ENTERPRISE RISK MANAGEMENT POLICY DOCUMENT

Version 5.0

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1. Enterprise Risk Management

1.1 Risk Management Philosophy

Fedbank Financial Services Ltd. (hereinafter referred to as “Fedfina” or “The Company”) is committed to its vision, which is to be a relevant player within peer group of NBFCs and be appreciated for customer centric approach, ethics and corporate governance. In achieving this vision, the Company faces risks to its business strategy, operational risks, and risks associated with the protection of its people, property and reputation. This document describes the framework by which the entire spectrum of risk is to be effectively managed. Accordingly the Management has devised this Enterprise Risk Management framework with an objective to:

a) Identify significant current and emerging risk areas to which Fedfina is exposed to and build a prudent risk management framework to manage these risks;
b) Conduct periodic reviews to evaluate the effectiveness and relevance of risk mitigation measures; and report exceptions.

1.2 Risk Management Framework

Risk can be explained as any potential event which could prevent the achievement of an objective. It is measured in terms of impact and likelihood. The Company’s policy intends to identify, analyse and respond appropriately to all risks. The risk responses selected are determined by the appetites and tolerances for risks. These will vary over time according to the specific business objectives, viz. strategic, operational etc.

The Company shall manage risk through guidelines laid down in identifying, assessing and managing risks that the businesses are exposed to. The Risk Management framework is managed by various committees set up by the Board or Management.

Board level committees:

- Risk Management Committee of Board (RMC)
- Credit Committee of Board (CC)

Senior Management Committee:

- Asset Liability Management Committee of Board (ALCO)
- Credit Risk Management Committee (CRMC)
- IT Strategy Committee

1.3 Risk Management Approach

Standard approach to risk management includes risk identification, impact assessment, risk treatment, (avoidance, mitigation, transfer or acceptance), monitoring and reporting. The company shall assess Key identified Risks across three variables – Probability of occurrence, Level of Impact and Criticality. Basis findings, the Risk Management Plan is put in place to eliminate or reduce the impact of risk to an acceptable level. Avoidance, mitigation, reduction or acceptance of risk can be done through process and system controls. Transfer of risk can be done through insurance. It is also important to ensure that ERM process and risks are re-evaluated and updated on an on-going basis to reflect new information and experiences so that all significant risks are appropriately identified and addressed and that any material opportunities are not overlooked.

1.4 Impact assessment & Risk treatment

a) 9 broad risk groups along with 22 sub risks groups are defined based on perceived risk and impact assessment.
b) Each sub risk area is further broken into individual key risk area.
c) KRIs (Key Risk Indicators) for each individual risk area are defined. KRI along with weightages shall be reviewed by CRMC periodically & captured in the Operating Guidelines.
d) Impact assessment for each individual risk area is undertaken and thresholds are defined based on risk appetite.

1.5 Risk Monitoring Mechanism

The risk monitoring framework has been classified into 3 Lines of Defence

Line of Defence	Ownership	Roles & Responsibility
1st	Respective Business & support functions	▪ Own & manage the risks and controls ▪ Conduct regular risk assessment/s ▪ Identify risk incidents and report ▪ Devise mitigation strategies and ensure timely implementation ▪ Provide periodic updates to 2nd line of defence on emerging risks
2nd	Risk Management Team	▪ Designs the overall risk management framework, policies, and guidelines & ensures that these are duly reviewed so as to align with latest regulatory landscape & industry best practices ▪ Reviews & monitors the risk management processes of the 1st line of defence from adequacy perspective ▪ Maintains repository of all risk related activities in the organization. ▪ Responsible for overall awareness and risk culture in the organization
3rd	Internal audit	▪ Shall conduct a Risk based Internal Audit and would adopt a risk assessment methodology for identifying the risk areas. ▪ Provides assurance to the audit committee of Board with respect to effectiveness of controls over risks across the organization ▪ Identifies improvement opportunities

