



RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management Department

SOFTLOGIC FINANCE PLC

2024

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1. Objective

The Objective of the policy is to provide a framework for the management of risk and increase overall awareness of risk throughout Softlogic Finance PLC.

The policy will help for risks to be prudently identified, analysed and managed in accordance with the principles for managing risks set out at Softlogic Finance PLC.

This document also sets the context in which Enterprise Risk Management is applied at Softlogic Finance PLC and provides information on the risk architecture, processes and procedures, standards, roles, responsibilities, tools, facilities and documentation to be produced in this regard.

2. Establishing the Context

Before we consider risk management, it is necessary to identify the strategic and organisational context under which Softlogic Finance PLC operates. This will enable to:

- Articulate the Company's organisational objectives.
- Define external and internal parameters to be taken into account when managing risk.

Context for risk management at Softlogic Finance PLC is set on the following basis;

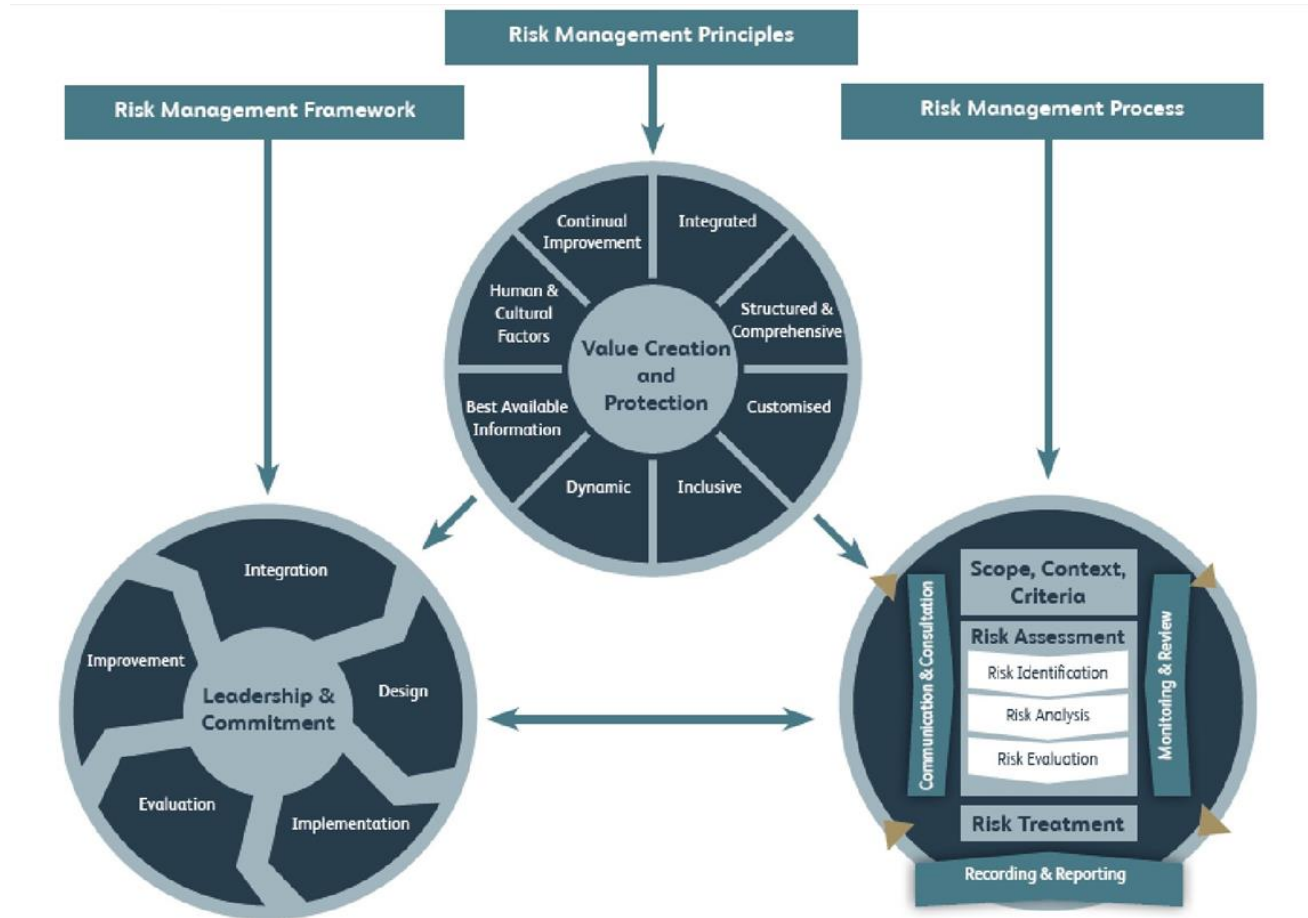
Environment	Definition	Consideration
Idiosyncratic Environment	Anything within Softlogic Finance that can influence the way in which risk will be managed	<ul style="list-style-type: none"> • Organizational structure, roles and accountabilities • Vision, Mission and Values of the Company • Governance Structure • Product Composition • Distribution Channels • Demography of Customer Base • Geographic Dispersion of Branch Network • IT Infrastructure • Organizational Culture • Human Capital • Third Party Vendors Agreements / Relationships
Systematic Environment	External environment in which Softlogic Finance seeks to achieve its objectives	<ul style="list-style-type: none"> • Global Environment • Economic environment • Political Environment • Technological changes • Industry changes • Competitor threats • Legal and regulatory requirements • Social, cultural and demographical changes • Relationship with, perceptions, concerns and values of external stakeholders (e.g. Suppliers, Partners, etc)

