

RISK MANAGEMENT POLICY

I. INTRODUCTION

Shriram Capital Ltd is a Non-Deposit taking Systemically Important Core Investment Company (CIC) registered with Reserve Bank of India. SCL will comply with the Core Investment Companies (Reserve Bank) Directions, 2016 (including amendments made from time to time), Review of the Guidelines for Core Investment Companies dt.13.8.2020, and other applicable provisions / circulars of RBI issued from time to time. Definitions, conditions and other compliances for this policy shall be governed by the then applicable CIC Directions issued by RBI. The RBI Directions from time to time will override any inconsistency with this policy.

The effective management of risk is central to the success of Shriram Capital Ltd (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;
- (iv) Improved incident management and reduction in loss and the cost of risk, e.g. commercial insurance premiums;

- (v) Improved stakeholder confidence and trust;
- (vi) A clear understanding by all staff of their roles, responsibilities and authorities for managing risk;
- (vii) Improved compliance with relevant legislation;
- (viii) Better corporate governance; and
- (ix) The development of a more risk aware organizational culture through enhanced communication and reporting of risk.

IV. SCOPE

The policy is applicable mainly to the operations of SCL and GMRC responsibilities with respect to group risk management.

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 Operating companies Risk team for bridging the gap.

V. RISK ORGANIZATION STRUCTURE

RBI vide its Circular No.DoR(NBFC) (PD) CC No.117/03.10.001/2020-21 dt. 13.8.2020 has mandated CICs to constitute a Group Risk Management Committee (GRMC). As per this direction, the GRMC shall report to the Board of the CIC that constitutes it and shall meet at least once in a quarter. The composition of GRMC shall be as under:

- (i) The GRMC shall comprise minimum of five members, including executive members.
- (ii) At least two members shall be independent directors, one of whom shall be the Chairperson of the GRMC.
- (iii) Members shall have adequate and commensurate experience in risk management practices.

GRMC of SCL will have four Board Members comprising two independent directors, two non-executive directors and the CRO as the fifth member.

The GRMC will have the following responsibilities:

GRMC will be guided by the RBI directions / guidelines in force and as amended from time to time.

- (i) Analyse the material risks to which the group, its businesses and subsidiaries are exposed. It must discuss all risk strategies both at an aggregated level and by type of risk and make recommendations to the Board in accordance with the group's overall risk appetite.
- (ii) Identify potential intra-group conflicts of interest.
- (iii) Assess whether there are effective systems in place to facilitate exchange of information for effective risk oversight of the group.
- (iv) Assess whether the corporate governance framework addresses risk management across the group.
- (v) Carry out periodic independent formal review of the group structure and internal controls.
- (vi) Articulate the leverage of the Group and monitor the same.
- (vii) Meet the CRO without the presence of the MD at least on quarterly basis.

Based on the analyses and recommendations of the GRMC, the company shall initiate corrective action, where necessary. The CRO will initiate such corrective actions.

Other Responsibilities

- a) The GRMC will review the risk management policies and system in the Group periodically.
- b) 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.
- c) In respect of SCL (standalone), the GRMC will review the identification, assessment, aggregation, reporting and monitoring of the risk related to operating areas/functions.
- d) The identified risks will be placed before the Management and Risk Committee(s).

- e) Management will prioritize and focus on key risks and their mitigation measures.
- f) GRMC will escalate risks which have substantial impact on the business and meet determined escalation tolerance levels to the management.
- g) GRMC will meet once in a quarter to review the overall Group Risk Management process, system and mitigation strategies.
- h) GRMC will review the risk management process for effectiveness periodically.

RBI has asked all CICs with asset size of more than Rs.5,000 crore to appoint a CRO with clearly specified roles and responsibilities as per the Guidelines on CRO specified as per Para 71 on Appointment of Chief Risk Officer of Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

Chief Risk Officer (CRO) shall have the following responsibilities:

- CRO shall be guided by the RBI circular No.DoR(NBFC) (PD) CC No.117/03.10.001/2020-21 dt. 13.8.2020 read with Para 71 on Appointment of Chief Risk Officer of Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, including amendments made from time to time, to discharge your roles and responsibilities as CRO.
- CRO shall be involved in the process of identification, measurement and mitigation of risks and submit risk reports of the company / group to GRMC at least on quarterly basis.
- CRO will co-ordinate with all the CROs at the respective operating companies to analyze the material risk and strategies to mitigate the same and collect periodic risk assessment reports for presenting to the Board / GRMC.
- CRO will be responsible for ensuring that the Risk Management system is established, implemented and maintained in accordance with the Risk Management Policy.
- CRO needs to provide relevant information and support to the GRMC to fulfil all its responsibilities.
- CRO shall be responsible for the internal audit functions and give periodic report to the audit committee.
- CRO may be assigned any other additional duties as may be decided by the GRMC / Board.

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 by GRMC / CRO and will be reviewed as and when required due to the changes in the risk management regulations/ standards/ best practices as appropriate. This policy shall be read with RBI directions / guidelines on risk management that are issued from time to time. RBI policies shall prevail over any inconsistency, if any, in the policy document.