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POLICY ON RISK MANAGEMENT

Document Control Sheet	
Document Name	Policy on Risk Management
Name of Company	Nalwa Sons Investments Limited
Policy Authorization by	Board of Directors
Review of the policy	Bi-annual
Board Approval date	June 29, 2021

1. Preamble

The Policy is formulated in compliance with Regulation 21 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“the Listing Regulations”) and provisions of the Companies Act, 2013 (“the Act”), RBI regulation and Directions for NBFC’s which requires the Company to lay down procedures about risk assessment and risk minimization.

The Board of Directors (“Board”) of Nalwa Sons Investments Limited (“Company” or “NSIL”), has adopted the following policy which encompasses practices relating to identification, assessment, monitoring and mitigation of various risks to the business. Risk Management Policy of the Company seeks to minimize unfavourable impact on the business objectives and develop stakeholder’s value. Further, the risk management practices seek to sustain and enhance long-term competitive advantage for the Company. This Policy is formulated in compliance with Regulation 21 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“the Listing Regulations”) and provisions of the Companies Act, 2013 (“the Act”), RBI regulation and Directions, as amended from time to time, for NBFC’s.

2. Purpose

The purpose of this policy is to address unanticipated and unintended losses to the human resources; financial assets of the Company without unnecessarily limiting the activities that advance its mission and goals. NSIL has introduced effective risk management systems that address the issues relating to various risks. The effective management of risk is vital to the continued growth of the Company.

3. Principles

For risk management to be effective, all operations/departments of the Company must apply the following principles to the context of the business and its objectives:

- Risk management must create and protect value.
- Risk management is integrated into organizational processes.
- Explicit risk management helps decision-makers make informed choices.
- Risk management is focused on the sources of uncertainty around the achievement of objectives.
- Risk management must be tailored to the context and fit for purpose.
- Risk management is dynamic and responsive to change.

4. Definitions/abbreviations

- “Board” means Board of Directors of the Company.
- “Company/NSIL” means Nalwa Sons Investments Limited.
- “Directors” mean individual Director or Directors on the Board of the Company.
- “Policy” means Risk Management Policy.
- “RBI” means Reserve Bank of India.
- “RCM” means Risk Control Matrix.

5. Policy

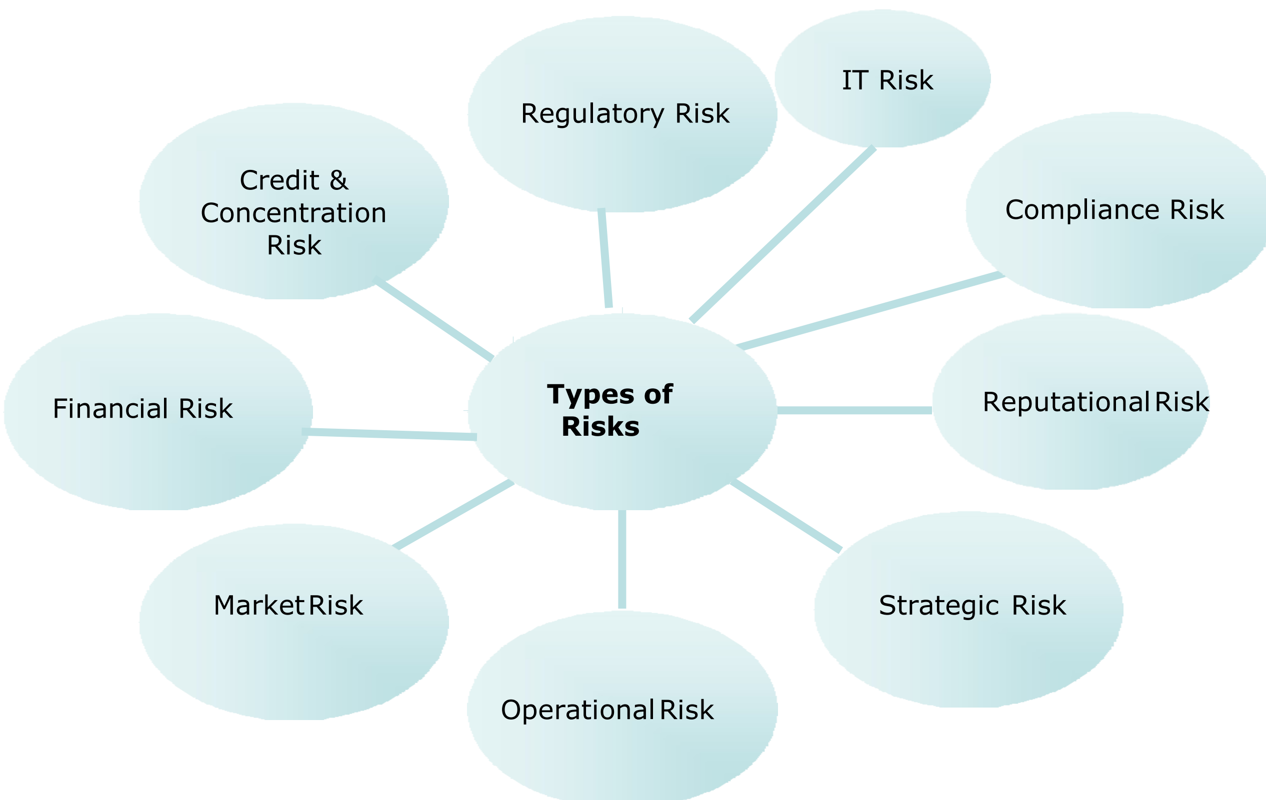
NSIL recognizes that Risk management as one of the key drivers of growth and further to enhance corporate governance. Accordingly, the Board has framed the following Risk Management Policy:

