IIFL WEALTH PRIME LIMITED

RISK MANAGEMENT POLICY

The document aims to define the broad risk guidelines for IIFL Wealth Prime Limited. This document is applicable to all business activities undertaken by IIFL Wealth Prime Limited.

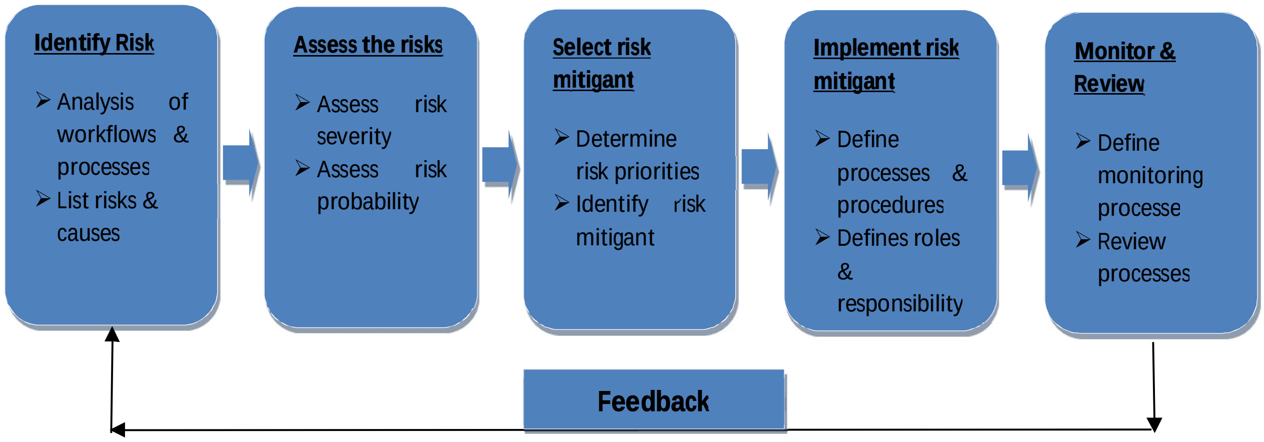
Version 6 – October 26, 2021

Introduction:
IIFL Wealth Prime Limited (formerly known as IIFL Wealth Finance Limited). is a Non-Banking Financial Company – Non-Deposit Taking Systemically Important (NBFC-ND-SI) registered with the Reserve Bank of India (hereinafter referred to as "IIFLW Prime"). The product range of the company includes Mortgage (Loan against Property), & Capital Market related products (Loan against Shares, Margin Funding, etc.).

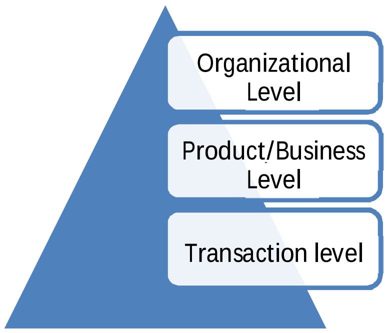
Abbreviations and Definitions:

AE	Aggregate Exposure
CAN	Credit Appraisal Note
CAP	Corrective Action Plan
CIBIL	Credit Information Bureau (India) Limited
CRILC	Central Repository of Large Credits. Reporting is to be done to CRILC as per regulatory norms
GBL	Group Borrower Limit as per regulatory norms, 25% of net owned funds
IIFLWP	IIFL Wealth Prime Limited
IPO	Initial Public Offer
IRDA	Insurance Regulatory and Development Authority
JLF	Joint Lenders Forum
KYC	Know Your Customer / Client
LAS	Loan Against Shares/ Securities
NBFC-ND-SI	Non Deposit Accepting Systemically Important Non-Banking Financial Company
NPA	Non-performing Assets, loans or receivables which are overdue and classified as NPA as per RBI Prudential norms
PMLA	Prevention of Money Laundering Act
RBI	Reserve Bank of India
RMU	Record Management Unit
SBL	Single Borrower Limit, 15% of net owned funds as per RBI Prudential norms
SEBI	Securities and Exchange Board of India
SMA	Special Mention Accounts – to be reported to the RBI as per the RBI Master Circular on Miscellaneous Instructions to Non-Banking Financial Companies dated 1st July 2015
SOPs	Standard Operating procedures
The Policy	IIFLW Prime Risk Management Policy

Risk Assessment & Controls:
IIFLW Prime has in place a robust and well defined risk assessment and control policy that drives all its core businesses. IIFLW Prime has strong risk management framework where every employee of IIFLW Prime is actively responsible for risk management. The risk management process is self-evolving:



This Policy caters to both product/business specific guidelines and works within the overall risk framework for the organization. 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.



