Risk Management Framework

Shriram Capital Limited

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Shriram Capital Limited

Risk Management Initiative of Financial Services Companies

BACKGROUND:

Shriram Capital Limited (SCL), the holding company of the Financial Services companies (FSCs) of the Shriram Group has decided to implement Enterprise Risk Management (ERM) in line with COSO framework. A Risk Management Framework is being designed and implemented to address significant risks which will have a major impact not only on the Company but also on the Group. This framework intends to address the Risk Management initiative in SCL and all the FSCs (including their subsidiaries/associates) in the group.

The FSC comprise Shriram Transport Finance Company Limited (STFC), Shriram City Union Finance Limited (SCUF), Shriram General Insurance Company Limited, Shriram Life Insurance Company Limited, Shriram Credit Company Limited and their respective subsidiaries/associates.

With the rapid growth in operations and increased regulation, a need was felt to establish a formal risk management structure with oversight by the holding company.

ENTERPRISE RISK MANAGEMENT (ERM)

VISION STATEMENT

Contribute to the creation, optimization and protection of enterprise value by managing our business risks as we create value in the market place.

MISSION STATEMENT

Create a comprehensive approach to anticipate, identify, prioritize, manage and monitor the portfolio of business risks impacting our company/group. Put in place policies, common processes, and competencies, accountabilities, reporting and enabling technology to execute that approach successfully.

The first milestones in the ERM journey have been identified as:

- Enabling & Establishing an ERM framework in all the FSCs (including their subsidiaries/associates) thereby
  - improving risk awareness,
  - strengthening existing processes and controls and
  - identifying, addressing and reporting the significant risks which could have a major impact on all the FSCs (including their subsidiaries/associates).

RISK ORGANISATION:

SCL being a core investment company, the major aspect of risk management lies in its ability to identify, understand, monitor and control the risks at the consolidated enterprise level. The only major risk at SCL level is the risk of new diversification – new businesses, new markets etc.

SCL focuses on the following four Risk Management elements as a holding company:

- Governance/board and senior management oversight;
- Policies, procedures and limits;
- Risk monitoring and management information systems; and
- Internal controls

GOVERNANCE/BOARD AND SENIOR MANAGEMENT OVERSIGHT

Corporate Governance is an essential component of Risk Management. Corporate governance includes the processes, customs and standards through which directors and managers in an enterprise conduct activities. The SCL Board and Senior Management form an important aspect of Corporate Governance.

Role of SCL Board

- Selecting and retaining competent management and reviewing its performance;
- Monitoring and assessing the enterprise's activities;
- Approving overall business strategies;
- Conducting affairs ethically and avoiding the appearance of conflicts of interest;
- Approving policies that clearly articulate risk tolerances and limits; and
- Periodically reviewing and reevaluating the business plan, strategies, and risk management policies and procedures of the holding company enterprise, material subsidiaries, and key business lines.

A Group Risk Management Committee (GRMC) has been formed in SCL comprising of select members of the Board and the Group Chief Risk Officer (GCRO). As a conscious policy SCL board has identified a director of the board, to closely interact with one or more FSCs and keep the board constantly apprised of its performance. This Director (henceforth referred to as "Director – Mentor" (DM) throughout this document) has the dual responsibility of working as a Mentor to the CEO of the FSC/s as well as advising on implementation of Risk Management processes, monitoring the progress and also reporting to the GRMC/Board of SCL.

The roles and responsibilities of the DM with regard to Risk Management in the FSC/s (including their subsidiaries/associates) are given below:

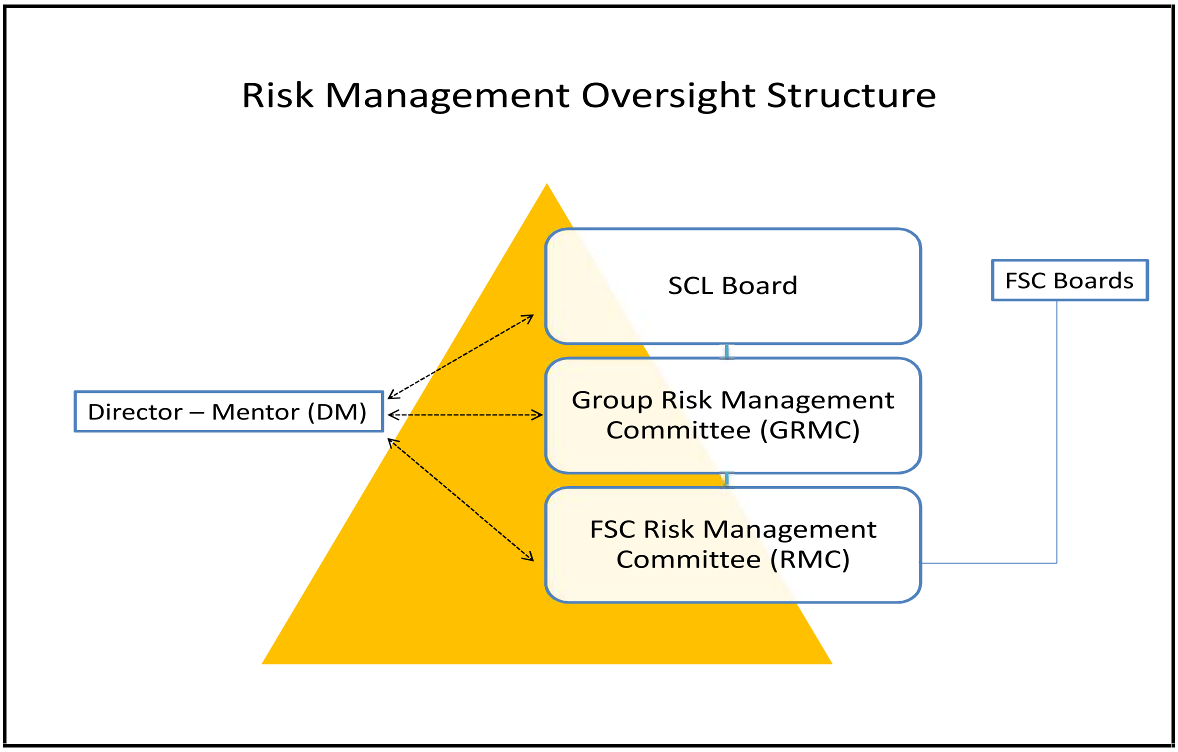
- Ensure formation and functioning of Risk Management Committees at the FSC level
- Facilitate the preparation of the Risk Management and Internal Audit Charters
- Formulating and deploying risk management policies

- Deploying practices for identification, assessment, monitoring, mitigation and reporting of risks
- Facilitate identification and definition of risk appetite and risk tolerance
- Reviewing enterprise risks from time to time, initiating mitigation actions, identifying owners and reviewing progress
- Facilitate in designing and structuring the Risk Management MIS reports and decide on the periodicity of the same.
- Participating in the RMC meeting at the unit level and providing updates to the Board of the FSC from time to time on the enterprise risks and actions taken.