- To continuously thrive for available risks in the organization which directly or indirectly effect the functioning of the organization.
- To ensure the protection of rights; values of Shareholders by establishing a well- organized Risk Management Framework.

- Proactive and reactive approach to manage fraud;.

6. Identification, Measurement and Assessment of Risk

- Management's responsibility, as delegated by the Board, is to operationalize the Risk Management Program and ensure that formal procedures are put in place to identify and define risk with input from representatives across the businesses.
- Measurement of risk is completed considering both quantitative and qualitative means using the likelihood and impact criteria as developed by Management and as reviewed by the Board.
- The management has identified certain inherent and residual risks which have been divided in accordance with likelihood and its impact on the business.
- Following risks have been identified by the organization:



- **Strategic Risk** – This risk is related to the overall business strategies and the related economic/business environment.

- **Reputational Risk** – Where the practices followed by the Company are not in consonance with industry as well as internally prescribed standards.

- **Market Risk**- Risks related to changes in various markets in which the Company operates.

- **Operational Risk**- Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies, outsourcing of activities to vendors.

- **Financial Risk**- These risks include movement in interest rates and also liquidity risks inherent to the business.

- **Credit & Concentration Risk** – Where the overall industry has considerable exposure to one service provider and hence the NBFC may lack control over the service provider.

- **Regulatory Risk –** Where privacy and consumer laws are not adequately complied with by the service provider.

- **Compliance Risk -** Where prudential laws are not adequately complied with by the service provider.

- **IT Risk** - IT risk encompasses the potential threats and vulnerabilities that can compromise the confidentiality, integrity, and availability of digital assets and systems.

7. Risk Categorization and Mitigation Factors

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

A) Strategic Risk

Risk: It is the risk to earnings and capital arising from lack of responsiveness to changes in the business environment and/or adverse business decisions, besides adoption of wrong strategies and choices.

Mitigation: The management is proactive in its approach towards changes in economic/business environment as the business strategies are regularly discussed with the board of directors of the organization so that adequate steps can be taken. Also, important strategic matters are referred to the Board, consisting of members with diversified experience in the respective fields, for intense deliberations, so as to derive the benefit of collective wisdom.

