INDIA HOME LOAN LIMITED

RISK MANAGEMENT POLICY

VERSION CONTROL

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I. INTRODUCTION

Organizations of all types and sizes face internal and external factors and influences that make it uncertain whether and when they will achieve their business objectives. The effect, this uncertainty has, on an organization's objectives is "RISK". In recent times all sectors of the economy have shifted focus towards the management of risk as the key to making organizations successful in delivering their objectives while protecting the interests of their stakeholders. Risk may be defined as events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the organization's business objectives. The exposure to the consequences of uncertainty constitutes a risk. Organizations that are most effective and efficient in managing risks to both existing assets and to future growth will, in the long run, outperform those that are less so. Simply put, companies make money by taking intelligent risks and lose money by failing to manage risk intelligently. Risk management is a holistic, integrated, structured and disciplined approach to managing risks with the objective of maximizing shareholder's value. It aligns strategy, processes, people & culture, technology and governance with the purpose of evaluating and managing the uncertainties faced by the organization while creating value.

What is Risk?
Risks are events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the organization's business objectives. The exposure to the consequences of uncertainty constitutes a risk.

Risk Management
Risk management Process can be defined as the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities.

Risk Management Committee (RMC)
Risk Management Committee is Board nominated committee consisting of Executive Directors, Treasury Manager and Chief Financial Officer. Currently the RMC is headed by an Executive Director.

II. PURPOSE OF THE POLICY

- The policy forms part of IHLL's internal control & Governance arrangements.

- The policy explains IHLL's approach to risk management, documents the roles & responsibilities of the Board/ Audit Committee/ Corporate Level Risk Management Committee etc.
- It also outlines the key aspects of the risk management process & identifies the reporting procedures.
- This policy shall operate in conjunction with other business and operating / administrative practices.

III. OBJECTIVES OF THE POLICY

The specific objectives of the Risk Management Policy are:

i. To establish a risk intelligence framework for the organization.
ii. To establish ownership throughout the Organization and embed risk management as in integral part of the business rather than a stand-alone system.
iii. To help the decision makers of the organization explicitly take account of uncertainty, the nature of that uncertainty, and work towards a solution to address it.
iv. To ensure that all the current and expected risk exposures of the organization are identified, qualitatively and quantitatively evaluated, analyzed and appropriately managed.
v. To enable compliance with the relevant legal and regulatory requirements and international norms.
vi. To assure demonstrable achievement of objectives and improvement of financial stability of the organization

IV. THE RISK MANAGEMENT FRAMEWORK

Risk management will protect and add value to the organization and its stakeholders through supporting the organization's objectives by improving decision making, planning and prioritization by comprehensive and structured understanding of business activity, volatility, and project opportunity/threat.

It will provide a framework that enables future activity to take place in a consistent and controlled manner. The framework will help in creating an environment in which risk management is consistently practiced across the Company and where Management can take informed decisions to reduce the possibility of surprises.

The components of risk management are defined by the company's business model and strategies, organizational structure, culture, risk category and dedicated resources. An effective risk management framework requires consistent processes for assessment, mitigation, monitoring and communication of risk issues across the organization. Essential to this process is its alignment with corporate direction and objectives, specifically strategic planning, and annual business planning processes. Risk management is a continuous and evolving process, which integrates with the culture of the Company. An effective Risk Management Framework comprises of:

- ♣ Risk management process; and
- ♣ Risk management organization structure

Risk management Process can be defined as the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities.

