**Aditya Birla Capital Limited**
***(Formerly known as Aditya Birla Financial Services Limited)***

# RISK MANAGEMENT POLICY

## 1.0 *OBJECTIVE*

1.1 The Board of Directors of Aditya Birla Capital Limited (the "**Company**") has adopted this Risk Management policy (the, "**Policy**") of the Company in accordance with, and to comply with the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (**'Listing Regulations'**).

1.2 This Policy shall be effective from 26th June, 2017.

1.3 The objective of this policy is to document the Risk Management Framework in Aditya Birla Capital Limited. which will help to govern the risk identification, assessment, measurement and reporting process of the business risks faced by various entities in the Financial Services group. The documents aim to ensure that all material business risks can be identified and managed in a timely and structured manner.

Business managers make decisions every day about which risks to accept and which to avoid leading to Risk Management on daily basis. Framework helps to build a structured process that ensures all material risks are identified and understood by senior management and decides the organization's risk appetite.

The evident benefits of risk management are that it helps manage functions well and plan for robust strategies for risk mitigation. Similarly with the changing dynamics in the Industry, risks are becoming more diverse. For interested parties outside the organization monitoring the business performance (Investors, rating agencies, securities analysts, and regulators), risk management is critical agenda item.

## 2.0 Enterprise Risk Management

| ENTERPRISE | RISK | MANAGEMENT | FRAMEWORK |
|---|---|---|---|
| ↓ | ↓ | ↓ | ↓ |
| Enterprise wide initiative and not function specific | Focus on all risks having business impact | Managing and not eliminating risks | Systematic and planned approach |

Business risk exposure would mean a possibility of deviation from the expected results. The expected result can be business strategy, investment return, expected profitability, a level of cash flow etc.

“As per the Committee of Sponsoring Organizations (COSO) of the Treadway Commission - Enterprise Risk Management (ERM) is a process, effected by senior management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”

In other words “Enterprise risk management is a systematic approach to identify, assess, quantify and build mitigation strategies for every material business risk exposure”.

## 2.1 Objectives of ERM:

The Objective of building an Enterprise Risk Management (ERM) framework is to facilitate business management in:

← **Understand and manage risks and not eliminate risks**

The objective of ERM is to manage risks. In any environment (especially a dynamic business requirement), risks cannot be avoided or eliminated. They can only be managed efficiently and on a timely basis and ERM aims to achieve the same.

← **Aligning risk appetite and strategy**

Business risks cannot be identified and managed in isolation of the risk appetite and the business strategy. Risk appetite is the combined levels of overall business risks that a company is willing to take. In other words risk appetite is the level of aggregate risks that the company can undertake and successfully manage over an extended period of time. Business strategy is the operating plan that the business has developed for the forthcoming years.

← **Enhancing risk response decisions**

ERM aims to have a consolidated risk database, which facilitates a speedy risk response thus supporting the functions in case the risk manifests.

← **Reducing operational surprises and losses**

An effective ERM framework can assist business management to reduce the operational surprises and losses by framing mitigation strategy for key business risks so that the same can be implemented in a timely and efficient manner

← **Seizing new business opportunities**

ERM facilitates business management to evaluate new opportunities as a risk mitigation technique. Through ERM, the management can evaluate new business proposal and products. For example, a risk management strategy to diversify business share would be evaluating and carrying research on new products across industry.

← **Improving deployment of capital**

Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.

## 2.2 Benefits of ERM:

ERM can support and assist the business management in:

- ← **Improved understanding of risks and their true costs to the organization**

ERM will provide an overall database of risks, their associated control cost and clarity on the risk response. By risk measurement and assessment the true cost of the mitigating or avoiding the risks will be pertinent. ERM also ensures the ability to aggregate business unit risks across an enterprise enabling better understanding of risk across functions and business units.