3. Enterprise Risk Management Principles and Framework

The design of the ERM framework at Softlogic Finance PLC is based on the ISO 31000:2018 International Standard. ISO 31000 states that the purpose of risk management is the creation and protection of value and is based on a total of eight principles as detailed below;

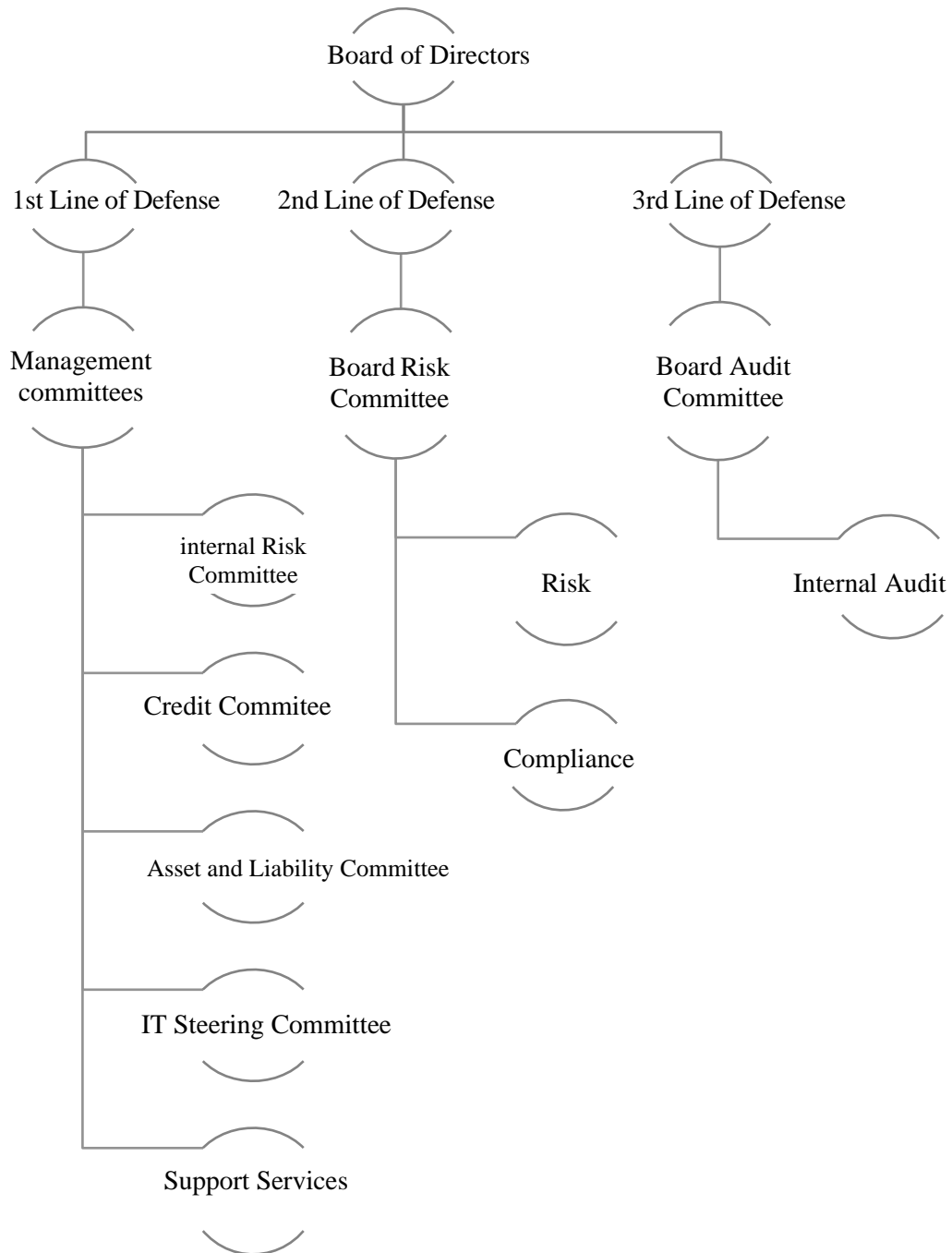
Integrated	The organization integrates risk management in all of its activities.
Structured and Comprehensive	Risk management is established upon a structured and comprehensive approach.
Customised	Risk management is linked to organizational objectives and is tailored to fit the organizations context.
Proportionate	Risk management activities must be proportionate to the level of risk faced by the organisation.
Inclusive	Risk Management includes the necessary stakeholders and takes into account their knowledge, views and perceptions.
Dynamic	Considering both internal and external changes happen, risk management is able to detect and respond to those changes appropriately.
Best Available Information	Risk management accounts for any limitations and uncertainties regarding the provided historical and current information future expectations.
Human Cultural Factors	Both human behaviour and culture influence heavily the risk management, therefore these two characteristics are taken into account in all aspects of risk management.
Continual Improvement	The organization's risk management is continually improved.

Based on the above principles, the framework and process are derived; which works as the foundation of the architecture and processers established at Softlogic Finance PLC.

