



IIFL WEALTH MANAGEMENT LIMITED

RISK MANAGEMENT POLICY

Abridged Summary for Public Disclosure

July 2022

Version 1

1. Introduction & Objectives of the Policy:

Over time, IIFL Wealth Management Limited (“IIFLW”) has evolved to offer different products and services on the single integrated platform, viz., Stock and Commodities Broking, Asset Management, Insurance broking, Trusteeship and Family Office, Investment Advisory, and Lending Solutions, apart from distribution of financial products.

The Lending, Broking and Asset Management entities have adopted Risk Management Policies for their respective businesses. This Risk Management policy is at an IIFL Wealth Management group level. Thus, this policy documents the procedures for group level risk management (taking into account exposures / conflicts / best practices across subsidiaries and entities).

This Policy covers the following businesses /entities, that are part of the IIFL Wealth Management platform:

- **IIFL Wealth Management Limited -**
 - Investment Banking
 - Overall corporate governance
- **IIFL Asset Management Ltd (IIFL AMC) -**
 - Mutual Fund (MF)
 - Alternative Investment Fund (AIF)
 - PMS
- **IIFL Wealth Portfolio Managers Ltd**
 - Alternative Investment Fund (AIF)
 - PMS
- **IIFL Wealth Prime (for aspects not covered in their Risk Management and Product policies)**
 - Lending
 - Distribution
- **IIFL Wealth Capital Markets Ltd**
 - Distribution
- **IIFL Wealth Distribution Services Ltd**
 - Stock and Commodities Broking
 - Depository Participant
- **IIFL Investment Advisers and Trustee Services Ltd (IATSL) -**
 - Advisory
 - Trust (Family Office)

The policy also covers Risk Management relating to the Central Treasury function, insofar as this is not covered by the Treasury Manual for IIFL Wealth Prime Ltd.

2. Definitions:

The Policy	Risk Management Policy
The Company	IIFL Wealth Management Limited including its subsidiaries.
AIF	Alternative Investment Fund
MF	Mutual Fund
PMS	Portfolio Management Services
Broking, DP and RA	Stock and Commodities Broking, Depository Participant and Research Analyst Services
IA	Investment Advisory Services

3. Existing Risk Management Policies:

The following Risk Management Policies exist at the constituent business/ entity levels:

- **IIFLW Prime:**
 - IIFLW Prime has product-level Credit policies for Loan against Securities (LAS), Loan against Property (LAP), IPO Financing and Unsecured Lending. These contain authorization levels, limits around Loan-to-Value (LTV), Lending covenants, collateral quality and borrower characteristics.
 - IIFLW Prime has a Treasury Manual that deals with its proprietary investments and Treasury Operations.
 - IIFLW Prime has a KYC Policy that covers KYC procedures and customer acceptance.
 - IIFLW Prime also has a Risk Management Policy that covers overall governance, controls over lending and transactions and key risks and mitigations.
 - IIFLW Prime has a Fraud Risk Management Policy.
 - Business Continuity/ Disaster Recovery Policy (BCP/DR).
 - Information Technology Policy.
- **Broking:** Broking is housed in IIFL Wealth Distribution Services Ltd and has its own Risk Management policy that covers both Stock and Commodities broking.
- **Asset Management:**
 - Investment Policy for MF
 - Risk Management policy for Mutual Funds

- Stress Testing Policy – Debt MF
 - Credit Risk Policy MF
 - BCP / DR Policy for MF
 - Risk Management Framework for AIFs
 - Investment Policy for PMS
 - Investment Policy for AIF
- **At a Group-level:** Apart from the above, the following policies exist at a Group level and mitigate various risks:
 - Media and Social Media Policy.
 - IIFL Wealth Fraud Risk Management Policy.
 - IIFL Wealth Whistleblowing Policy.
 - Information Security Policy.
 - Employee Code of Conduct.
 - Business Continuity/ Disaster Recovery Policy (BCP/DR).
 - Conflict of Interest Policy
 - Whistleblowing Policy

4. Risk Governance Structures Across the Group:

Based on the requirements of each business, there are various risk governance committees/ structures that have been put into place:

- The three lines of defence from a Risk Management perspective are:
 - Frontline operational / sales managers who follow rules, policies and procedures.
 - Risk Management department(s) and Committees.
 - Internal Audit, that checks whether control processes are adequate and operational.

4.1 Risk Management departments -

- There is a **Risk Management department** at the **IIFL Wealth Management** level. The Head – Risk Management reports to the Chief Operating Officer (COO) and attends all Risk Management Committee meetings and Audit Committee meetings of the Board where Risk Management metrics and key risks and mitigations are discussed and internal audit reports are placed, respectively.
- **AMC risk** is looked at by a dedicated Risk Manager, who also reports into the COO .

