IndiaShelter Home Loans

Risk Management Policy

Approvals

Date	Approving Authority
October 27, 2023	Board of Directors
July 31, 2023	Board of Directors
May 09, 2023	Board of Directors
July 30, 2022	Board of Directors
November 02, 2021	Board of Directors

Version Control

Version	Date	Change History
2.0	October 27, 2023	No Change
1.4	July 31, 2023	No Change
1.3	May 09, 2023	Revision in risk triggers, as approved by Enterprise Risk Management Committee.
1.2	July 30, 2022	1. Aligned the bucket wise limits with ALM Policy 2. Risk appetite realigned for few of the triggers 3. Other changes as per the practices being followed
1.1	November 02, 2021	Reference of RBI HFC Directions included and updated rejection rate threshold to 70% from 60%.

Policy Owner: Risk Department

Disclaimer

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RISK MANAGEMENT POLICY

1. Introduction

India Shelter Finance Corporation Limited herein after referred as or “India Shelter” is a housing finance company registered with the National Housing Bank (NHB). The company extends housing loans and loans against property.

Lending business is exposed to various types of risks which, if not managed properly, could lead to disruption in business and impact the attainment of main objectives of the organization. Risk management works towards identifying and managing threats that could adversely impact the organization. This involves reviewing operations, processes & procedures of the organization, identifying potential threats and likelihood of their occurrence, and taking appropriate actions to address the most likely threats.

2. Objective

Risk Management Policy is the first step towards defining the risk management governance framework. It is to work as umbrella policy which shall govern the various components of the Risk Governance Framework. Accordingly, the Objectives of the Risk Management Policy are as listed below:

- Establish methodologies for identification, measurement and management of Risk
- To build profitable and sustainable business with conservative risk management approach
- To have risk management as an integral part of the organization’s business strategy.
- To undertake business activities that are well understood and within acceptable risk appetite.
- To manage the risks proactively across the organization.
- To adopt best risk management practices leading to shareholder value creation and increased stakeholder confidence.
- To develop a strong risk culture across the organization.

3. Target Audience

The members of the Board, RMC, ALCO, Risk Department, HODs and Auditors of the Company shall be the primary audience for this document. The document shall not be circulated beyond mentioned above individuals and other such individuals / institutions as may be reviewed by MD & CEO / CFO and CRO.

4. Applicability and Validity of the policy

- There shall be an annual review of the Policy.
- India Shelter with the approval of the Board of Directors, can at any time modify or amend, either the whole or any part of this Policy.

- Operational changes to the policy can be done with approval of MD & CEO and CRO.
- Statutory changes will be read mutatis mutandis in the policy document even if not amended
- Any clause or reference in the policy document which is contrary to or on violation of statutory or regulatory shall be deemed to be severed from the policy.
- Risk Management Department to remain the owner of the policy. Request for modification to the Policy can be initiated by any of the department or personnel on whom the Policy applies.

5. Key Elements of Risk Management Framework

The key elements of the company's Risk Framework include:

- Risk Strategy & Appetite: Long-term plan of how risk management effectively supports the achievement of the organization's goals
- Risk Governance: This Structure within which responsibility and accountability for risk management and oversight is defined, managed, and communicated throughout an organization
- Risk Culture: Values and behaviors of the entity that shape risk decisions
- Risk Assessment & Measurement: Qualitative and quantitative approaches, processes, tools and systems to identify, assess, and measure risks
- Risk Management & Monitoring: Management's response to manage, mitigate, or accept risk and create value using risk and control information to improve business performance across the enterprise
- Risk Reporting & Insights: Provide insight into the strengths and weaknesses of risk management activity and enhance the transparency of risks that could have an impact on achievement of objectives.
- Data and Technology: Includes development and deployment of risk management tools, software, database, technology architecture, and systems that support risk management activities.

6. Risk Governance Framework

Board of Directors shall be responsible for overall governance and oversight of core risk management activities. The governance structure in place to approve, modify and ensure effective operation of the Risk Management framework to be followed as per the Charter documents.

Few of the key details on the Governance Framework is as captured below. Anything beyond it shall be guided by the Charter document.

