S GUPTA HOLDING PRIVATE LIMITED

(Formerly known as APL Infrastructure Private Limited)

RISK MANAGEMENT POLICY

(Version.SG-01)

RISK MANAGEMENT POLICY

1. PREFACE

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. This policy document has been prepared in line with the RBI guidelines.

2. OBJECTIVES

Risk is an inherent aspect of the business environment. The risk management policy is designed to put in place an effective framework for making informed decisions about risks. The risk management framework focuses on a holistic approach towards risk management, utilizing the risk as opportunities and managing risks arising internally. It places equal importance on risk taking and risk management.

The policy is designed to minimize the adverse consequences of risks on the business objectives of the Company. Primarily, the Risk Management policy should set up the Management and Board processes to ensure sustainable growth and success of the company.

3. GENERAL PROVISIONS

This Policy represents the basic standards of Risk Assessment to be followed by the Company. Changes in the Policy will become effective upon approval by the Board of Directors of the Company.

4. CONSTITUTION OF RISK MANAGEMENT COMMITTEE

The Company shall have a Risk Management Committee consisting of a Chief Executive Officer (CEO)/ Managing Director and heads of various risk verticals shall be responsible for evaluating the overall risks faced by the CIC including liquidity risk.

4.1. The meetings of the Risk Management Committee will be held on a half yearly basis.

4.2. The role, responsibilities and duties of the Risk Management Committee are as follows:

- To manage the integrated risk.
- To ensure putting in place a progressive risk management system.

- To put in place the risk management policy and strategy to be followed.
- To ensure adherence to the limits set by the Board and in line with the budget and to decide risk Management objectives thereto.
- To report to the Board of Directors on the status of the Committee's performance on a periodic basis.
- To carry out such other functions as may be prescribed by the Board of Directors of the Company in this regard.

5. PROPOSED RISK MANAGEMENT ORGANISATION

5.1. Risk management processes must be aligned with the business objectives and corporate direction. In this pursuit, the components of the risk management process have been defined, to befit the Company’s business model and strategies, organizational structure, culture, risk appetite and dedicated resources. A robust organizational structure for managing and reporting risks is a prerequisite for an effective risk management process.

5.2. The responsibility for identification, assessment, management and reporting of risks and opportunities will primarily rest with the process owners. They are best positioned to identify the opportunities and risks they face, evaluate these and manage them on a day-to-day basis.

6. ROLE OF BOARD OF DIRECTORS

The Board of Directors (BOD’) will be overall responsible for ensuring that the Enterprise Risk Management framework is achieving the Company’s business objectives, safeguarding the enterprise assets, and enhancing shareholder value. Further, the BOD shall seek regular assurance from Management, Audit Services and/or External Auditors that enables the Board to ensure the system of internal control is operating effectively.

7. RISK PARAMETERS

Risk management is a business facilitator by making more informed decisions with a balanced risk-reward paradigm. The Company shall follow a disciplined risk management process and has been making business decisions, ensuring growth, and balancing approach on the risk-reward matrix. The risks that are associated with Personal loan /Credit Line lending can be grouped into the following broad categories.

Risk Category	**Definition**	**Mitigants**
Credit Risk	The risk is that an expected payment may not happen at the expected time.	• SLQ (Satisfactory Loan Quality) and GM score (General Management Score), Equifax

		• FOIR (to evaluate a borrower's eligibility for new loans) • Income Assessment and repayment through banking • KYC checks • Employment Checks • Ensure accuracy of information through evaluation • Bureau Checks
Legal risk	• Risk arising out of defective loan agreements. • Losses due to legal lapses as a result of non-adherence to applicable guidelines and laws	Review of activities and processes by legal counsel / Compliance department.
Governance Risk	Non-compliance with laws / regulations	Strict adherence to guidelines and sourcing and digital underwriting
Transaction risk	Potential losses due to errors in executing operational activities.	Ensure that decision rules are correctly defined in the rule engine. Process control and internal audit will mitigate transaction risk.
Fraud and Integrity Risk	Losses resulting due to deception by staff or business partner	• Data validation and action. • Use independent third-party verification wherever possible • Conduct branch and process audits at regular intervals.
Compliance Risk	Losses in the form of penalty or fines because of not adhering to statutory and regulatory requirements	Review of activities and processes by compliance function and audit.
Reputation Risk	• Unethical Practices • System Failures • Litigation • Poor Customer services • Poor Disaster • Management	The governance structure of the company will ensure that the company will not be at risk of reputation by its activities, and hence, there will be no loss of market share and shareholder value.

