EDELWEISS FINANCE

&

INVESTMENTS LIMITED

RISK MANAGEMENT POLICY

Version Control

Version	Approving Authority	Description	Owner of Policy
1.0	To be approved by the Board of Directors at its meeting scheduled on October 21, 2021	Risk Management Policy in accordance with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2021 dated August 10, 2021.	Risk Department

Risk Management Policy

Regulatory and Statutory Reference

Section 134 (3) of the Companies Act, 2013, requires Companies to include in their Board's Report, a Statement indicating development and implementation of a Risk Management Policy for the Company, including identification therein of elements of risk, if any, which, in the opinion of the Board, may threaten the existence of the Company.

Furthermore, Regulation 21 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("Listing Regulations"), requires that the Company set out procedures to inform the Board of risk assessment and minimization procedures and makes the Board responsible for framing, implementing, and monitoring the risk management plan of the Company.

Purpose

The purpose of this document is to encapsulate the Risk Management Policy of Edelweiss Finance & Investments Limited ('the Company') towards risk management and the guidelines and procedures to be followed by the Risk Management department for achieving the following objectives:

a. To enumerate the key risks in the business and lay down steps on how they are managed and mitigated.

b. To define a clear and simple procedure for risk management relating to equity and derivative trades.

c. To ensure consistency, uniformity, zero errors and transparency in various risk related activities.

d. To assist in faster turnaround time thereby ensuring higher customer satisfaction and higher revenues

e. Business Continuity Plan.

Background

The Company is a wholly owned subsidiary of Edelweiss Securities Limited and a part of the Edelweiss Wealth Management (EWM) business. The Company is registered as a Non-Banking Financial Company not accepting public deposits with the Reserve Bank of India. The Company's products and services span multiple asset classes and consumer segments across domestic geographies.

The Company's key line of businesses can be classified into - Advancing loans against securities; ESOP financing; Margin Trade Financing; Special Situation Financing; Providing Unsecured Loan and Trading and Investment in the Securities. Given the diversity of businesses, the Company is exposed to various risks like Credit Risk, Market Risk, Liquidity Risk, Compliance Risk, Technology Risk, amongst others.

For the Company, Risk Management is a discipline that forms its core and encompasses all the activities that affect the Company's risk profile. It involves identification, measurement, monitoring and controlling risks to ensure that:

a. The individuals that have key decision making authority clearly understand the risks involved.
b. The Company's risk exposure is within the limits established by the Regulator and the Board of Directors.
c. Key decisions are in line with the business strategy and objectives set by the Board.
d. Sufficient capital available, at all times.
e. There is a continuous monitoring process that evaluates and controls the risks.

The acceptance and management of various risks is inherent to the Company's business and its role as a financial intermediary.

Risk Management Philosophy

The Company has laid down 13 guiding principles to ensure that each employee is guided by a common vision and values that define the Company, breathing life into our credo – Ideas Create, Values Protect. **"We will respect risk"** has been laid down as one of the key Guiding Principles to ensure Risk Management is embedded in the culture of the Company.

The Company's philosophy is that Risk Management is an "individual and collective responsibility" and each employee should believe in "owning the risk".

Risk Management Strategy

The Company's risk management strategy starts with evaluating all the decisions based on the following two questions that we put to ourselves.

"Is it worth it?" and "Can we afford it?"

The strategy at an execution level is supported by -

a. Four-tiered risk management structure to manage and oversee risks

b. Risk Management framework to ensure each risk the Company is exposed to is given due importanceand is effectively managed

c. Defined exposure limits and thresholds for businesses to operate

d. Well-defined Standard Operating Procedures and Product approval framework to ensure risks are mitigated at operational level

e. Adequate segregation of duties to ensure multi-layered checks and balances

f. Exception reporting framework to ensure process and policy deviations are adequately addressed

Risk Management Structure

To support the risk strategy and effective risk management, the Company has in place a **"Four-tiered risk management structure"**. The risk structure is enumerated below:

a. **Three Lines of Defence -** for accountability, oversight, and assurance

b. **Risk Department** – owns and manages the risks and are responsible for implementation of the risk management framework

c. **Risk Head + Business Head** – is responsible for risk culture and risk aggregation, monitoring,oversight, provide assurance on effective risk management

d. **Credit Team** – is responsible for ensuring that company adheres to defined risk framework and reviews certain high impact risk events

e. **Investment Committee -** is responsible for defining Company risk framework and reviewing high impact risk events.

