RISK MANAGEMENT POLICY

Loan Against Property (LAP)

Finasia Capital Private Limited

Effective Date	October 24, 2024
Approving Authority	Board of Directors
Policy Owner / Head	Credit & Chief Risk Officer
Review Frequency	Annual
Next Review Date	October 2025

1. Objective

This Risk Management Policy aims to establish a comprehensive framework for identifying, assessing, monitoring, and mitigating various risks associated with the Loan Against Property (LAP) business. The policy ensures sustainable growth while maintaining asset quality and regulatory compliance.

Key Objectives

- Establish robust risk identification and assessment mechanism
- Implement effective risk mitigation strategies
- Ensure compliance with regulatory requirements
- Maintain optimal risk-return balance
- Protect stakeholder interests

2. Scope and Applicability

This policy applies to all LAP products offered within a 50 km radius from the centre of the Base Branch and covers:

- Credit Risk Management
- Operational Risk Management
- Market Risk Management
- Liquidity Risk Management
- Compliance and Legal Risk Management

3. Risk Governance Structure

3.1 Board of Directors

- Ultimate responsibility for risk management
- Approval of risk policies and frameworks
- Oversight of risk management effectiveness

3.2 Risk Management Committee

- Monitor implementation of risk policies
- Review risk metrics and reports
- Recommend policy changes

3.3 Chief Risk Officer (CRO)

- Day-to-day risk management oversight
- Risk reporting to senior management
- Coordination with business units

4. Credit Risk Management

4.1 Credit Risk Identification

Primary Risk Factors

- Borrower's repayment capacity
- Property valuation risks
- Market volatility
- Economic downturns
- Concentration risks

4.2 Credit Assessment Framework

4.2.1 Borrower Evaluation

- **Age Limit:** Maximum 65 years at loan maturity
- **Income Assessment:** EMI should not exceed 60% of monthly income (65% for IT assessees)
- **Credit Bureau Score:** Minimum CIBIL 650 or equivalent
- **Stability:** Minimum 2 years in current occupation

4.2.2 Property Evaluation — Loan-to-Value (LTV) Limits

Property Type	LTV Limit
Residential Property	70% of property value
Commercial Property	70% of property value
Plot / Factory	70% of property value
Enhancement (higher authority approval)	Up to 80%

4.2.3 Security Assessment

Property Valuation Method — average of Market Value, Realizable Value and Distress Value, conducted by approved valuers only.

- Conducted by approved valuers only
- 13-year title chain verification for freehold properties

4.3 Credit Risk Mitigation

4.3.1 Diversification Strategies

- Geographic diversification within service area
- Loan size diversification
- Purpose diversification
- Agriculture land exposure limited to 20% of portfolio

4.3.2 Security Mechanisms

- Equitable / Regular mortgage of property
- CERSAI registration mandatory
- Third-party guarantee (preferred)
- Life insurance on borrower / earning member

4.4 Portfolio Risk Limits

Risk Parameter	Limit
Single Borrower Exposure	Max ₹15 lakhs (special cases require CEO approval)
Agriculture Land Portfolio	Max 20% of total portfolio
Risk Parameter	**Limit**
Road Widening Properties	Max ₹5 lakhs, 5-year tenure
High-Risk Profiles	Special approval required

5. Operational Risk Management

5.1 Process Risk Controls

5.1.1 Documentation Standards

- Mandatory KYC compliance (Aadhaar + secondary documents)
- Complete property documentation
- Legal and technical verification
- End-use verification within 3 months

5.1.2 Approval Matrix

Loan Amount	Sanctioning Authority
Up to ₹5 lakhs	State Credit Head + Business Head
₹5 – 10 lakhs	State Credit Head + Business Head
₹10 – 15 lakhs	Business Head + Chief Risk Officer
Above ₹15 lakhs	Credit Executive Committee

5.2 Technology and Data Risk

- Secure data storage and transmission
- Regular system audits
- Data backup and recovery procedures
- Cybersecurity protocols

5.3 Human Resource Risk

- Regular training programs
- Performance monitoring
- Segregation of duties
- Background verification of employees

