AVASARA FINANCE LIMITED

RISK MANAGEMENT POLICY

Approved by	Board of Directors
Policy Owner	Risk Management Committee
Version	2/2025-26
Name of the Policy	Risk Management Policy
Date of Approval	27/05/2025

PREAMBLE & PURPOSE

Avasara Finance Limited ("**Company**") is a Non-Deposit Taking – Non - Systemically Important Non- Banking Finance Company registered with the Reserve Bank of India ("**RBI**"). The Board of Directors ("Board") of the Company, has adopted the following policy which encompasses practices relating to identification, assessment, monitoring and mitigation / treatment of various risks to the business. This Policy has been framed in accordance Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023 and amendments thereon.

Risk Management Policy ("Policy") of the Company seeks to minimize unfavorable impact on the business objectives and develop stakeholder value. The Company 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.

PRINCIPLES

To effectively manage the risk the Company must apply the following principles to the context of the business and its objectives:

- Risk management to be integrated into organizational processes which in turn will help decision-makers make informed choices thereby assisting in creation and protection of organisational value.
- Risk management must be tailored to the context and fit for purpose and should be dynamic and responsive to change.
- Risk management is focused on the sources of uncertainty around the achievement of objectives.

IDENTIFICATION, MEASUREMENT AND ASSESSMENT OF RISK

The Board has delegated its responsibility to Risk Management Committee (**"RMC"**) of the Board 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. The other major responsibilities of the RMC are covered under Terms of Reference as approved by the Board.

Measurement of risk is completed considering both quantitative and qualitative means using the likelihood and impact criteria as developed by RMC and as reviewed by the Board. The RMC has identified certain inherent and residual risks which have been divided in accordance with likelihood and its impact on the business. Which are broadly classified as under:

- Strategic Risk
- Operational Risk
- Market Risk
- Financial Risk
- Credit & Concentration Risk
- Regulatory & Compliance Risk
- Human Resource Risk

- Reputational Risk

RISK CATEGORIZATION AND MITIGATION FACTORS

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

I. 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: RMC shall be proactive in its approach towards changes in economic / business environment as the business strategies shall be regularly discussed at the meetings of RMC so that adequate steps can be taken. Also, important strategic matters shall be referred to the Board.

II. Operational Risk:

Risk: There is inherent risk to business operations including those relating to client acquisition, service delivery to clients, business support activities, information security, physical security, theft, robbery, fraud, human resource and business activity disruptions.

Mitigation:

- Document Storage and Retrieval: The Company recognizes the need for proper storage of documents as also their retrieval for audit and statutory requirements. The Company shall maintain all the original documents in a dedicated space allocated for specific purposes.
- Scanned Copies: The Company shall store the scanned copies of the loan documents, statutory documents / papers / certificates, KYCs of all employees including Directors, KYCs of all customers for easy retrieval especially for audit purposes where physical documents are not required.
- Whistle Blower Policy: The Company shall encourage all its employees to report any instances or suspected instances of violation of the Code, malpractice, corruption, fraud or unethical conduct, leakage or suspected leakage of information of the Company.
- Internal Audits: Internal Audit shall be carried out periodically by internal audit team or by an independent audit firm appointed by the Board. The scope of this Internal Audit shall cover all key functions including HR, Operations, Credit, Administration, Finance and Accounts. All significant audit observations of Internal Audits and follow-up actions shall be presented to the Audit Committee.
- Technology Infrastructure: The adequacy IT Infrastructure will be reviewed periodically and upgraded as per need including Database servers. Only authorized personnel will have access to the database. Scope to tamper or alter the database will be eliminated through controls. A secured system of access control, both on-site and remote, including password management and secrecy will be in place and reviewed periodically via IT Strategy Committee of the Company. Suitable anti-virus software will be loaded in the central server and at

all user points and updated regularly. Regular 'IS audit' as per the regulations will be conducted to cover both hardware and software and the irregularities immediately addressed.

- Security: All employees shall be given a Company's Identity Card. The Company shall have a good quality safe / lockers for safe keeping of cash / petty cash and other important documents to prevent theft, fraud and robbery. The Company shall also provide medical and accident insurance coverage for its employees.

III. Market Risk

Risk: Adverse and unanticipated market and economic developments may significantly change the risk profile and market value of Company's investments. Risks relating to inherent characteristics specific to NBFC sector 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. Management shall also track micro / macro-economic level data, market trends and forecasts by expert agencies, internal review by team of experts periodically.

IV. Financial Risk

- **Interest Rate Risk:** Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. The immediate impact of changes in interest rates is on company's earnings by changing its Net Interest Income (NII). The Company shall manage this risk on NII by pricing its loan products to customers at a rate which covers interest rate risk. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM). Measurement of such risk shall be done at the time of deciding rates to be offered to customers. Once interest rate risk is measured, lending rates shall be finalized. Given the interest rate fluctuation, the Company shall adopt a prudent & conservative risk mitigation strategy to minimize interest risk.