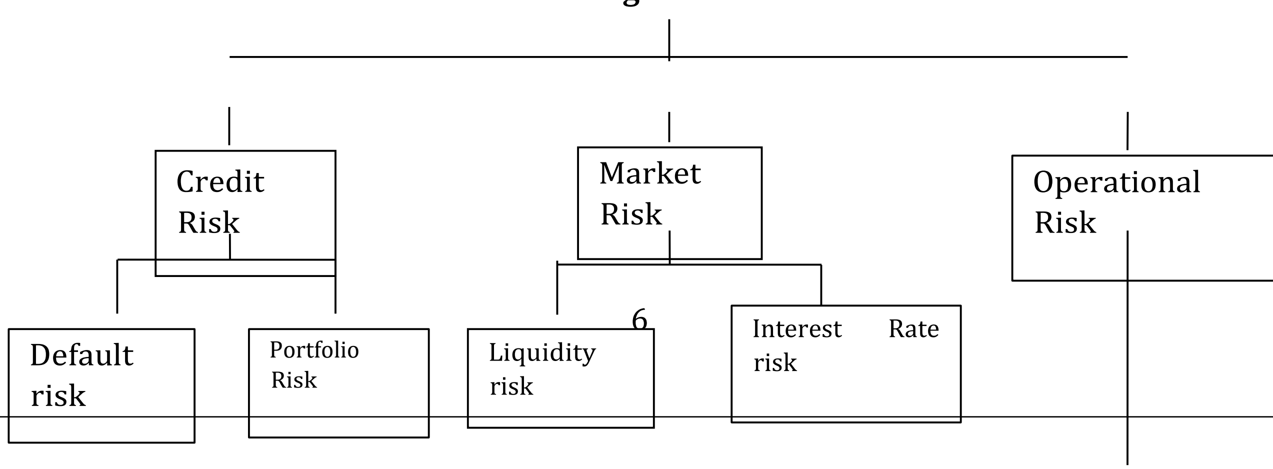
Risk Management Organization Structure: The primary responsibility of laying down risk parameters as well as establishing risk management and control system rests with the Board of Directors.

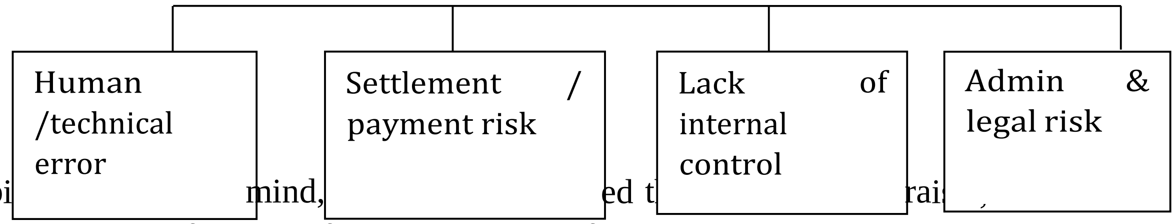
V. CREDIT RISK MANAGEMENT

IHLL seeks to establish and maintain a sound and stable portfolio of housing loans, LAP and project loans. In achieving this objective, the overriding emphasis is on the quality of the portfolio, which determines the integrity of earnings and capital. IHLL had always focused on 'investment quality" loans where the borrower is able and willing to repay the loan and the property constitutes sufficient security for the mortgage.

As housing loans are of long-term nature, the significant challenge is that of understanding and managing risk. Recovery of loan depends primarily upon the quality of loan sanctioned and the integrity of the borrower. IHLL exercise due diligence and care at the time of appraisal to take care of credit risk, operational risk and market risk. To summarise, the following is tabled.

