ASSET LIABILITY AND RISK MANAGEMENT POLICY OF

FAMILY HOME FINANCE PRIVATE LIMITED

Adopted/ Amendment	Board Meeting Date(s)
Adoption of the Policy	April 25, 2018
Amendment of the Policy	December 04, 2023
Amendment of the Policy	May 08, 2025

Last reviewed on May 08, 2025

1. **Asset Liability Management and Risk Management (ALM&RM) Policy of Family Home Finance Private Limited ("FHFPL"/ "Company")**

The guidelines for introduction of ALM system by housing finance companies (HFCs) was issued by the National Housing Bank (NHB) or Reserve Bank of India (RBI) from time to time. Since the operations of HFCs also give rise to Asset Liability mismatches and interest rate risk exposures, it was decided to introduce an ALM system for HFCs, as part of their overall system for effective risk management in their various portfolios. Considering the recent international developments and the corresponding concerns regarding the enhanced systemic risk associated with the activities of the HFCs, NHB has revised the guidelines.

2. **Applicability**

This Policy shall be effective on the Company on achieving asset size of INR 100 Crores.

3. **Reporting**

The periodicity of the Statement of short term dynamic liquidity shall be quarterly and that of Statement of structural liquidity and Interest rate sensitivity, half-yearly. The quarterly statement shall be submitted within 10 days of the close of the quarter to which it relates and half yearly statements within 20 days of the close of the half year to which they relate to NHB by FHFPL once it meets the criteria of asset base of Rs. 100 crore (whether accepting / holding public deposits or not) as per the audited balance sheet.

4. **Additional Disclosures in balance Sheet**

Further, FHFPL shall disclose the following particulars in its Balance Sheet from the year ending relating to:

i. Capital to Risk Assets Ratio (CRAR),
ii. Exposure to real estate sector, both direct and indirect; and
iii. Maturity pattern of assets and liabilities.

5. HFCs are exposed to credit and market risks in the normal course. With liberalization in Indian financial markets over the last few years and growing integration of the domestic markets with external markets, the risks associated with the operations of an HFC have become complex and large, requiring strategic management. HFCs are operating in a fairly deregulated environment and are required to determine on their own, interest rates on advances and

deposits, subject to the ceiling on maximum rate of interest they can offer on deposits, on a dynamic basis. The interest rates on investments of HFCs in government and other securities are also market related. Intense competition for business involving both the assets and liabilities has brought pressure on the managements of HFCs to maintain a good balance amongst spreads, profitability and long-term viability. These pressures call for structured and comprehensive measures and not just *ad hoc* action. The managements of HFCs have to base their business decisions on a dynamic and integrated risk management system and process driven by corporate strategy. HFCs are exposed to several major risks in the course of their business - credit risk, interest rate risk, liquidity risk, operational risk etc. It is, therefore, FHFPL has introduced effective risk management systems to address the issues relating to interest rate and liquidity risks.

6. The ALM&RM policy of FHFPL has been framed to address these risks in a structured manner by upgrading its risk management and adopting more comprehensive Asset-Liability Management (ALM) practices than has been done hitherto. ALM, among other functions, is also concerned with management of risks and provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity and interest rate risks of an HFC that need to be closely integrated with the HFC's business strategy. It involves assessment of various types of risks and altering the asset-liability portfolio in a dynamic way in order to manage risks.

7. This ALM&RM policy of FHFPL lays down broad guidelines for the company in respect of systems for management of liquidity and interest rate risks which forms part of the ALM function. The initial focus of the ALM function would be to enforce the discipline of market risk management viz. managing business after assessing the market risks involved. The objective of ALM&RM policy of FHFPL should be to evolve into a strategic tool for effective management of the company.

8. The ALM process rests on three pillars:

- ALM Information System
    - Management Information Systems
    - Information availability, accuracy, adequacy and expediency
- ALM Organization
    - Structure and responsibilities
    - Level of top management involvement
- ALM Process
    - Risk parameters
    - Risk identification
    - Risk measurement
    - Risk management
    - Risk policies and tolerance levels

9. ALM Information Systems

9.1 As the pre-requisite for putting in place the ALM System is a strong Management Information System (MIS), for a quick analysis and consolidation of the data, FHFPL would computerize the MIS and make use of specialized software for managing the assets and liabilities with respect to the maturity mismatches and the various risks associated with such mismatches.