2. Enterprise Level Key Risks

As a ND-SI NBFC, Fedbank Financial Services Ltd. (Fedfina) remains exposed to various risks in regular conduct of its business. It is therefore important that the key risk areas are identified and a robust risk management framework is put in place to effectively mitigate these risks. Key Risks can be broadly grouped under following categories:

(i) Compliance Risk
(ii) Operational Risk
(iii) Information Technology related Risk
(iv) Asset Liability Management (ALM) Risk
(v) Reputation Risk
(vi) Fraud Risk
(vii) Financial & Reporting Risk
(viii) Credit Risk
(ix) Strategic Risk

2.1 Compliance Risk

Compliance risk refers to the risk of regulatory sanctions with or without monetary loss, or loss to reputation that the company may suffer as a result of its failure to comply with regulations. As a Non-Deposit accepting Systemically Important (ND-SI) NBFC, Fedfina remains regulated by the RBI. The company has robust compliance framework which ensures a constant update on and adherence to various guidelines from the RBI from time to time. Apart from RBI, there are various other statutes as per **Annexure I**, which apply to the company. The company's Compliance team ensures that the company always remains compliant with the provisions of these statutes. The company may engage services of professional consultants to review and confirm adherence to these guidelines.

The compliance function should also keep an update of any new statutes which may become applicable to the company from time to time.

Exceptions if any should be reported to the Audit Committee of the Board on a Quarterly basis.

2.2 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events. Every activity of the company is exposed to certain degree of Operational Risks. The company shall put a robust Operational Risk Management Framework in place. Standard Operating Procedures & Operating Guidelines for key activities and Robust Internal Audit Framework shall be used as means to manage operational risks. Operational Risks to be governed by way of incident reporting process.

Exceptions if any shall be reported to the Audit Committee of the Board and the Board on a Quarterly basis.

2.3 IT Risk

Risk of loss resulting from exploitation of Information Technology (IT) vulnerabilities of an organization. In line with regulatory guidelines, the company has constituted an IT & Strategy Committee of the Board to oversee the IT Risk Management Framework. It has Board approved IT Policies in place for Information Security, Cyber-Security and Cyber Crisis Management Plan etc. The IT Team shall ensure periodic IT Risk Assessments, IT Audits, DR Drills, BCP Testing, document review etc. The IT & Strategy Committee may decide upon the frequency and scope of IT Risk Assessments & IT Audits, DR Drills etc. commensurate to the scale of business operations and level of risks. Exceptions if any should be reported to the IT Strategy Committee of the Board and the Board on a Quarterly basis.

2.4 Asset Liability Management (ALM) Risk

ALM risk arises due to mismatches between the assets and liabilities (or cash inflows and outflows). ALM risk management involves measuring, monitoring and managing the financial risks associated with liquidity mismatches, changing interest rates, foreign exchange rates and other factors that can affect the organisation's liquidity, earning and solvency. To ensure timely availability of funding liquidity, the Company has Board approved Resource Planning Policy & ALM Policy supplemented by robust processes in place which defines the resource planning, diversification of funding sources, maintenance of minimum liquidity, contingency funding plan to fund the company's growth ambitions.

The objective is to guard the company against liquidity & interest rate mismatches. The ALCO is convened every month to monitor the ALM position, stress test results of near term liquidity, various long term & structural indicators of liquidity risk as well as adequacy of credit lines to support budgeted book growth. It also reviews the loan portfolio composition

Liquidity Risk Management

In order to strengthen & raise standard of the Asset Liability Management (ALM) framework applicable to NBFCs, the RBI issued revised guidelines on Liquidity Risk Management (LRM) framework in November 2019. The said guideline, with an aim to further strengthen the LRM process in NBFCs prescribed additional LRM measures. The company's ALM Policy prescribes the LRM process to be followed by the company in detail. The LRM measures prescribed by the said RBI guideline & incorporated in the ALM Policy are followed by the company & the details are presented to the ALCO every month in its meeting. Chief Risk Officer, as a member of the ALCO of the company, closely monitors the LRM process.