B) Reputational risk

Risk: Reputational risk is related to adverse perception of the image or the company, on the part of customers, counterparties, shareholders, investors and regulators. It refers to the potential adverse effects, which can arise from the company's reputation getting tarnished due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints leading to negative publicity. Presence in a regulated and socially sensitive industry can result in significant impact on Company's reputation and brand equity as perceived by multiple entities like the RBI, Central/State/Local authorities, banking industry and the customers. The risk can emanate from:

- Non-Compliance with Regulations
- Customer Dissatisfaction
- Misrepresentation of facts and figures in public

Mitigation: Considering the business model the following aspects have been put in place to reduce vulnerability related to reputational risk:

- **Compliance with Fair Practices Code:** Instructions to follow fair practices as per RBI prescribed guidelines in all their dealings with the customers.
- **Grievance Redressal Mechanism(GRM):** The Company shall have a defined GRM in place and the same is communicated to all customers at the time of sanction of loan.
- **Delinquency Management:** The Company shall not resort to any coercive recovery practices and all recoveries are made in accordance with Fair Practice Code of the Company and applicable laws, regulations, and regulatory guidelines.
- **Stringent Selection Criteria:** Vendors, employees and other associates of the Company shall be selected after confirming to the stringent criteria's prescribed by the management.

- **Reference Check:** The management shall carry out a reference check for all the vendors from the market before having them on Board so as to ensure utmost integrity while carrying out their duties.

C) **Market Risk**

Risk: Risks emanating out of the choices we make on markets, resources and delivery model that can potentially impact our long-term competitive advantage. Risks relating to inherent characteristics of our industry including competitive structure, technological landscape, extent of linkage to economic environment and regulatory structure.

Mitigation: Management shall regularly review its business model including the areas it wants to operate. The management shall carry out regular competitive analysis of its peers in the industry so as to remain in competition and change its markets if required.

D) **Operational Risk**

Risk: Risks inherent to business operations including those relating to client acquisition, service delivery to clients, business support activities, information security, physical security, human resource and business activity disruptions.

Mitigation:

- **Document Storage and Retrieval:** NSIL recognizes the need for proper storage of documents as also their retrieval for audit and statutory requirements.
- **Scanned Copies:** NSIL shall endeavor to store scanned copies of the loan documents for easy retrieval especially for audit purposes where physical documents are not required.
- **Internal Audits:** Internal Audit shall be carried out periodically.

E) Financial Risk

- **Interest Risk:** Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC financial condition. The changes in interest rates affect company in some way. The immediate impact of changes in interest rates is on company's earnings. Loans by NSIL are always fixed rate loans. The company manages this risk by pricing its loan products at a rate which covers interest rate risk.
- **Liquidity Risk:** Measuring and managing liquidity needs are vital for effective operations of an NBFC. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. Board/ALCO Committee(whenever applicable) should measure not only the liquidity positions of company on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions.
- **Maturity Mismatch:** Liquidity Risk arises largely due to maturity mismatch associated with assets and liabilities of the company. Liquidity risk stems from the inability of the company to fund increase in assets, manage unplanned changes in funding sources and meet financial commitments when required.
- **Funding Concentration Risk:** Concentration of a single source of funds exposes the Company to an inability to raise funds in a planned and timely manner and resort to high-cost emergency sources of funds. Further, concentration of funding sources can also result in a skewed maturity profile of liabilities and resultant Asset-Liability mismatch.
- **Asset-Liability Mismatch:** A skewed asset-liability profile can lead to severe liquidity shortfall and result in significantly higher costs of funds; especially so during times of crises.
- **Market Perception Risk:** Due to inherent industry characteristics, the Company is exposed to perception risks, which can lead to decline in ability of a lender to increase exposure to the large sector and result lack of adequate and timely inflow of funds.