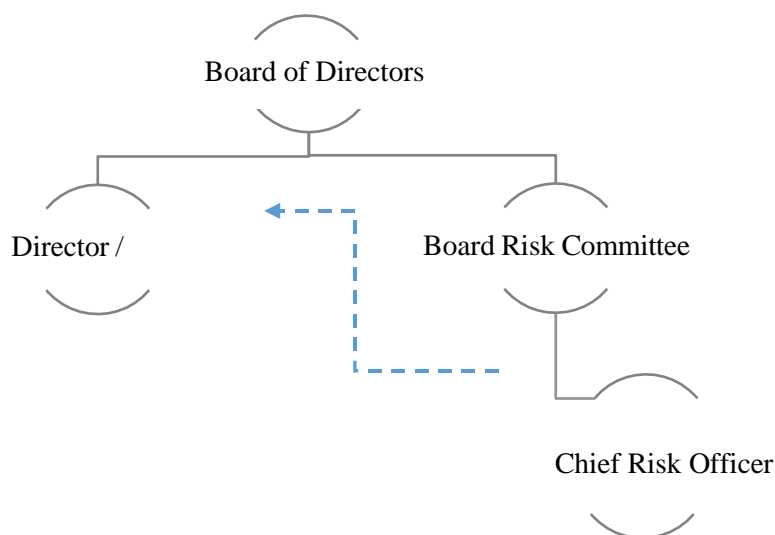


4. Risk Governance Structure of Softlogic Finance PLC

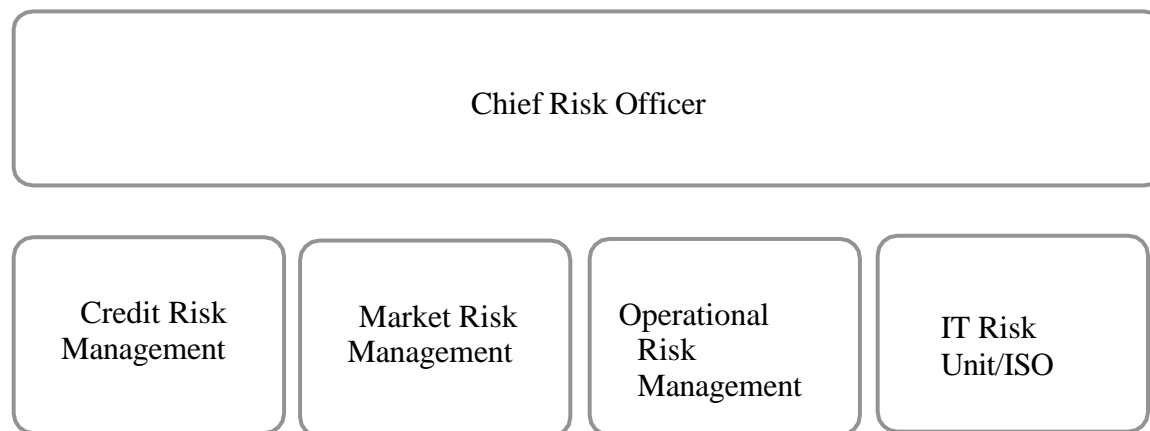
The foundation of Softlogic Finance PLC’s Risk Management framework is built on the ‘Three Lines of Defence’ model, which promotes accountability, transparency and consistency through the clear specification and segregation of roles, which should be in line with risk management and governance activities.



5. Reporting Structure



6. Architecture of the Risk Management Unit



The Risk Unit comprises of dedicated units as mentioned above to handle specific types of risk. Treasury Middle Office monitors and reports all market risks and its impact on SF PLC's Investment Portfolio whilst the IT Risk Unit monitors and reports all IT related risks. ***Each pillar of risk defined above is also governed by its own policy, which details risk limits set and reporting hierarchies under a variety of scenarios.***

7. Board Integrated Risk Management Committee (BIRMC)

The Board Integrated Risk Management Committee (BIRMC) oversees and monitors SFP's risk management framework, policies and procedures. The purpose of BIRMC is to continuously identify and assess the risk profile of SFP and approve its Risk Management Framework within the context of the risk-reward strategy determined by the BOD.

Committee composition, responsibilities, reporting and the meetings should be as per the provisions given in the Board Integrated Risk Management Committee Charter of SFP

8. Role of the Risk Management Division

The role of the risk management division should include the following:

- Setting the framework, strategy and policy and procedures for Risk Management.
- Building a risk awareness culture and disseminating the culture across the organization.
- Establishing a risk framework that defines the ownership and accountability of management of the risks identified.
- Implementation of a rigorous risk assessment process to carry out continuous risk identification, control and mitigation processors.
- Establishing the Company's risk appetite and risk limits.
- Support the decision-making process of the Company with reliable analysis of risk exposures.
- Strengthening systems, policies, processes, and measurement tools as needed to provide robust Risk Mitigation, including specialised credit risk management and operational risk management processes including business continuity management and occupational health and safety.
- Modify mitigation strategies according to changes in internal and external environment.
- Disseminating information on risk for the Board and other stakeholders.
- Conducting post disbursement reviews on loan and other credit facilities in order to ensure the maintenance of a high degree of credit quality in company portfolios.
- Reporting based on Internal Compliance, Regulatory Compliance, and Anti-Money Laundering measures and Anti-Fraud.
- Maintaining compliance of the Credit Risk Governance Model.
- Ensuring that the BIRMC has all the required information to enable it to efficiently exercise its governance function.
- Conducting and Reporting to the Internal Risk Meetings as stipulated below

