



**SITAARA HOUSING FINANCE LIMITED
(FORMERLY KNOWN AS SEWA GRIH RIN LIMITED)**

RISK MANAGEMENT POLICY

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Revision and Amendment Record

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Policy Drafted by	Risk Management
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I. Introduction

Sitaara Housing Finance Limited (the Company”) is a Housing Finance Company registered with and regulated by the **Reserve Bank of India (RBI)** and supervised by the **National Housing Bank (NHB)**. The Company is engaged in providing housing finance and related credit products, primarily to borrowers in the informal and semi-formal segments.

The Company’s activities expose it to various forms of risk arising from its assets, liabilities, operations, systems, and external environment. Effective risk management is therefore critical to protecting stakeholder interests, ensuring regulatory compliance, preserving financial stability, and supporting sustainable growth.

This Risk Management Policy (“Policy”) sets out the principles, governance structure and broad framework for identification, assessment, monitoring, and mitigation of risks faced by the Company.

II. Objective

The objectives of this Policy are to:

- Establish a structured and enterprise-wide approach to risk management
- Ensure risks are identified early, measured appropriately, and managed proactively
- Define governance, roles, and accountability for risk oversight
- Align risk management practices with RBI/NHB regulatory expectations
- Enable management to operate within approved risk appetite while retaining flexibility

III. Risk Management Philosophy

The Company follows a risk-based and principle-driven approach, under which:

- Risks are managed commensurate with the nature, scale, and complexity of the Company’s operations.
- Risk ownership lies with business and functional heads, supported by independent risk and compliance functions
- Quantitative limits, thresholds and early warning indicators are approved and reviewed by the Board / Committees, and are not hard-coded in this Policy

- Risk management is embedded in day-to-day decision-making, not treated as a standalone activity

IV. Classification of Risks

The key risks faced by the Company include, but are not limited to:

1. Credit Risk
2. Market Risk, including Liquidity Risk and Interest Rate Risk
3. Operational Risk, including Fraud and Systems Risk
4. Compliance and Regulatory Risk
5. Technology and Information Security Risk

A. Credit Risk

Nature of Risk

Credit risk arises from the possibility that borrowers may fail to meet their contractual obligations, resulting in financial loss to the Company.

Risk Management Framework

Credit risk is managed through a combination of policy discipline, process controls and portfolio monitoring, including:

- A Board approved “Credit Policy” to provide guidance to the credit/appraisal staff to perform credit check of a prospective borrower and assess her/his credit worthiness. The policy lays great emphasis on strictly following the credit assessment methodology and sets prudential limits based on the “Credit Assessment Memorandum” of each borrower.
- The Company has put in place a system of maker-checker credit sanctioning process. No two sequential process steps can be executed by a single person. Each Process step is to be executed by a separate vertical personnel/authority in sales and credit respectively. The sales and lead generation are done by the branch manager and loan officer. The file is then reviewed by the concerned Underwriter of the specific branch. The final sanction is accorded according to the authority matrix which is a combination of loan amount and deviation level.
- Use of credit bureau data, field investigations and verification mechanisms
- Portfolio-level monitoring through delinquency trends, vintage analysis, and early warning indicators

A Board approved “Collection and Recovery Policy and Manual” to take care of the post sanction collection activities. The policy lays down rules and guideline for recovery of dues and management of delinquent accounts.

The Company ensures that credit concentration, product mix and geographic exposure are monitored on an ongoing basis through management information systems and reviewed periodically by senior management and the Risk Management Committee.

B. Market Risk

Nature of Risk

Market risk arises from movements in interest rates, liquidity conditions, foreign exchange rate risk and funding markets, which may impact earnings and cash flows.

Liquidity Risk

Liquidity risk is managed through:

- A Board-approved Liquidity Risk Management Framework and contingency funding plan
- Periodic preparation and review of structural and dynamic liquidity statements
- Maintenance of appropriate liquidity buffers in line with regulatory and internal requirements
- Diversification of funding sources and maturity profiles

Interest Rate Risk

Interest rate risk is managed through:

- Periodic ALM reviews
- Monitoring of repricing mismatches and sensitivity analysis
- Use of hedging instruments, where applicable, in accordance with a Board-approved policy

Foreign Exchange Risk Management

Foreign Exchange Risk Management is managed through

- A Board approved Foreign Exchange and Interest Rate Risk Management Policy to mitigate risk arising out of exposure to External Commercial Borrowings (ECB) / Foreign Currency Loans.