2.5 Reputation Risk

Reputation risk is the risk of loss resulting from damages to a Company's reputation. Given its parentage, effective management of reputation risk becomes all the more important for the company. Any adverse impact on the company's Brand or image can mar years of efforts put in to build the reputation and cause immeasurable damage to the company as well as the Parent Bank. The company should build a framework to continuously engage with its employees and create awareness in this regard. The Company continuously reviews its products, processes, systems, CRM frameworks, channel partner relationships, advertisements etc. to make adequate disclosures and ensure compliance. It should inculcate highest levels of ethics among its employees. The company may either have its own or leverage the PR framework of the Parent Bank in this regard.

Exceptions if any should be reported to the Audit Committee of the Board and the Board on a Quarterly basis.

2.6 Fraud Risks

Risk of loss resulting from a dishonest act that may cause actual or potential financial loss to any person or entity, carried out by the Company's employees or by persons external to the organisation and wherein deception is used. The company has a Board approved Fraud Risk Management & Fraud Investigation Policy in place, commensurate with nature and scale of operations and businesses. The Company adopts a focussed approach to manage fraud risks in terms of

a. Detection – Through verification &/or field investigations at the time of customer onboarding.
b. Prevention – By creating awareness amongst employees and through supervisory reviews and surveillance measures
c. Investigation of frauds by internal committees

Detected frauds are reported to internal committees and RBI as per timelines and monitored until closure.

Exceptions if any should be reported to the Audit Committee of the Board and the Board on a Quarterly basis.

2.7 Financial & Reporting Risks

Risk of loss resulting from inadequate or inaccurate disclosure of financial information (such as financial performance & financial position) to the various stakeholders of the organization. The company has instituted adequate checks to ensure accuracy & timeliness in financial reporting & MIS. Internal Audits, Management Audits & Statutory Audits (limited reviews etc.) are instituted to ensure data integrity.
Exceptions if any shall be reported to the Audit Committee of the Board and the Board on a Quarterly basis.

2.8 Strategic Risk

Strategic risks are those that arise from the fundamental decisions that Management takes concerning an organisation's objectives.
Risk of loss resulting from a failed business strategy. It can emanate either from the external environment in which the Company is operating, or from poor implementation of a strategy.

2.9 Credit Risk

Risk of loss resulting from customer defaults and lower/no recovery. The company has a Board approved 'Lending Policy for all products' in place for all its lending programs. The policy defines the key parameters for extending credit under different products & lending programs. It also defines the product specific risks and mitigants, portfolio caps, portfolio triggers, review mechanism, delegations etc.

Various portfolio cuts indicating portfolio behavior together with defined portfolio caps and triggers are presented to the Risk Management Committee of the Board and the Board on a Quarterly basis.

Based on program review, changes if any, are incorporated in the respective product policies and/or operating guidelines.

3 Risk Monitoring (Exposure & Limits)

A. Exposure

Exposure shall include the credit and investment commitments across facilities including the sanctioned limits which remain un-utilized. The total outstanding or the sanctioned limit, whichever is higher, shall be considered while deriving the total exposure. However, in the case of fully drawn term loans, where there is no scope for subsequent availment of any portion of the sanctioned limit, the Company shall reckon the outstanding balance as the exposure.

Credit exposure norms

The company shall adhere to the guidelines issued by RBI from time to time as well as its internal policies for arriving at the exposure ceilings. The aim is to stick to the regulatory and statutory limits prescribed and to minimize risks by controlling exposure to sensitive and high risk segments. This will strengthen the risk management at corporate level and avoid credit concentration risk at the borrower, borrower group or sector level. The exposure limits shall be set and reviewed on an annual basis based on the total capital and advances position of the company.