9.2 ALM of FHFPL would be supported by its management philosophy that clearly specifies the risk policies and tolerance limits. This framework would be built on sound methodology with necessary supporting information system as the central element of the entire ALM exercise is the availability of adequate and accurate information with expedience. In the ALM&RM policy of FHFPL, information is the key to the ALM process. There are various methods prevalent world-wide for measuring risks. FHFPL would adopt a suitable method of these.

10. ALM Organization

10.1 a) For successful implementation of the risk management process FHFPL would require strong commitment on the part of the senior management in FHFPL, to integrate basic operations and strategic decision making with risk management. The Board of Directors of FHFPL (the Board) will have overall responsibility for management of risks and will decide the risk management policy of FHFPL and set limits for liquidity, interest rate, exchange rate and equity price risks.

b) The Asset-Liability Committee (ALCO) will consist of its senior management including the Chief Executive Officer (CEO). ALCO will be responsible for ensuring adherence to the limits set by the Board as well as for deciding the business strategy of FHFPL (on the assets and liabilities sides) in line with the budget of FHFPL and decided risk management objectives.

c) The ALM Support Groups of FHFPL will be consisting of operating staff and they will be responsible for analyzing, monitoring and reporting the risk profiles to the ALCO. The staff should also prepare forecasts (simulations) reflecting the impact of various possible changes in market conditions on the balance sheet and recommend the action needed to adhere to HFC's internal limits.

10.2 The ALCO of FHFPL is a decision-making unit responsible for integrated balance sheet management from risk-return perspective including the strategic management of interest rate and liquidity risks. The business and the risk management strategy of FHFPL will ensure that it operates within the limits/parameters set by the Board. The business issues that the ALCO of FHFPL would consider will, *inter alia*, include product pricing for both deposits and advances, desired maturity profile and mix of the incremental assets and liabilities, prevailing interest rates offered by other peer HFCs for similar services/product, etc. In addition to monitoring the risk levels of FHFPL, the ALCO should review the results of and progress in implementation of the decisions made in the previous meetings. The ALCO would also articulate the current interest rate view of FHFPL and base its decisions for future business strategy on this. In respect of the funding policy, for instance, its responsibility would be to decide on the source and mix of liabilities or sale of assets. Towards this end, ALCO of FHFPL will have to develop a view on future direction of interest rate movements and decide on funding mixes between fixed vs. floating rate funds, wholesale vs. retail funds, money market vs. capital market funding , domestic vs. foreign currency funding, etc. ALCO of FHFPL will hold meetings at least once in three months.

10.3 Composition of ALCO

The ALCO of FHFPL will comprise of four members including the Managing Director of FHFPL. To ensure commitment of the Top Management and timely response to market dynamics, the CMD of FHFPL will head the Committee. Three members of ALCO will be selected from out of the Chiefs of Investment, Credit, Resources Management or Planning, Funds Management/ Treasury, International Business and Economic Research Departments. In addition, the Head of the Technology Division will be an invitee for building up of MIS and related computerization.

10.4 Committee of Directors

The Management Committee of the Board or any other Specific Committee constituted by the Board should oversee the implementation of the ALM system and review its functioning periodically.

10.5 ALM Process

The scope of ALM function can be described as under:

- Liquidity risk management
- Management of market risks
- Funding and capital planning
- Profit planning and growth projection
- Forecasting and analyzing 'what if scenario' and preparation of contingency plans

This policy is intended mainly to address the Liquidity and Interest Rate risks of FHFPL.

11. Liquidity Risk Management

11.1 Measuring and managing liquidity needs are vital for effective operation of HFCs. By assuring an HFC's ability to meet its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. The management of FHFPL will measure not only its liquidity positions on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. Experience shows that assets commonly considered to be liquid, such as Government securities and other money market instruments, could also become illiquid when the market and players are unidirectional. Therefore liquidity has to be tracked through maturity or cash flow mismatches. For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as a standard tool. The format of the Statement of Structural Liquidity is given in Annex I.

