POLICY ON RISK MANAGEMENT

Industrial Investment Trust Limited
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Version	Date of Approval/ Reviewal
V.2	
Recommended By	CEO – NBFC Operations
Approved By	Board - Meeting Dated : 08-11-2023

Owner – Credit Head
Department – NBFC Operations

(1) PURPOSE

The main objective of the policy is to keep the Board of Directors and Top Management appraised of the applicable risks promptly and regularly. This risk management policy aims to protect the reputation of the organization, enable the Company to make consistently profitable and prudent business decisions and ensure an acceptable risk-adjusted return on capital. In a nutshell it seeks to ensure growth with profitability within the limits of risk absorption capacity. It is expected to facilitate the Company to maintain an eminent position amongst NBFCs, especially those engaged in the business of loans against property.

(2) RISK MANAGEMENT COMMITTEE

The implementation of the Risk Management Policy will be overseen by the Risk Management Committee (RMC) of the Board of Directors of the Company. The Risk Management Committee was constituted vide a board meeting dated 04th March'2023 and the committee consists of the following members;

1. Chairman
2. Two Independent Directors
3. Chief Executive Officer – NBFC Operations
4. Chief Financial Officer

The Risk Management committee may review on yearly basis or as and when required.

The terms of reference of our Risk Management Committee are as follows:

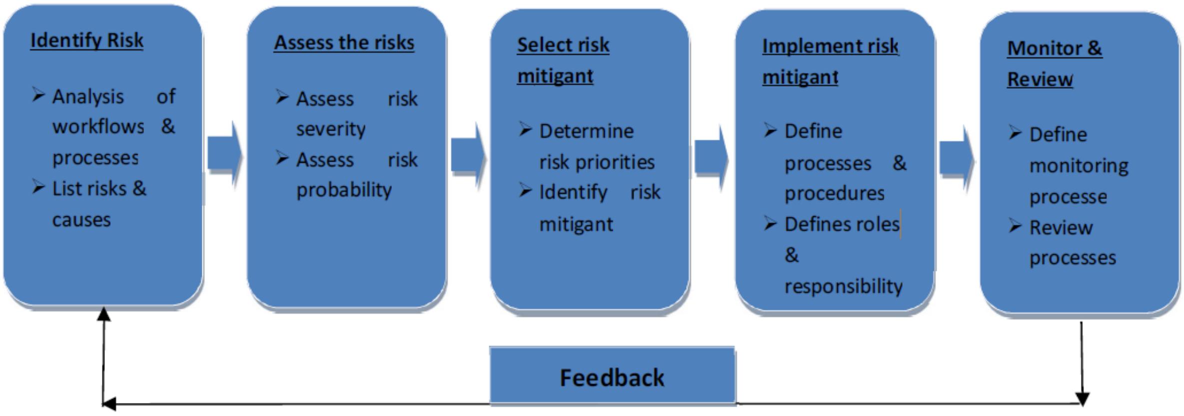
(a) To assist the Board in setting risk strategies and policies in liaison with management and in the discharge of its duties relating to corporate accountability and associated risk in terms of management assurance and reporting;

(b) To review and assess the nature, role, responsibility and authority of the risk management function within the Company and outline the scope of risk management work; and

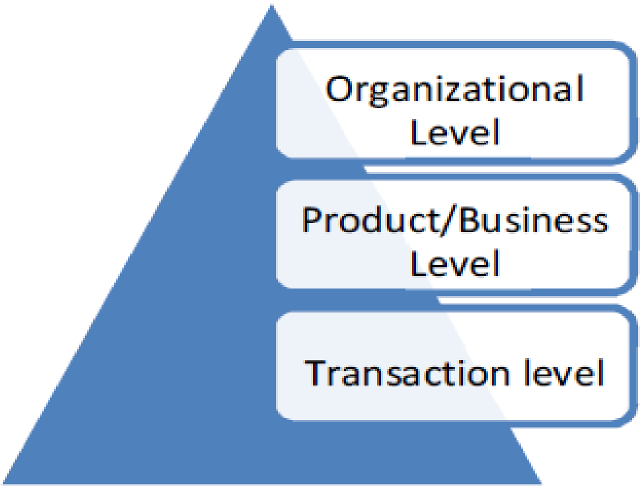
(c) To review and assess the quality, integrity and effectiveness of the risk management systems and ensure that the risk policies and strategies are effectively managed.