f. **Board of Directors and Risk Committees** – for overseeing the effective risk management across thebusiness of the Company, the current governance structure is set out below:

- Credit Team
- Investment Committee
- Risk Management Committee

Roles and Responsibilities

Risk Department

The Risk Department is the first line of defence and reports into the Chief Risk Officer. The following are its roles and responsibilities:

- Implementation of risk framework
- Defining risk policies and limits for various products
- Continuous monitoring of risks and ensure adherence to policies

Board and Risk Committees

The Board and the various Risk Committees which comprise of the following Committees serve as the key risk bodies of the Company:

Investment Committee and Credit Team

The Investment Committee and Credit Team takes all relevant credit related decisions. These are businessspecific committees/teams with defined parameters ala participation quorum, exposure threshold and oversight by central teams.

Asset Liability Management Committee

The Asset Liability Management Committee (ALCO) has been constituted to monitor the asset liability gap and strategize action to mitigate the risk associated and ensure availability of adequate liquid resources with a view to keep maturity mismatches in the Balance Sheet of the Company within desired levels

Risk Management Committee

The Risk Management Committee is the overseeing body for Risk Management at the Board level comprising majority of the Directors of the Company.

Responsibilities of the Risk Management Committee

The Risk Management Committee shall have the following responsibilities:

a. to formulate a Risk Management Policy;
b. to approve the framework for identification of internal and external risks, including financial, credit, operational, sectoral, liquidity, sustainability (particularly, ESG related risks), information, cyber security risks and any other risk as may be determined by the Committee;
c. to ensure that appropriate methodology, processes, internal controls and systems are in place to identify, measure, monitor, control, mitigate and evaluate risks associated with the business and functioning of the Company;
d. to review the procedures for managing and mitigating the risks through integrated risk management systems, strategies and mechanisms;
e. to verify the models that are used for risk measurement from time to time;
f. to review compliance with risk policies, monitor breaches / triggers of risk tolerance limits and direct action.
g. to review and monitor the business continuity plans.
h. to promote an enterprise risk management competence throughout the organisation, including facilitating development of IT-related enterprise risk management expertise;
i. to review the establishment of a common risk management language that includes measures around likelihood, impact and risk categories;
j. to monitor and oversee the implementation of the Risk Management Policy, including evaluating the adequacy of risk management systems and other policies including Anti Money Laundering and KYC (Know Your Customer) policies;
k. to assist the Board of Directors in its oversight of various risks;
l. to keep the Board of Directors informed about the nature and content of its discussions, recommendations and the actions that need to be taken by the Company;
m. to review the appointment, removal, and terms of remuneration of the Chief Risk Officer;
n. to periodically review the Risk Management Policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity and recommend the same to the Board for its approval.

Responsibilities of the Board of Directors

The primary role of the Board of Directors will be to have a Risk Oversight of management and corporate issues that affect Risk. The Board can fulfill the role of Risk Oversight by:

a. Developing policies and procedures around risk that are consistent with the Company's strategy and risk appetite;
b. Take steps to foster risk awareness;
c. Encourage a culture of risk adjusting awareness.

Role of Risk Management Department

The Company has a Risk Management department to assist in day to day monitoring of Risks. The Risk Management department shall be primarily responsible for:

a. Assisting in development of and manage processes to identify and evaluate business areas risk and risk and control self-assessments.
b. Ensuring implementation of Risk Management Framework across business lines.

Role of Chief Risk Officer

The Chief Risk Officer (CRO) acts as the custodian of risk and is responsible for ensuring adherence to risk framework and timely escalation of key risk matters as required. Role of Chief Risk Officer includes following:

a. To identify, measure and mitigate risks
b. To vet all credit products from the angle of inherent and control risks
c. To decide credit proposals in the role of an adviser.

Role of ALCO

The role of the ALCO includes the following:

a. To monitor the asset liability gap
b. To strategise the action to mitigate risk associated with the asset liability gap
c. To develop risk policies and procedures and verifying adherence to various risk parameters and prudential limits
d. To review the risk monitoring system
e. To ensure that credit exposure to any one group does not exceed the internally set limits as well as statutory limits set by RBI.