- **Broking has its own mid-office team**, which monitors margins and open positions pending settlement and makes margin calls whenever necessary.
- **IIFL Wealth Prime** has its own Risk Management department that monitors credit positions vis-à-vis collateral

4.2 Risk Management Committees -

4.2.1 Board level Committees

- (i) The overall monitoring of Risk Management at an IIFL Wealth group level is conducted by a Board level **Risk Management Committee (RMC) of IIFL Wealth Management Ltd** consisting of Directors nominated to the Committee by the Board. The Chief Operating officer and Head – Risk Management are permanent invitees, with representation from other functions as and when required.

The RMC looks at the following areas:

- A framework for identification of internal and external risks specifically faced by the IIFL Wealth Management Ltd (including its subsidiaries), in particular including financial, operational, sectoral, sustainability (including ESG related risks), information, cyber security risks and any other risks as may be determined by the Committee.
- Sustainability and Business Continuity Planning
- Key Risk Issues and mitigating actions, including adequacy of Risk Management system
- Key Risk Metrics
- Update on cases brought before the Conflict Resolution Advisory Board
- Operating Events (errors / frauds)
- ESG risks, if any
- New products launched and product performance summary
- Legal cases update

These are presented to the Committee by the Head – Risk Management

The RMC meets at least on a half yearly basis, or as and when required to discuss urgent matters.

The RMC will also review this policy at least once in two years.

- (ii) There is also a **Risk Management Committee** for **IIFLW Prime** consisting of Directors nominated to the Committee, with the MD & CEO, COO, Head- Credit and Head -Risk Management as permanent invitees.

This looks at such things as portfolio constitution (into LAS, LAP and unsecured), top borrowers, closely monitored accounts, investment details (issuers, tenor), margin of safety available in collateral, etc.

- (iii) IIFLW Prime has a board-level **Asset Liability Management Committee (ALCO)** consisting of Directors appointed to the Committee by its Board, and it functions as per the IIFLW Prime ALCO policy.

4.2.2 Management Committees

- There are **AML Committees** that have been put into place for IIFL Wealth, IIFL AMC and IIFLW Prime. These are cross functional committees with reres guided by the AML Policies at an entity level, to evaluate risks from an Anti-money laundering perspective prior to client acceptance and onboarding. Members are appointed by the business heads of the respective companies.
- There is an **Operating Committee** at an IIFL Wealth Management level chaired by the COO and consisting of all Function Heads that looks at any cross-functional / pan-organisation matters (eg audit issues, business continuity, critical projects).
- There is a cross-functional **Product Approval Committee** at the IIFL Wealth Management (group) level consisting of the MD & CEO and members appointed by him, with representation from Risk Management, Compliance and Credit. This looks at approval of complex products (other than mutual fund schemes) sold to clients. IIFL Wealth Management has a Product team that does the initial research and screening of products.
- There is an additional **Customer Acceptance Committee** for the Trustee business chaired by the MD & CEO, that looks at customer acceptance in this business, given its close involvement with the client's family businesses and assets
- There are **Credit Approval Committees** in IIFLW Prime that approve loans based on certain limits, as given in the product policies for LAS, LAP, IPO and Unsecured Lending.
- There is an **MF Risk Management Committee**, formed as per the MF Risk Management Policy that looks at such things as open Internal Audit observations, BCP / DR testing, asset allocation deviations and portfolio downgrades.

- There is the **MF Investment Committees** formed for MF investments, as per the MF Investment Policy which looks at portfolio review, approval for new Debt issuers being added to the debt universe and performance.
- **PMS and AIF Investment Committee** has been set up, as per the PMS and AIF Investment Policies to look at investment performance and asset allocation deviations. Certain AIF schemes have their own dedicated Investment Committee, formed as per the terms of their respective PPM.
- **Vigilance Committee:** In order to improve governance, we have also instituted a strong Whistle blower mechanism backed by a policy that promises that no action will be taken against a whistleblower, and providing multiple channels (email / website / phone) managed by an external service provider (for complete independence) through which employees can record complaints and grievances, anonymously, if they choose to remain so. All whistleblowing complaints are tracked and investigated by a Vigilance Committee chaired by the Chief Operating Officer of the IIFL Wealth Group, with representation from Human Resources, Risk Management, Compliance and Business.

Our whistle blower mechanism is meant to facilitate reporting of unethical behaviour, actual or suspected fraud, or violation of the Company's code of conduct and ethics.