The Board:

- Approves the strategic plans and objectives for Risk Management framework for the company which is recommended by RMC and periodically (annual) reviews the Risk

Management framework
- Establish a management structure capable of implementing the company's Risk Management Framework
- Develops Policies and Procedures around risk which are consistent with the organization's strategy
- and risk appetite
- Takes steps to foster risk awareness
- Encourages organizational culture of risk adjusting awareness
- Take note and review the Audit Committee & Risk Management Committee minutes
- Any other matter requiring Board's approval

Risk Management Committee (RMC)

The Risk Management Committee will act within the ambit of duties assigned to it by the Board. The committee will be presented with detailed reviews of risk exposures across the company. Its functions will include the following:
- Reviews and approves compliance with risk policies, risk methodologies and tools, including assessments, reporting and loss event databases and monitors breaches / triggers of risk tolerance limits and recommendation of corrective action to mitigate the effects of risk whenever they arise above the level defined by the committee
- Reviews reports of significant issues prepared by internal risk oversight functional groups, including risk exposure related to specific issues, concentrations and limits excesses
- Nurtures a healthy and independent risk management function in the company Inculcates risk culture within the organization
- Establishment of an Risk Management framework and policy for the company and recommendation of the same to the Board of Directors for approval;
- Assessment of reputational, governance, business and strategic implications of risks identified and ensuring that these are reported and manage potential risks which may arise from regulatory changes or changes in the economic/political environment;

Asset Liability Management Committee (ALCO)

The work area of ALCO will be decided basis the power and authority delegated by Board of Directors more particularly in ALCO policy or Committee Charter.

Audit Committee

Audit Committee shall evaluate the internal financial controls and risk management systems on a Quarterly basis. The risk management responsibility for the Audit Committee will mainly be towards operational risk, as follows:
- Identifying and presenting operational risks during regular internal audits
- Focusing the internal audit work for significant risks and auditing the risk management

processes across the organization

7. Risk Management – Strategy

The company may lay down the guidelines regarding the response to the various risks faced by the business. It may accordingly form the mitigation strategies which would be reviewed periodically whenever deemed fit.

Risk Identification and Assessment Process

- Risks are adverse consequences of events or changed conditions
- Their occurrence may be identified by the happening of trigger events
- Their occurrence is uncertain and may have different extents of likelihood

Risk prioritization & exposure process

In this process, the consequences of the risk occurrences may be quantified to the maximum extent possible, using quantitative, semi-quantitative or qualitative techniques. Process of risk quantification for the Company has to be qualitative, supported by quantitative impact analysis. It would consider the actual cost impacts (like claims by customer, regulatory penalties, and financial loss) as well as opportunity costs (like loss in realization of revenue, customer dissatisfaction) may be captured to arrive at the total cost impact of materialization of the risk.

Risk Management Strategy

This involves identifying relevant strategies or tools to effectively mitigate possible risk events. Based on the Risk Appetite/Risk Tolerance level determined and reviewed from time to time, the India Shelter would formulate its Risk Management Strategy. The strategy will broadly entail choosing among the various options for risk mitigation for each identified risk. The risk mitigation can be planned using the following key strategies:

- Risk Avoidance: By not performing an activity that could carry risk. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed.
- Risk Transfer: Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging.
- Risk Reduction: Employing methods/solutions that reduce the severity of the loss
- Risk Retention: Accepting the loss when it occurs. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater over time than the total losses sustained. All risks that are not avoided or transferred.

As part of risk management strategy, company may enter into derivative transactions (Including OTC). The purpose of such transactions should be to hedge the identified exposure like interest rate risk or currency risk and not to speculate. Further, for each product type or identified risk, prior approval of ALCO is mandatory.

ALCO to ensure that periodic review of such transactions (At least quarterly) is undertaken by the committee to have the regular monitoring in place. Further, such transactions to be subject to annual audit review.