The GRMC will hold periodic meetings of the Chief Risk Officers (CRO) of the FSCs and ensure commonality of policies, procedures and methodologies in the design and implementation of ERM framework. This committee will also review the periodic Risk Management Reports prepared by the SCL (Standalone) and SCL Group entities and present its findings to the Audit Committee/Board of SCL. The GRMC will primarily focus on Strategic, Environmental and Regulatory risks whereas Operational and Credit risks will be handled at the unit level.

The Risk Management Structure is given in figure below.

Fig 1: Risk Management Oversight Structure



The FSC Risk Management Committee (RMC) is formed at the unit level comprising of COO, CFO (Fund raising and Financial Management), CIO (computer systems, software and IT network) and CAO (Accounts and Back Office) assisted by senior members of line and staff functions. The RMC reviews the progress of action taken on issues emerging from the Risk Register on a monthly basis. Hence the oversight responsibility at the company level rests with the RMC. The RMC would report its collective findings to the holding company, SCL. The RMC would also report to the audit committee of the company's board in addition to the holding company.

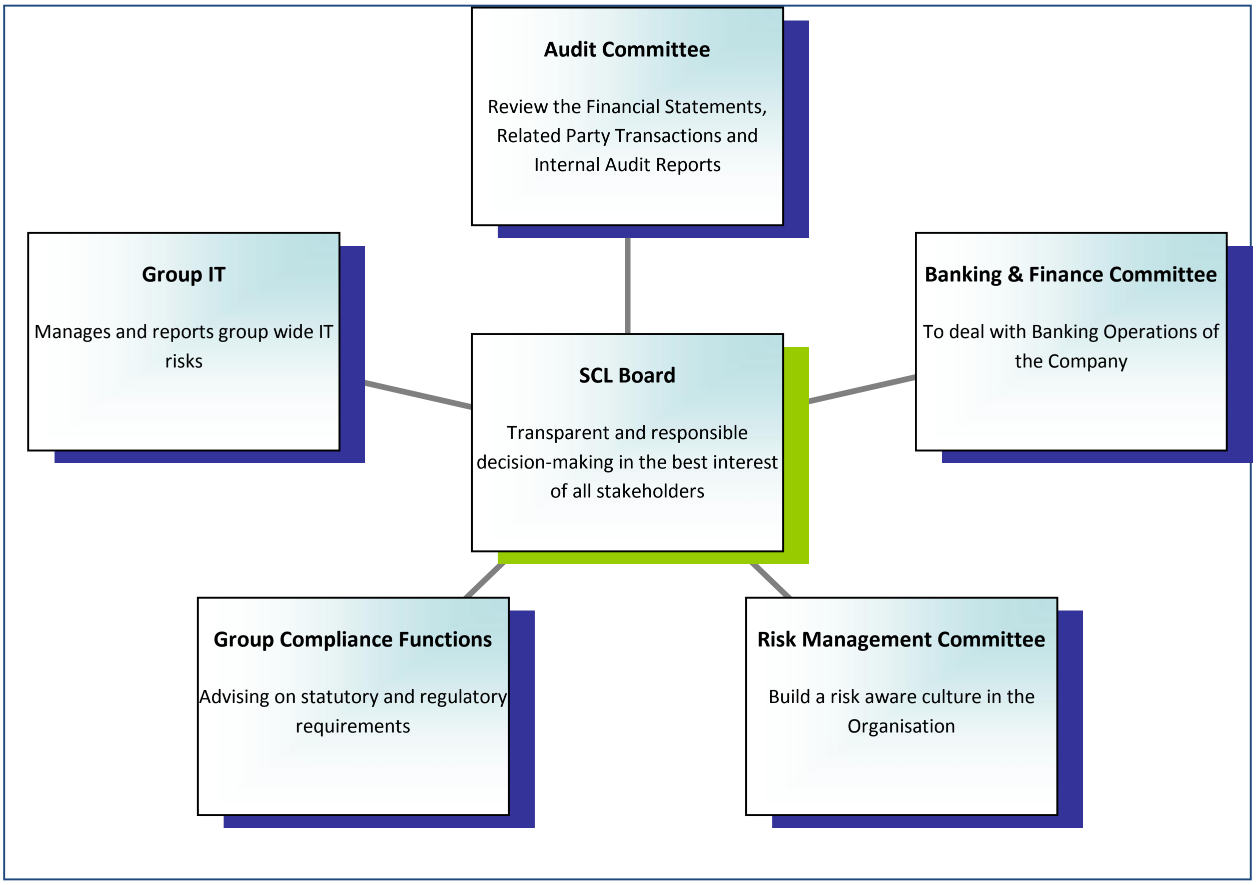
The role of the RMC is identified as:

- setting policy and strategy for risk management
- primary champion of risk management at strategic and operational level
- building a risk aware culture within the organization including appropriate education
- establishing internal risk policy and structures for business units
- designing and reviewing processes for risk management
- assisting in preparing risk response processes and mitigation plans
- preparing reports on risk for the board and the stakeholders

The GRMC and RMC (at FSCs) would be supported by Risk Management teams in implementation of the risk management policies, systems, processes, monitoring and reporting.

Apart from the above, the committees which work closely with the Risk Management Committee to form a sound Corporate Governance Structure is illustrated below:

Fig 2 : Governance Structure at SCL



POLICIES, PROCEDURES AND LIMITS

SCL and FSCs are involved in a wide range of businesses. These companies maintain enterprise-wide, written policies and procedures that outline their approach to risk management. SCL management ensures that policies are in place to prevent practices that put the subsidiaries/associates at unacceptable risk. Policies cover all material internal controls areas and standards for operation.

RISK MONITORING AND MANAGEMENT INFORMATION SYSTEMS

The SCL Board and Senior Management will review relevant Management Information Systems (MIS) at the unit level and consolidated basis to make risk management decisions ranging from simple credit decisions to sophisticated capital management decisions.

These MIS enable the management to identify, monitor, and manage the risk exposures of the enterprise while enabling it to meet its business objectives.

INTERNAL CONTROL/AUDIT

The SCL Group demonstrates sound internal controls around its processes and systems through effective and efficient operations, reliable financial reporting and compliance with relevant laws, regulations and internal policies.