9. Corporate Risk Management Committee Meeting

Frequency	The Meeting will be held at least Once a quarter
Secretary	Head of Risk Management/ Chief Risk Officer
Members of the Committee	<ul style="list-style-type: none"> • Chief Executive Officer • Head of Finance • Head of Operations • Head of Branch Operations • Head of Human Resources • Head of Credit • Head of ICT • Head of Legal • Head of Compliance • Information Security Officer • Chief Internal Auditor (By Invitation)
Other Regular Invitees	The Committee shall invite Officers, and Employees of the Company, as it may deem appropriate, to attend a Committee meeting and assist in the discussion and consideration of matters relating to the Committee.
Quorum	<ol style="list-style-type: none"> i. The quorum necessary for the transaction of business shall be <u>at least Five members inclusive of the Chief Executive Officer and Chief Risk Officer</u> ii. Attendance at a meeting may include attendance via teleconferencing facilities.
Minutes of Meeting	<ol style="list-style-type: none"> i. The secretary shall minute the proceedings and resolutions of all meetings of the committee, including recording the names of those present and in attendance. ii. Minutes of Committee meetings shall be circulated promptly to all members of the committee.
Model Agenda	<ol style="list-style-type: none"> i. Minutes of the Previously held Internal Risk Meeting ii. Matters arising from the previously held Risk Meeting iii. Matters arising from the Board Integrated Risk Management Committee Meeting (BIRMC) iv. Analysis of Risk Limits. v. Analysis of Credit Risk vi. Analysis of Strategic and Operational Risk vii. Analysis of Market & Liquidity Risk. viii. Analysis of Regulatory & Compliance Risk ix. Analysis of Information Security Risk x. Unresolved items of the operations Risk Audits. xi. Other Risk Matters of Each Departments.

10. Identification of Risks

Identification of risks may occur in one or more ways listed below;

- a) Direct Observations
- b) Incident Analysis
- c) Scenario Analysis
- d) Structured What – If Analysis

11. Assessment of Risks

All identified risks are rated according to its likelihood of occurrence and the potential impact on the Business as per the Risk Scoring Matrix below which evaluates the impact and likelihood of occurrence.

The potential impact of a risk is evaluated based on its impact on business continuity, profit, and the loss of business portfolio as detailed below.

Assessment and Measurement of Identified Risks

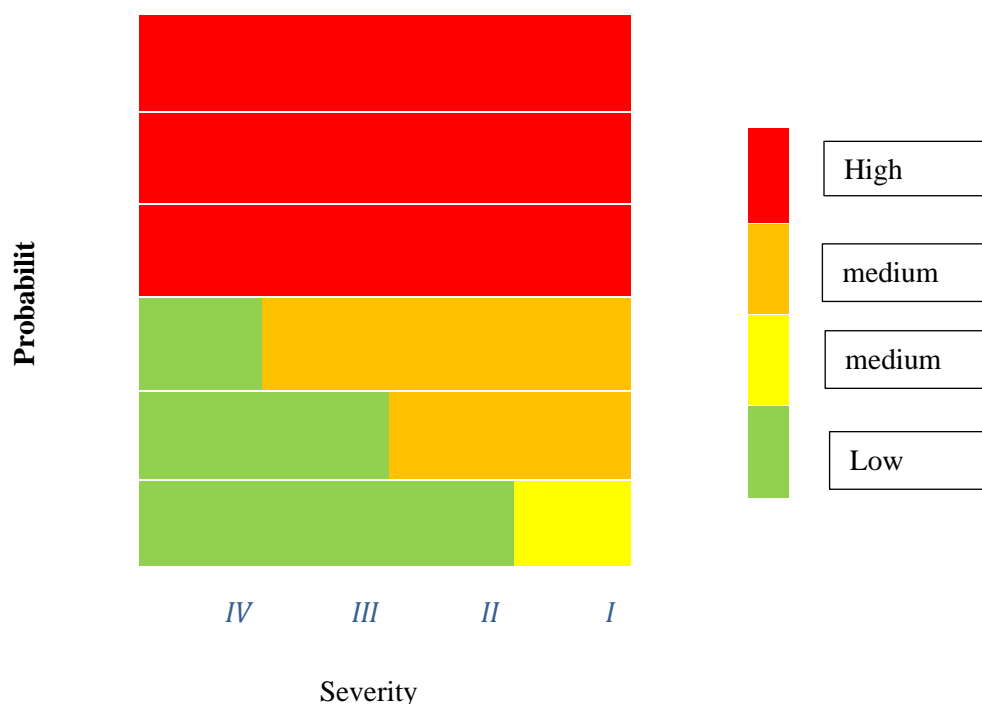
	Risks that affect Business Continuity			
	IV – Marginal	III – Significant	II – Critical	I - Catastrophic
Lending System	x < 1 Hour	1 Hours < x < 4 Hours	4 hours < x < 1 Day	x > 1 Day
Deposit System	x < 1 Hour	1 Hours < x < 3 Hours	3 hours < x < 1 Day	x > 1 Day
Call Centre	x < 10 Minutes	10 Minutes < x < 20 Minutes	20 Minutes < x < 1 Hour	x > 1 Hour
Internet Connectivity	x < 1 Hour	1 Hours < x < 3 Hours	3 hours < x < 1 Day	x > 1 Day
Critical Systems	As defined in the BCP and IT DR Plan			