Role of Credit Team/Investment Committee

Credit Team and Investment Committee help the Risk Management Committee and Board of Directors to have an oversight on key risk matters. The role of the committee/team includes following:

a. to evaluate and approve high ticket transactions
b. to ensure adequate policies and frameworks are in place and those are in the best interest of the company
c. to review credit performance and recommend course correction where required
d. to keep the Board of Directors updated on credit performance and other important matter
e. to invest the surplus funds of the Company from time to time in bonds, debentures, mutual funds, debt instruments etc.;
f. to invest the funds of the Company in various financial products, with or without security, for such period and on such terms and conditions, as the Committee may deem fit and proper; and
g. to give on behalf of any Body Corporate, any guarantee, or provide security in connection with a loan made by any other person to or to any other person by any body corporate.

Risk Management Framework

The Company has adopted the following "Eleven Key Risk Framework" in line with its strategy and external environment:

Business Risk

Business risk is defined as potential of value erosion because of failure of strategy, execution or adverse change in environment and it includes strategy/execution risk and external environment risks.

Credit Risk

Credit risk is defined as the risk of loss arising due to current/potential inability or unwillingness of a customer or counterparty to meet financial / contractual obligations. It includes Credit Quality, Collateral and Cash Flow risks as its principal categories.

Market Risk

Market risk is defined as the risk of loss in trading books resulting from adverse movements in marketvariables and instruments. It includes Underlying Price risk, Volatility risk and Impact Cost risk as its principal categories.

Liquidity Risk

Liquidity risk is defined as the risk of not being able to meet financial obligations and it includes AssetLiquidity risk and Liability refinancing risk as its principal categories.

Regulatory Risk

Regulatory risk is defined as the risk of not adhering to the letter and spirit of laws and regulations leading to fines or other penal action. It includes Legal, Governance, Vigilance, Fiduciary, and Data Integrity as its principal categories.

Reputation Risk

Reputation risk is defined as the risk arising from negative perception about the Group on the part ofstakeholders that can adversely affect the ability to maintain existing or establish new business relationships.

Technology Risk

Technology risk is defined as the risk of loss due to technology failures such as information security incidents or service outrages that can disrupt business. It includes Cyber Security Risk, Resilience, Scalability and Project risks as its principal categories.

Operational and Process Risk

Operational and Process risk is defined as the risk of loss resulting from inadequate or failed processes,system controls or human negligence. It includes process risk, human error, system error and outsourcing risks as its principal categories.

Fraud Risk

Fraud risk is defined as the activities undertaken by an external/internal individual or entity that are done in a dishonest or illegal manner and is designed to give an advantage to the perpetrating internal/external individual or entity. It includes Employee Fraud, Customer Fraud and Third-Party Fraud as its principal categories.

People Risk

People risk is defined as the risk that will arise as a consequence of not having the right people with the right skills/competencies at the right time to deliver business strategies aligned for current and future growth as per the organizations, values, work ethics and culture. It includes talent andavailability, people capability, ethics, and culture as its principal categories.

Physical and Infrastructure Risk

Physical and Infrastructure risk is defined as the risk of loss due to failures and/ or disruption of basic services, infrastructure, and facilities on account of natural calamity or manmade disaster, including safety of employees. It includes Safety of Employees and Damage to Physical Assets as its principal categories.

Each of the above risks have clearly defined risk categories and sub-categories.

Risk Management Process

Risk Management is an essential component of our daily business activities. Hence, the Company has adopted an effective risk management process to ensure all key risks are identified.

The Company has adopted both top to bottom and bottom to top approach for risk identification -

- **Top to bottom approach** - Discussions, surveys, and interview sessions with the Senior Management
- **Bottom to top approach** - Process reviews, incident reporting and other meetings and discussionsat execution and mid management level.

The Company also conducts **"Unknown Risk"** workshops, on need basis, to identify low probability high impact risks and formulate appropriate mitigation plan to control these risks. Each risk event is mapped to the risk category, sub-category, and primary risk vector. The risk event passes through the risk management lifecycle covering assess, avoid, mitigate, and manage. Details mentioned below:

Assess

Risk events identified are assessed at an inherent risk. Depending upon the criticality and impact is classified as High, Medium, and Low. The impact assessment will consider various factors like financial impact, regulatory impact, reputation impact etc. and may vary from business to business.