8. Risk Management - Implementation

India Shelter has adopted the "3 LINES OF DEFENSE MODEL" for the Management of its Risks-

- The 1st Line of Defense is the Business and Support Units that will own the risks and manage the same, as per laid down risk management guidelines.
- The 2nd Line of Defense is the Risk Management Department and the Compliance Department that would support the 1st Line of Defense by the drawing up of suitable risk management guidelines from time to time to be able to manage the risks of the Company.
- The 3rd Line of Defense is the Audit Functions – primarily the Internal Audit functions that are supported by the External Audits, and other audits like Regulatory Audits, etc. The 3rd Line of Defense focuses on providing the assurance that the risk management principles/policies and processes are achieving the objective of always managing the risks of the organization.

Three Line of defense

Third line of defense - Internal Audit

- Validates the overall risk, compliance and control framework
- Provides assurance that the risk management process is functioning as designed

Second line of defense - Compliance & Risk Management Department

- Establishes standards for compliance
- Independently monitors compliance
- Develops and maintains policies and procedures
- Report non-compliance of regulations and board directions to Senior Management
- Designs and deploys the overall risk management framework independently across the organization
- Monitors corporate and business unit adherence to framework and strategy

First line of defense - Business Units

- Owns the risk management process
- Identifies, manages, mitigates and reports on risk
- Tracks loss and incident data, to the extent applicable

Accordingly, the Company has set up a Risk Management Department (RMD) headed by CRO for the purpose of managing risk related issues across the organization. Along with RMD department, risk management remains the responsibility of all the functional heads as well.

Chief Risk Officer

The 'Chief Risk Officer' ("CRO") of the Company shall be sufficiently senior in the Company's hierarchy and shall possess adequate professional qualification/ experience in the area of risk management.

The CRO shall function independently so as to ensure highest standards of risk management in the Company. The Risk Management Department of the Company shall be headed by the CRO.

Tenor for Appointment of CRO:

- The CRO shall be appointed for a fixed tenure with the approval of the Board.
- The CRO can be transferred/ removed from his post before completion of the tenure only with the approval of the Board and such premature transfer/ removal shall be reported to the NHB.
- In case the HFC is listed, any change in incumbency of the CRO shall also be reported to the stock exchanges.

Reporting Requirements:

- The Board shall put in place policies to safeguard the independence of the CRO. In this regard, the CRO shall have direct reporting lines to the MD & CEO/ Risk Management Committee (RMC) of the Board.
- In case the CRO reports to the MD & CEO, the RMC/ Board shall meet the CRO without the presence of the MD & CEO, at least on a quarterly basis.
- The CRO shall not have any reporting relationship with the business verticals of the HFC and shall not be given any business targets.
- Further, there shall not be any 'dual hatting' i.e. the CRO shall not be given any other responsibility.

Role of CRO:

- The CRO shall be involved in the process of identification, measurement and mitigation of risks.
- All credit products (retail or wholesale) shall be vetted by the CRO from the angle of inherent and control risks.
- The CRO shall be an advisor in deciding credit proposals.
- In the credit sanction process for high value proposals, if the CRO is one of the decision makers in the credit sanction process, the CRO shall have voting power and all members who are part of the credit sanction process, shall individually and severally be liable for all the aspects, including risk perspective related to the credit proposal.

The CRO will be responsible for the overall risk of the Company including but not limited to Credit, Operations, IT, etc. from time to time.
The brief about the departmental roles and responsibilities is as captured below -

8.1. Risk Management Department (RMD)

The Risk Management Department shall be headed by the Chief Risk Officer (CRO) and will have responsibilities towards implementation of the RM framework as specified in this policy. The responsibilities of the RMD will include the following:

- Assemble information to build an overall risk profile of the company, understanding and communicating these risks, and analyzing the information, changes/trends in the risk profile - Key information will include risk indicators, loss event data and self-assessment results and communicating the results to the Risk Management Committee or other interested parties.
- Review of the company's risk limitation and adjust the company's risk exposure using appropriate strategies, considering the company's overall risk appetite
- Assist in development of and manage processes to identify and evaluate businesses areas using risk control self-assessments.
- Monitoring risk exposure to losses and internal control lapses, including regular reporting of pertinent information to the Risk Management Committee.
- Annual review of Risk Control Self-Assessment process, Key Risk Indicators, Loss Event Database and risk reporting processes.
- Review and monitor that strategies and actions previously approved by the Risk Management Committee are being properly executed on an ongoing basis.