Risks affecting credit decisions

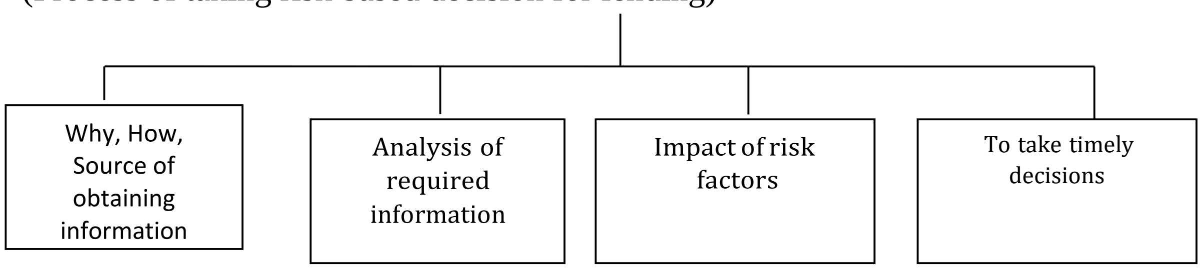




Keepi ... mind, ... ed t ... rai legal system, verification of the credentials of the borrower(s), property valuation by independent agencies and close follow up mechanism. It is in the fitness of things that we in IHHL adopt following systems and procedures, to understand, evaluate, operationalise and mitigate the above risks.

CREDIT RISK & MANAGEMENT

(Process of taking risk based decision for lending)



In simple terms, credit risk is defined as the possibility of losses closely associated with diminution in the credit quality of borrowers and arises out of default due to inability or unwillingness of a customer to meet his commitments.

IHLL adopts a very healthy appraisal system and focuses on Credentials, Capacity, Collateral and Capital.

CREDENTIALS

- Obtaining personal information.
- Verification of the information
- Valuation by independent agencies
- The above ensures KYC norms to a great extent and we attach highest importance to this aspect.
- Evaluating the standard of living.
- Area in which borrower lives.
- Easy traceability.
- Assessing the loan quantum

CAPACITY

- ❖ Stability of employment or Self employment
- ❖ Verification of most recent pay slips/ Form -16/ Income tax returns/ Bank statement
- ❖ Employment/ Income by way of salary/cash salary / Income tax returns are verified thoroughly
- ❖ Two important ratios considered by us to determine the loan amount and repayment capacity of the borrower are :
    a) Instalment-to-Income ratio
    b) Total obligation-to-Income Ratio
- ❖ Measurement of risk through credit rating /Scoring (CIBIL Report)
- ❖ Consideration to co-applicants profile

COLLATERAL

- ❖ Technical report is obtained from qualified/registered valuers.
- ❖ For high value loans (Above INR 25 Lakhs), two independent valuer's technical reports are obtained.
- ❖ Marketability of the property in terms of the locality.
- ❖ Loan to value ratio is assessed and ensured that LTV is not exceeding certain level as decided by the management time to time
- ❖ Age of property is considered up to a maximum of 20-25 years.
- ❖ It is always insisted by the company that the loanee resides in the house and he is a single property owner.
- ❖ Verification of approved building plan with the competent authority.

CAPITAL

- ❖ Margin money put in by the borrowers
- ❖ Evaluation of credit worthiness

VI. OPERATIONAL RISK & MANAGEMENT

Operational risk is synonymous with settlement or payment risks and business interruption, administrative and legal risks. It arises from human or technical error. It also includes acts of omission or commission such as ineffectiveness or break down in internal control and lapses in internal audit systems leading to frauds, error or failure in performance in a timely manner.

- ❖ A time tested procedure right from appraisal to disbursement stage has been established to avoid any technical or human error.
- ❖ Review is periodically done to identify, assess, monitor and control the various facets of operations.
- ❖ The periodical review ensures risk limitation and advises control strategies, in the light of their overall risk appetite.
- ❖ We are engaging empanelled Lawyers & Registered Property Valuers to give opinions / reports for better accountability.