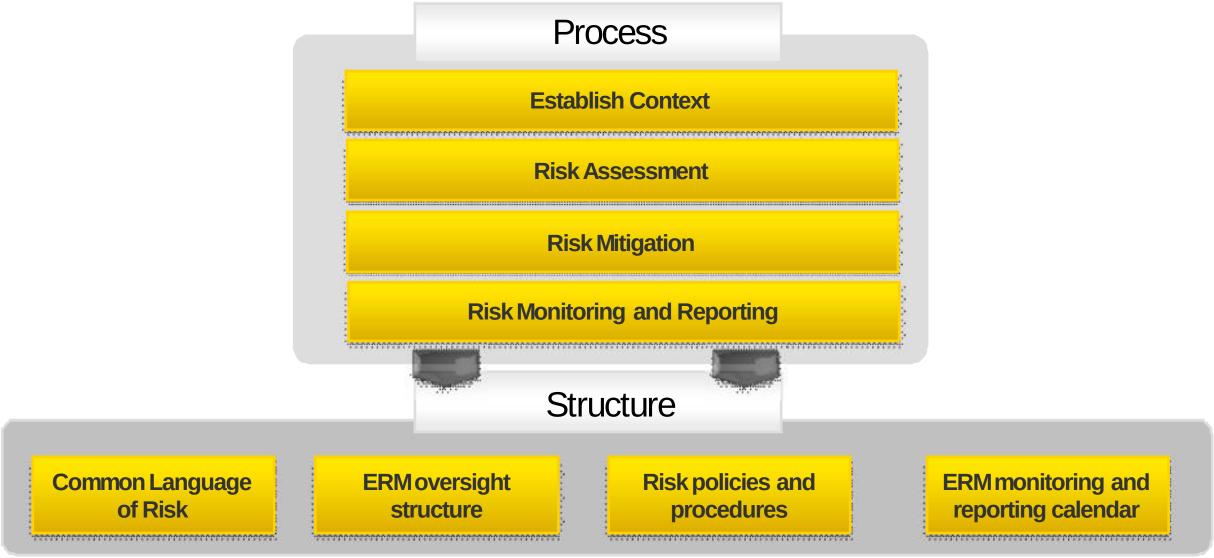
SCL and its FSC/s (including their subsidiaries/associates) have a sound internal audit team in place which is independent. Audit programs are prepared in consultation with the Audit Committee and Senior Management to cover all high risk areas.

Appropriate management information systems are prepared to track, monitor, and resolve outstanding audit concerns in a timely and efficient manner. The internal audit team reports material findings to the audit committee.

RISK MANAGEMENT SYSTEM:

The COSO framework has been broadly followed in designing the Risk Management system. Depicted below is an overview of the components of SCL's risk management framework

Fig 2: SCL's Risk Management Framework:



ESTABLISHING CONTEXT:

INTERNAL ENVIRONMENT:

The SCL group's internal environment is the foundation for all other components of enterprise risk management, providing discipline and structure. The internal environment influences how strategy and objectives are established, business activities are structured and risks are identified, assessed and acted upon. It influences the design and functioning of control activities, information and communication systems, and monitoring activities. The Group philosophy is to encourage freedom of decision- making at the unit level. SCL will play an advisory role in strategic decision-making of the units.

The organization culture and its impact on risk management are illustrated below:

Fig 3: Organisation culture and risk culture

Aspect	Where we are	Gap if any
Transparency	Information flow is good	More formal channels required

Aspect	Where we are	Gap if any
Integrity	Are we setting the right example?	Reduce management exceptions
People first	Are we too trusting?	More checks and balances
Customer needs is the driving force	We are meeting all requirements	More rigour in Credit assessment
Performance and reward - undue pressure on employees?	Balanced reward scheme	Special scheme for Back office staff
Code of conduct	Written code of conduct	Consistent enforcement
Whistleblower policy	Policy in place.	Wide publicity and protection.
HR policies – recruitment and compensation	Background, experience, track record important.	Move closer to market.

DEFINING RISK APPETITE AND RISK TOLERANCE

Risk appetite is the amount of risk an organization is willing to accept in pursuit of value. The risk appetite decides strategy – what businesses, markets, customers, products it is in.

Risk tolerance is a tactical measure related to objectives and achievement of desired outcomes. There are three aspects to be considered:

i. The acceptable level of variation relative to achievement of an objective.

ii. Susceptibility to extreme events and

iii. Inconsistency with the desired risk appetite.

The Risk Appetite and Risk Tolerance setting in STFC is illustrated in Appendix II

RISK MANAGEMENT POLICY:

The Risk Management Policy lays down the Scope, Risk Organisation structure, Risk Assessment, Risk Mitigation, Roll out and Monitoring and Reporting requirements. The policy is enclosed in Appendix III and is applicable to all FSCs (including their subsidiaries/associates) in the group.

As mentioned earlier, the oversight responsibility rests with the SCL board.

RISK ASSESSMENT:

The methodology used for conducting the Risk Assessment in SCL and its FSCs (including subsidiaries/associates) should be a combination of:

i. In-depth personal interviews with risk managers and risk owners.

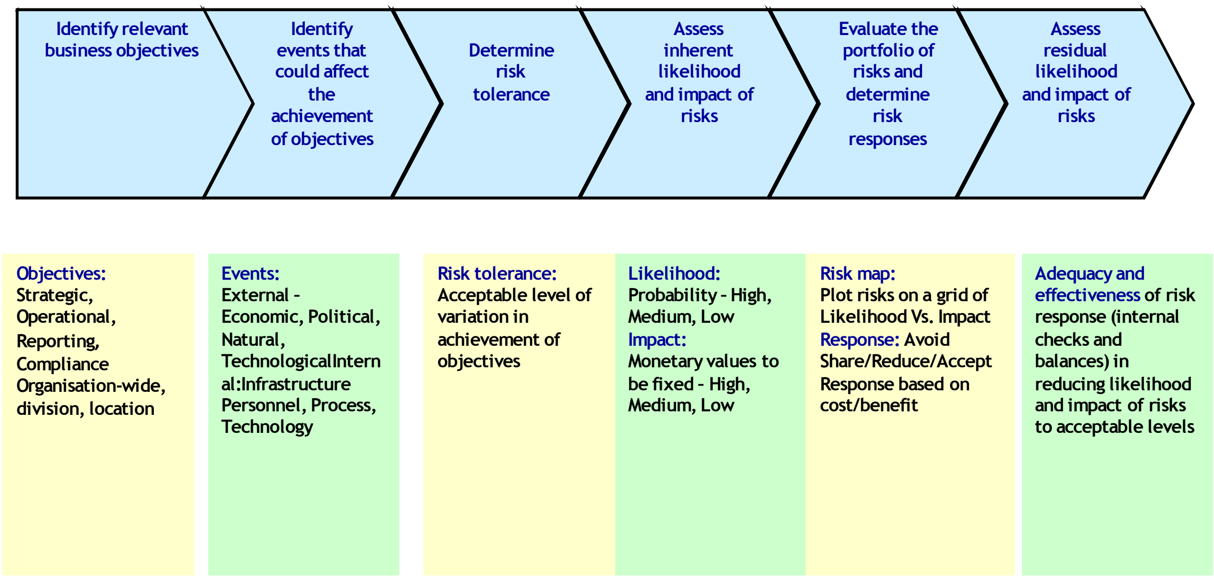
ii. Document review comprising internal audit reports, work instructions issued, and process maps where available.

iii. Facilitated workshops attended by RMC and senior managers (risk owners)

iv. Targeted reviews eg. Branch visits to study processes and experiences across different locations

The broad steps outlined in figure below should be followed.

