Risk Management Policy of Ashiana Housing Ltd.

Contents:

Details:

1. Significance of Risk Management:

This policy describes Ashiana's risk management principles and expectations applicable to all types of risk in all activities undertaken by it. It also outlines roles and responsibilities for the Board of Directors, and the Risk Management Committee. Risk management is a structured and disciplined approach of assessing and managing the uncertainties that Ashiana faces as a going concern. At Ashiana, a principal risk is defined as the chance of something happening, measured in terms of probability and impact, that may adversely affect the achievement of Ashiana's strategic or major business objectives.

Effectively managing risk is a competitive necessity and an integral part of creating shareholder value through good business practices designed to ensure that Ashiana achieves its strategic, business and governance objectives, and protects its corporate reputation, values and integrity.

2. Risk Profile of the Company:

Ashiana believe that all activities have an element of risk and that not all risks can be transferred. Ashiana is committed to managing risks at all levels in the organization and summarizes these risks into these broad categories: **operational risk**; **financial risk**, **and legal risk**.

Ashiana's overall risk appetite and risk tolerance will be determined by the Risk management Committee and reported to the Board of Directors. Risk will be evaluated, managed and documented consistent with guidelines suggested by the Corporate Risk Management Policy with the objective of Mitigation of Risk.

In all cases, risk will be evaluated in terms of the impact on the following: people, environment, assets, financial/business objectives, and reputation. The risk will be assigned a range of occurrence from low to extreme.

Risks identified as extreme, high, or medium will require implementation of a risk transfer, reduction, elimination, or sharing strategy to reduce the residual risk level to as low as reasonably practicable.

3. Brief on Risks Faced by Ashiana

A brief on the risks faced by Ashiana is as follows:

i) Operational Risks for Ashiana

Operational risk is "the risk of a change in value of the company caused by the fact that actual losses, incurred for inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from the expected losses".

Major operational risks faced by Ashiana may be categorized as follows:

a) Risk related to land availability;
b) Risk related to the non-availability of labour;

c) Risks associated with expansion to new locations;
d) Risks associated with the ongoing projects;

Controllable Operational Risk:
These are the risks over which the management can exercise reasonable control in the sense that management can foresee these risks and plan remedial action for them. All the above risks except the risk related to statutory approvals fall in this category.

Uncontrollable Operational Risk:
Act of God, Change in Government Policies, War, Terrorist Attacks all fall in this category.

Ashiana's policy of dealing with operational risks

Operational risks, whether controllable or uncontrollable, cannot be diversified away completely as the risks associated with the operations are inherent. These risks can be mitigated by good planning and the strategic posture taken by the management in the event of any contingency.

As a policy decision every operational risk is identified and evaluated by the concerned department/ function before assuming the same. Management of risk can be done by adopting all or any of the techniques like Risk retention, Risk avoidance, Risk Transfer, Risk sharing, Risk combining.

Further, there is a system of risk reporting and controlling through MIS to senior management w.r.t. insurable risk of its interests.

Here the probability and impact of such risk is very low.

ii) Financial risks for Ashiana

The financial risk assessed by Ashiana primarily is liquidity risk which may be faced by the company. These risks may be categorized mainly into Diversifiable and Non-Diversifiable.

Controllable Financial Risk:

These are closely associated with the performance of the management. These risks are confined to the organisation only and has no direct or indirect bearing on the market in general.

Ashiana's policy of dealing with the Controllable Financial Risk

As a policy decision Ashiana does not foresee any financial risk due to the following unique attributes:
a) Ashiana predominantly likes to keep low capital deployment in land;
b) Ashiana spread the risk by partnering with land owners by way of area sharing, profit sharing or revenue sharing;
c) Ashiana believes product centric approach and has 'housing for middle income group' and 'active senior living';

d) Ashiana has In House Construction Facility and In House Sales Facility;
e) Further, the company has in place a vigil mechanism as part of the whistle blower policy alongwith the strong internal audit systems as part of the system to catch any fraud or any other financial irregularity beforehand.

Here the probability and impact of such risk is very low.

Uncontrollable Financial Risks:

Liquidity risks caused by market forces are generally beyond the control of any organisation or company. Market risks include the risks caused by the high inflation, monetary policy of the RBI, change in government policies, state laws etc.

Ashiana's policy of dealing with the Uncontrollable Financial Risks

As a policy matter this risk cannot be diversified away completely. However, in case of adverse situation only the strategic posture of the organisation/ company can provide a limited shield against the same.