8.2. Business/Function Heads

Business/function heads represent the heads of units/departments and are responsible for risk taking, accepting, implementing and monitoring related controls and mitigants.

The responsibilities of the Business/Function Heads will include the following:

- Taking ownership of the risks faced in their businesses/functions;
- Understanding the profile of risk facing the business/function and monitoring change in the business and risk profile. Business/function heads may be expected to present their risk profiles and action plans to the CRO and developing strategies to mitigate them in consultation with MD & CEO.
- Designing, collecting, reporting and capturing data pertaining to risk indicators and related reports. Resulting information will be distributed to the respective departments/units and CRO/RMD.
- Identification of loss events within the business/function and regular reporting of these events with complete details to the CRO/RMD, including root cause analysis and control evaluation;
- Ensuring implementation of the risk policies, processes, risk tools and other structures developed by the CRO/RMD within the respective business/function;
- Continuously identifying risks and assessing risks in terms of likelihood and impact and assessing the existing controls and management techniques in terms of their ability to manage the identified risks;

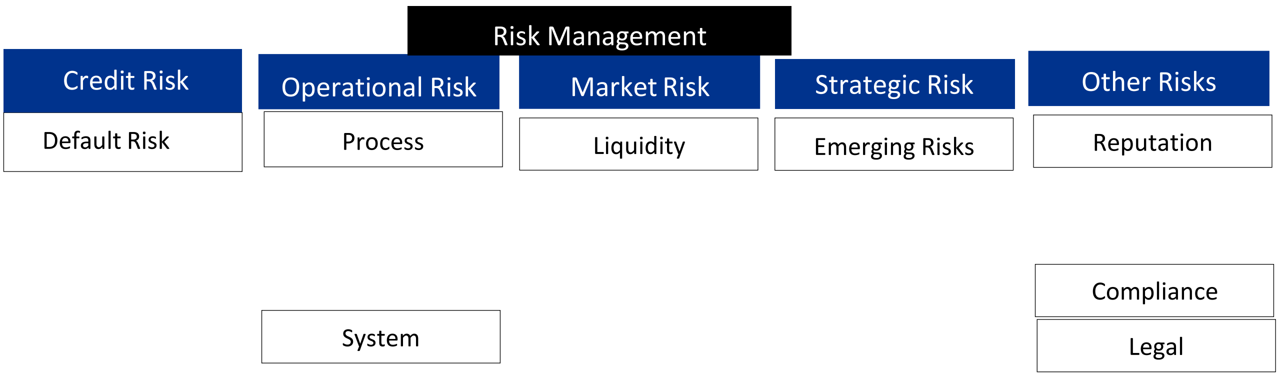
- Promptly alerting the executive management (through the RMD department) to any matter that could potentially lead to the company incurring material, unexpected damage, risk incidents

As per the overall Risk Governance and Management Framework, the key roles, and responsibilities to get defined basis the charter of each committee. At the same time, the overall responsibility structure is mentioned as below-

Control Functions	**Key Responsibilities**
Board of Directors	Review and approve the risk appetite framework and discuss with executive management about prevailing risks
Executive Management	• Define and monitor risk appetite statement as approved by Board • Evaluate strategies/ action based on the results
Risk Management Department	• Create a common risk framework at organization level • Implement and monitor risk management framework • Provide timely risk-related information and ensuring the timely communication
Business Units	• Identify and assess risks as per the framework created by Risk Management Department • Monitors risk along with Risk Management Department • Respond to risks as first line of defense
Internal Audit	• Independent review of effectiveness of the risk management practices • Evaluate controls and risk response plans for significant risks and enforce corrective action where necessary

9. Key Risks

Risks and uncertainties form an integral part of India Shelter's business which by nature entails taking risks. Each transaction that India Shelter undertakes changes its risk profile. The table below summarizes the key risks India Shelter needs to address.