Fig. 5 : Steps in Risk Assessment



Source: A practical guide to risk assessment - Price Waterhouse Coopers

OBJECTIVE SETTING:

Senior management will set the organizational objectives under the broad categories of Strategic, Operational, Reporting and Compliance.

Strategic – relating to high-level goals, aligned with and supporting the entity's Mission and Vision.

Operations - relating to effectiveness and efficiency of the business processes, people and systems.

Financial – relating to effective management of cashflows and operations including performance and profitability goals.

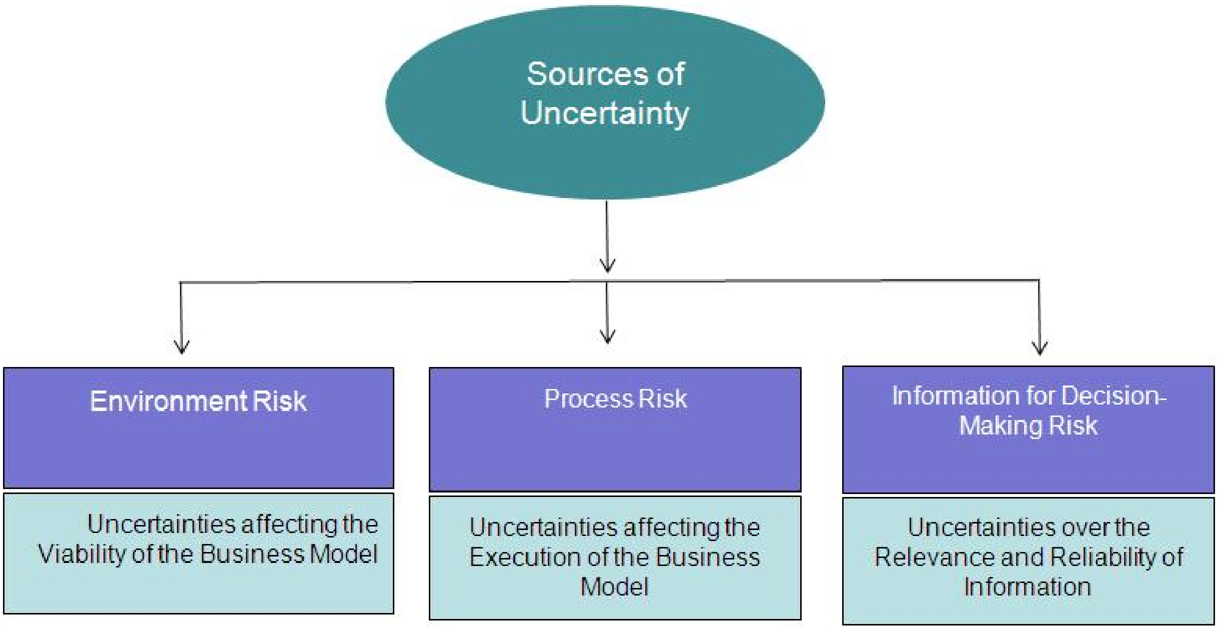
Compliance - relating to the entity's compliance with applicable laws and regulations

IDENTIFICATION OF ENTITY LEVEL RISK EVENTS AND ASSESSMENT

An event is defined as an incident or occurrence, from sources internal or external to an entity that affects achievement of objectives. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives.

A Risk workshop should be held for identification of entity level risk events, both internal and external.

Fig. 6: Sources of Uncertainty



The risk events will be segregated as Strategic Risk, Operating risk, Financial risk and Compliance risk.

Appendix IV gives a Risk Model for identification of risk events under different heads specific to the financial services business. This is illustrative and needs to be modified according to the business needs of SCL and FSCs.

ASSESSMENT OF INHERENT LIKELIHOOD AND IMPACT

A Risk Assessment pertaining to the identified objectives for the operating companies should be done. The RMC will identify the key risks and assign owners and co-owners for each of them.

The RMC will provide standard definitions for Probability of occurrence (High, Medium, Low) and Impact (measured in terms of potential financial loss) which will be used to assess the risks. Based on the ratings given, Risks that Matter (RTM) are identified and Mitigation owners are assigned.

Fig. 7: Probability of Occurrence (Threats)

Estimation	Description
High (Probable)	Once a month or more
Medium (Possible)	Once in a year
Low (Remote)	Once in 5 years

The Entity Level Risk Assessment as a “Risk Register” for STFC is enclosed in Appendix V. The output of the Risk Assessment is pictorially represented using a Risk Map. A sample Risk Map for the organization is also given in Appendix V.

Accordingly, the high risk areas are taken up for deciding on appropriate Risk Response.

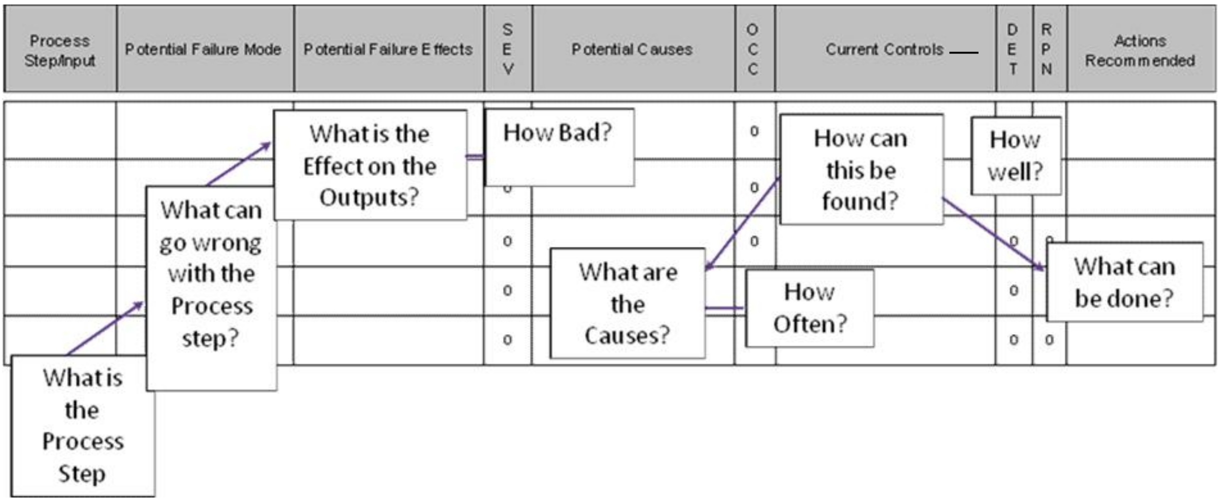
DETAILED RISK ASSESSMENT FOR PROCESSES (OPERATIONAL)

Preparation of Process Flow Charts

A detailed Risk Assessment for all key processes has to be undertaken. The activities are to be documented using Process Flow Charts (PFC). The flow chart documents the process steps highlighting the controls and monitoring built-in. The PFC refers to Work Instructions for process steps requiring detailed description and instruction. The PFCs are to be prepared jointly by the Risk Management team and the Risk Manager responsible for the process. Risk Owners and Risk Managers are to be identified for every process.