Mitigation: The key liquidity management measures shall include:

- **Liquidity Monitoring:** The Company shall periodically monitor its liquidity position, projected cash flows, and funding requirements to ensure timely availability of funds for meeting its financial and operational obligations.
- **Monitoring of Asset-Liability Profile:** The Company shall periodically review the maturity profile of its assets and liabilities to identify and manage any material mismatches**.**
- **Capital Adequacy:** The Company shall maintain a Capital Adequacy Ratio (CRAR) at all times in accordance with the applicable RBI regulatory requirements and endeavour to maintain adequate capital buffers to support business growth and absorb unexpected losses.
- **Prudent Funding Strategy:** The Company shall endeavour to maintain a diversified and stable funding base and avoid excessive dependence on any single source of funds.
- **Risk-Based Pricing:** The Company shall adopt an appropriate pricing strategy for its lending products, taking into account the cost of funds, credit risk, operating expenses, and prevailing market conditions.
- **Board Oversight:** The Board of Directors shall periodically review the Company's financial risk profile and direct the management to implement appropriate corrective measures, wherever necessary.
- **Regulatory Compliance:** The Company shall comply with all applicable RBI directions and other statutory requirements relating to financial risk management and shall strengthen its risk management framework in line with the growth of its business and regulatory expectations.

F) <u>Credit and Concentration Risk</u>

Credit Risk:

Any lending activity by NSIL is exposed to credit risk arising from repayment default by borrowers and other counterparties. Despite best efforts, there can be no assurance that repayment default will not occur and, in such circumstances, may have an effect on its results of operations. NSIL has given unsecured loan to its group companies where a failure to recover the loan value could expose the NSIL to a potential loss. Any such losses could adversely affect the NSIL's financial condition and results of operations.

Mitigation: A strong credit risk management process shall help in containing the portfolio quality of the company. Key elements of the credit risk management include a structured and standardized credit approval process supported by a strong system, effective training programs, legal and technical due diligence, monitoring and robust credit risk management strategy at a senior management level.

G) <u>Portfolio Concentration Risk</u>:

Portfolio Concentration Risk is the risk to the company due to a very high credit exposure to a particular business segment, industry, geography, location etc. though in the context of large finance and investments, it pertains predominantly to geographical concentration.

Mitigation: Research and invest in high-quality assets with strong fundamentals, such as companies with solid earnings growth, low debt levels, and competitive advantages in their industries. Regularly monitor the performance of your investments and adjust your portfolio as needed based on changes in your financial situation, market conditions, and investment objectives.

H)Regulatory and Compliance Risk

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

- Non-Compliance with RBI Regulations, SEBI Regulations
- Non-Compliance with Statutory Regulations

Mitigation:

- The company is tracking, a Compliance Management System with in- built workflows to track, update and monitor compliances.
- Internal Audit will also conduct audit of compliance function on a periodical basis wherein all regulatory compliances are reviewed in detail.
- Quarterly Compliance Certificate is presented by the management to the Board on quarterly basis.

I) Information Technology Risk

Risk: The company is exposed to risk attached to various cybersecurity threats, data breaches and data loss, system downtime and unavailability, third-party risks and emerging technologies risks.

Mitigation:

- Ensuring that all software and systems are regularly updated with the latest security patches to fix vulnerabilities and protect against cyber threats.
- Quarterly Compliance Certificate is presented by the management to the Board on periodical basis.

8. Responsibility

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

- Controlling the risks through a formal program is necessary for the well-being of the organization and everyone in it. The jobs and services the organization provides, the safety of the workplace and other benefits all depend to an extent on our ability to control risk.
- The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented an effective risk management framework. Detailed work on this task shall be delegated to the Audit Committee and/or Risk Management Committee and shall be reviewed by the full Board.
- The Audit Committee and the Risk Management Committee shall assist the Board in overseeing the risk profile and shall be responsible for overseeing management's actions in the identification, management and reporting of material business risks.

9. Reporting Requirements

The Company shall maintain an appropriate risk reporting framework that is reviewed and updated from time to time, taking into account the nature, size, complexity, and scale of its operations, as well as applicable regulatory requirements.

The Company shall periodically assess and report key risks to the Board and senior management, as considered appropriate. Such reports may include the nature of significant risks, the effectiveness of key mitigation measures, material developments affecting the Company's risk profile, and actions proposed or undertaken for effective risk management.

Risk assessments shall consider relevant internal and external factors and shall be reviewed at appropriate intervals.

The Risk Management Committee shall coordinate its activities with other committees, in instances where there is any overlap with activities of such committees, as per the framework laid down by the board of directors and shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.