VII. LOAN APPRAISAL AND CREDIT PROCESSING

- ❖ The loan applications are sourced by Business Development team who are employees of the company and empanelled DSAs who are getting empanelled after an excessive quality check and verification.
- ❖ Log in of loan proposals is system driven to avoid duplication.
- ❖ The genuineness of all the bank accounts is verified by credit team
- ❖ Independent qualified technical engineer/valuer visits the property and gives report
- ❖ In property inspection, the recovery/credit/Business Development personnel ensures that the property is having good marketability at a future date, if and when a need arises.
- ❖ A cross check is also made with the EB card along with tax receipts to ensure the genuineness of the ownership of the existing properties.
- ❖ Maintaining LTV ration as per NHB/ RBI norms
- ❖ Before sanction, CERSAI report is generated to adduce more strength to the legal scrutiny.
- ❖ Company periodically conducts FPC workshops for both the Business Development and Credit Teams. The importance of KYC / AML / adherence is stressed to ensure 100% compliance. Training on Credit processes and procedures is also given to enhance the quality of credit appraisal.
- ❖ Similarly frequent interaction and discussions with all Branch managers will help the company to revise the credit policy norms and present it to the Board. This will certainly bring perceptible improvement in our functioning.
- ❖ All title documents for title flow are verified
- ❖ Loans are not sanctioned for speculative purposes. Hence company does not encourage loans for land purchases
- ❖ As part of better Corporate Governance all sanctions are reported to a level higher than the approving authorities
- ❖ To meet any unforeseen adverse development for the property and /or to the personnel, the company educates the customer on the importance of insuring self and the property and ensures that insurance of the property and the life of the applicant.

Accounting and Financial Management

Consistent and fair accounting policies are a prerequisite for financial discipline & transparency. By virtue of being incorporated under the Companies Act, 1956, and now regulated under the Companies Act, 2013, IHLL is required to follow the Accounting Standards prescribed by the Institute of Chartered Accountants of India. Further, the NHB/RBI has also issued prudential norms Directions / Guidelines for HFCs specifying the accounting methods to be used for income recognition, provisioning for bad and doubtful advances, and valuation of investments.

Deviations from the Generally Accepted Accounting practices are noted and the financial statements of the HFC are adjusted to reflect the impact of such deviations.

Accordingly, IHLL has framed its accounting policies in tune with the Accounting Standards of ICAI and other Generally Accepted Accounting practices which reflects in its books.

- ❖ Our effective control on Finance management improves the profitability of the company which is strengthened by high net interest margin due to higher yield on our portfolio.
- ❖ In order to evaluate the performance of the company, file audit and Review meeting are conducted, as and when required, which includes ALCO meeting wherein the financial bearing aspects are discussed.
    - ➢ Investment decision
    - ➢ Un-availed Term Loans status reviewed
    - ➢ Revision in Lending Interest Rates in tandem with the NIM
    - ➢ Repayment schedules of Term Loans compared to the repayment schedule of the loan borrowers are discussed to ensure there is no gap in the financing.
- ❖ Balances in current accounts are reviewed closely and appropriate investment decisions are taken to ensure maximum returns. Investment in Fixed Deposits with Banks and other short term liquidity investment in high return low risk Mutual Funds are explored from time to time. Placing fixed deposit with banks on periodical basis.
- ❖ Review of cash holding position and cash –in-transit amounts across all branches to ensure the sums transacted are within the policy limits.
- ❖ Focused attention on controlling expenditure at all levels and in all activities.

Recovery System

- ❖ A vibrant system in the procedure of follow up of defaulting loan accounts is in place to mitigate any adverse impact on the funds lent.
- ❖ The company is able to recover hard core NPA accounts through SARFAESI Act.
- ❖ Watch category account status is reviewed for all loans periodically from the date of disbursement
- ❖ Staff Accountability formats are in place to mitigate non-performing assets by following up on the deficiencies, if any.

Risk emanating from the credit appraisal, operations, finance, recovery and information technology is monitored and appropriate actions are taken not only for the purpose of regulatory compliance but also to analyse and take effective steps to protect the critical business functions.

Operating Environment

The operating environment has a significant bearing as it can impact its growth prospects and asset quality quite considerably. The operating environment mostly depends upon the overall economic conditions, outlook on real estate sector, trends in demand and price movements in real estate, and the regulatory environment.