- **Conflict Resolution Advisory Board (CRAB):** Another key aspect of governance is managing and resolving conflicts of interest that may arise. We have a Conflict of Interest Policy that was redrafted under the guidance of the Risk Management Committee, under which a Conflict Resolution Advisory Board (CRAB) was formed, consisting of senior executives. Guidance has been provided in the policy on the types of transactions that are covered (e.g. transactions between an employee and a group entity, or an employee and a client, or between a group entity and a firm in which the employee or his close relatives are interested) above certain thresholds. A summary of cases brought before the CRAB is also submitted to the Risk Management Committee of the board.

The details of the members of all these Committees can be obtained from the Secretarial team.

4.3 Internal audit -

Internal Audit has been outsourced to the firm of Chartered Accountants, for all entities present in India. The Audit firm presents its audit findings directly to the Audit Committee of the Board of the respective company. Risk Management department helps to define the scope of the audit, monitors the conduct of the audit, is present during its presentation to the Audit Committee of the Board and tracks for closure of pending audit points.

5 **Key External and Internal Risks Faced and Risk MIS:**

- A key component of Risk Management is the effective monitoring and measurement of risk by tracking certain metrics. These metrics have been identified and standardized and they are presented to the RMC.
- Key Risk Issues and Developments (including macro-economic, market and regulatory developments) are presented to the RMC, explaining their likely impact on the various businesses
- Certain MIS is also presented to the various Management Committees and senior management of the subsidiaries that help in mitigating risks. The detailed Risk Management policy contains these MIS details.

Key Risks:

Key Risks	Mitigations
<p><u>Our Assets under Management:</u> Our results of operations are materially affected by our AUM. Accordingly, our growth and success significantly depend upon the appropriateness of investment options provided and the performance of our client portfolios and funds. Good investment performance increases the attractiveness of our products with clients resulting in higher inflows and a consequent increase in our revenues. Hence, events adversely impacting such investment performance (relating to stocks, bonds, commodities or real estate related investments) may adversely affect our business.</p>	<p>To mitigate these risks, we have a Product team that shortlists products which are offered to clients. We also have a Product Approval Committee for complex / structured products. Additionally, we do a detailed Risk Appetite assessment of the client, and accordingly prepare an Investment Policy Statement (IPS) for the client. Hence, actual asset allocation can be checked against this and corrective action can accordingly be taken. Further, our Internal Auditors specifically check that investment rationales are maintained and regularly updated. We also have Investment and Valuation Committees and a Risk Management team that monitor portfolios that are managed by us internally within the group (i.e. by IIFLAMC and IIFL Wealth Portfolio Managers Ltd).</p>
<p><u>General economic and financial services industry conditions in India:</u> Our Company is engaged in the business of providing wealth management services and with a majority of our operations within the domestic Indian market, our results of operations are highly dependent on the overall economic conditions in India, including the GDP growth rate, inflation rate, change in demographic profile, wealth levels, the economic cycle, prevalent interest rate regime, securities markets</p>	<p>The gradual change of our earnings model from a purely commission based income to an annual recurring revenue (ARR) yielding client fee based model provides some stability of earnings; moreover, the diversification to different businesses, i.e. asset management, lending, broking and trust services apart from pure distribution provides a natural hedge against fortunes being affected in one business.</p>

<p>performance, and the increased usage of technology based channels.</p> <p>If the general economic conditions in India deteriorate or are not in line with our expectations, or unforeseen events adversely affect our client investment portfolios, our financial condition and results of operations may be materially and adversely affected.</p>	
<p>Competition and Market: We face significant competition in all aspects of our business from other established Indian and multi-national companies. Some of these firms have greater resources and/or a more widely recognised brand than us, which may give them a competitive advantage.</p> <p>Mergers and acquisitions involving our competitors may create entities with even greater competitive advantages. We also face competition from several players who offer financial advisory services purely on technology platforms, in a highly cost-competitive manner ('Robo-advisors'). These competitive factors could reduce our market share and profitability.</p> <p>There is also a fundamental change that is happening in the distribution of financial products, as the industry is moving gradually from a commission-based model to a fee-based model, that is having an effect on the revenues of asset allocators like our Company. The IIFL-ONE product platform has been launched to address this change and clients who wish to move to a fee-based model are gradually moving to this platform.</p>	<p>We believe our wide product offering, our relationships with clients, industry and product knowledge, and brand image will allow us to face such competition. We have a dedicated technology team, which has both domain and technology experts, and we are leveraging technology to deliver insights and interact with clients through different platforms. For example, we have developed a robust platform for online trading and enabled checking of various account balances / statements online and through Whatsapp, for clients who prefer that to the traditional physical account review or wish to avail a "phydigital" mode that combines both these approaches.</p>
<p>Regulatory supervision: We operate in sectors that are regulated in India, and our activities are subject to supervision and regulation by multiple statutory and regulatory authorities including SEBI and RBI, the various stock /</p>	<p>We have a dedicated Compliance team to interpret regulations, submit regulatory returns and interface with Regulators. We also have Anti-Money Laundering (AML) Policies and AML Committees for our various businesses to deliberate on client onboarding.</p>