Failure Modes and Effects Analysis

Fig.10: FMEA format and steps



The risk events (failure mode) in each process are to be identified jointly with the operating team. For each Failure Mode, the possible causes, the likely effects, probability of occurrence, impact on occurrence (severity) and controls available for prevention and detection will be discussed and documented.

Preventive controls, either people-based or systems-based, are designed to prevent errors or omissions from occurring and are generally positioned at the source of the risk within a business process

Detective controls are processes, either people-based or systems-based, that are designed to detect and correct an error (or fraud) or an omission within a timely manner prior to completion of a stated objective.

Scores are assigned from 1-10 for probability of occurrence (Occ) (1-3: Low, 4-6: Medium and 7-10: High), impact (Severity or Sev) (1-3: Low, 4-6: Medium and 7-10: High) and controls effectiveness (1-3: Easy to detect, 4-6: Moderate, 7-10: Difficult to detect).

The product of the 3 scores called the Risk Priority Number (RPN) represents the level of residual risks given the existing controls. The RPN scores help in identifying the high risk events which require to be addressed through one of the three approaches, viz. avoid, reduce through additional controls/share through insurance etc. and accept.

For each process, the high RPN events are segregated and consolidated into a Risk Register for management review. The low RPN events will be the responsibility of Risk Managers.

Risk Maps

Risk Maps are prepared for obtaining a pictorial representation of the inherent risks in the process by plotting the probability versus the impact. For each process, high risk items were identified as the ones that had probability and impact scores >= the average scores.

Risk Register

Once all the processes for each area (Business, Treasury, Accounts, HR, IT etc) are documented and reviewed, the key risks (top 20%) based on RPN scores for the department are consolidated into a Risk Register. Action plans for addressing Residual risks and timelines have to be discussed and decided. Responsibility has been assigned to concerned Risk Owners.

Monitoring and Reporting: The Risk Management team collects and collates evidence of effectiveness of controls from Internal Audit reports and sample data from the concerned Risk Managers for review by the RMC. A detailed note on Controls and Testing is enclosed in Appendix IV.

RISK MITIGATION

Based on the Risk Appetite/Risk Tolerance level determined and reviewed from time to time, the organization should formulate its Risk Management Strategy. The strategy will broadly entail choosing among the various options for risk mitigation for each identified risk. The risk mitigation can be planned using the following key strategies:

a) *Risk Avoidance:* By not performing an activity that could carry risk. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed.

b) *Risk Transfer:* Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging.

c) *Risk Reduction:* Employing methods/solutions that reduce the severity of the loss. Action is taken to reduce the risk likelihood or impact, or both. This may involve any of a myriad of everyday business decisions.

d) *Risk Retention:* Accepting the loss when it occurs. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater over time than the total losses sustained. All risks that are not avoided or transferred are retained by default. This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums would be infeasible.

Mitigation plans are documented for High Risks/Risks that Matter (RTM). RTM are defined by the RMC. Mitigation plan/control is defined as any action taken by management, the board and other parties to enhance risk management and increase the likelihood that established objectives and goals will be achieved.

Mitigation plans should be documented in detail to incorporate the following:

- Person responsible for carrying out the action
- Timeline by which the action will be completed
- Cost/Budget for the action
- Cost-benefit analysis (if required)

RISK MONITORING AND REPORTING

- A monitoring calendar defining aspects to be monitored, frequency of review and responsibility is to be developed as illustrated in Appendix VI.
- Frequency and responsibility for monitoring risks and mitigation plans is to be documented with the following:
  - Data points to monitor the RTMs and other risks along with the source of such data points
  - Frequency of monitoring RTMs and other risks
  - Control type (Manual/Automatic)
  - Nature of control (Preventive/Detective)
- Status of risks identified is to be refreshed periodically (preferably each quarter) to consider changes in the business environment.
- Results of mitigation plans are documented and periodic updates around the same are provided to the Board in the pre-defined format. (Appendix VII)
- Internal audit plan needs to incorporate review of mitigation plans.

APPENDIX I

GLOSSARY OF TERMS

COSO: Committee of Sponsoring Organizations of the Treadway Commission

ERM: Enterprise Risk Management. Enterprise risk management 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.

Event: An event is an incident or occurrence from sources internal or external to an entity, that affects the achievement of its objectives. External event could be Economic, political or Natural environment related. Internal events are related to infrastructure, personnel, process and technology.

Catastrophic loss risk: Inability to sustain operations, provide essential products and services, or recover operating costs as a result of a major disaster. The two sources of events that can lead to catastrophic loss are:

> ***Uncontrollable events:*** Disaster from war, terrorism, earthquake, flood, fire etc which are beyond the control of the organization. While these events cannot be prevented or predicted, their effects on the organisation's assets and operations can be managed.
>
> ***Controllable events:*** Events that arise from business activities which are impacted by management's choices or effectiveness of internal control environment eg. Environmental disaster, pervasive health and safety violations, high litigation costs, massive business fraud, significant loss in market share due to failure to abandon strategies that no longer work.

Fraud: Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.

Risk: A risk is the possibility that an event will occur and adversely affect the achievement of objectives.

Inherent risk: Inherent risk is the risk in the event of absence of action from Management to alter the likelihood or impact of the risk.

Residual risk: Risk after Management action

Environmental risk: Uncertainties affecting the Viability of the Business Model

Process risk: Uncertainties affecting the Execution of the Business Model

Information for decision making risk: Uncertainties over the Relevance and Reliability of Information

Risk capacity: Risk capacity refers to the maximum potential impact of a risk event that the firm could withstand and remain a going concern. Risk capacity is usually stated in terms of capital, liquid assets or borrowing capacity.

Risk appetite: Risk appetite is the degree of risk, on a broad-based level, that a company or other entity is willing to accept in pursuit of its goals. Management considers the entity's risk appetite first in evaluating strategic alternatives, then in setting objectives aligned with the selected strategy and in developing mechanisms to manage the related risks. The entity's risk appetite guides resource allocation. Management allocates resources across business units with consideration of the entity's risk appetite and individual business units' strategy for generating a desired return on invested resources. Management considers its risk appetite as it aligns its organization, people and processes, and designs infrastructure necessary to effectively respond to and monitor risks.

Risk tolerance: Risk tolerance is the acceptable level of variation relative to the achievement of a specific objective. Risk tolerance addresses the question "How much variability are we willing to accept as we pursue a given business objective."