	Other Risks			
	IV – Marginal	III – Significant	II – Critical	I - Catastrophic
Profit	x < -15 Mn	-20Mn < x < -15Mn	-50 < x < -20	x < -50Mn
Total Capital	x < -50Mn	-50 Mn > x > -100Mn	-100Mn > x > - 200Mn	x < -250Mn
Liquidity	x < - 100Mn	-100 Mn > x > -250Mn	-250Mn > x > - 500Mn	x < -500Mn

Probability	Description	Definition
A	Very High	$x < 1$ week
B	High	$1 \text{ week} < x < 3 \text{ Months}$
C	Occasional	$3 \text{ Months} < x < 1 \text{ Year}$
D	Low	$1 \text{ Year} < x < 5 \text{ Years}$
E	Very Low	$15 \text{ Years} < x < 100 \text{ Years}$
F	Almost Impossible	$x < 100 \text{ Years}$

The likelihood of the occurrence of the risk is examined based on the historical experience and probabilities of occurrence under current market and economic conditions. The matrix defines the probability of occurrence as the likelihood of an event occurring in a particular time period. As such we have defined six probabilities of occurrence as given above.

These risks once rated according to the above are plotted on the traffic light matrix below.



Softlogic Finance PLC

Risk Limits for 2024/2025

APPLICABLE RISK LIMITS FOR 2024/25

	Low Risk	Medim Risk	High Risk
Strategic Risk			
Credit Rating (LK)	Above BBB -	BBB-	Below BBB-
Growth of Total Advances	Achievement of the budget or more	Less than 10% of the budget	Less than 10% or more than the budget
Growth of Customer Deposits	Achievement of the budget or more	Less than 10% of the budget	Less than 10% or more than the budget
NII Margin	$X > 12\%$	$6\% < X \leq 12\%$	$X < 6\%$
Cost: Income	$X < 50\%$	$50\% \leq X < 60\%$	$X \geq 60\%$
Return on Equity	$X > 0\%$	N/A	$X < 0\%$
Savings deposits as a percentage of total deposits	$X \geq 10\%$	$5\% \leq X < 10\%$	$X < 5\%$
% of Top 20 Deposit Holders	$X \leq 20\%$	$20\% < X < 30\%$	$X \geq 30\%$
Regulatory Risks			
Capital Adequacy Tier I	$X \geq 8.5\%$	N/A	$X < 8.5\%$
Capital Adequacy Tier II	$X \geq 12.5\%$	N/A	$X < 12.5\%$
Regulatory reporting	Completed by the due date	N/A	Not completed by the due date
Public Holding of Shares	$X \geq 10\%$	N/A	$X < 10\%$
No. of penalties imposed by the regulatory bodies (per anum)	$X = 0$	N/A	$X \geq 1$
Credit Risk			
New Monthly Disbursements- Exposure to secured loans and advances	$95\% \leq X$	$90\% \leq X < 95\%$	$X < 90\%$
Product Concentration			
Leasing	$50\% \leq X < 55\%$	$55\% \leq X < 65\%$	$X \geq 65\%$
Gold Loan	$10\% \leq X < 15\%$	$15\% \leq X < 25\%$	$X \geq 25\%$
Factoring	$3\% \leq X < 5\%$	$5\% \leq X < 10\%$	$X \geq 10\%$