People

Interest Rate

External Risks

External Events

9.1. Credit Risk

Credit Risk is the risk of loss due to the failure of the counter party to meet its credit obligations in accordance with the agreed contract terms. It is the result of either inability or unwillingness of a borrower or counter-party to meet commitments in relation to lending or any other financial transactions.

The losses could take the form of outright default or alternatively, losses from changes in portfolio value arising from actual or perceived deterioration in credit quality that is short of default. The objective of credit risk management is to minimize the risk and maximize India Shelter risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters.

9.2. Operational Risk

Operational Risk is inherent in all product, activities, processes and systems. It is a risk of loss arising from inadequate or failed internal processes, people and systems. Risk education for familiarizing the complex operations at all levels of staff can reduce operational risk. Operational risk events are associated with weak links in the internal control procedures. Operational risk involves breakdown in internal controls and corporate governance leading to error, fraud, performance failure resulting in financial loss.
Putting in place proper corporate governance practices by itself would serve as an effective risk management tool. India Shelter shall strive to promote a shared understanding of operational risk within the organization, especially since operational risk is often intertwined with market or credit risk and it is difficult to isolate.

9.3. Market Risk

Market Risk may be defined as the possibility of loss to India Shelter caused by the changes in the market variables. Market Risk consists of:

- Liquidity Risk
- Interest Rate Risk
- Foreign Exchange Risk

Maintaining an optimal balance sheet structure and cash flow patterns shall be the keystone of the market risk management strategy. A detailed description about managing market risks is available in the ALM policy.

9.4. Liquidity Risk

Liquidity risk arises where the Company is unable to meet its obligations as and when they arise. Measuring and managing liquidity needs are vital for smooth business operations. India Shelter management to ensure that sufficient liquidity is available and keep examining how the liquidity position would be changing in coming months. Liquidity risk will be measured at a structural level and a dynamic short-term level.

ALCO is responsible for determining the appropriate mix of funding sources utilized to ensure that liquidity is managed prudently and appropriately. For measuring and managing the funding requirements, India Shelter to use appropriate cash flow projections and cumulative surplus/deficit of the funds.

India Shelter follows a conservative approach by borrowing long and keep the balance sheet well capitalized. The detailed ALM practices are covered under the ALM policy of the company.

9.5. Interest Rate Risk

Interest rate risk management and reporting helps identify potential risks to earnings and capital resulting from adverse fluctuations in market interest rates.

Interest Rate risk arises from the inability of transmit the changes to the borrowers when the same has been received from the lenders. This is exacerbated in case a company has a mis-match in interest rate type for its loans. Interest rate risk can be measured by Gap report by calculating gaps over different time intervals as at any given date. For Gap analysis, mismatches between interest sensitive assets and interest sensitive liabilities are measured across the different buckets. The same is detailed in ALM policy of the company. The interest rate risk along with the liquidity risk should be monitored by the Risk Management Committee.

9.6. Foreign exchange risk

FX risk is a financial risk that exists when a financial transaction is denominated in a currency other than the domestic currency of the company. The exchange risk arises when there is a risk of an unfavorable change in exchange rate between the domestic currency and the denominated currency before the date when the transaction is completed. It is the endeavor of the company to remain neutralized of any foreign currency risk. In case of any open position, the same needs to be hedged at the appropriate level as discussed deliberated in the ALCO meeting.

9.7. Strategic Risk

Risks that derive from the decisions that the management takes about the products or services that the organization provides. It includes risks associated with developing and marketing those products or services, economic risks affecting product sales and costs, and risks arising from changes in the technological environment which impact on sales and production.

Strategic Risk needs to be assessed both in qualitative & quantitative terms. Assessment of an incidence or a potential risk aims at quantifying the risk in financial terms to the extent possible.

9.8. Reputation Risk

India Shelter is also exposed to reputation risk arising from failures in governance, business strategy and process, regulatory-compliance and legal risk. These risks are generally covered under Operational risks. Reputational risk is the risk of potential damage to the Company due to deterioration of its reputation. The reputation of the Company may suffer as a result of its failure to comply with laws, regulations, rules, reporting requirements, standards and codes of conduct applicable to its activities, rather than compliance with the internal limits or procedures.