Operation Risk	Loss caused by poor operational processes	SOPs, process reviews and audit function will minimize operational risk.

7.1. Credit Risk

Managing credit risk assumes significant importance, which accounts for most of the credit losses. Credit risk refers to the chance that a borrower will fail to repay his/her loan or that the collateral property will not be worth enough to cover the remaining principal balance of the loan. Credit risk associated with each Personal Loan is a function of three factors.

- The probability that the borrower will default on his/her obligation.
- The credit exposure or how large the outstanding balance will be at the time of default and
- The recovery rate or what share of the lending institution's exposure the lender expects to recoup through foreclosure and through other means.

At **S Gupta Holding Private Limited**, credit risk is mitigated principally through a combination of prudent underwriting through SLQ and GM and active monitoring of loans. Key factors affecting Credit Risk in the personal loan segment are:

- Inability of borrowers to make payments on time
- Temporary cash constraints due to loss of job/ medical emergency, etc.
- Long-term issues due to loss of income and need to re-skill or re-locate.
- Unwilling to service loans
- Fraud transactions where the borrower never intended to repay.

7.2 Operational Risk

Any eventuality arising from the act relating to people, technology, infrastructure, and external factors, which can give rise to some type of loss in the organization, is termed Operational Risk. Majorly it is internal and unknown. Therefore, the persons responsible shall keep continuous watch and shall gather the symptoms/warning signals to manage Operational risk. In this way, continuous review of processes and audits will be used to strengthen processes with the use of appropriate checks and balances (maker/checker concept).

7.3 Market Risk

This is majorly external market dynamics, which gives rise to Risks like Liquidity risk, Interest Rate Risk and Funding risk. Liquidity risk is the inability to meet financial obligations in a timely manner and without stress. The Company shall resort to proper ways to manage such risks.

7.4 Other Risks

Other risks like regulatory risk and legal risk arise out of any complaints/grievances from customers or non-compliance with regulatory guidelines.

Risk Mitigation

- SOPs, process reviews and audit functions will minimize operational risk. Implementation of maker / checker rule while booking of loan.
- Implementation of independent check of borrower documentation by the Operations team that is separate from the Business team
- Restricted authority to operate bank accounts of the company and under joint signatures
- Restricted access to confidential data on a 'needs to know' basis only

The Company has set up various committees and policies to monitor and comply with the timely and proper compliance with various regulatory guidelines as stipulated by the Reserve Bank of India from time to time. The Company shall be compliant in terms of regulatory norms and therefore shall effectively manage regulatory risk.

The Company has set an effective Customer Redressal Mechanism for prompt addressing of customer complaints / grievances through the appointment of Grievance Redressal Officers. This shall keep legal risk under control.

The Company shall have processes in place to manage the risk of fraud and the suspected frauds are reported, wherever necessary.

8. RISK ASSESSMENT OF BORROWERS

8.1. It is generally recognized that certain borrowers may be of a higher or lower risk category depending on the customer's background, type of business, our references, borrower net worth and the ability to refund and pay interest etc.

8.2. As such, based on the due diligence measures on a risk-sensitive basis each of the customers shall be divided into three categories HIGH, MEDIUM AND LOW which shall be reviewed every year. The basic principle enshrined in this approach is that the concerned persons should adopt an enhanced customer due diligence process for higher-risk customers. Conversely, a simplified customer due diligence process may be adopted for lower risk of categories of customers.

8.3. In line with the risk-based approach, the type and amount of information and documents shall vary depending on the risk category of a particular borrower and should be collected from the client.