I. Regulatory Guidelines

a) Exposure limits

As per revised RBI guidelines, ND-SI NBFCs need not carry Single Borrower level or Group level exposure limits, linked to their net owned funds position. However, the company may fix internal limits for Single Borrower level and Group level exposures at Product level. Also, limits may be fixed for overall exposure to specific sectors in line with its strategy so as to have a diversified portfolio across sectors. Lower exposure limits may be fixed for categories of advances involving higher risk or lower ratings. These limits shall be periodically reviewed and revised wherever necessary.

b) Group Exposure

Entities carrying a common ownership/ management interest or offering a common security shall be construed to come under a common group exposure. Immediate relatives in respect of individuals such as spouse, brother, sister, Father, Mother, etc. will also be included under the common group exposure.

- **Single and Group exposure norms**

Separate ceilings shall be applied for individual borrowers, partnership firms, limited liability partnerships and limited liability companies. (Largely applicable for wholesale banking transactions)

1) Exposure ceiling (single and group) fixed for individuals shall also apply to sole proprietorship concerns and borrowings.
2) Exposure ceiling (single and group) fixed for partnership firms shall also apply to Trusts and Societies.
3) Limited liability partnerships (LLP) upon incorporation shall be treated at par with private limited companies while fixing exposure ceilings.
4) Exposure ceiling for proprietary and partnership type firms shall be lower, given the possibility of lower level of transparency and disclosures.
5) While sanctioning a credit limit/ making investment in a particular entity (partnership firm, private limited company, public limited company, etc.) where the entity belongs to a group consisting of entities of different constitutions, the individual exposure limit applicable to the said entity shall apply.
6) If a group consists of borrowers with different constitutions, the overall group exposure ceiling shall be the one which is applicable to the type/ constitution with the highest exposure ceiling. E.g. If a group comprises of partnership firms, proprietary concerns and

private limited companies and the group exposure ceiling set for the private limited companies is the highest among the group constituents, then the overall group exposure ceiling will be that of the private limited company.

Exposure Caps applicable:
As defined in the Lending policy for all products

II. Residential and Commercial Real Estate Type

1) Residential mortgage: Lending which is fully secured against mortgage on residential property which is/ shall be occupied by the borrower or which is presently rented.

2) Commercial Real Estate: Lending which is fully secured by mortgage on commercial real estate (office buildings, retail outlets, multi-purpose commercial premises, multi-tenanted commercial premises, specialized commercial premises, hotels, land plots, development and reconstruction, industrial properties etc.)

Note:

a) The distinction between Residential and Commercial real estate will be as per the applicable RBI guidelines.
b) Investments in mortgage backed securities and other securitized exposures – both in residential and commercial real estate sector shall also be considered as exposure in respective real estate type.
c) As per RBI guidelines, advances backed by Residential and Commercial Real Estate as stated above (mortgage backed loans) together with Construction Finance shall constitute exposure to Real Estate Sector.

B. Portfolio Cap

I. Guidelines on determining exposure ceilings

a) Net owned funds of the company shall be determined in accordance with guidelines issued by the Regulator from time to time.

Capital infusion post balance sheet date can be considered for determining the exposure ceiling as per the RBI guidelines. However, the company should not take an exposure in excess of set ceiling in anticipation of infusion of capital at a future date.

II. Sectoral ceilings

Sectoral ceilings shall be defined and reviewed on an on-going basis keeping in mind organization strategy and business opportunities on one side and the perceived risk, capital intensity and sensitivity to market conditions including government policies etc. on the other. Internal limits across various sectors and industries shall be defined either as a percentage of total advances or as a specified amount to control concentration risk.

Given its strategic positioning in the wholesale as well as retail segment, the company may adopt an industry agnostic approach, subject to caps specified for certain industries.

A. Product wise exposure cap

As defined in the Lending policy for all products

B. Loan tenor composition (at the time of customer onboarding)
As defined in the Lending policy for all products

C. Risk Monitoring

While portfolio caps and triggers will be defined in respective loan policies, it is important that these are closely monitored and highlighted to the management on a timely basis. A quarterly portfolio snapshot is presented to the Risk Management Committee of the Board.