Avoid

The Company avoids risks which are not in alignment to its risk philosophy. For example:

- **Financial risks** – The Company avoids taking exposures in the individuals and companies who are in the negative list. The negative list will comprise of companies and individuals who are in regulatory debarred list, internal or external defaulter list and/or involved in fraudulent activities etc. The listis updated on a periodic basis.
- **Non-financial risks** – The Company avoid dealings which are in violation to laws of the land both in letter and spirit and detrimental to its reputation

Mitigate

Depending upon the type of risk and its quantum, the Company uses different types of tools and techniques for mitigation of risks viz Governing Controls, Preventive Controls & Detective Controls.

For example:

- **Financial risks** are mitigated through counterparty/client assessment before any exposure is taken, and defined product/program level risk limits to ensure exposure does not exceed risk appetite.
- **Non-financial risks** viz technology, operational, fraud etc. is mitigated through process documentation defining clear ownership for each activity, having adequate system/process level controls like maker-checker, reconciliation, testing and reviews.

- **Enterprise level risks** viz. technology, compliance, regulatory, etc is controlled through policies and framework, educating employees through trainings and risk socialization sessions.

Manage

The Company ensures there is adequate reporting and escalation mechanism put in place to ensure risksevents which get materialized or have the high possibility of getting materialized are effectively managed and in a time bound manner, so that the impact can be curtailed.

To ensure effective management of risk events, the Company performs daily monitoring of various risk exposures so that necessary actions can be taken as per need. Also, breaches to the process and policies are monitored in the form of exceptions. The monitoring is across levels ala client, product under all risk scenarios.

Risk Management Tools

The Company has adopted various risk management tools and methodologies to support its riskmanagement framework, and to be an enabler for proactive risk management. Some of the tools are:

- Product Approval System (PAS)
- Risk and Control Self-Assessment (RCSA)
- Exception reporting and Root Cause Analysis (RCA)
- Core NBFC System
- BCP-DR

Product Approval System

Any relevant new product/s launched by the Company goes through an approval process to ensure all the risks are identified and adequate controls are put in place before the launch. The approval is processed through the system and needs to be approved by Risk, Compliance, Legal and other relevant teams. Further, the any new products launch pass through Proof of Concept (PoC) stage before the full-fledged launch.

Risk and Control Self-Assessment (RCSA)

RCSAs are used for recording various non-financial risks at various process stages and its controls available to mitigate the risks. In addition to risk recording, it is also used to assess the need for additional controls and change in process, if required.

Exception reporting and Root Cause Analysis (RCA)

a. The Company follows incident/exception reporting mechanism to ensure that deviations to the policies and processes, if any, are reported on a timely manner on the system. The incidents reported are classified as High, Medium, and Low.

b. A detailed Root Cause Analysis is performed for incidents which are classified as High and are reported to the CEO/ Business Head, with defined mitigation plan.
c. The exceptions reported in the system are used as feedback to improve processes, controls and analyze the emerging risks. Thematic Reviews can be conducted based on the exception trends, to ensure that gaps in processes are effectively plugged.
d. The Company has independent reporting channels like Whistleblower to ensure that fraud and other conduct related incidents get reported to facilitate anonymity in reporting, wherever required.

Core NBFC System

The Company has an in-house built core system in place for client on-boarding, disbursement, collateral valuation and monitoring of loans. The system is robust and has multiple checks and balances in place so as to avoid any operational risk. End to end client lifecycle is managed via the core system.

Business Continuity Planning – Disaster Recovery (BCP-DR)

The Company shall ensure that robust BCP-DR is in place with complete data back-up without any data loss. In an adverse event, the back-server should be functional within an hour without data loss of any kind. The BCP should be tested periodically and live BCP drills conducted with participation from all departments.

Risk Culture

Risk Culture is of paramount importance to the Company. The Company believes that culture protects when policies and processes fail. The Company periodically evaluates its risk culture through various means like conducting surveys and employee engagement programs. The Company takes multiple initiatives to improve and maintain Risk Culture through Risk Education and Awareness Programs on a continuous basis. Appropriate risk behavior is recognized and applauded through specific reward and recognition programs.

Risk Appetite

The Company has its risk appetite established in line with the strategic objectives and business plans. The risk appetite is reviewed and monitored by the respective Business Heads and Risk Committees.

The Company's risk appetite is aligned to its Guiding Principles:

- "Our Reputation is more important than any financial reward"
- "We will respect risk",
- "We will obey and comply with all the rules of the land", and
- "We will be fair to our clients, our employees and all stakeholders"

Review of the Policy

The Board shall review and amend the Policy periodically as may be deemed necessary, keeping in view the business environment, the performance of the Company, regulatory requirements, and otherrelevant external factors.

****