APPENDIX II

RISK APPETITE AND RISK TOLERANCE SETTING – ILLUSTRATION – STFC

Objectives	Activities required for achieving the objectives	Risk Appetite	Risk Tolerance
Disbursement Rs.27,000 cr; Assets under management Rs.58,000 cr	Existing branches to grow at 12%	Average age of vehicles financed 7 years (95%)	Upto 7.5 years acceptable
	Franchisee business to grow @ 10%	North not to exceed 8%. East not to exceed 5%.	Additional 0.5% acceptable
	Open 50 new branches to contribute Rs.300 cr	Not more than 10 branches each in South and East. At least 15 branches each in West and North.	+/- 10 branches overall acceptable
Return on Assets of 2.5%			
-Gross interest 17.5%	New vehicles Rs.3600 cr @15%	Gross margin not less than 6%	Upto -0.5% acceptable
	Used vehicles Rs.23400 cr @18%	Gross margin not less than 9%	Upto +/-2% acceptable
-Borrowing cost 11.5% (Including Brokerage)	Public issue of Bonds Rs.2000 cr @11%	To be completed by Q4	----
	Term loans of Rs.14000 cr @11%	No cross currency swaps.	IRS for upto 25% of the loans outstanding

Objectives	**Activities required for achieving the objectives**	**Risk Appetite**	**Risk Tolerance**
	Selldown of Rs.10000 cr @10%	Guarantees instead of cash collateral	Guarantee cost not to exceed 2% p.a.
-Operating expenses 2.5%	Employee cost 1.25%	Incremental head count of 1000	Not less than 90% for front line positions
	Operating expenses 1.25%	Savings in travel cost Rs.10 cr	Upto -Rs.2 cr acceptable
-Provisions & Write offs of 2 %	Provisions 2%	Tighter provisions for vehicles >10 years old	Upto 0.1% additional provision acceptable
Liquidity		Maximum 3 months of committed obligations will be maintained	Upto +/- Rs.1000 cr acceptable
Tenor of borrowings		Average tenor of borrowings more than 3 years	Upto +/-0.5 years acceptable
Capital adequacy		Capital adequacy Tier 1 of 18% & overall Capital adequacy of 22%	Upto -2% acceptable

APPENDIX III

SHRIRAM CAPITAL LIMITED (“SCL GROUP”): RISK MANAGEMENT POLICY

I. INTRODUCTION

The effective management of risk is central to the success of SCL. It is critical that SCL has a robust Risk Management Framework in which material risks are proactively identified, communicated and managed across the organization, its subsidiaries and associates (“SCL Group”).

Risks are defined as any event that can impede an entity’s ability to achieve its objectives. SCL recognizes that risk management is an integral part of sound management practice and good corporate governance as it improves decision making and enhances outcomes and accountability. Management is committed to ‘best practice’ risk management practices across the businesses.

II. PURPOSE OF POLICY

The purpose of this policy is to articulate SCL’s risk management philosophy and the processes and practices to identify, communicate and manage material risks across the organization and group. The policy also ensures that responsibilities have been appropriately delegated for risk management.

III. POLICY OBJECTIVES

The application of this policy and related procedures will provide the basis for a robust risk management framework which comprises:

(i)More confident and rigorous decision-making and planning;

(ii)Better identification of opportunities and threats;

(iii)Proactive management of opportunities and threats;

(iv)More effective allocation and use of resources;

(v)Improved incident management and reduction in loss and the cost of risk, e.g. commercial insurance premiums;

(vi)Improved stakeholder confidence and trust;

(vii)A clear understanding by all staff of their roles, responsibilities and authorities for managing risk;

(viii)Improved compliance with relevant legislation;

(ix)Better corporate governance; and

(x)The development of a more risk aware organizational culture through enhanced communication and reporting of risk.

IV. SCOPE

The policy is applicable to all the operations of SCL including its Subsidiary companies, Associate Companies and outsourced activities. The SCL group is more fully described in Annexure 1.

The Risk Management team at SCL will work in tandem with the companies, and

- Identify those risks which will have an adverse effect on the Group
- Identify catastrophic and critical risks for the business Units
- Understand the current controls available to mitigate the impact of critical risks at Unit level
- Do a gap study to understand the capabilities required and available for tackling the critical risks at Unit level
- Facilitate the constitution of Risk Management teams at the Unit level.
- The Unit level Risk teams will handle the Operations and Credit risk.
- Guide and Interact with the Risk Management team at the business Units
- Review the risk management process periodically
- Identify the gaps, if any in the capabilities of handling the risks at the Business Unit level.
- Interact with the Business Owner and the Risk committee at SCL for bridging the gap.

V. RISK ORGANIZATION STRUCTURE

A Group Risk Management Committee (GRMC) has been formed in SCL comprising of select members of the Board chaired by the Group Chief Risk Officer (GCRO). As a conscious policy SCL board has decided to identify a director of the board, who is also a member of the GRMC to closely interact with one or more FSCs and keep the board constantly apprised of its performance. This Director (henceforth addressed as "Director – Mentor" (DM) throughout this document) has the dual responsibility of working like a Mentor to the FSC/s advising on implementation of Risk Management processes, monitoring the progress and also reporting to the GRMC.

Roles and Responsibilities

a) The GRMC and DM will review the risk management policies and system in the Group periodically.

b) GCRO and DM will be responsible for ensuring that the risk management system is established, implemented and maintained in accordance with this policy in SCL and the FSCs (including subsidiaries/associates).

c) The Chief Risk Officers of the Group entities will report to the GRMC and DM for the implementation of this Policy within their respective organizations.

d) The Chief Risk Officers of the Group entities will submit periodic Risk Management Reports to GRMC highlighting the top risks likely to impact the entity's operations.

e) In respect of SCL (standalone), Risk Owners will be accountable to the GRMC for identification, assessment, aggregation, reporting and monitoring of the risk related to their respective areas/functions (Treasury, Accounts, IT, HR).

f) Internal Audit function is separate from the Risk Management function. It provides assurance to stakeholders on the effective operation of risk management processes, methodologies and internal controls.

g) External Audit, as part of their audit process, would review controls that impact on the preparation of the Company's Financial Statements.

h) Group Chief Risk Officer (GCRO) and DM will meet periodically with the Risk Owners (RO) of SCL and Chief Risk Officers of Group entities to identify specific business risks and analyze the risk in terms of consequences, if the risk materializes.

i) The identified risks will be placed before Management and Risk Committee(s).

j) Management will prioritize and focus on key risks and their mitigation measures.

k) Responsibilities for the management of each risk will be assigned to appropriate managers.

Monitoring

- **On an immediate basis**
    - Escalation of risks which have substantial impact on the business and meet determined escalation tolerance levels to the relevant Risk Owner or the Risk Management Committee
- **Monthly**
    - The appointed Risk Owners/CROs will review the status of risks and treatment actions with key staff in their respective areas
    - Any new or changed risks will be identified and escalated, if deemed necessary
    - The appointed Risk Owner/CROs of each area/entity will report to the SCL Risk Management Committee
    - Particular emphasis is to be given to risks with high ratings and their corrective actions
- **Semi-annually**
    - The SCL Risk Management Committee will report its collective findings to SCL Board/Audit Committee on a semi-annual basis.
- **Annually**
    - The risk management process will be reviewed by SCL for efficiency and effectiveness

Everyone in the company/group is responsible for the effective management of risk. All staff is responsible for identifying potential risks. Management is responsible for developing risk mitigation plans and implementing of risk reduction strategies. The risk management process will be integrated with other planning processes and management activities.