(3) RISK ASSESSMENT & CONTROLS

Industrial Investment Trust Limited (hereinafter referred as "Company") has in place a well defined risk assessment and control policy that drives all its core businesses. Company has strong risk management framework where every employee of company is actively responsible for risk management. The risk management process is self-evolving and is diagrammatically shown as follows:



This Policy caters to both product/business specific guidelines. The risk framework has been implemented at various levels in the organization that govern the functioning of the organization both at macro and micro levels.



(4) Risk Management Function

The Risk Management Function is an integral part of the "Three-Lines-of-Escalation and Mitigation" concept which defines
(i) first line of escalation in which the respective heads of functions are responsible for having internal controls
(ii) second line through mitigation to the office of Chief Executive Officer and
(iii) third line is through creating defence by external and internal Audits.

Its main objectives are to set up the risk framework, identify, measure and monitor key risks across the organization, recommend mitigation solutions/controls, monitor controls and create risk awareness across the Company and

- Supporting the first line of escalation by helping ensure employees at all levels of the Company are aware of the risks re lated to their activities and how to appropriately respond to them;
- Supporting the RMC with development of a risk strategy and risk appetite;

- Monitoring of the risk profile to ensure it remains within the approved risk appetite and fo llowing up on instances of any risk appetite breaches (i.e. via resolution directly with the f irst line-of escalation and other stakeholders or escalation to the RMC).

(5) MAJOR RISKS:

Like most other financial undertakings / businesses such as Banks, Other Financial Institutions, Company too is faced with the same 3 broad categories of risks as listed under:

I) CREDIT RISK

Credit risk is perceived to be relatively lower due to the secured nature of loans taken up by the Company viz. loans against property (LAP). Credit risk denotes the risk of loss arising from a default committed by the borrower to repay the principal and interest as per the contractual obligation. The objective of credit risk management is to ensure the overall health of the credit portfolio through an evaluation of the credit process, creditworthiness of each customer, new or existing, assessment of the risks involved and ensuring a measured approach to address the risks. Scope for violations will be restricted through system based controls wherever feasible and desirable. In the business of LAP, the security is in the possession of the lender and is also comparatively liquid. Credit risk management will include a continuous review of the existing controls and monitoring of the systems for identification and mitigation of the various risk factors.

Loan Policies:

Loans will be governed by the Credit Policy approved by the Board. Credit quality may be adversely affected mainly by the diminution in collateral value with or without non-servicing of EMIs/ interest by the borrower.

Credit risk management systems and practices in line with the approach laid down by the Credit policies and Standard Operating Procedures (SOPs).

Unique Customer Identification number:

A unique customer identification number shall be provided to each customer to facilitate tracking exposures of individual customers, studying the nature of transactions and prevent the creation of new customer account for an existing customer.

Assuming and monitoring large individual exposures:

Like all other lending institutions large exposures to individual borrowers carry relatively higher credit risk. Sanction of large exposures will be subject to suitable checks, prudent practices and adequate controls for which there is a structured delegation of sanctioning powers.

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Servicing of interest & prompt repayment of dues shall be closely and individually monitored. Additionally, the collateral coverage of each individual high exposure borrower will also be monitored. Assumption and monitoring of large exposures on individual borrowers will also keep in view the directives of RBI relating to KYC and Anti-Money Laundering from time to time.

Risk gradation of borrowers:

Risk gradation is governed by profile, cash flow assessment method, existing loan servicing habits (Bureau score) and type of collateral.

An effective system for monitoring such loans along with suitable controls put in place to mitigate the consequent risks. Risk gradation of each customers and individual disbursements will be ensured and the parameters periodically reviewed.

Loan Documentation:

Even though the loans are secured with acceptable collateral correct and legally valid documentation will be ensured to comply with good practices and legal requirements to protect the Company's interests in any eventuality and regulatory directives that may be applicable.
There shall be a standard loan application form to be submitted by applicants. After compliance with KYC procedures and verification of the property, sanction of the loan will be conveyed in a standard loan sanction format with all terms and conditions clearly listed therein. MOE will be created as per state laws for equitable mortgage of the property. The vetting of original property papers to be done by empanelled legal vendors. The documentation will be reviewed periodically.