The risk controls in place at each of the above stated levels are described in detail in the following section:

(A) ORGANIZATIONAL LEVEL:

Important key risk controls put in place for the overall business are as follows:

1. As per the policy mandated, secured loans are provided – the product bouquet comprising of Mortgage Loans and Capital market funding are all backed by strong and valid collateral. Unsecured loans can be extended with a cap of 10% of overall portfolio.
2. The multiple/diversified product lines ensure risk mitigation.
3. Large Mortgage Loans book is restricted to 25% of the overall assets, thereby leading to control over client concentration & ensuring retail focus
4. All products are governed by product level policies and / or Standard Operating procedures (SOPs) that are duly approved by the Board.

5. Further, there is strict adherence to the Single Borrower Limit (SBL) & Group Exposure norms for loans as stipulated by RBI i.e. 15% & 25% of owned funds respectively.
6. Regulatory Compliance is ensured with a strict "no tolerance" policy for any kind of intentional regulatory breaches.
7. IIFLW Prime also aims to ensure fair dealings devoid of any fear or favour with all stakeholders including customers, vendors and employees.

(B) PRODUCT / BUSINESS LEVEL:

Further, various controls and measures have been put in place at product level that help control product level exposures:

1. There are Board approved Product level policies for Loan against Shares, Loan Against Property and Unsecured loans.
2. Exposures against various segments are tracked to ensure that risk is not concentrated in a single segment. These segments include variables like the borrower's industry, profile, collateral, etc.
3. Unsecured exposure cannot exceed 10% of overall portfolio.
4. The business is sourced from geographically well spread out distribution channels.
5. All credit authorities are centrally managed and granted as part of Board approved Product polices, based on experience and performance., .
6. All loan files, as well as other critical documents like Property Papers, Invoices, Registration Certificate (RC), etc. are stored in a Record Management Unit (RMU). The RMU is equipped with storage and security facilities that ensure that the documents are stored in clean, safe and hygienic conditions and they remain protected from any kind of damage, mutilation etc. The compound is equipped with CCTV cameras, restricted access, fire resistant vaults etc.
7. Collateral that is acceptable is defined in the product policies, including the haircut that is applicable to various collateral
8. Collateral insurance is done on best effort basis for all Mortgage lending products, . This ensures that the collateral being so financed is protected and safe guarded against fire, earthquake etc. as per prevailing IRDA guidelines (for Mortgage).

(C) TRANSACTION LEVEL:

1. Strict adherence to RBI stipulated guidelines on Know Your Customer (KYC), Prevention of Money Laundering Act (PMLA) etc. whereby all our customers pass through the KYC requirements as well as all clear all negative databases as circulated by the various government bodies.
2. All IIFLW Prime customers are involved in a face-to-face interaction with an authorized IIFLW Prime employee, thereby ruling out risks of funding any suspicious individual etc.
3. The credit approval process is multi-tiered based on the quantum and type of approval sought. The credit approval matrices form part of the board approved product policies.
4. All credit proposals are backed by Credit Appraisal Notes (CANs) which provide the rationale behind the lending decision. The CANs also covers the key risks with mitigation and the exceptions to the Product policy, if any. For IPO Financing, approvals provide an annual upper limit per funding per borrower.
5. CIBIL score, Willful defaulters list, World Check, SEBI Debarred list and Watchout Investor are checked for each borrower to evaluate credit history.

6. The collateral in all cases passes through verifications and due diligence to ascertain validity of ownership and true and fair value to ensure creation of a valid mortgage/ hypothecation/ pledge/ charge against the collateral.
7. Collateral provided in the form of securities (LAS transactions) are regularly monitored and margin calls are made where there is a shortfall
8. Receivables are tracked and reminders for outstanding dues are sent to clients. Senior Managers may take a decision to invoke the collateral put on lien to IIFLW Prime and recover the dues by liquidation. Reporting of Special Mention Accounts (SMA) and Non-performing assets (NPA) would be done to the board of directors / Central Repository of Large Credit (CRILC) / RBI as per RBI Directions/ Guidelines. Where it is known that the aggregate exposure (AE) of the borrower (that has continuing outstanding dues to IIFLW Prime) is beyond INR 100 Crore, the Company would be part of the Joint Lenders Forum (JLF) formed with other lenders for monitoring the credit and arriving at a Corrective Action Plan (CAP). However, this will depend on the availability of information on this from the CRILC.

Risk associated with outsourcing of activities:

The following are the key risks associated with outsourcing and their mitigations.