VI. REVIEW OF THE POLICY

The policy will be the guiding document for risk management in the Group and will be reviewed as and when required due to the changes in the risk management regulations/ standards/ best practices as appropriate. In any case, the policy will be regularly reviewed annually.

ANNEXURE - 1 - SCL GROUP COMPANIES

- Shriram Transport Finance Company Ltd.
    - Shriram Equipment Finance Company Ltd.
    - Shriram Automall India Ltd.
- Shriram City Union Finance Company Ltd.
    - Shriram Housing Finance Ltd.
- Shriram Life Insurance Company Ltd.
- Shriram General Insurance Company Ltd.
    - Monarch Insurance Co. Inc
- Shriram Credit Company Ltd.
    - Shriram Insight Share Brokers Ltd.
    - Shriram Fortune Solutions Ltd.
    - Shriram Financial Solutions Ltd.
    - Shriram Financial Products Solutions (Chennai) Pvt. Ltd.
    - Shriram Wealth Advisors Ltd.
    - Shriram Asset Management Company Ltd.

APPENDIX IV

RISK UNIVERSE TEMPLATE - ILLUSTRATION

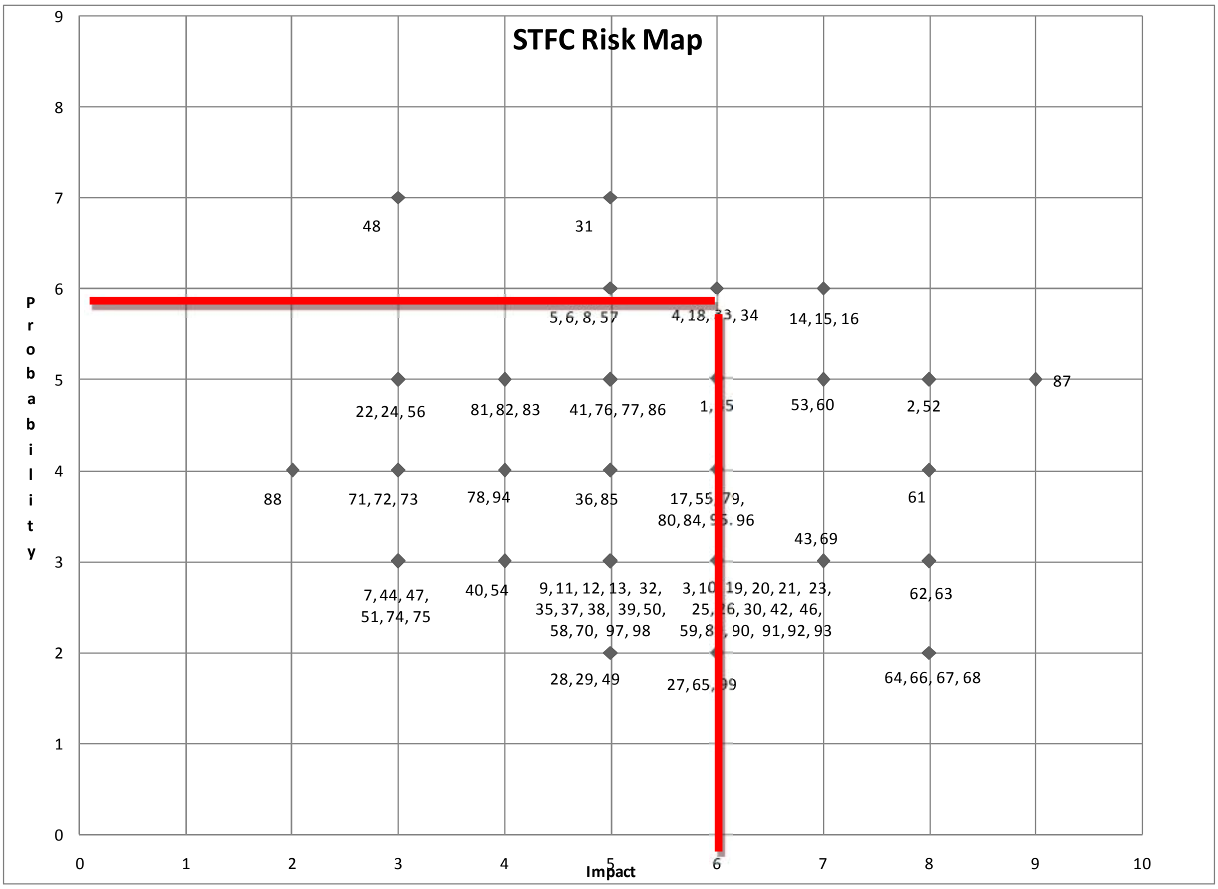
Strategic	Operational	Financial	Compliance	Insurance
Market Dynamics	**Sales & Marketing**	**Capital Structure**	**Code of Conduct**	**Life Business**
Business Model /	Customer Development	Loans and Borrowings	Ethics	Underwriting
Competition Churn /	Geographical	Equity	Frauds	Persistency
Backward Integration	Advertising	**Liquidity & Working capital**	Policies	Adverse variation in expenses
Macro-Economic	Costing and Pricing	Treasury Management	Anti-Corruption	Concentration
Regulatory uncertainty	Sales & Credit Policies	Financing & Cash		
Socio-political	Customer Support & Management	Working Capital Management	**Legal**	**Short term Business**
Planning & Resource Allocation	Technology Enablement	Budget Management	Contracts	Claim (premium and Reserve)
Strategic Planning	Collection Management	**Accounting, Reporting &**	Liability	Non- life catastrophe
Business Planning &	**Human Resources**	Internal Control	Intellectual Property	
Optimization of	Recruitment	Chart of Accounts	Litigations & Suits	
Interest Margin	Succession Planning	Financial statements		
Asset Under	Training needs	**Market**	**Regulatory**	
Diversification,	Compensation &	Interest Rates	NBFC laws	
Diversification	Employee welfare	Foreign Currencies	Central and State Laws	
Forward Integration	Employee	Bonds	Company Law	
Takeovers	Employee Health	Commodity	Secretarial	
Valuations and Due		**Tax**	Securities	
Governance	**Information**	Tax Strategy &	Reporting and Returns	
Tone at the Top	Networks and Redundancies	Tax Optimization	Data protection & Privacy	
Performance of Board	IT Security, Integrity and Infrastructure	Transfer Pricing	International Dealings & Laws	
Control Environment	System and application Development	Property Taxes	Filing of returns and forms	
Corporate Social Responsibility	License Management			
Corporate Donations	Data Management and Security			
Community Support and Work				