II) MARKET RISK

It comprises of pricing and liquidity:

a. **Price & Interest Rate:** Loan to Value at which loan is sanctioned and the price movements in property play a crucial role. Significantly downward movement in the property prices especially when accompanied by non-servicing of EMIs/ interest can impact the Company's financials significantly. LAP is granted for a tenor as mentioned in the credit policy. Interest rates to be charged on the loans are fixed/floating from time to time based on the overall cost of borrowings / funds from the various funding sources inter alia.

b. **Liquidity, Maturity Mismatch:** These are offset to a significant extent by the fact that company has adequate long term funds in the form of capital, reserve and surplus and there is not much external borrowings of short term nature. Company has also plan for entering into co-lending to ensure regular business thereby ensuring to maintain sufficient liquidity, maturity mismatch. The source of funds and cost of funds to be deployed in lending against property has to be constantly monitored.

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The following aspects assume relevance and will be monitored on regular basis:

i) Loans schemes.
ii) Funding of loans is done through a combination of equity, co-lending, securitization and direct assignment.
iii) Implementing a robust collection and recovery mechanism. This would include an efficient auction procedure for expeditious realization of security.
iv) Efficient cash management system to ensure optimum cash holding and reduce idle cash.
v) Calibrating business growth based on the funding level available.
vi) Deploying short term surplus, if any, in the form of liquid investments made in approved institutions / schemes.
vii) Plough back of a major portion of the net profit into the business.
viii) Investing in fixed assets only to the bare minimum.
ix) Reducing the level of non- performing loans.

III) OPERATIONAL RISK

Given the inherent nature of the secured loans, operational risk so perceived calls for implementation, development and continuous review of the existing internal checks and controls.

a) Storage of Loan Documents:
Loan Documents will be stored in a safe and secure manner in burglar proof safes of acceptable grade manufactured by reputed companies or in steel almirahs or storage bins kept within the 'strong' rooms built as per specifications. The principle of 'joint custody' will apply for custody of the valuable as well as for the operations of the safe / strong room and for locking arrangements.

b) Verification of property mortgaged:

Loan Documents will be kept segregated account wise and subject to periodical verification by Internal Auditors and other authorized officials at such frequency as may be decided from time to time considering the risk factors. External agencies, such as lending banks or external auditors, may also be permitted access for verification of property as may be stipulated in the loan agreement or terms of engagement. Clear instructions with suitable controls will be in place while permitting outside agencies access to verification. A history of verification of each mortgage will also be maintained in the system.

c) Insurance:

Adequate insurance cover of the borrower will be obtained from a reputed Insurance Company encompassing risks such as death of the borrower and property insurance. The clauses / covenants of the policy will be scrutinized minutely and fully understood by the concerned officials.

d) **Opening and location of branches:**

While branches will be located after the business potential is ascertained on the basis of an objective. Title of the lessor or landlord to the property will be confirmed and a legally enforceable 'lease agreement' executed by authorized persons before possession of the premises taken. In case of already existing premises with high risk perception or facing other operational problems appropriate mitigatory steps will be taken.

e) **System & Procedures / Process improvements / Automation:**

Definition of proper system & procedure for the various functions ensures uniformity in work processes, reduces errors, builds internal checks, speeds up work and enhances the overall efficiency. The system and procedures will be continuously reviewed to confirm its effectiveness and to plug the gaps, if any, across all offices of the Company.

f) **Frauds:**

Control systems defined and developed in a manner to prevent commission of frauds by employees and customers and also facilitate early detection of frauds. Control mechanisms, as far as feasible and desirable, system driven so that there is a clear trail to analyse the root cause and identify the culprits. A repository of information and analysis of major instances of fraud, giving the root causes alongwith remedial measures taken, will be compiled and periodically updated as a preventive tool.

g) **Security Arrangements – Physical & Electronic:**

Security arrangements to protect the employees, the assets of the Company and especially the mortgage papers are critical. Norms for providing Security Guards at various offices will be laid down based on the risk perceptions, vulnerability and potential for loss. The Company will put in place an effective mechanism to monitor the security arrangements including adoption of centrally monitorable security solutions. Guidelines on storage and retention of CCTV video images at the central and local location for retrieval will be in place

h) **Business Continuity Plan:**

A well drafted and vetted Business Continuity Plan (BCP) is in place to ensure uninterrupted conduct of critical business operations through a detailed set of instructions and procedures to be observed in the event of any disruption, internal or external. The BCP shall be detailed into the IT System and the Disaster Recovery Plan. The BCP shall cover Head Office, Sales Branches and other offices, if any.