8.4. In the case of a borrower who subsequently has turned out to be a Politically Exposed person, a proper risk management system should be put in place to determine the beneficial ownership from such clients or potential clients. Once we are privy to such publicly available information or the commercial electronic database of PEPs, we should seek additional relevant information from such clients pertaining to ownership issues and other risks associated with such persons and take a call on whether such exposure to him or his company we should continue or terminate the relationship after giving notice in advance. As a policy without the concurrence of top management, no such identified PEP account is to be granted a loan. In case of a change in perception, the risk assessment in the case of PEP borrower should be again done to ascertain whether it is prudent to continue with the exposure with such PEP borrower or not. In case it is felt that the funds are not safe, the funds should be recalled immediately without delay.

8.5. The risk assessment shall also consider any country-specific information provided or circulated by the Government of India and Reserve Bank of India from time to time, as well as the updated list of individuals and entities who are subjected to sanction measures as required under the KYC policy.

8.6. The risk assessment carried out shall consider all the relevant risk factors before determining the level of overall risk and the appropriate type of mitigation to be applied. This assessment shall be documented, updated regularly, and made available to competent authorities and self-regulating bodies as and when required.

9. RISK MANAGEMENT PROCESS

9.1. **COMMUNICATION AND CONSULTATION:** Communication and consultation with external and internal stakeholders need to take place during all stages of the risk management process. Effective external and internal communication and consultation is essential to ensure that personnel responsible for implementing the risk management process and stakeholders understand issues relating to risk, its causes, consequences, and the measures being taken to treat it. Plans for communication and consultation should be documented at an early stage in the process.

9.2. **EXTERNAL AND INTERNAL CONTEXT:** Risks may arise from factors that are external to the organization. Further, to pursue objectives, the organization might make internal changes that could result in exposure to risks. An effective Risk management process takes cognizance of both external and internal contexts in which the company operates. This entails understanding the external environment and internal objectives of the company to ensure that the risks identified are in the context of the same.

9.3. **CONSIDERATION OF EXTERNAL CONTEXT:** The following are indicative factors that need to be considered/ understood from an external context perspective:

- New/ changes in policies or regulations that may affect the business decisions of the company
- Competitive landscape and position taken by competitors
- Supplier group, partners, alliances
- Geopolitical matters
- Economic condition in the states/ countries of operation
- Technological changes are applicable to business.

9.4. **CONSIDERATION OF INTERNAL CONTEXT:** The following need to be considered / understood from an internal context perspective:

- Strategy and objectives of the company
- Inherent strengths and weaknesses/ vulnerabilities of the company
- Organization structure and expected roles & responsibilities
- Values & beliefs
- Profile of people (qualification / experience and its relevance to their role)
- Incentive mechanisms and how it is expected to drive behaviors
- Systems and processes
- Supervision and monitoring mechanisms

9.5. **RISK REPORTING:** Periodic reporting on risks is required to determine whether the impact or likelihood of the risk is increasing or decreasing and to ensure continuing alignment of organizational resources to priorities. The reporting of key risks and risk handling measures is necessary to:

- Improve the quality of products and support timely decision making
- Determine priorities for action and improvement
- Enable Senior Management to be satisfied that the key risks are being identified and managed to an acceptable level.
- Details of risk profile facing various Departments will be documented in the form of a "Risk Library" maintained and periodically reviewed by the Risk Management Committee along with details of risk mitigation measures, etc. The Risk Management Committee will report to the Board of Directors for guidance. Risk reporting comprises the following elements:

➢ Department-specific description of key risks and opportunities

- Risk Rating or evaluation (after handling measures) of risks regarding expected probability (in %-figures) and impact on 'Profit' or other key Company objectives as assessable
- Description of key risk handling measures including the impact of these handling measures
- Statement of changes including materialized risks or including of risks into Risk Register compared to the last risk reporting of the Department.

10. FRAMEWORK REVIEW

The Framework shall be reviewed on a periodical basis and shall be updated as and when changes are made with the approval of the Risk Management Committee / Board.