11.2 The Maturity Profile, as detailed in Appendix I, could be used for measuring the future cash flows of FHFPL in different time buckets. The time buckets may be distributed as under:

1. 1 day to 14 days
2. Over 14 days to one month
3. Over one month and upto 2 months
4. Over 2 months and upto 3 months
5. Over 3 months and upto 6 months
6. Over 6 months and upto 1 year
7. Over 1 year and upto 3 years
8. Over 3 years and upto 5 years
9. Over 5 years and upto 7 years
10. Over 7 years and upto 10 years
11. Over 10 years

11.3 Alternatively, FHFPL may also follow the concept of Trading Book which is as under:

1. The composition and volume are clearly defined;
2. Maximum maturity/duration of the trading portfolio is restricted;
3. The holding period does not exceed 90 days;
4. Cut-loss limit(s) are prescribed;
5. Product-wise defeasance periods (i.e. the time taken to liquidate the position on the basis of liquidity in the secondary market) are prescribed;

FHFPL may maintain such 'Trading Books' consisting of securities that comply with the above standards may show the trading securities under “1 day to 14 days”, “Over 14 days to one month”,"over one month and upto 2 months" and "over 2 months and upto 3 months" buckets on the basis of the defeasance periods. The Board/ALCO of FHFPL will approve the volume, composition, maximum maturity/duration, holding/defeasance period, cut loss limits, etc., of the 'Trading Book’. The remaining investments should also be classified as short term and long term investments as required under Prudential Norms.

11.4 A copy of the policy of FHFPL on treatment of the investment portfolio for the purpose of ALM and approved by their Board/ ALCO will be forwarded to NHB.

11.5 Within each time bucket there could be mismatches depending on cash inflows and outflows. While the mismatches up to one year would be relevant since these provide early warning signals of impending liquidity problems, the main focus should be on the short-term mismatches viz., “1 day to 14 days” and “Over 14 days to one month”. FHFPL will monitor cumulative mismatches (running total) across all time buckets by establishing internal prudential limits with the approval of the Board/ Management Committee. The mismatches (negative gap) during “1 day to 14 days” and “Over 14 days to one month”, in normal course, should not exceed 15 per cent of the cash outflows in each time bucket.

11.6 The Statement of Structural Liquidity (Annex I) will be prepared by placing all cash inflows and outflows in the maturity ladder according to the expected timing of cash flows. A maturing liability will be a cash outflow while a maturing asset will be a cash inflow. While determining the likely cash inflow/ outflows, FHFPL will be required to make a number of assumptions according to its asset-liability profiles. While determining the tolerance levels, FHFPL will take into account all relevant factors based on its asset-liability base, nature of business, future strategies, etc. FHFPL has noted that the NHB is interested in ensuring that the tolerance levels are determined keeping all necessary factors in view and further refined with experience gained in Liquidity Management.

11.7 With a view to monitor its short-term liquidity on a dynamic basis over a time horizon spanning from 1 day to 6 months, FHFPL will estimate its short-term liquidity profiles on the basis of business projections and other commitments for planning purposes. An indicative format (Annex II) for estimating Short-term Dynamic liquidity is enclosed.

12. <u>Currency Risk</u>

Floating exchange rate arrangement has brought in its wake pronounced volatility adding a new dimension to the risk profile of HFCs' balance sheets having foreign assets or liabilities. The increased capital flows across free economies following deregulation have contributed to increase in the volume of transactions. Large cross border flows together with the volatility may render the HFCs’ balance sheets vulnerable to exchange rate movements.

13. <u>Interest Rate Risk</u>

13.1 The operational flexibility given to HFCs in pricing most of the assets and liabilities imply the need for the financial system to hedge the interest rate risk. Interest rate risk is the risk where changes in market interest rates might adversely affect an HFC's financial condition. The immediate impact of changes in interest rates is on HFC's earnings (i.e. reported profits) by changing its Net Interest Income (NII). A long-term impact of changing interest rates is on HFC's Market Value of Equity (MVE) or Net Worth as the economic value of the assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates. The interest rate risk when viewed from these two perspectives is known as 'earnings perspective' and 'economic value perspective', respectively. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM). There are many analytical techniques for measurement and management of interest rate risk. To begin with, the traditional Gap analysis is considered to be a suitable method to measure the interest rate risk in the initial phase of the ALM system. It is the intention of NHB to move over to the modern techniques of interest rate risk measurement like Duration Gap Analysis, Simulation and Value at Risk over time when HFCs acquire sufficient expertise and sophistication in acquiring and handling MIS. FHFPL has accepted the intention of NHB in this regard.