6. Borrower and Property Risk Classification

6.1 Negative Profiles (Not Acceptable)

- Contractors (without special approval)
- Politicians and political affiliates
- Diamond merchants and brokers
- Wine shop owners
- Money lenders
- Anti-social elements
- Recovery agents
- Advocates / Lawyers
- Press reporters

6.2 Special / Caution Profiles (Enhanced Due Diligence)

- MLM agents
- Cable operators
- Family restaurants / bars
- Property dealers
- Agriculturists
- Class 4 employees
- Meat vendors

6.3 Negative Properties (Not Acceptable)

- Properties without occupancy certificate
- Litigation-prone properties
- Properties in restricted areas
- Forest land and biodiversity hotspots
- Properties near hazardous materials
- Flood-prone and landslide areas
- Religious / social purpose properties

7. Monitoring and Review Mechanism

7.1 Pre-Disbursement Controls

- Credit bureau verification (not older than 30 days)
- Property technical and legal verification
- Income and repayment capacity assessment
- End-use verification planning

7.2 Post-Disbursement Monitoring

- Monthly portfolio review
- Early warning signal identification
- Regular borrower interaction
- End-use verification completion
- Top-up assessment after 6 months

7.3 Portfolio Quality Metrics

- Portfolio at Risk (PAR) ratios
- Collection efficiency
- NPA progression monitoring
- Vintage analysis
- Geographic concentration analysis

8. Early Warning System

8.1 Borrower-Level Indicators

- Payment delays (30+, 60+, 90+ DPD)
- Credit bureau deterioration
- Business performance decline
- Change in contact details
- Reluctance to provide information

8.2 Portfolio-Level Indicators

- Collection efficiency decline
- Increase in restructuring requests
- Geographic concentration risks
- Economic indicators impact

9. Stress Testing and Scenario Analysis

9.1 Regular Stress Testing

- Quarterly stress testing of portfolio
- Interest rate sensitivity analysis
- Property value decline scenarios
- Economic downturn impact assessment

9.2 Scenario Planning

- Best case, base case, and worst case scenarios
- Impact assessment on profitability
- Capital adequacy under stress
- Liquidity requirements under stress

10. Compliance and Regulatory Risk

10.1 Regulatory Compliance

- RBI / NHB guidelines adherence
- Regular compliance monitoring
- Regulatory reporting requirements
- Internal audit and control systems

10.2 Legal Risk Management

- Proper legal documentation
- Title verification processes
- Registration and stamp duty compliance
- Dispute resolution mechanisms

11. Risk Reporting and Communication

11.1 Risk Reporting Structure

- Monthly risk reports to management
- Quarterly reports to Board / Risk Committee
- Exception reporting for limit breaches
- Trend analysis and recommendations

11.2 Key Risk Indicators (KRIs)

- Credit quality metrics
- Operational efficiency indicators
- Compliance breach indicators
- Market risk indicators

12. Risk Culture and Training

12.1 Risk Culture Development

- Risk awareness programs
- Regular training sessions
- Performance measurement includes risk metrics
- Reward systems aligned with risk management

12.2 Training Requirements

- Annual risk management training
- Product-specific risk training
- Regulatory update sessions
- Case study discussions

13. Business Continuity and Disaster Recovery

13.1 Business Continuity Planning

- Critical process identification
- Backup systems and procedures
- Alternative service delivery methods
- Crisis management protocols

13.2 Disaster Recovery

- Data backup and recovery procedures
- Alternative work arrangements
- Communication protocols
- Recovery time objectives

14. Policy Review and Updates

14.1 Review Frequency

- Annual comprehensive review
- Quarterly performance assessment
- Ad-hoc reviews for regulatory changes
- Market condition-based updates

14.2 Approval Process

Risk Management Committee review
Board approval for major changes
Implementation timeline
Communication to stakeholders

15. Conclusion

This Risk Management Policy provides a comprehensive framework for managing risks in the LAP business. Regular monitoring, review, and updates ensure the policy remains relevant and effective in the dynamic business environment.

Policy Effective Date	October 24, 2024
Next Review Date	October 2025

This policy should be read in conjunction with the LAP Policy and other relevant policies of the Company.