Regulatory changes can significantly impact (either positively or negatively) credit losses. Presently the Regulatory control has been passed on to RBI and for instance the cap on borrowings have been reduced to 12 times from 16 times of NOF. Similarly the establishment of the credit information bureau has helped to take informed credit decisions, while the coverage under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) makes recovery of real estate backed loans more efficient . Therefore, coverage under SARFAESI is considered a credit positive.

Product Mix and Competitive Position

Intensity of competition has a significant bearing on the credit profile, given that the prevailing or anticipated competitive intensity would influence the company's growth prospects, earnings and management strategy. If any leading market player initiates certain promotional schemes, they could impact the competitive position of the other players (e.g. teaser rate loans). The attractiveness of the segment for potential competition depends upon several factors including growth potential, entry barriers and risk - adjusted returns. The product and customer mix of the company and the ability of the company to manage the product lines are significantly important factors. IHLL would mainly cater to the EWS/LIG & MIG segment covered under Affordable Housing Scheme and PMAY to be eligible for CLSS grant with loan tag between Rs.1 lakh to Rs.15 lakh. However, it will be open for the Management to bring in different product mix as and when the market demands as per the change in policy of the Government, RBI & NHB as well as Banks and other FIs.

Franchise and Size

IHLL's franchise strength determines its capacity to grow while maintaining reasonable risk-adjusted returns, and to maintain resilience of earnings, thereby facilitating predictability of its future financial performance.

IHLL has a broad and effective DSA policy which may undergo changes depending upon the market and the performance of the DSAs.

As for size, typically it is in relation to the loan mix; size which has a bearing on the company's competitive position, diversity, credit risk concentration, stability of earnings, and financial flexibility.

VIII. OWNERSHIP STRUCTURE

Ownership structure have a key influence on the credit profile as a strong promoter and a strategic structure fit can benefit an HFC's earnings, liquidity and capitalisation, and hence its credit profile.
IHLL has an impressive ownership structure which include, among others: the credit profile of the promoter, shareholding pattern, operational synergies, involvement of promoters and their level of commitment, building up of an effective second line of professional management and track record in providing capital and debt fund support.

Governance Structure

An appropriate Governance structure is important to ensure that the powers given to line managers are exercised in accordance with the established procedures, and that these procedures are in harmony with the broad policy guidelines and strategic objectives of IHLL.
IHLL has in place and should also ensure in future too that the Governance structure involves the structural aspects of the Board and Board level committees, and of the functioning of the various Board committees. The Governance structure should ensure admission of knowledgeable, experienced, committed and eminent personalities in its Board and Board level Committees.

IX. MANAGEMENT, SYSTEMS AND STRATEGY

Quality of management, systems and policies, shareholder expectations and the strategy followed to manage these expectations, and the accounting quality are the foundation stones on which IHLL's credit risk profile is built. The importance of these factors is even higher with a shorter track record, and/or with a changing business profile. Company's

competitive position is required to be stable (ability to change lending norms and/or yields), besides reliance on outsourcing, pace of growth and responsiveness to market changes, track record, and management experience remains the prime factor.
Some of the other factors which bear significant importance are:

- Experience and commitment of the promoter/management in the line of business.
- Attitude of the promoter/management to risk taking and containment.
- The IHLL's risk management policies
- Strength of the other companies belonging to the same group as the HFC
- The ability and willingness of the group to support IHLL through measures such as capital infusion, if required.

Risk management policies will have the impact of stress events on the liquidity, profitability, and capitalisation of the company. The process of risk profiling will also give a sight to the company's business sourcing practices (in - house vs. outsourced), besides its recovery and monitoring systems, the strategy and business plans along with the shareholders' expectations. Meeting shareholders' expectations is imperative.

