ITI Finance Limited

(Formerly known as Fortune Integrated Assets Finance Limited)

RISK MANAGEMENT POLICY

Approved by	Reviewed	Version	Department
Board of Directors	18-04-2023	V.2	Secretarial & F&A

Background

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.

This Policy represents the basic standards of Risk Assessment to be followed by ITI Finance Limited ("the company"). Changes in the Policy will become effective upon approval by the Board of Directors of the Company. All relevant employees must be thoroughly familiar or made familiar with it and make use of the material containedin this Policy.

Risk Management

Risk management is a business facilitator by making more informed decision with balanced risk-reward paradigm. The Company shall follow a disciplined risk management process and has been taking business decisions, ensuring growth and balancing approach on risk reward matrix.

There are mainly eleven types of risk associated with business which are detailed as under:

1. Credit Risk

A risk of loss due to failure of a borrower/counterparty to meet the contractual obligation of repaying his debt as per the agreed term, is commonly known as risk of default.

Risk Mitigation

a) Credit risk shall be managed using a set of credit norms and policies. The Company shall have defined roles and responsibilities for originators and approvers. All credit exposure limits shall be approved by authorized persons.
b) There shall be a structured and standardized credit approval process to ascertain the credit worthiness of the borrower.
c) The Company shall develop internal evaluation team to make credit decisions more robust and in line to manage collateral risk.
d) The Company shall follow a process of time-to-time revisiting the credit policy and processes, on the basis of experience and feedback.

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 organisation, is termed as Operational Risk. Majorly it is internal and unknown. Therefore, the persons responsible shall keep continuous watch and shall gather the symptoms/warning signalsto manage Operational risk.

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.

4. **Business Risk**

Business risk is defined as potential of value erosion because of failure of strategy, execution or adverse change in environment and it includes strategy/execution risk and external environment risks.

5. **Liquidity Risk**

Liquidity risk is defined as the risk of not being able to meet financial obligations and it includes Asset Liquidity risk and Liability refinancing risk as its principal categories.

6. **Regulatory Risk**

Regulatory risk is defined as the risk of not adhering to the letter and spirit of laws and regulations leading to fines or other penal action. It includes Legal, Governance, Vigilance, Fiduciary, and Data Integrity as its principal categories.

7. **Reputation Risk**

Reputation risk is defined as the risk arising from negative perception about the Group on the part of stakeholders that can adversely affect the ability to maintain existing or establish new business relationships.

8. **Technology Risk**

Technology risk is defined as the risk of loss due to technology failures such as information security incidents or service outrages that can disrupt business. It includes Cyber Security Risk, Resilience, Scalability and Project risks as its principal categories

9. **Fraud Risk**

Fraud risk is defined as the activities undertaken by an external/internal individual or entity that are done in a dishonest or illegal manner and is designed to give an advantage to the perpetrating internal/external individual or entity. It includes Employee Fraud, Customer Fraud and Third-Party Fraud as its principal categories.

10. **People Risk**

People risk is defined as the risk that will arise as a consequence of not having the right people with the right skills/competencies at the right time to deliver business strategies aligned for current and future growth as per the organizations, values, work ethics and culture. It includes talent and availability, people capability, ethics, and culture as its principal categories.

11. Physical and Infrastructure Risk

Physical and Infrastructure risk is defined as the risk of loss due to failures and/ or disruption of basic services, infrastructure, and facilities on account of natural calamity or manmade disaster, including safety of employees. It includes Safety of Employees and Damage to Physical Assets as its principal categories. Each of the above risks have clearly defined risk categories and sub-categories

Risk assessment of borrowers

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, borrowers net worth and the ability to refund and pay interest etc. As such, the principal officer shall apply to each of the customers due diligence measures on a risk sensitive basis and shall divide the same in three categories HIGH, MEDIUM AND LOW which shall be reviewed every year. Initially all the new clients are to be marked as high – risk category, however they may be subsequently re-catgorised depending on their performance based on our own experiences.

The basic principal 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. In line with 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.

Obligations of the Principal officer

The Principal Officer is required to carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to such borrower, countries or geographical areas, nature and volume of transaction, payments method used by borrowers. The risk assessment shall also take into account any country specific information provided or circulated by RBI from time to time.

Board of Directors meetings and review

The Board of Directors, in their board meetings, will oversee the implementation of the system and review its functioning periodically.

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