Proactive measures to minimize the risk of losing reputation could be a sound risk management framework, good corporate governance, high level ethics and integrity, rigorous anti money laundering procedures, good business practices and reporting of all breaches which lead to reputational risk to the attention of senior management and the board.

9.9. Compliance Risk

Compliance risk is the risk arising from non-adherence to prescribed law in force, regulations, policies, procedures and guidelines which may give rise to regulatory actions, litigations, deficiency in product or services depending on the level of non-adherence. The corporate governance function is primarily designed to avoid incurrence of compliance regulatory-legal risk.

9.10. Legal Risk

The possibility of incurring losses or negative contingencies as a result of flaws in contracts or transactions that may affect the institution’s legal position and/or ability to function; legal risks are a direct result of human error, fraud, negligence or carelessness in the design, formalization, application or implementation of contracts or transactions. Legal risk is also caused by non-compliance with current laws or regulations.
Legal risk can primarily be caused by:

- A fraudulent transaction
- A claim including a defense to a claim or a counterclaim being made or some other event occurring which results in a liability for the company or other loss
- Failing to take appropriate measures to protect the company’s interests including the assets owned by the company; or
- Change in law which results in any of the transactions becoming illegal or bad in law or results on any of the above

10. Risk Appetite

The risk appetite is the amount of risk, on a broad level, that the company is willing to take on in pursuit of value. It is the total impact of risk that the company is prepared to accept in the pursuit of its strategic objectives. It shall be documented in a formal risk appetite statement that shall be recommended by the Risk Management Committee and approved by the Board along with the Policy. The risk appetite statement should be defined by the following key characteristics:

- Sets clear strategic direction and tolerances around controls;
- Reflective of strategy, including organizational objectives, business plans and stakeholder expectations;
- Reflective of all key aspects of the business;
- Considers the skills, resources and technology required to manage and monitor risk exposures in the context of the risk appetite;
- Inclusive of a tolerance of loss or negative events that can be reasonably quantified;
- Periodically (annually) reviewed and reconsidered with reference to evolving industry and market conditions

The governance and reporting framework shall ensure that day-to-day decisions are made in line with the organization's risk appetite. Data shall be captured to measure performance against the risk appetite statement of the organization. Standard risk and incident reporting methodologies should be used to monitor breaches of risk appetite and tolerance levels.

The detailed Risk Appetite Framework laid down for the company has been appended to this policy document in Annexure 1.

11. Risk Communication, Reporting and Monitoring

Risk communication, reporting and monitoring, is a critical phase in the Risk Management framework.

- Risk communication helps develop an appropriate risk culture in the organization. The risk monitoring and reporting is used as a management decision support system enabling them to perceive the overall risks of the organization and analyze the progress made on the same
- The risk mitigation strategy may be communicated to concerned stakeholders. Risk management policies framed should be rolled out to the employees wherever applicable.

Ongoing monitoring of actual performance v/s policy caps, early warning Indicators, key takeaways from RMC and ALCO, customer/site/competition visits etc. are reviewed on periodic basis, exceptions, if any, are reported in related committee, and acted upon as advised by the committee:

Type of risk	Reporting
Market Risk	ALCO
Operational Risk	Audit Committee as part of audit reports

Credit risk	RMC and ALCO
Internal Capital Adequacy Assessment Framework	RMC
All other Risks	RMC

The company has a Compliance Department that shall independently monitor regulatory developments and ensure that a mechanism for identification and implementation of regulatory requirements is in place. Implementation of the latest regulatory requirements shall be tested by the Internal Audit Department based on inputs received from the Compliance Department. This serves to address the regulatory risks faced by the organization.

The Fraud Management (Anti-Fraud) department prepares and submits return on Fraud detection and periodical progress returns on fraud cases to the Compliance department for submission to NHB and to the Board. The fraud cases reported as per the manner prescribed by the RBI/NHB guidelines.