13.2 The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets including off-balance sheet positions. An asset or liability is normally classified as rate sensitive if:

1. within the time interval under consideration, there is a cash flow;
2. the interest rate resets/re-prices contractually during the interval;
3. it is contractually pre-payable or withdrawable before the stated maturities;
4. It is dependent on the changes in the Bank Rate by RBI.

13.3 The Gap Report should be generated by grouping rate sensitive liabilities, assets and off-balance sheet positions into time buckets according to residual maturity or next re-pricing period, whichever is earlier. All investments, advances, deposits, borrowings, purchased funds, etc. that mature/re-price within a specified time-frame are interest rate sensitive. Similarly, any principal repayment of loan is also rate sensitive if the company expects to receive it within the time horizon. This includes final principal repayment and interim installments. Certain assets and liabilities carry floating rates of interest that vary with a reference rate and hence, these items get re-priced at pre-determined intervals. Such assets and liabilities are rate sensitive at the time of re-pricing. While the interest rates on term deposits are generally fixed during their currency, the tranches of advances are basically floating. The interest rates on advances could be re-priced any number of occasions, corresponding to the changes in PLR.

The interest rate gaps may be identified in the following time buckets:

1. 1 day to 14 days
2. Over 14 days to one month
3. Over one month to 2 months
4. Over 2 months to 3 months
5. Over 3 months to 6 months
6. Over 6 months to 1 year
7. Over 1 year to 3 years

8. Over 3 years to 5 years
9. Over 5 years to 7 years
10. Over 7 years to 10 years
11. Over 10 years
12. Non-sensitive

The various items of rate sensitive assets and liabilities and off-balance sheet items may be classified into various time-buckets, as explained in Appendix II and the Reporting Formats for short term dynamic liquidity and interest rate sensitivity are given in Annex II and Annex III, respectively.

13.4 The Gap is the difference between Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) for each time bucket. The positive Gap indicates that it has more RSAs than RSLs whereas the negative Gap indicates that it has more RSLs. The Gap reports indicate whether the institution is in a position to benefit from rising interest rates by having a positive Gap (RSA > RSL) or whether it is in a position to benefit from declining interest rates by a negative Gap (RSL > RSA). The Gap can, therefore, be used as a measure of interest rate sensitivity.

13.5 FHFPL will set prudential limits on individual Gaps in various time buckets with the approval of the Board/Management Committee. Such prudential limits should have a relationship with the Total Assets, Earning Assets or Equity. In addition to the interest rate gap limits, FHFPL will set the prudential limits in terms of Earnings at Risk (EaR) or Net Interest Margin (NIM) based on their views on interest rate movements with the approval of the Board/ALCO.

14. General

14.1 The classification of various components of assets and liabilities into different time buckets for preparation of Gap reports (Liquidity and Interest Rate Sensitivity) as indicated in Appendices I & II is the benchmark. FHFPL will endeavor to reasonably estimate the behavioral pattern of various components of assets and liabilities on the basis of past data/empirical studies and will classify them in the appropriate time buckets, subject to approval by the ALCO/Board. A copy of the note approved by the ALCO/Board will be sent to the NHB.

14.2 The present framework does not capture the impact of premature closure of deposits and pre-payment of loans and advances on the liquidity and interest rate risks profile of HFCs. The magnitude of premature withdrawal of deposits during the periods of volatility in market interest rates is quite substantial. FHFPL will therefore evolve suitable mechanism, supported by empirical studies and behavioral analysis, to estimate the future behavior of assets, liabilities and off- balance sheet items to changes in market variables and estimate the probabilities of options.

14.3 A scientifically evolved internal transfer pricing model by assigning values on the basis of current market rates to funds provided and funds used is an important component for effective implementation of ALM System. The transfer price mechanism can enhance the management of margin i.e. lending or credit spread, the funding or liability spread and mismatch spread. It also helps centralizing interest rate risk at one place which facilitates effective control and management of interest rate risk. FHFPL will follow a well defined transfer pricing system also provide a rational framework for pricing of assets and liabilities.