<p>currency / commodity exchanges and depositories.</p> <p>In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented, which are intended to provide tighter control and more transparency in the various regulations and policies. Such changes in government and regulatory policies affecting the financial services industry may require changes to our business operations, products and pricing, and technological processes and thus may involve additional costs and management time.</p> <p>While it may be possible that certain regulatory changes would be positive for some of our business operations, it may also so happen that such changes could adversely affect our financial condition and results of operations.</p>	
<p>Personnel and operating costs: We function in a highly competitive industry and accordingly, our ability to manage our expenses directly affects our business and results of operations. These expenses may be impacted by macroeconomic conditions including increases in inflation, changes in laws and regulations, increased competition, personnel expenses and other factors.</p> <p>Personnel related expenses constitute a significant proportion of our total expenses. However, it can be difficult and expensive to attract and retain talented and experienced employees. In addition, we also strive to ensure effective utilisation of our human resources and may need to adjust to the dynamic business environment as we increase our scope of operations, and expand into new business products.</p> <p>As we grow our business, we will require additional human resources including relationship managers, investment</p>	<p>We have endeavored to retain people in an empowered environment providing them opportunities of growth ,visibility of long term career path , market aligned compensation and long term wealth creation with share based incentives.</p>

<p>professionals, dealers and operational, management and technology staff. Changes affecting our expenses may impact our financial condition and results of operations.</p>	
<p>Operations and Technology: Any complex set of operations creates the possibility of frauds and errors. To mitigate against these risks, we have written procedures, maker-checker controls and approval of all exception requests by Risk Management. The efficacy of these controls is checked by Internal Audit.</p> <p>Information Technology systems are crucial to the success of our business operations and help us to improve our overall productivity. They also pose a key risk in terms of failure of systems, information security failures and the possibility of cyber-attacks.</p>	<p>Our Technology team has deployed multiple defences to mitigate the risk of cyber-attacks and prevent unauthorised access to, and leakage of, sensitive information. We have network security in the form of a firewall, and Intrusion Prevention Systems; we also have a strict perimeter device security policy, where we have blocked access to personal email, social networking and data sharing websites, USB and local drives and forced users to save working files on a company administered OneDrive. While access to emails is accessible on mobile phones, no files / attachments can be saved on these devices. There is a full time Chief Information Security Officer (CISO) responsible for information security.</p> <p>We also have a Business Continuity and Disaster Recovery plan, with data being stored on a cloud server, which we have tested. During the Covid-19 induced nation-wide lockdown in 2020 and in 2021 during the second wave we tested our ability to support operations in a work from home (WFH) environment and we managed to execute this in a stable manner, with users logging in through a virtual private network (VPN) to access their office-based applications, thereby ensuring that no information security controls were compromised.</p>
<p>Environmental, Social and Governance (ESG) Risks:</p> <p>While ESG risks are woven into the discussion on other risks given above, this section specifies the ESG related risks that the IIFLW Group faces:</p> <ul style="list-style-type: none"> As specified earlier, IIFLW Group is dependent on the overall economic 	<p>To mitigate these risks, the following structures exist:</p> <ul style="list-style-type: none"> There are Legal, Compliance, Secretarial and Risk Management teams to prevent regulatory non-compliance and minimise legal exposure; The various policies, processes, controls and Committees (e.g. Risk

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<p>environment and economic growth of the country. This in turn, is influenced by natural environmental factors like climate change, air and water pollution, and health and social development, in the long term</p> <ul style="list-style-type: none"> • Governance failures can occur at multiple levels in the group’s organizations with respect to such things as compliance with regulations, offering the right products to clients (in Distribution and Advisory), making investments (in asset management), providing credit (in the NBFC), engaging in conflicted transactions and providing trading limits (in broking). Frauds and failures can also occur in the management of client assets and company assets. 	<p>Management Committee, AML Committee, Product approval Committee, Credit approval Committees in the NBFC, CRAB & Investment Committees in the Asset Management businesses etc) specified in the above sections are meant to address and mitigate risks relating to misselling, money laundering, conflict of interest, credit and investments.</p> <ul style="list-style-type: none"> ○ All our processes and systems are audited by an internal auditor. An external firm conducts internal audits and presents their reports directly to the Audit Committees of the respective Boards, for all businesses where this is permitted. For the NBFC, this is now conducted inhouse, with help from external experts, wherever required. ○ We have also procured insurance to protect us from Professional Indemnity claims and cases of internal fraud, that cover all the group entities.
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Please contact legal-compliance@iiflw.com for any questions / queries on this Policy.