Risk Management Department shall continuously monitor and ensure that the Risk mitigation framework is operational and relevant at all times. Monitoring and review of risk profile and risk response plans is a continuous process. Purpose of review is to:

- Provide assurance that the risks are being managed as expected.
- Continually assess whether the risk mitigation plans remain relevant; and
- Ensure that the risk profile anticipates and timely reflects changed circumstances

Risk monitoring shall consist of a combination of periodic reviews and evaluation by independent executives at appropriate intervals.

4. Risk Appetite Statement (RAS)

Company has defined the following items under its RAS framework for effective monitoring. More items will be added commensurate with business expansion.

Item	**Threshold**
Profitability	Fedfina will not be in loss
Tier 1 CRAR	Fedfina will maintain Tier 1 CRAR of 11% at all times
Total CRAR	Fedfina will maintain Total CRAR of above 16% at all times
Leverage Ratio	Fedfina will maintain Leverage Ratio* of under 7:1 at all times
Liquidity Coverage Ratio (LCR)	Fedfina will maintain LCR as prescribed by RBI

* Leverage ratio under Ind AS Framework: Debt / Equity, where:

Debt: Debt Securities + Borrowings + Subordinate debt

Equity (Net worth of company) = Equity share capital + Reserve & Surplus

5. Linkage with other Policies, Review and custody of Policy:

The policy will have functional linkage with other polices of the company, framed and adopted by the Board of Directors, inter alia includes:

- Lending Policy for all products
- Compliance Policy
- Fair Practices Code
- AML / KYC Policy
- Fraud Risk Management and Fraud Investigation Policy
- Whistle Blower Policy
- IT Policy
- Information System Security Policy
- Policy on Outsourcing of Financial Services

Annexure I:

1. The Companies Act, 2013 (“the Act”) and the rules made thereunder;
2. All the Regulations and Guidelines prescribed under the Reserve Bank of India Act, 1934 and also the directions given through the Reserve Bank of India Master Directions specifically applicable to Non-Banking Financial Companies (Non Deposit Taking);
3. The Shops & Establishment Acts enacted by the State Governments.
4. The Labour Welfare Fund Act,1972 including any amendments made from time to time.
5. The Payment of Subsistence Allowance Act,1981 including any amendments made from time to time.
6. The Payment of Wages Act,1936 including any amendments made from time to time.
7. The Payment of Bonus Act,1965 including any amendments made from time to time.
8. The Minimum Wages Act,1948 including any amendments made from time to time.
9. The Payment of Gratuity Act,1972 including any amendments made from time to time.
10. The Employment Exchanges (Compulsory Notification of Vacancies) Act,1959 including any amendments made from time to time.
11. The Equal Remuneration Act,1976 including any amendments made from time to time.
12. The Employees State Insurance Act,1948 including any amendments made from time to time.
13. The Industrial Establishment (Standing orders) Act,1981 including any amendments made from time to time.
14. The Maternity Benefit Act,1961 including any amendments made from time to time.
15. National & Festival holidays Act
16. The Employees’ Provident Fund and Miscellaneous Provisions Act,1952 including any amendments made from time to time.
17. The Contract Labour (Regulation and Abolition) Act,1970 including any amendments made from time to time.
18. The Industrial Disputes Act,1947 including any amendments made from time to time.
19. The Bombay Industrial Relations Act, 1946
20. Prevention of Money Laundering Act, 2002
21. Income Tax Act, 1961
22. CGST Act 2017 & IGST Act 2017 and the rules made thereunder;
23. the E-Waste (Management) Rules, 2016
24. The Trademarks Act, 1999
25. The Securities Contracts (Regulation) Act, 1956 (“SCRA”) and the rules made thereunder;
26. The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder;
27. The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999
28. The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
29. The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act;
30. Securities and Exchange Board Of India (Debenture Trustees) Regulations, 1993

Above is an indicative list. The Compliance team needs to keep the company updated of all the provisions and statutes that are applicable from time to time.