. Internal auditors shall also look into the efficacy of the processes implemented by the Company on a quarterly basis and report to the RMC/ ACM/ BOD. With such independent checks, it is envisaged that the errors would decrease significantly.

Moreover, detailed SOPs for all business units have been created and documented to ensure that risksemanating from these operations are managed. These SOPs are owned by the respective business units and are placed at least annually once to the RMC/Board.

f. <u>Technology Risk</u>

In this digital era, as organizations use automated information technology (IT) systems to process their information, risk management plays a critical role in protecting an organization's information assets, from IT-related risks. Technology risk is any risk of technology failures to disrupt the business such as information security incidents or service outages. It is the threat of technology failure that could compromise cyber security and business intelligence. This cyber risk can come in many forms, including inefficiencies, theft, and malware.

An effective risk management process is an important component of a successful IT security program.The principal goal of an organization's risk management process should be to protect the organizationin its entirety and its ability to perform their mission, and not restricted to its IT assets. Therefore, therisk management process should not be treated primarily as a technical function carried out by the IT experts who operate and manage the IT system, but as an essential management function of the organization.

Some of the key risk areas are given below:

i. Infrastructure management poses considerable risk to business
ii. Cyber Security is a major threat to any organization which conducts business over internet
iii. Security Threats and Vulnerabilities

iv. Data management and protection risk
v. IT Architecture risk
vi. Technology vendor and third-party risk
vii. Ability to upskill or reskill existing individuals in fast changing technology landscape
viii. Regulatory and compliance risk
ix. Technology obsolescence risk
x. Business continuity and Disaster recovery

To address these key risk areas, the Company has framed comprehensive IT checks and balances. The IT team is entrusted with the responsibility of providing a IT guidelines framework.

g. <u>Compliance Risk</u>

i. Savani is an NBFC coming under the regulatory purview of the Reserve Bank of India, SEBI and Ministry of Corporate Affairs. In addition, it is also required to comply with various central, stateand commercial laws applicable in the conduct of the various activities of the business.

ii. Savani recognizes that the regulatory landscape is under periodical review and this requires the Company to be proactively prepared, as best as possible, to meet with the challenges posed by thechanges. The Company shall respond effectively and competitively to regulatory changes, maintain appropriate relationship with the regulators / authorities strengthen the reliance on capital and improve the quality of in-house compliance. All reports, returns and disclosures stemming from regulations are submitted promptly and accurately to reflect the correct position.

iii. Business processes shall be defined in a manner to ensure comprehensive regulatory complianceconsidering the multitude of regulatory agencies the Company has to deal with. Competent and knowledgeable specialist officers shall be recruited to ensure compliance.

iv. The responsibility for ensuring compliance with regulatory requirements and directives on a day to day basis rests with the Business Heads, who will comply with the Compliance requirement of the Company. The Internal Audit function provides the assurance through audit of the compliance levels. Relevant Committees of the board provide oversight for management of these compliances.

h. Contract Risk

i. This risk may exist where the NBFC may not have the ability to enforce the contract.

ii. To address this risk, the NBFC shall ensure that the outsourcing arrangements are covered by proper agreements that layout the deliverables of the vendor with appropriate service level agreements and consequences of failure.

i. Legal Risk

i. This risk may exist where the NBFC is subjected to fines, penalties, punitive damages resulting from certain actions and due to omissions and commissions of the service provider.

ii. To address this risk, it will ensured that the outsourced arrangements are properly backed up by legal agreements that will clearly set the expectations and consequences on failure to deliver. The operations of these service providers shall also be subject to internal audits. The NBFC shall have an internal team to handle the customer queries on the loan transactions entered into with the NBFC.

j. Human Resources Risk

The success of any institution lies in the strength of its people. It is essential for a Company to attract and recruit the right set of people, manage their monetary and non-monetary expectations so that theyare able to contribute towards the growth of the Company. Some of the tenets of the risk managementframework to manage the HR risk are given below:

i. Ensure availability of a dedicated workforce of good vintage
ii. Ensure a pool of resources which can be tapped into should there be a need for additional resources
iii. Benchmarking salaries and incentives with industry standards so that the attrition levels are managed
iv. Ensure minimal attrition
v. 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.

The latest HR Policy of the Company has been compiled to address all the facets of HR requirementsof the Company

k. Vendor Management Risk

Non-core functions may be outsourced to reputed and approved agencies which specialize in theconcerned activity on the premise that these agencies have the capability to perform the tasks more efficiently with or without cost reduction. Some common activities which can be outsourced are security of offices, premises cleaning, document storage etc. Due diligence on these agenciesand materiality of outsourcing contracts will be assessed as per RBI Guidelines and the management of the same will be as prescribed by RBI at all times. Third Party Risks are key risksas the Company engages with many different external parties for carrying out its activities either on a continuous basis (Outsourcing) or on a contractual basis (consulting assignments, etc).These third-party risks have to be managed appropriately at all times to ensure that Company not only realizes the value and objective of the engagement itself but is protected at all times from any extant regulatory and legislative guidelines.

A detailed Outsourcing framed and the guidelines prescribed therein shall be adhered.

l. Fraud Risk

This would encompass the following wrong actions carried out either by the employees or by the customers of the Company:

i. Wrong underwriting of files i.e. not adhering to the underwriting norms of the Company orindulging in collusion to approve the wrong files, etc.
ii. Misuse or non-accounting of collections received from customers, either through cash or other digital means.
iii. Availing of loans by customers through fraudulent means i.e. forging of documents includingproperty papers, etc.
iv. Other forms of wrong/non-accounting, manipulation of set process and procedures.

This can result in loss of revenue and would also be detrimental to the reputation of the Company. The Company has put in place adequate internal controls including checks and balances in all the processes, automation and digitisation of processes, etc to ensure that the incidents of fraud don’t takeplace.

If there are any provisions in this policy which are contradictory to the RBI Regulations, as amended from time to time, the RBI Regulations shall override such provisions in this policy. This policy will be reviewed annually.