RISK MANAGEMENT POLICY

1. **Preamble**

The Company being engaged in the business of Housing Finance Company ("HFC") is exposed to various kinds of risks i.e. credit risk, interest rate risk, liquidity risk, market risk, operational risk, sectoral and transactional risk. The Board of Directors of the Company has adopted the following Policy which encompasses practices relating to identification, assessment, monitoring and mitigation of various kinds of risks to the business of the Company. This Policy sets out the risk management, structure, framework and risk philosophy of the Company commensurate with the nature of its business.

This Policy has been framed in accordance with the Master Direction - Non-Banking Financial Company - Housing Finance Company (Reserve Bank) Directions, 2021 ("HFC Master Directions") read with the guidelines laid down by the National Housing Bank ("NHB") through its circular No. NHB(ND)/HFC(DRS-REG)/ALM/35/2010 dated October 11, 2010.

2. **Objectives:**

1. To identify the various types of risks involved in the business depending upon the nature of transaction or type of product or service.

2. To suggest the methods of risk measurement i.e. the estimation of the size, impact and potential loss under different scenarios.

3. To specify risk controls and mitigation measures to minimize the impact arising from various kinds of risks.

4. To ascertain the risk taking capacity of the HFC depending upon the nature of its size and operations.

5. To ensure compliance with the regulatory provisions on risk management framework as set by the Reserve Bank of India/ National Housing Bank.

6. To ensure healthy assets quality by application of various risk management techniques in a timely manner.

3. **Definitions:**

i) "**Board**" means Board of Directors of the Company.

ii) "**Company**"/ "**FHFPL**" means Family Home Finance Private Limited.

iii) "**Directors**" mean individual Director or Directors on the Board of the Company.

iv) "**Policy**" means Risk Management Policy.

v) "**RMC**" means Risk Management Committee of the Company.

vi) "**RBI**" means Reserve Bank of India.

Wherever appropriate in this Policy, a singular term shall be construed to mean the plural where necessary and a plural term the singular. Similarly, any masculine term shall also be construed to mean the feminine or any other gender and vice versa.

Words or phrases not defined above or anywhere in this Policy shall have same meaning ascribed to them under the Act or Circulars notified by the RBI/ NHB from time to time.

4. **Risk Governance Structure And Risk Management**:

The Board of Directors of the Company shall be responsible for the overall governance and oversight of the risk management framework adopted by the Company.

The Risk Management Committee shall ensure active monitoring and execution of the risk management practices, procedures and strategies for timely detection and effective handling of all kinds of associated risks.

Further the Asset Liability Management Committee (ALCO) and the Audit Committee shall also play a vital role in the overall risk management system of the Company related to the areas of functions falling within the role and responsibilities of the respective committees.

The synergy between the Risk Management Committee and aforementioned committees will help the organization identify the areas of critical risk faced by the Company and measures required to mitigate the same.

Risk Management Committee:

Composition:

The Board of the Company has constituted a Risk Management Committee for oversight of the risk management function and framework of the Company. The Committee shall comprise of the Chief Executive Officer and two directors (with one independent director) of the Company as its members and the Chief Compliance Officer and the Chief Financial Officer of the Company can act as its invitees.

Company Secretary shall be secretary of the Committee.

Frequency of Meeting:

RMC shall meet at such intervals as may be required, with atleast one meeting during each quarter. The committee shall report to the Board of the Company and its findings shall be placed at the subsequent meeting of the Board.

Roles and Responsibilities of RMC:

i) Identification, monitoring and measurement of the risk profile of the Company (including market risk, operational risk, sectoral and transactional risk);

ii) Overseeing its integrated risk measurement system;

iii) Review of the returns/ reports filed with NHB and periodic investment portfolio;

iv) Evaluating the overall risks faced by the HFCs;

v) Ensure that appropriate training on money laundering and terrorist financing to employees/ staff is being carried out whenever required;

vi) To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;

vii) To keep the Board informed about the nature and content of its discussions, recommendations and actions to be taken.

viii) Perform such other act, including the acts and functions as stipulated by the RBI, NHB and any other regulatory authority, as prescribed from time to time.

ix) To oversee enterprise level operational risk and mitigation plans.

x) To oversee the effectiveness of the Information and Communication Technology risk management through the designated committee.

xi) To ensure root cause analysis, after any disruption to a business service with emphasis on critical service.