Here the probability is very low but impact of such risk is high.

iii) Legal & Statutory Risk of Ashiana:

The risk of financial or reputation loss arising from regulatory or legal action, disputes for or against the company, failure to correctly document, enforce or adhere to contractual arrangements, failure to meet contractual obligations, failure to make required disclosures etc. all fall in this category of risk.

Controllable Legal Risk:

These are the risks which can be avoided or their impact can be mitigated by the management by adopting good reporting systems and due diligence beforehand.

Un- controllable Legal Risk:

Change in government policy, change in law, unforeseeable legal claim etc. falls in this category of risk.

Ashiana's policy of dealing with the legal risk

Though the legal risk is inherent while doing business, Ashiana is a system driven company. As a policy matter we take all the legal compliances and approvals before going for any project launch. We have been using registered trademark. Being a company listed on BSE & NSE there are more stringent disclosure compliances under the Listing Agreements, SEBI Act and other SEBI Rules & Regulations. Further, while drafting legal agreements of any sort, the mutual rights and obligations of the parties are clearly drafted which paves the way for clear transactions.

Here the probability is very low but the impact of such risk is high.

iv) Miscellaneous Risks of Ashiana:

Fraud, Moral Hazard, Morale Hazard, Riots, Security, Environmental Risks etc. all fall in this category. Further, these risks may be categorised in to controllable and uncontrollable.

Ashiana's policy of dealing with the miscellaneous risk

Ashiana has a system of regular reporting to exercise control over controllable risks. Further the company has a vigil mechanism and an Internal Audit system to have control over any such controllable event. However, uncontrollable risks cannot be taken care of. The only way out for uncontrollable risks is to take proper insurance cover for the same.

Here the probability is very low but the impact of such risk is high.

Internal Compliance & Control:

In addition to the risk management framework, the company has an internal compliance and control system based on the following:

- An internal audit program suggested by the Audit Committee;
- Reporting through MIS system;
- Compliance checklist system;

Further, the company has a number of control processes in place to help ensure that the information presented to senior management including the Risk Management Committee is both accurate and timely. These control processes include, among other things:

- Audit Committee Meetings;
- Secretarial Audit system;
- Quality control system;

Roles and Responsibilities of Different Authorities in terms of Insurance Management Programme:

The Board of Directors is responsible for:

- Approving and authorizing the Risk Management Policy.
- Formation of Risk Management Committee.
- Reviewing the reports on major deviations reported as part of the risk management program.

Risk Management Committee is responsible for:

- The Risk Management Committee, is responsible for developing the Company's risk management policy and risk management program as well as deciding its risk appetite and tolerances.
- Developing, implementing and monitoring the overall compliance with the Risk Management Policy to ensure that the system is in place to identify the principal risks to the Company and that the best practical procedures are in place to monitor and mitigate the risks.
- Overseeing development, administration and annual review of this Policy for approval by the Board of Directors.
- Identifying all significant risks to the Company's businesses and ensuring that procedures are established to mitigate the impact of the risks in the best interest of the company.
- Authorising for appointment or recommending the appointment of the insurance company as part of the risk management program.
- Developing and implementing risk management practices, systems, controls and business continuity plans for the Company, which are aligned with and complementary to the Policy.

The Branch Vice -Presidents are responsible for:

- Identifying risks and its reporting to the Risk Management Committee/CFO;
- Implementing the risk management practices, including mitigation strategies, systems, controls and business continuity plans specific to their respective Branch which are aligned with and complementary to the Risk Management Policy.

Maintaining risk management reports detailing the risks for the Branch and which will be available for consolidation at the corporate level.

Policy Authority

Unless otherwise noted in this Policy, any significant exceptions to this Policy require the approval of Senior Management and these exceptions will be reported at the next regularly scheduled meeting of the Board of Directors.

Operational Risk Related:

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f) It can also include other classes of risk, such as fraud, security, privacy protection, legal risks, physical (e.g. infrastructure shutdown) or environmental risks. Operational risk is a broad discipline, close to good management and quality management. Operational risks affect client satisfaction, reputation and shareholder value, all while increasing business volatility.

Contrary to other risks (e.g. credit risk, market risk, insurance risk etc.) operational risks are usually not willingly incurred nor are they revenue driven. Moreover, they are not diversifiable and cannot be laid off, meaning that, as long as people, systems and processes remain imperfect, operational risk cannot be fully eliminated.

Operational risk is, nonetheless, manageable as to keep losses within some level of risk tolerance (i.e. the amount of risk one is prepared to accept in pursuit of his objectives), determined by balancing the costs of improvement against the expected benefits.