Asset Quality
Asset quality plays an important role in indicating the future financial performance. IHLL's focus of asset quality should be on lifetime losses, variability in losses under various scenarios, the impact of likely credit costs on profitability, and the cushions available (in the form of capital or provisions) to protect the debt holders from unexpected deterioration in asset quality. As such the quality of the company's credit appraisal process and lending norms should be properly laid down. The riskiness of its loan mix (a company with focus on prime salaried customers vis-a-vis self-employed with low reported income would be less riskier, similarly a company with higher proportion of LAP, would be more riskier than company purely in salaried home loan segment), its risk appetite (the ideal loan mix the company intends to maintain), the availability of data to facilitate credit decision making, and its track record in managing its loan book through lifecycles. However, IHLL should be cautious about credit risk concentration, trend in delinquencies (adjusted for vintage of the book), Gross NPA percentage, Net NPA percentage, and Net NPAs in relation to Net Worth. Further, the extent of diversification is also an important indicator of asset quality. In assessing diversification, the factors generally looked at include loan mix, credit risk, portfolio granularity, geographical diversification, and borrower profile. However, IHLL's ability to manage diversification, especially in new geographies is a very important issue, just as management depth and the ability to adopt the skills and techniques needed to run different businesses.

Liquidity

Asset Liability mismatch is common in HFCs as the average tenor of assets (home loan tenor varying from 15 - 20 years) is longer than that of its liabilities. However the gaps vary depending on the funding mix and liquidity policy of the company. As such the liquidity profile, depends upon the company's policy on liquidity, the maturity profile of its assets and liabilities, the asset - liability maturity gaps, and the backups available to plug such gaps. This also focuses on the diversity of company's funding sources and its quality (i.e. availability of these sources in a stress situation).It is important to maintain an adequate liquidity profile for the smooth functioning of its funding activity (fresh asset creation) and to honour its debt commitments in a timely manner.

It is also important that IHLL should manage its interest rate risk since the same could impact its interest spreads and future profitability.

Capital Adequacy

Capital provides the second level of protection to debt holders (earnings being the first) and therefore its adequacy (in relation to the embedded credit, market, and operational risk) is an important criterion. Riskiness of the product and granularity of the portfolio are factors that have a significant bearing on the amount of capital required to provide the desired degree of protection to IHLL's debt holders. The requirement of risk capital varies with the concentration and the riskiness of the product mix.

IHLL is required to meet regulatory capital adequacy, besides the adjusted capital (in relation to managed portfolio) is also required to be seen to consider the internal capital generation and possible support from strong promoters while evaluating the adequacy of its risk capital .

IHLL is expected to maintain net worth in relation to total managed advances, and also needs to be monitored as regulatory risk weights for certain loans are lower and regulatory requirements keep changing. A higher percentage of Net worth will always be more favourable.

X. PROFITABILITY

An HFC's ability to generate adequate returns is important from the perspective of both its shareholders and debt holders. The purpose of future business projections are to assess the level of future earnings and the quality of earnings, which is carried out by looking closely at the building blocks: interest spreads, fee income, operating expenses, and credit costs. Profitability starts with the interest spreads (yields minus cost of funds) and the likely trajectory of the same in light of the changes in the operating environment, and its strategy. Fee income, inspection charges of properties allows for some diversification, which in turn can improve the resilience of earnings thereby improving the risk profile. The operating efficiency (operating expenses in relation to total assets, and cost to income ratio) needs to be studied continuously. Finally, the credit costs are estimated on the basis of the company's asset quality profile.

XI. LEGAL AUDIT

As a part of Risk Management policy, it is pertinent to have a Legal Audit. Legal Audit identifies the potential, present and prospective legal problems by the legal audit team, even in the initial stages of the commencement of the Operations /Collaboration arrangements, agreements signed mutually between the parties interested –which is entrusted with the Legal Audit of the Company for an introspection and thorough review / re-casting the Company's plans, operations and strategies to reduce if not to eliminate the potential and vulnerable legal risks / dangers the Company is prone to, with comprehensive coverage of the entire procedures, rules, regulations, and covenants, undertakings, agreements signed with proposed and existing borrowers / creditors etc. including the staff employed in the Company.