APPENDIX V

ENTITY LEVEL RISK REGISTER – EXTRACT – STFC

Risk id	Objectives	Identified risk events	Risk owner/ co-owner
1	Disbursement Rs.27,000 cr; Assets under management Rs.58,000 cr	Low economic growth	Product/Line
2	Disbursement Rs.27,000 cr; Assets under management Rs.58,000 cr	Regulatory changes	Treasury/ Product/Line
3	Disbursement Rs.27,000 cr; Assets under management Rs.58,000 cr	Increased Competition	Treasury/ Product/Line
4	Disbursement Rs.27,000 cr; Assets under management Rs.58,000 cr	Retention of line managers	HR/ Product/Line
5	Disbursement Rs.27,000 cr; Assets under management Rs.58,000 cr	Retention/addition of field staff	HR/ Product/Line
6	Disbursement Rs.27,000 cr; Assets under management Rs.58,000 cr	Retention/addition of Franchisee	Product/Line
7	Disbursement Rs.27,000 cr; Assets under management Rs.58,000 cr	Limited locations with potential	Product/Line
8	Disbursement Rs.27,000 cr; Assets under management Rs.58,000 cr	Availability and employee cost for new recruits	HR/ Product/Line
9	Disbursement Rs.27,000 cr; Assets under management Rs.58,000 cr	Poor Quality of staff	HR/Product/Line
10	Disbursement Rs.27,000 cr; Assets under management Rs.58,000 cr	Availability of adequate funds	Treasury/SFS

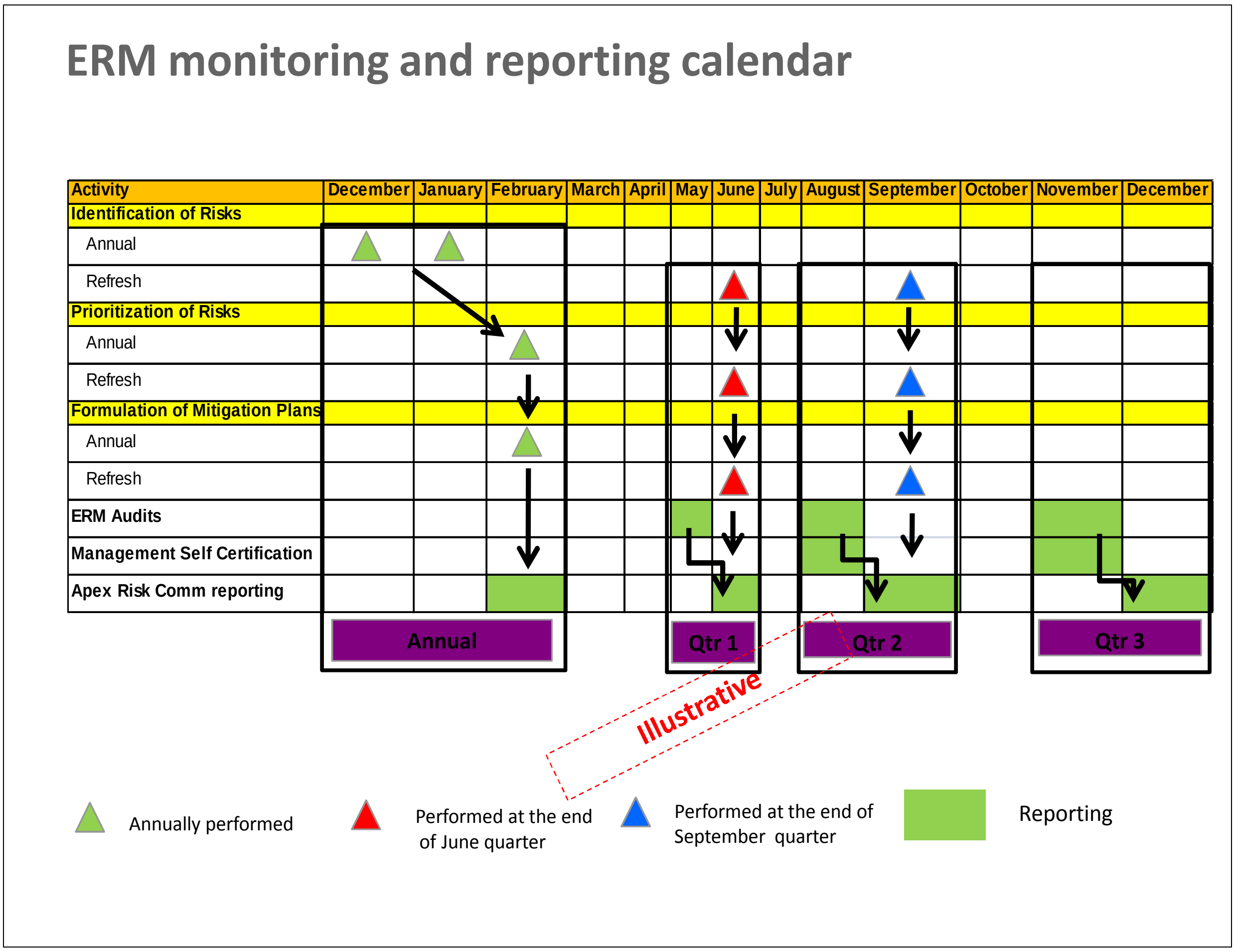
RISK MAP – ILLUSTRATION - STFC



The area of the map above and to the right of the Red lines represents areas of high risk and should be taken up for assessment.

APPENDIX VI

ERM CALENDAR - ILLUSTRATION



APPENDIX VII

RISK DASHBOARD - ILLUSTRATION

RISK DASHBOARD						
Rank	Risk Event	Risk Category	Mitigation Plan Effectiveness			
			CQ	CQ1	CQ2	CQ3
1	Deviation to budgeted Sales	Operational	▯	▯	▯	▯
2	Loss of business, reputation and intellectual property due to adverse impact on business operations in the event of a disaster	Strategic	▯	▯	▯	▯
3	Loss of critical business information due to IT / Information security breach	Operational	▯	▯	▯	▯
4	Non compliance to necessary regulatory / legal requirements	Compliance	▯	▯	▯	▯
5	Security threat to business information / IT assets due to outsourcing of key Business / IT operations	Operational	▯	▯	▯	▯
6	Inability of the business to leverage on existing transactional information captured in various systems for effective decision making	Strategic	▯	▯	▯	▯
7	Inaccurate business transactions due to lack of integrity of master information and inadequate authorizations of transactions due to weak role management	Operational	▯	▯	▯	▯
8	New business systems implemented / if implemented do not deliver the planned returns on investment	Strategic	▯	▯	▯	▯
9	Loss of business reputation due to improper control, ownership and validity of licenses, application source codes and other IT assets	Strategic	▯	▯	▯	▯
10	High human resource attrition in specialized skill areas	Strategic	▯	▯	▯	▯

▯	Ineffective	▯	Effective	▯	Partially effective	CQ	Current Quarter