Sr. No.	Type of Risk	Risk Mitigation
1	Strategic Risk – Where the service provider conducts business on its own behalf, inconsistent with the overall strategic goals of the NBFC.	All Critical functions viz Account Opening, Finance, Risk Management and Information Technology are being outsourced to the parent company i.e IIFL Wealth Management Limited, so this will mitigate Strategic Risk, Reputation Risk and Compliance Risk.
2	Reputation Risk – Where the service provided is poor and customer interaction is not consistent with the overall standards expected of the NBFC.	
3	Compliance Risk – Where privacy, consumer and prudential laws are not adequately complied with by the service provider.	
4	Operational Risk- Arising out of technology failure, fraud, error, inadequate financial capacity to fulfil obligations and/ or to provide remedies.	While IIFLWP has its own Operations team, they rely on IIFL Wealth's Operations, IT, Legal and Risk Management teams for support, including for such matters as BCP / DR plans and arrangements. Further, internal auditors look at the efficacy of process controls in different areas on a quarterly basis.

5	Legal Risk – Where the NBFC is subjected to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements due to omissions and commissions of the service provider.	While at present, no function other than the conduct of internal audit is outsourced to parties other than the parent company (IIFL Wealth Management Ltd), it will be ensured that outsourcing arrangements are backed up by proper legal agreements that clearly set out the expectations from the service provider and its obligations if it fails to deliver. Should there be outsourcing of important activities to external parties in the future, we will ensure that the operations of these service providers, as relevant to IIFLWP, are covered by Internal auditors also. We also have in-house Compliance and Secretarial teams within IIFLWP which get support from the parent company's Legal, Compliance and Secretarial teams. IIFLWP also has an in-house customer service team that handles customer queries on their borrowing transactions and margin positions.
6	Exit Strategy Risk – Where the NBFC is over-reliant on one firm, the loss of relevant skills in the NBFC itself preventing it from bringing the activity back in house and where NBFC has entered into contracts that make speedy exits prohibitively expensive.	Not Applicable for IIFL Wealth Prime Limited at present, since the major functions are outsourced to the parent company.
7	Counter party Risk – Where there is inappropriate underwriting or credit assessments.	The company has an in-house Credit Risk Management Team, which does due diligence before grating a loan to any person. That apart, large credits are taken to a Credit Committee consisting of senior executives, and beyond a certain threshold to a Board level Committee.
8	Contractual Risk – Where the NBFC may not have the ability to enforce the contract.	The IIFL Wealth group has an in house legal team to deal with Contractual Risk. We will ensure that outsourcing arrangements are covered by proper agreements that lay out deliverables and consequences of failure.
9	Concentration and Systemic Risk – Where the overall industry has considerable exposure to one service provider and hence the NBFC may lack control over the service provider.	Not Applicable for IIFL Wealth Prime Limited. Since, the major functions are outsourced to the parent company.

10	Country Risk – Due to the political, social or legal climate creating added risk.	Not Applicable, the company is not investing or deploying loan in overseas jurisdictions.

As required by RBI Notification No. DNBR.PD.CC.No.090/03.10.001/2017-18 dated November 09, 2017, IIFLWP has drafted an Outsourcing Policy (referred to as 'the Policy' in the following paragraphs), that facilitates sound and responsive risk management practices while outsourcing.

Section 5 of the Policy states that the departments of the Company availing outsourcing activity shall look into the above broadly classified risks and also look into any other incidental risks attributable to it along with risk mitigation views and submit the same to Risk Management Committee for their necessary evaluation and clearance before final award of contract.

Section 7 of the Outsourcing Policy lays down the due diligence process that needs to be undertaken to assess the capability of the service provider to conduct the activities proposed to be outsourced.

Sections 11 and 12 of the Policy specify the matters that must be covered in the outsourcing agreement.

Section 14 of the Policy deals with monitoring and control of outsourcing arrangements, It envisages a central repository of outsourcing arrangements, and at the least an annual review of the financial and operational condition of the service provider to assess its ability to continue to meet its outsourcing obligations. Such due diligence reviews should highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.

Outsourced processes / operations will also be subject to internal audit by internal auditors of IIFLWP and this will be incorporated into the outsourcing agreement.

Risk Governance:

At IIFLW Prime; we believe "Effective Risk Management begins with Effective Risk Governance".

IIFLW Prime has a well-defined and evolved risk governance structure, with an active and engaged Board of Directors supported by a veteran Senior Management Team. Decision making is centralized through a number of senior and executive committees. Decision making levels are based on the Company's objectives and risk tolerance limits. Strategies, policies and limits are designed to ensure that risks are prudently diversified. Risk mitigating activities are reviewed periodically by senior management and further at the Board. This policy will be reviewed annually.