Audit Committee:

As the primarily responsibility of the Audit Committee is to ensure the accuracy and effectiveness of financial reporting & disclosures as well as laying down of an internal control function. The Audit Committee also plays an important role to arrive at risk categorization of customers from KYC and credit perspective on the basis of KYC-AML checks performed by the Company. The Committee also deals with various external auditors viz. statutory, secretarial, information system auditor to identify, asses, evaluate and mitigate risks arising in their respective audit functions.

In view of the above, the Audit Committee plays an important role in the entire Risk Management Framework of the Company.

5. Risks Identification and Mitigation:

1) Credit Risks:

Risk Identification:

Credit risk is the risk which arises from repayment default by the borrowers and other counterparties or the risk associated with the decline in the credit worthiness of the borrower increasing the possibility of default on the part of the customer. Since the Company being a HFC, the credit advanced by the Company is secured primarily against housing properties. In the event of default by the borrower the HFC may not be able to realize the full value of its collateral or there can be a delay in realizing the value of the collateral due to things such as lengthy legal proceedings against the defaulting borrowers and/ or security providers, stagnation or reduction in market value of collateral. Default on the part of the borrower to repay the credit facility coupled with inability of the Company to realize the full value of the collateral could result in an increase of non-performing assets of the Company which in turn can have an impact on its overall profitability.

Risk Mitigation:

The presence of a strong credit risk management process is imperative for maintaining a good portfolio quality of the Company. Key elements of the credit risk management primarily includes a structured and clearly laid out credit approval mechanism supported by strong internal procedures and processes, effective staff training programs, legal and technical due diligence of prospective customers, effective credit monitoring and robust credit risk management strategy at a senior management level.

2) Market Risks:

Risk Identification:

Market risks is the risks associated with the markets/ industry in which the Company operates, market practices adopted by the Company in terms of charging rate of interest, service standards, presence of other players in the market that can potentially have an impact on the competitive advantage of the Company. There are certain inherent characteristics associated with market risks in the form of competitive structure, technological landscape prevailing in the market, impact of changes in the economic and regulatory environment on the different elements of the market. The market of affordable housing is very huge in India as per study and it can support vast number of players, hence a HFC is constantly exposed to different kinds of market risks.

Risk Mitigation:

To regularly review the business model and market practices adopted by the Company depending upon the areas in which it is operating, to ensure practices followed by the Company are fair, reasonable and transparent in terms of the services offered and thereby enabling the Company to gain an edge over its competitors in the market. To keep a close watch on various developments in the market and accordingly tweak its business model to keep Company's foothold in the market intact and stay ahead of other players in the market.

3) Operational Risk:

Risk Identification:

Operational risks covers the risk which is inherent in the operations of the Company as a HFC and it mainly pertains to methodology used in the selection of appropriate customers, quality of services offered alongwith other support services, use of information technology and human resource employed in the conduct of its operations, physical security of its assets and other risks arising from disruptions in business operations. Adoption of ineffective and inadequate systems and processes, lack of proper checks and balances at different stages also has a potential to give rise to different kinds of operational risks.

Risk Mitigation:

To ensure that handling of critical business operations are entrusted to dedicated departments, who shall be responsible for maintaining the necessary checks and controls over the various processes. The operations staff shall independently carry out various functions like data entry, customer due diligence, perform necessary checks before disbursals, legal scrutiny and proper custody of property documents, post disbursements monitoring and the like. To put in place properly documented standard operating procedures to be followed for each kind of processes and to ensure its effective implementation. Such kind of independent scrutiny alongwith effective and transparent processes will not only increase the overall efficiency of the business operations but also quip the Company to effectively manage different kinds of operational risks. Further to imbibe essential controls at various levels of operations to ensure that no intentional or unintentional loopholes creep into the system.

4) Collateral Risks:

Risk Identification:

Collateral risk is the risk associated with the collateral/ securities availed by the Company. The Company being an HFC offers loans against the collateral of housing properties. Collateral risks is mainly the risks with respect to the uncertainty/ inability of the Company to enforce the securities obtained as a result of defective title of property documents, incorrect valuation of the property, lack of demand in the market decreasing the salability of the prescribed property. Due to which there may be a delay in the recovery of dues or the Company may not be in a position to recover its dues fully, which in turn might hamper its entire recovery process and also decrease the asset quality of its loan portfolio.