The Company also endeavors to protect itself from the risk of rise in interest rates while trying to minimise the cost of such hedging

C Operational Risk

Nature of Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, systems, external events, or dependent on any third party for any process.

Risk Management Approach

Operational risk is managed through:

- Defined standard operating procedures (SOPs)
- Internal financial controls and maker-checker mechanisms
- Regular internal audits and process reviews
- Incident reporting and root-cause analysis
- Staff training and ethical conduct standards
- A Board approved outsourcing Policy.

D. Fraud Risk Management

External Fraud Risk

The Company mitigates external fraud risk through a risk-based and proportionate framework, considering the nature of its borrower segment, through the following measures:

- Adherence to the approved credit appraisal and verification processes, as applicable to the borrower profile
- KYC and AML controls implemented in accordance with regulatory requirements, including use of digital and third-party verification tools where feasible
- Use of credit bureau information for borrowers and co-borrowers, to the extent available and applicable
- Field-level assessments and third-party verification, undertaken based on risk assessment and product characteristics
- Monitoring of Early Warning Signals (EWS) to identify anomalies and emerging risks at an early stage

Internal Fraud Risk

Internal fraud risk is mitigated through a combination of policy frameworks, process controls and oversight mechanisms, including:

- A Board-approved Fraud Risk Management / Anti-Corruption Policy
- Segregation of duties, authority limits and maker-checker controls across key processes
- Periodic internal audits and thematic reviews, including surprise checks where considered necessary
- Whistle-blower and reporting mechanisms to enable timely detection and escalation of concerns

E. Technology and Information Security Risk

Technology risk is managed through:

- A Board-approved IT and Information Security Policy

- Data access controls, password protocols and system audit trails
- Periodic system upgrades and licensed software usage
- Data backup, disaster recovery and business continuity planning

F. Compliance and Regulatory Risk

Compliance risk is managed through:

- A Board approved detailed Compliance policy which details how on an ongoing framework, the Company mitigates Compliance Risk emanating from various sources such as RBI/NHB norms, Accounting laws, Companies Act, Taxation regulations, Labour laws and IT Systems amongst others
- A dedicated Compliance function
- Monitoring of RBI, NHB and other regulatory developments
- Periodic compliance testing and reporting
- Timely updating of policies, processes, and systems
- Use of software tools to assist in meeting the objective of regulatory compliances
- Employee training and awareness programs

V. Risk Reporting and Monitoring

The Company shall maintain a Risk Reporting Framework, which:

- Identifies key risk indicators and early warning signals
- Enables periodic reporting to Senior Management and the Risk Management Committee
- Facilitates escalation of material risks and exceptions

Detailed risk metrics, thresholds and tolerances shall be defined and reviewed periodically through Board-approved frameworks, internal MIS and committee oversight, and shall not form part of this Policy.

VI. Roles and Responsibilities

Board of Directors

- Approves the Risk Management Policy and risk appetite
- Oversees the overall risk management framework

Risk Management Committee

- Reviews key risk exposures and trends

- Provides strategic guidance on risk matters

Senior Management

- Operational Risk Management Committee, ensures operational resilience during business disruptions.
- Implements the risk framework
- Ensures risks are managed within approved parameters
- The Department Heads shall be accountable for ensuring risk is managed across all activities undertaken by their department. They shall be responsible for ensuring strict adherence to the guidelines and for improving them further.

Middle Management

- Managers, at all levels, are required to create an environment where the management of risk is accepted as the personal responsibility of all employees. The Managers are accountable for the implementation and maintenance of sound risk management processes and structures within their area of responsibility in conformity with this risk management policy

All Employees

- Are responsible for managing risks in their respective roles

XIII. Reviews and Amendments

This Policy shall be reviewed at least annually or earlier if required due to regulatory changes or business developments. Any amendments shall be subject to Board approval.

XIV. Overriding Effect

In the event of any inconsistency between this Policy and applicable laws, RBI/NHB directions or regulatory guidelines, the latter shall prevail.