All other qualitative risks like reputation risk, strategic risk or business model risks etc. are assessed as part of the detailed Internal Capital Adequacy Assessment Programme (ICAAP) at an annual interval and reported to RMC.

Annexure 1 – RISK APPETITE STATEMENT

The company recognizes that the managed acceptance of risk lies at the heart of the business. As a result, effective risk management capabilities represent a key source of competitive advantage for the company. By managed acceptance of risk, the company seeks to generate shareholder value by selectively taking exposure to risks for which it is well compensated. The company will additionally accept exposure to risks for which it is not directly compensated, where these are an inevitable by- product of its business activities. These risks will be reduced to the extent it is cost-effective to do so.

In general therefore, the company's control procedures and systems are designed to manage enterprise, credit, liquidity, market and operational risks, rather than eliminate them. However, at certain times, there may also exist some risks for which the company has no tolerance and which are actively avoided. The identification and exploitation of specific business opportunities, including the evaluation of the risk-versus-reward characteristics of such opportunities, is the remit of the individual businesses. This Risk Appetite Statement is meant to provide a framework to guide the businesses in their risk acceptance and management activities in order to ensure that the risks accepted are within the overall tolerance levels of the company. The limit structures and tolerances in respect of specific risk types are separately defined in line with the broad guidance provided by this statement.

Financial Risk Appetite Statement

The company will limit its exposure to adverse outcomes by ensuring that risk-taking takes place within appropriate boundaries. This ensures that earnings and growth are achieved in a responsible manner and not merely by assuming disproportionate downside exposure. In doing so, the company protects the interests of its key stakeholders. In order to provide an objective and quantifiable means to ensure that the various businesses and the company as a whole have accepted risks which are within the overall tolerance levels of the company, certain objective measures of risk have been identified. The adherence of these risks along with the levels to be monitored on quarterly basis in the RMC. Any breaches to be escalated to Board and appropriate measures to be taken to address the same. All the limits are defined within the Green, Amber and Red framework. Risk triggers falling under Amber are required to be discussed with special attention in the ALCO or any other designated committee in order to plan that it should not reach to red zone. In case the same falls into Red zone, it has to be mandatorily discussed in Risk Committee of Board along with the resolution plan in place.