Risk Mitigation:

Collateral risk can be mitigated by using stringent legal documentation, proper verification of title deeds, thorough title investigation from the records of the sub-registrar with which the property is registered, taking into account the current market value to arrive at the realistic valuation of the property, presence of requisite authorizations and licenses in relation to the property, run essential checks to ensure that the customer has a clear title to the property offered free from any/ all kinds of charge/ mortgage/ hypothecation and encumbrance. The Company may avail the services of technical valuers, external legal advisors and other experts operating in their respective fields to ensure that property being offered as collateral is genuine in all respects.

5) **Strategic Risk**

Risk Identification:

This risk is related to the business strategy adopted by the Company in light of the prevailing economic and business environment in which operates. The risk is generally associated to adoption of unsuitable business strategies and/or adverse business decisions, being unresponsive to the changes in the external business environment resulting in the loss of business and earnings to the Company.

Risk Mitigation:

To mitigate strategic risk the management shall adopt a proactive approach towards changes in the prevailing economic and business environment and accordingly alter the business strategies after due consultation with the senior officials of the organization, so that adequate steps are taken in a timely manner. Further important strategic decisions may be referred to the Board/ Board Committee, consisting of eminent members with diversified experience in their respective fields, for intense deliberations, so as to ensure strategic decisions arrived at are in the best interest of the Company.

6) **Reputational Risk:**

Risk Identification:

Reputational risk is related to adverse perception of the image of 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 business practices, regulatory actions, customer dissatisfaction and complaints leading to negative publicity. It may impact the Company's reputation and branding as perceived by multiple entities like the RBI, Central/ State/ Local authorities, banking industry and the customers. Reputation risk could also result in loss of revenues, diminished shareholder value and fines being levied by the relevant regulators.

Risk Mitigation:

Reputational risk can be mitigated by ensuring stringent compliance with fair practices code adopted by the Company to ensure ethical practices are followed by the Company in the conduct of its operations, a well laid out grievance redressal mechanism to resolve customer grievances in an effective and time bound manner, not to resort to coercive recovery practices, follow a stringent selection criteria with respect to employees, vendors and other associates to ensure people with integrity and proper repute are associated with the Company, specific clauses related to non-disclosure to be mentioned in contracts with employees and other vendors to prevent leakage of confidential/ incorrect information which might harm the reputation of the Company.

7) **Regulatory and Compliance Risk:**

Risk Identification:

The company is exposed to risks attached to various applicable statutes and regulations. It is the risk arising from non-compliance with the regulations stipulated by the RBI/ NHB and other regulatory authorities. 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.

Risk Mitigation:

The Company shall effectively and promptly respond to regulatory changes, maintain appropriate relationship with the regulators / authorities and improve the quality of in-house compliance. All reports, returns and disclosures stemming from regulations shall be submitted within the prescribed timelines to reflect the correct position. Compliance Certificate signed by the key managerial personnel of the Company certifying compliance with the applicable laws shall be placed before the Board on a quarterly basis, to keep them informed about the overall compliance function of the Company.

8) Human Resource Risk:

Risk Identification:

The success of any institution lies in the strength of its people. It is essential for a company to attract and recruit the right set of people, manage their monetary and non-monetary expectations so that they are able to contribute towards the growth of the Company. Non-adherence to these practices may result in high employee turnout, dissatisfaction among the employees, discontentment within the organization, lack of dedicated workforce, inability to retain skillful and talented employees which in turn can reduce the effectiveness of its operations and have an adverse impact on its business.

Risk Mitigation:

The ideal approach towards mitigating human resource risk is to lay down a well-defined HR Policy, which addresses all HR related aspects like recruitment, performance management, career progression, smooth separation and exits, employee grievance redressal, etc. Employees compensation are based on fair appraisal systems with the participation of the employee, shall lead to job contentment, peer comparison, benchmarking salaries and incentives with industry standards and take into consideration individual performance. To undertake various employees welfare programs and initiatives to retain talent and motivate employees on a regular basis.

