Equitas Holdings Limited

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Enterprise Risk Management Policy

ENTERPRISE RISK MANAGEMENT POLICY

Introduction

The Board recognizes that for sustainable value creation, sound risk management at the enterprise level is essential.

Enterprise Risk Management (ERM) is *a process, effected by an entity's Board of Directors, Management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.*
Source: COSO Enterprise Risk Management – Integrated Framework 2004.

Equitas Approach to Risk Management:

Being the Group Holding Company structured as a Core Investment Company (CIC), the risks faced by the enterprise can be divided into two parts:

1. Risks directly faced by the Stand-alone Holding Company
   - Ability to raise capital on a timely basis to capitalize the subsidiaries periodically to meet the growth plans of the subsidiaries. This would depend on both the internal performance and external market factors
   - Market risk on investment of surplus funds
   - Risks on account of guarantees given for the borrowings of the subsidiaries

2. Risks faced by the operating subsidiaries which will have an impact at the group level
   - This is a dominant risk for the group as a whole
   - The operating subsidiaries, being fund-based finance companies face a variety of risks which are typical for such companies like economic risk, credit risk, market risk and operational risk.

Since the investments in subsidiaries, loans to subsidiaries and guarantees extended for borrowings availed by the subsidiaries exceed the networth of the Holding Company, the risk arising out of the subsidiaries is the dominant risk which requires effective management.

These risks are managed through an integrated risk management process followed across the Group and reviewed periodically by the Board of the respective subsidiaries and the Board of the Holding Company.

The Group follows ERM framework based on COSO Enterprise Risk Management which is globally recognized as a robust framework.

Review Mechanism:

1. **Risks directly faced by the Holding Company:** The Board and Audit &Risk Management Committee reviews the risk management practices followed to mitigate the risks faced by the Company directly.

2. **Risks faced the Operating Subsidiaries:** The process to review the risk management of subsidiaries are as follows:

   a. The group risk management framework is adopted and followed by all the group companies
   b. The Audit & Risk Management Committee and Board of the subsidiary companies reviews the risks faced by subsidiaries during the approval of business plans of subsidiaries and during review of quarterly performance. The Boards of subsidiaries review the entire risk management policy and practices on annual basis.
   c. Chairman of the respective subsidiaries who are independent directors of the Holding Company update the Board of the Holding Company on risks faced by the subsidiaries as part of business performance review.

3. The Board of the Holding Company is to review the Enterprise Risk Management (ERM) at the group level on an annual basis.

The Enterprise Risk Management Framework adopted by all the Group Companies is given in Annexure.

ANNEXURE

Enterprise Risk Management Framework

The Group's risk management framework broadly consists of the following aspects:

Internal Environment:

The Group believes that Enterprise Risk Management is important as it supports value creation for the organization by enabling Management to:

- Deal effectively with potential future events that create uncertainty.
- Respond in a manner that reduces the likelihood of downside outcomes and increases the upside.

Objective Setting:

Inherent risks in various businesses are to be clearly articulated at the Board level. At the business planning approval stage, the objectives are set taking into account the various risks involved in realizing the objectives. In other words, as part of the annual business plan, risk appetite at the organization level and the risk tolerance limits wherever necessary have to be fixed.

The risk tolerance is based on sensitivity analysis of key factors like interest rates, capital adequacy, liquidity levels, delinquency levels etc.

Event Identification:

The Group aims to foster a culture of risk awareness across the group to identify events/incidents that could affect achievement of objectives. This has to be a part of all management review process.

The above should address both internal and external risk factors that can affect the achievement of objectives.

Risk workshops is part of the ongoing efforts to understand and appreciate the impact of risk at the senior management level and also for creating expertise in use of various risk assessment and monitoring tools like FMEA, risk control matrix etc.

Risk Assessment:

Risk assessment is the identification and analysis of risks to the achievement of business objectives. It forms a basis for determining how risks should be managed on continuous basis.

The Risks are to be assessed based from two perspectives:

- Likelihood
- Impact

Aim is to use quantitative risk assessment methodologies and appropriate tools like risk control matrix, Failure Mode Effect Analysis (FMEA) etc. to prioritize risks that require closer monitoring.

Since the Group relies heavily on IT systems for day-to-day operations, it is critical that the risks involved in IT are understood and evaluated objectively and necessary mitigation plan is evolved and implemented. In this regard, the Company has to put in place, a business continuity plan including disaster management plan and business resumption plan. The implementation of these plans is to be periodically reviewed and is also subjected to external audit regularly.

Risk Response:

Various possible risk responses and primary risk mitigants have to be developed post evaluation of the cost benefit relationship as well as based on the acceptable level of residual risks. Solutions that use technology have to be evaluated for sustainability.

After due evaluation, appropriate mitigation action plan is selected for implementation.
Control Activities:

The risk mitigation should be built into the Company policies and procedures and suitably documented. These are to be communicated to all concerned staff post its approval. Besides, the same is made part of employee induction and various training activities.

System based controls are preferred to ensure reliability.

Sound internal control and audit system supports and sustains the risk mitigation control activities on a regular basis.

Risk Monitoring:

This is done both on an ongoing basis as well as it is subject to periodic review and evaluation.

The management has to update the Board and the Audit Committee on various internal and external developments which could have an impact on the company's operations on an ongoing basis.

The directors bring in their perspectives and knowledge to identify both risks as well as opportunities.

The business planning process is to evaluate the risk and opportunities and factors into the plan which will then be discussed at the Business Committee and then at the Board.

Board's oversight of the Risk Management process:

Review and evaluation of risk management by the Board is carried out on an annual basis.

The Audit and Risk Management Committee (ARMC) has to review the Company's risk management policies and practices. Review of internal audit reports also gives the ARMC an idea on the areas that require strengthening of controls.

The current policy is to have Internal Auditors as an independent Chartered Accountancy (CA) firm, appointed by the ARMC with inputs from Statutory Auditors. The internal auditors will directly report to the ARMC. The management periodically updates the Audit Committee on the developments

Asset & Liability Management Committee (ALCO) of the operating subsidiaries reports to their Boards on the Asset Liability Management. The respective Board stipulates the risk limits for market risk namely liquidity risk, interest rate risk etc.