SIL INVESTMENTS LIMITED
RISK MANAGEMENT POLICY

1 REGULATORY FRAMEWORK AND BACKGROUND

As per Reserve Bank of India regulations, the management of every Non-Banking Financial Company ("**NBFC**") is required to base their business decisions on an integrated risk management system since NBFCs are exposed to several risks in the course of their business – such as credit risk, interest rate risk, equity / commodity price risk, liquidity risk and operational risk. SIL Investments Limited ("**Company**"), being an NBFC, is accordingly required to put such a policy in place.

2 PURPOSE

The Risk Management Policy ("**Policy**") of the Company seeks to minimise unfavourable impact on its business and enhance stakeholder value.

3 PRINCIPLES

3.1 The Board of Directors along with the Risk Management Committee are responsible for framing, implementing and monitoring the Risk Management Policy for the Company. The responsibility of the Board / Committee is to operationalize a risk management program and ensure that formal procedures are in place to identify and define risk with input from representatives across the Company. Measurement of risk is to be done considering both quantitative and qualitative means using criteria as developed and shall be reviewed by the Board, from time-to-time.

3.2 The Risk Management Committee shall continuously strive to reduce available risks in the Company which directly or indirectly affect its functioning. They shall ensure the protection of rights and values of shareholders by selecting, maintaining and enhancing the risk management mechanisms to provide analysis that inform and support the investment actions of the Company.

4 RISK CATEGORIES

The Company shall follow a disciplined risk management process for the following risks it faces and take business decisions that ensure growth and a balanced approach towards risk reward matrix.

4.1 Credit Risk

A risk of loss due to failure of a borrower/ counterparty to meet the contractual obligation of repaying their debt as per the agreed terms would affect the Company's credit profile. Ownership structure along with the credit profile of the promoter, shareholding pattern of the Company, operational synergies of the Company with its promoter, level of involvement of promoter in the Company and level of commitment, and track record of the promoter in providing funding support also affects the Company's earning, liquidity and capitalisation.

4.2 Operational Risk

Any eventuality arising from activities relating to people, technology, infrastructure and external factors, which can give rise to some type of loss in the Company constitutes Operational Risk. These are usually risks inherent to business operations including those relating to client acquisition, service delivery to clients, business support activities, information security, physical security and business activity disruptions.

4.3 Market Risk

Risks emanating out of the choices regarding markets, resources and delivery model can potentially impact the Company's long-term competitive advantage. Additionally, risks relating to external market dynamics such as inherent characteristics of the industry including competitive structure, technological landscape, extent of linkage to economic environment and regulatory structure give rise to Liquidity risk, Interest Rate risk and funding risk which largely constitute Market Risk.

4.4 Interest Rate Risk

Interest Rate Risk is where changes in market interest rates adversely affect the Company's financial condition. The immediate impact of changes in interest rates is on the Company's earnings, in terms of changing its Net Interest Income ("**NII**") or Net Interest Margin ("**NIM**"). Given the interest rate fluctuation, the Company has adopted a prudent and conservative risk mitigation strategy to minimize Interest Rate Risk.

4.5 Liquidity Risk

Liquidity risk is the inability to meet financial obligations in a timely manner. Measuring and managing liquidity needs are vital for effective operation of the Company. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. The Committees should measure not only the liquidity positions of the Company on an ongoing basis, through maturity and cash flow mismatches but also examine how liquidity requirements are likely to evolve under different assumptions. For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates should be adopted as a standard tool.

4.6 Human Resource Risk

The Company's human resources add value to it by ensuring and contributing towards organizational excellence. Risk in matters of human resources should be minimised and contained by following a policy of providing equal opportunity to every employee, inculcating in them a sense of belonging and commitment and effectively train them in spheres other than their own specialisation. The Company believes that a satisfied and committed employee will give of his best and create an atmosphere that cannot be conducive to risk exposure.

5 RISK MITIGATION

5.1 The Company shall evolve a reporting process that is in consonance with requirements and risk management practices, as they evolve.

5.2 On a half yearly basis, the Company shall provide updated information materially affecting the

risk profile (e.g. market developments) which will enable the Committees to understand the likely future risk profile of the Company. These will be also reported to the Board by the Risk Management Committee as soon as practicable and at least yearly.

5.3 Specifically, the Company shall manage Credit Risk using a set of credit norms and policies and by having defined roles and responsibilities for originators and approvers. All credit exposure limits shall be approved by the Committees. There shall be a structured and standardized credit approval process to ascertain the credit worthiness of the borrower. The Company shall develop an internal evaluation team to make credit decisions more robust and in line to manage collateral risk. The Company shall follow a process of revisiting the credit policy and processes, from time-to-time, based on experience and feedback.

5.4 Specifically, the Company shall appoint persons to keep continuous watch to gather symptoms and warning signals to manage Operational Risk since it is largely internal and unknown.

5.5 Specifically, the Company shall resort to a contingency plan to manage Market Risk by maintaining sufficient, approved but undrawn credit lines on a continuous basis, as a buffer to manage the eventuality of liquidity constraints.

5.6 The Company shall be compliant in terms of regulatory norms and shall effectively manage regulatory risk. It shall adopt effective Customer redressal mechanisms and fair practices that keep legal risk under control.

5.7 The Company shall have processes in place, to manage the risk of fraud and ensure that suspected frauds are reported, wherever necessary.

6 RISK ASSESSMENT OF BORROWERS

6.1 The Company recognizes that borrowers may be of a higher or lower risk category, depending on their background, type of business, references, borrowers net worth and the ability to refund and pay interest, etc.

6.2 It shall be the responsibility of the person authorised by the Committees to apply to each customer due diligence measures on a risk sensitive basis and divide them into three categories – “High”, “Medium” and “Low”, which shall be reviewed every year.

6.3 It shall be the Company’s Policy to mark all new clients as high-risk category and subsequently recategorize them, depending on their performance, for an enhanced customer due diligence process for higher risk customers. This is in line with a risk-based approach where the type and amount of information and documents required shall vary depending on the risk category of a borrower.

6.4 Any suspicion of Money Laundering /Financial Terrorism activities or other factors shall affect the risk categorization and such borrowers shall be categorised as “high-risk”.

6.5 Primary Responsibility for Risk Management at borrower level shall vest with the person authorised by the Committees. The Company shall manage such risks by considering the borrower’s trade history, financial capacity, credit worthiness and referrals. In case, there is debit balance, the borrower is required to provide sufficient margin / securities / funds to

carry out their request for fresh buying or to create fresh position.

7 OBLIGATIONS OF BOARD OF DIRECTORS

The Board of Directors, in their meetings, will oversee the implementation of the Policy and review its functioning in line with the Risk Management Policy and strategy of the Company, periodically.