Dimension	Metric	Description	Red	Amber	Green
Capital Adequacy	Tier I Ratio		<15%	15%-20%	>20%
	Total Capital Adequacy Ratio		<18%	18%-23%	>23%
Compliance Risk	Exposure Norms	Single Borrower Exposure - 2% of Owned Funds (Ex. Investments)	>2	1.5-2%	<=1.5%
		Single Group Borrower Exposure - 4% of owned Funds (Ex. Investments)	>4%	3-4%	<=3%
Compliance Risk	Leverage Ratio	On balance Sheet debt only	>4.5x	4x-4.5x	4x
Concentration Risk- Portfolio	Exposure to top 20 Borrowers	Less than 5% of net owned Funds	>=5%	3-5%	<3%
	State Wise Concentration	Single State should constitute more than 33% of Incremental Disb	>33%	30-33%	<30%
	State Wise Concentration	Single State should constitute more than 33% of AUM	>33%	30-33%	<30%
	State Wise Concentration	Exposure in two largest State to be under 50%	>49%	45-49%	<45%
Asset Quality	Bounce Rate	Insufficient Fund only (after representation)	>=25%	15%-25%	<=15%
	STAGE-3/GNPA		>3%	2.5%-3%	<=2.5%
	STAGE-2		>4%	3%-4%	<=3%
Underwriting Parameters	LTV	Portfolio Simple Avg < 65%	>65%	55-65%	<55%
	FCU Rejection	Not to exceed 10% during any quarter	>10%	7.5-10%	<7.5%
	Max Loan Amount	>50L Portfolio should not be more than 5% of total AUM	>5%	3-5%	<3%
Profitability	Opex as % of AUM		>6%	4.5% to 6%	<=4.5%
	Return on Assets (ROA)	Without DA	<2%	2% to 3%	>=3%
	Return on Equity (ROE)	Without DA	<=8%	8-10%	>=10%
	Gross Spread	(Gross Income%-Finance Cost%)	<=5%	5%-6%	>=6%
Collection	Cash Collection	Cash Collection as %age of total collection	>20%	15%-20%	<15%
	Collection Efficiency	EMI collection including arrears/EMI demand	<97%	97-98%	>98%
Regulatory Risk	PBC	As per the regulatory requirement	<=55%	55%-60%	>=60%
Market Risk	Interest rate risk	(RSA - RSL)/AUM	>=+/-50%	+/-15%-50%	> +/-15%
	NII Impact - Movement in Interest Rate by 200bps	((Borrowing o/s + Additional Borrowing for the year)*200 bps*No of days)/ NII for the year	>17,5%	17.5-15%	<15%
	Market Value of Equity Risk (MDG Approach)	Impact on MVE should not be more than 20% for 200bps shock	>20%	19-20%	<19%
Liquidity Risk- Stock Ratio	Short term liability to total assets		>25%	20-25%	<=20%
	Long term Assets to Total Assets		<75%	75-80%	>80%
	Commercial Papers to Total Assets		>10%	7.5%-10%	<7.5%
	Short term liability to long term assets		>30%	25-30%	<=25%
	non-convertible debentures (NCDs)(original maturity of less than one year) to total assets		0	0	0
	short-term liabilities to total liabilities		>30%	25-30%	<=25%
Liquidity Risk	Liquidity Position	Liquid Investment / 3 months outflow (Repayments (P+I) and Opex)	<75%	75%-100%	>100%
	Liquidity Coverage Ratio	LCR as per regulatory Guidelines			
	Mismatch in ALM - 1 Year	Cumulatively not more than 10% across time buckets	> 10%	0-10%	Positive Gap
Funding risk	Single lender concentration*	Funding from Largest Lender / Total borrowings (Excl. NHB & DA)	>25%	20%-25%	<20%
	External Credit Rating of ISFC	Any change in outlook or rating	Rating downgrade	-	-
Operation	Operational Loss (Fraud Cases)	Operational losses/Net Interest Income (YTD)	>1.5%	1%-1.5%	<1%
	Uptime of Critical (Core) IT systems	Uptime of Critical IT systems (Excluding scheduled downtime)	<90%	90%-95%	>95%
	IT systems Continuity	Number of unsuccessful/ incomplete DR tests	0	-	>=1
	CyberAttack	Severe CyberSecurity Incident affecting business continuity (for more than 24 hrs) or data breach or data loss	1	-	<1
	IT Infra & B.A.U. Support team staffing	Adequate staffing of IT department manpower for ensuring Business Continuity, including key Information security & cybersecurity personnel	<4	4-8	>8
	Attrition rate	Annualised Attrition Rate at CEO DR level	>15%	10-15%	<10%
		Overall Employee Attrition Rate (Annualised)	>50%	30%-50%	<30%
Reputation	Breaches in regulatory compliance	Number of delays in regulatory payments/ reporting (Quarter)	>=1	-	-
	External audits	Number of overdue major audit findings (all external audits)	>=1	-	-
	Monetary fines by Regulator(s)	Number of monetary fines in last recorded quarter.	>=1	-	-
	Training completion	% of all employees (with a tenure more than 90 days) who have completed mandatory trainings	<80%	80%-90%	>90%
	Customer complaints	% of genuine customer complaints to customer base	>1.0%	0.5%-1.0%	<0.5%
Balance Sheet Risk	DA as % of AUM		>22%	20%-22%	<20%
Foreign Exchange Risk	Open Position in FX	All borrowing position to be hedged; Small vendor payment can remain open	-	-	-
Concentration Risk- Investment	Exposure through Investment	Overall exposure to any single party (Ex. Banks) should not be >10% of NOF	>10%	7.5%-10%	<7.5%
	Exposure through Investment	Exposure to any AMC should not be >25% of NOF	>10%	7.5%-10%	<7.5%
In case certain limits are getting breached at Amber stage, the same needs to be rectified as per the policy					
For all breaches under Red, the same needs to be presented to ERMC in the immediate quarter along with the approval as per the applicable policy					