- Foreign Exchange Risk: The Company may get exposed to variation in foreign exchange rates on account of its borrowings in foreign currency and change of interest rate on foreign currency borrowings. The change in foreign exchange rates has a direct impact on Company's financials and its competitiveness. The policy lays down the tools that are permitted to be used for hedging of various risks by Company's treasury. The Company shall use only those hedging tools that are permitted by RBI from time to time. In addition to that the said tools must be permitted under the risk management policy.

- 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. RMC shall 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 in line with Terms of Reference as approved by the Board.

Mitigation: The key liquidity management policies shall be followed at Company include:

- Internal ALM Meetings: This shall be done to identify any short-term / long term liquidity gaps and thereby take immediate corrective actions to bridge the same.
- Lender Exposure Updates: The exposure profile to the lenders shall be regularly updated to ensure that skewness does not creep in.
- Floating Rates: Managing the impact of interest rate fluctuations and having a check on the loans borrowed and loans lent on periodic basis via Internal ALM meetings.
- Defined Leverage Levels: Company shall target such rate of leverage as may be defined by Internal ALM Committee, in light of the business model and adequately safeguard itself against the impact of adverse market conditions.
- Hedging on forex borrowing: The Company might use RBI approved hedging tools such as interest rate swaps, cross currency swaps, etc or any combination of the hedging tools as may be allowed from time to time. However, while applying the said hedging tools, the Company shall ensure that, the maturity of the hedge shall not exceed the maturity of the underlying transaction and also the notional of the hedge shall not exceed the notional of the underlying transaction.

  The execution of hedges shall be done only by designated employees and with the banks as permitted by RBI. The Authorised person executing hedging transactions shall follow the guidelines prescribed by RBI for that purpose and shall report to the management on a periodic basis.
- Capital Adequacy: Company shall target to maintain healthy levels of capital adequacy. The Company shall maintain a strong capital position with the capital ratios well above the thresholds defined by the regulatory authorities through continuous and timely capital infusion.

V. Credit and Concentration Risk

- **Credit Risk:** Any lending activity by the Company may get exposed to credit risk arising from repayment default by customers. 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. The Company may not be able to realize the full value of its financial assets or there could be delayed in realizing such value. Any such losses could adversely affect the Company's financial condition and results of operations. There can be a significant loss due to a rating-downgrade.
- **Mitigation:** A strong credit risk management process will 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.
- **Portfolio Concentration Risk:** Portfolio Concentration Risk is the risk to the Company due to very high credit exposure to a particular business segment, industry, geography, location, etc.

  Mitigation: Company shall maintain a diversified exposure across various sectors and geographies to mitigate the risks that could arise due to political or other factors within a particular state. The Company has steadily diversified into various sectors and geographies and consequently the portfolio has become diversified. Various 3rd party verifications shall also be carried out to secure credit facilities.

VI. Regulatory and Compliance Risk

- **Risk:** The Company may get 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. 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, Non-Compliance with Statutory Regulations, Non-Compliance with covenants laid down by Lenders and such other non-compliances as may be applicable to the Company.

- **Mitigation:** The Company shall implement a Compliance Management System within in the organization to track, update and monitor compliances. Internal Audit shall also be conducted on a periodic basis wherein all regulatory compliances will be reviewed in detail. Quarterly Compliance to be submitted to the Board.

VII. Human Resource Risk

- **Risk:** Company's Human Resource adds value to the entire Company by ensuring that the right person is assigned to the right job and that they grow and contribute towards organizational excellence. Risk in matters of human resources are sought to be minimized and contained by following a policy of providing equal opportunity to every employee, inculcate in them a sense of belonging and commitment and also effectively train them in spheres other than their own specialization. Employee-compensation is always subjected to fair appraisal systems with the participation of the employee and is consistent with job content, peer comparison and individual performance.

- **Mitigation:** Human Resource Policy and initiatives which will help in retaining talent and motivate employees. ESOP benefit, if any, shall be given to motivate talented employees by providing long term performance-based incentive / bonus, apart from their regular salaries and incentive. This will help the organization to retain the best talent in the organization.

VIII. Reputational risk:

- **Risk:** Reputational risk is related 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. These risks can be, Non-Compliance with Regulations, Customer Dissatisfaction, Misrepresentation of facts and figures in public

- **Mitigation:** Considering the business model the following aspects shall be put in place to reduce vulnerability related to reputational risk:
  - Compliance with Fair Practices Code: Employees to be trained and instructed to follow fair practices as per RBI prescribed guidelines in all their dealings with the customers.

- Grievance Redressal Mechanism (GRM): The Company shall have the GRM in place and the same shall be communicated to all customers at the time of sanction of loan. This will also be available on the website of the Company.

REVIEW OF THE POLICY

The Policy will be reviewed periodically or at least once a year by the Risk Management Committee in line with all applicable laws and regulations as amended from time to time.