Personal Loans	$1\% \leq X < 3\%$	$3\% \leq X < 55\%$	$X \geq 5\%$
Top 20 Customer Exposure	$X < 25\%$	$25\% \leq X < 35\%$	$X \geq 35\%$
Leasing: Single customer exposure	$X < 10\text{Mn}$	$10\text{Mn} \leq X \leq 15\text{Mn}$	$X > 15\text{Mn}$
Factoring: Single customer exposure	$X < 5\text{Mn}$	$5\text{Mn} \leq X \leq 10\text{Mn}$	$X > 10\text{Mn}$
Gross NPL Ratio -Total book	$0 < X \leq 20\%$	$20\% < X \leq 30\%$	$X > 30\%$
Gross NPL Ratio -New book	$0 < X \leq 5\%$	$5\% < X \leq 10\%$	$X > 10\%$
Provisions Coverage Ratio:	$X \geq 60\%$	$50\% \leq X < 60\%$	$X < 50\%$
Liquidity Risk			
Liquid Assets as a percentage from FDs and accrued interest payable	$X \geq 10\%$	N/A	$X < 10\%$
Liquid Assets as a percentage of savings deposits and accrued interest payable	$X \geq 15\%$	N/A	$X < 15\%$
Deposit Renewal Ratio	$X \geq 75\%$	$60\% \leq X < 75\%$	$X < 60\%$
Maximum single depositor exposure	$X < 5\%$	$5\% \leq X < 10\%$	$X \geq 10\%$

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	Low Risk	Medim Risk	High Risk
Market Risk			
Min. Holding of Govt Securities (as a percentage from the average month end total deposit liabilities and borrowings of the twelve months of the preceding financial year)	$X \geq 7.5\%$	N/A	$X < 7.5\%$
Max. Holding of Listed Equity (as a percentage from the capital funds)	$X < 3\%$	$3\% \leq X < 4\%$	$X > 4\%$
Investment Yield	$X \geq 8.5\%$	$7.5\% \leq X < 8.5\%$	$X < 7.5\%$
Gold price reduction	$X < 5\%$	$5\% \leq X < 10\%$	$X \geq 10\%$
Vehicle price reduction	$X < 10\%$	$10\% \leq X < 15\%$	$X \geq 15\%$
Operational Risk			
Financial loss incurred due to fraud	$X=0$	$X \leq 1\%$ of the total assets	$X > 1\%$ of the total assets
Staff Turnover	$X \leq 15\%$	$15\% < X \leq 25\%$	$X > 25\%$
Number of Complaints from Regular Customers (per 1000 Regular customers)	$0 < X \leq 5$	$5 < X \leq 10$	$X > 10$
IT & IS Risk			
Number of Downtime Incidents of critical systems per annum	$X=0$	$1 \leq X \leq 3$	$X > 3$
Number of Downtime Incidents of critical systems per quarter	$X=0$	$1 \leq X \leq 3$	$X > 3$
Recovery time of critical systems (Down time)	$X \leq 15$ minutes	$15 < X \leq 30$ minutes	$X > 30$ minutes
Recovery point of critical systems (Data loss)	$X=0$ minute	$1 \leq X \leq 5$ minutes	$X > 5$ minutes
Number of Phasing, Spam, email incidents per quarter	$X=0$	$X \leq 3$	$X > 3$
Time taken to complete the patch updating process	$X \leq 1$ month	$1 \leq X \leq 2$ months	$X > 2$ months