6. Risk Appetite Statement

Risk appetite is about the risk taking ability of the Company and is a significant aspect of the entire risk management framework of the Company. The risk appetite statement shall suitably be designed such as to enable the organization to effectively manage various kinds of risks it might encounter towards achieving its goals and objectives. In view of the same the Board/ Board Committee needs to establish risk appetite statement of the Company and put in place a framework to effectively measure and monitor the risk appetite of the Company.

a) Points to be considered when setting Risk Appetite Statement:

The following points shall be considered while setting a risk appetite statement:
i) To keep organization goals and objectives in focus
ii) Company’s overall financial capacity
iii) Attitude towards risk management
iv) What risks are acceptable and what are not acceptable shall be clearly defined
v) Set limits and thresholds for each kind of risks
vi) To measure performance against each threshold/ limits of risk appetite.

b) Framework to Formulate Risk Appetite Statement:

Risk appetite statement shall be developed on the basis of a mix of quantitative and qualitative models of risk assessment. There are generally two approaches in developing a risk appetite statement top down and bottom up approach. However a more sophisticated approach to be followed is the top-down approach.

c) Risk Appetite Statement shall be developed in the following manner:

i) Take into account the Company perception towards various kinds of risks to be considered into the statement

ii) Factors such as goals and objectives of the Company, stakeholder’s expectations, regulatory environment and other factors.

iii) Detailed discussion with the top management to determine risk levels for various activities/ products of the Company.

iv) Selection of different types of risk dimensions to be included in the statement viz. Profitability, Earning, Stability, Capital Adequacy, Credit Risk, Operational Risk, Concentration Risk, Compliance Risk, etc.

v) Laying down key risks metrics against each risk dimension and determine the risk appetite for each metrics.

Risk Appetite Threshold/ Limits: (Quantitative Aspect)

S No.	Risk	Parameters	Threshold Limit
1	Credit Risk	Exposure to Top 20 Borrowers in lending business	less than 25% of AUM
		90+ DPD	Not more than 5% of AUM
		Loan to Value Ratio for housing loans	Not to exceed 90% of secured borrowers
		Average Ticket Size in lending business	Not more than 50 Lakhs
2	Concentration Risks	Exposure Norms	Single Borrower Exposure – 25% of Tier 1 Capital Single Group of Borrower's Exposure – 40% of Tier 1 Capital
3	Capital Risks	Leverage Ratio	To be maintained at 7%
		Capital Adequacy Ratio	To be maintained at 20%
4	Liquidity Risk	Cap on Borrowing Structure based on Product	Not more than 50% in any single borrowal product (other than TL) in case of outside borrowing
		ALM Mismatch	Cumulatively not more than 20% across time buckets
5	Sensitive Sector Risks	Exposure to Capital Markets	Not to exceed 10% of AUM
		Commercial Real Estate Exposure	Not to exceed 25% of AUM
6	Security Risks	Loan Against Property	Not to exceed 40% of AUM
		Loan against Securities	Not to exceed 10% of AUM
		Financing of Purchases (applications) for Mutual Funds (MF) Units	Not to exceed 10% of AUM
		Unsecured Lending	Not to exceed 15% of AUM

e) Risk Appetite (Qualitative Aspects)

i) Credit Risk: To include quality of borrowers profile, credit score and repayment behavior.

ii) Industry & Sectoral Risks: Exposure to high risk sectors and industries.

iii) Operational Risk: Efficiency of the internal process and procedures followed in reviewing and approving loan and investments proposals.

iv) Litigation & Disputes: Pending litigation and disputes that can hamper financial health and reputation of the Company.

v) Regulatory Risks: Risks arising out of changes in the applicable regulatory framework and country's economic conditions.

vi) Cyber Risks: Reliability of IT systems, introduction of new cyber threats and ability to keep pace with technological advancements.

The above risk appetite statement shall be monitored on a quarterly basis by the RMC. Any breaches in the same would be escalated through RMC to the Board and appropriate measures would be taken to address the same.

7. REVIEW AND AMENDMENT

The Board shall review the Policy at yearly interval and suggest changes/ modifications in the Policy as may be required.

This Policy should always be read in conjunction with relevant provisions of HFC Master Directions and other directives and instructions, for the time being in force.

The Company shall reserve the right to review and make amendment to this Policy from time to time as it deems fit in accordance with the applicable laws, rules and regulations for the time being in force. In the event of any conflict between the provisions of this Policy and the HFC Master Directions or any other statutory enactments, the provisions of HFC Master Directions or statutory enactments shall prevail over this Policy.