- ← **Enhancing Shareholders and Policyholders value**

Shareholders and policyholders expect business value and appreciation out of their investments. ERM helps generate the business value through a management framework governed and assessed by senior management. ERM also helps build investor confidence.

- ← **A company culture enhanced by a greater awareness of risks**

Senior management drives ERM. Hence the drive on managing business risks and creating a risk culture efficiently is to be generated by senior management. This top down approach helps develop greater awareness of risk.

- ← **Definition and application of risk appetite**

ERM helps in defining every risk as well as helps in assessing risk appetite of the company. This way all senior management is aware and aligned on the overall risk appetite of the company, which helps them in the risk response decision. This approach helps management with informed decision-making.

- ← **Efficient allocation of funds and management resources within the company**

ERM, through investment risk management ensures efficient allocation of funds for higher profitability. ERM also provides and objective base for allocating resources.

- ← **Improving capital efficiency and earning stability**

Risk management improves capital efficiency and costs savings through more effective management of internal resources and capital as well as providing protection against earnings related surprises. Since the risk management framework focuses on avoiding surprises it also improves the stability of the earning.

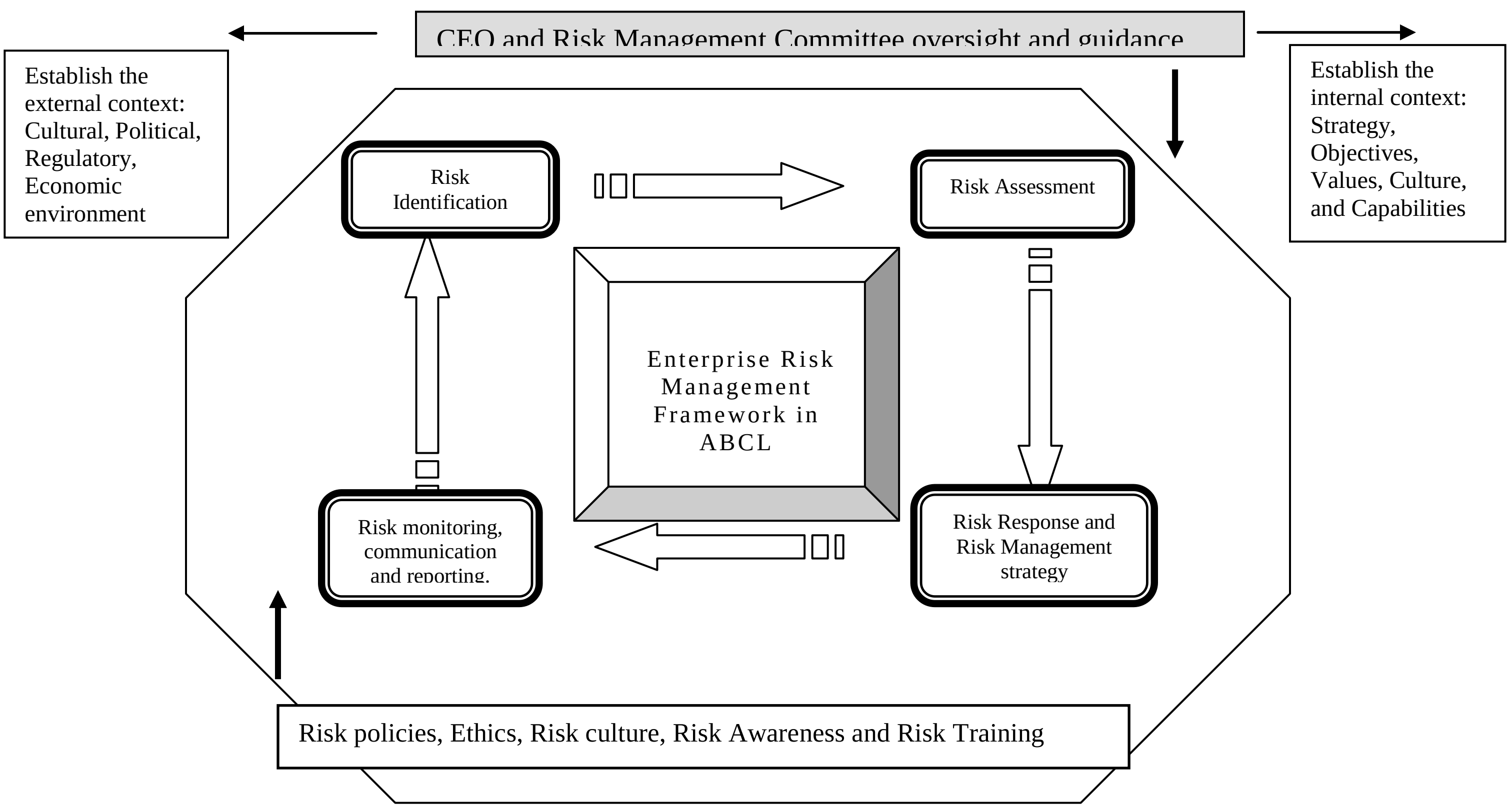
## 2.3 Framework Structure:

ERM framework at Aditya Birla Capital is in line with the phased approach proposed by COSO (Committee of Sponsoring Organisation), which has provided guidance on developing models on integrated risk management. The four phases are listed as follows:

- ← Risk identification;
- ← Risk Assessment;
- ← Risk Response and Risk Management strategy; and

← Risk monitoring, communication and reporting.

All the phases would be jointly required to be carried on by the Functional heads of various businesses and the risk management teams. The Central team at Aditya Birla Capital and Risk Management Committees of respective businesses would closely monitor the overall process. ERM is not a one-time project but an ongoing practice. All the above phases are to be operative on a continuous basis. Other critical elements such as Risk Review Committee oversight, efficient risk management policies, risk management committee charter etc also play an important part in the overall ERM framework.




### 3. Risk Communication, Reporting and Monitoring:

- Risk communication, reporting and monitoring, is a critical phase in the ERM framework. The framework will end as a project rather than a process if the risks are not monitored, communicated and reported on a constant basis.

- ► Risk communication helps develop an appropriate risk culture in the organization. The risk monitoring and reporting is used as a management decision support system enabling them to perceive the overall risks of the organization and analyze the progress made on the same

- ➢ The monitoring will happen through the risk dashboard and risk metric wherever applicable. Risk dashboard will be prepared and circulated which will include the key metrics for the key risks identified.

- ➢ The risk management team may conduct separate evaluations and reviews to ensure effective implementation of the risk monitoring as required.

- ➢ Monitoring will also include Tone at the Top though methodologies including Internal Audit, Risk based Policies, Risk Management Committee oversight

### 4. Roles and responsibilities in an ERM framework:

Everyone in an entity has responsibility towards enterprise risk management.

- ► The Chief Executive Officers of different businesses are ultimately responsible and would assume ownership for an effective risk management framework.

- ► The Chief Compliance and Risk Officers, Chief Financial Officers, Chief Operating Officer, Chief Technology Officer and others have key support responsibilities in managing the overall ERM framework by guiding the risk management team in carrying out the ERM framework.

- ► The Risk management team is responsible to support the management in implementing the overall ERM framework.

- ► Functional managers support the entity's risk management philosophy, promote compliance with its risk appetite, and manage risks within their spheres of responsibility consistent with risk appetite.

- ► Other entity personnel are responsible for executing enterprise risk management in accordance with established directives and protocols.

- ► The Risk Management Committees of different businesses provide important oversight to enterprise risk management, and is aware of and concurs with the entity's risk appetite.

- ► All employees will actively support and contribute to risk management initiatives and maintain an awareness of risks (current and potential) that relate to their area of responsibility

### 5. Risk management policy review and approval:

This Policy shall be reviewed periodically and may be amended by the Managing Director/Chief Executive Officer of the Company, as may be deemed necessary.