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i) **Human Resources:**

The business of secured loans, as of now, is significantly labour intensive and is highly dependent on quality and effectiveness of employees at various levels in the organization structure. HR policies will provide a suitable governance structure to enable the Company to grow and proactively meet with the emerging challenges in business.

j) **Know Your Customer & Anti Money Laundering norms :**

The Company has adopted KYC Policy in line with RBI directives duly approved by the Board. Strict compliance with KYC norms as laid down in the policy will be ensured by the Operations Dept. Compliance will be monitored on regular basis by the Risk Management Dept Cash Transaction Reports / Suspicious Transactions Report will be submitted to the Financial Intelligence Unit as mandated by RBI instructions.

k) **Residual Risks:**

IT Risk

A secured system of access control, both on-site and remote, including password management and secrecy in place and reviewed periodically. Password linked to the individual user. Access to data / applications on a 'need-to-know' basis. Transaction rights conferred only on those requiring it by virtue of the nature of their duties. Suitable anti- virus software loaded in the central server and at all user points and updated regularly. A regular 'system audit' will be conducted to cover both hardware and software and the irregularities immediately addressed. Only authorized and licensed software will loaded in to the system – central and at various user points. The licensing position will be reviewed periodically to guard against violations of IT Copyrights / Laws.

Regulatory / Compliance Risk

The Company is an NBFC coming under the regulatory purview of the Reserve Bank of India, and Ministry of Corporate Affairs. In addition the Company is also required to comply with various central, state and commercial laws applicable in the conduct of the various activities of the business. The Company recognizes that the regulatory landscape is under periodical review and this requires the Company to be proactively prepared, as best as possible, to meet with the challenges posed by the changes.

Competition Risk:

Competition risk represents the challenges to business arising from an increasing number and intensity of other existing or new firms engaged in the same business which threaten business growth and could eat away the market share of the Company's business.

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The Company will broadly address the risks of competition by:

i) Accepting and recognising the presence of competitors as a fact of business. Such competition could be universal and area specific.
ii) Identifying the major and nearest competitors for benchmarking performance.
iii) Assessing the business strategies of competitors and ensuring suitable counterveiling mechanisms to meet such threats.
iv) Studying and comparing (with) the performances of the competitors with judiciously collected information and data.
v) Continuously reviewing existing products and services to ensure that they are in tune with market demand and customer expectations keeping in view the regulatory guidelines.
vi) Recognising the need to reduce unproductive costs and improve the productivity of employees to make the offerings more competitive.
vii) Studying or anticipating customer preferences and accordingly developing new products and services with visible value addition to be ahead of other market players.
viii) Ensuring transparency and fairness in dealings with customers and adopting / promoting customer service excellence as an important selling tool.

Reputation Risk:

Reputation risk is the loss caused to the Company due to its image or standing being tarnished by certain incidents or actions arising from its business operations. Such incidents or actions may be attributable to the Company or any employee(s) or executive(s) committed either consciously or otherwise. Reputation risk could result in loss of revenues. Reputation loss can be caused by mere negative perceptions and could occur even if the Company is actually not at fault.

Mitigation:

Risks to the Company's reputation addressed by:
i) A strong risk management system (LMS) including fraud prevention and creating a culture of risk awareness across the organization.
ii) A commitment to transparency, morality and accuracy in operations including the correctness of financial statements for public use.
iii) Maintaining a effective communication channel across the organization including all stakeholders such as Directors, Shareholders, Regulators, Lenders, Customers, Employees, Vendors etc.
iv) Encouraging and rewarding ethical behaviour amongst employees. Ensuring immediate but fair action against employees indulging in unethical action or behavior.
v) Ensuring prompt compliance with regulatory directives and other laws both in letter and spirit.

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vi) Institutionalizing customer service excellence supplemented with an efficient complaint redressal mechanism.
vii) Constituting a 'risk management team' to address sudden and unanticipated events.
viii) Maintaining effective liaison with media and issuing prompt clarifications or rebuttals to negative reports.

(6) RESPONSIBILITY:

The responsibility for protecting the reputation of the Company and taking steps to enhance the Company's standing will lie across all functionaries in the organization which will be regularly overseen by the Top Management.

(7) AMENDMENT TO THE POLICY

The policy may be amended from time to time by the Board of Directors make necessary changes keeping in consideration the following:
a. changes in business
b. changes in external environment
c. complexity / evolution of risks
d. results of effectiveness of risk management systems

(8) APPLICABILITY

The policy is effective from the date notified by the Board of Directors.

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