SBI PENSION FUNDS PVT LTD

RISK MANAGEMENT POLICY

(Reviewed on 19.10.2023)

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SBI PENSION FUNDS PVT LIMITED

RISK MANAGEMENT POLICY

1. Preamble:

SBI Pension Funds Pvt. Ltd (SBIPFPL) is engaged in the business of investment management of the pension corpus received from NPS Trust and regulated by the Pension Fund Regulatory and Development Authority (PFRDA).

In terms of the Investment Management Agreement (IMA) entered into with the NPS Trust, the Company is required to have a Risk Management Policy duly approved by the Board of Directors. The Policy was last approved by the Board of Directors at its meeting held on 25.01.2022.

2. Objective:

The main objective of the risk management policy of the Company is to

- put in place a risk management framework to effectively identify, measure, manage and control risks inherent in the Company's Business.
- define an appropriate risk management structure with clear role responsibilities.
- ensure regulatory compliances & business continuity at all times.
- ensure compliance with the requirements of the Group Risk Management Policy of State Bank of India to the extent applicable to the operations of the Company.

3. Risk Management Framework:

The risk management framework of the Company is based on the tenets of identification, measurement, control and mitigation of various risks and reporting to the Top Management. The Company follows a Committee based approach to business decisions and for effective risk management, a well-defined risk management architecture with clear roles and responsibilities is put in place.

3.1. Role as Pension Fund Manager (PFM)

The Company has entered into separate Investment Management Agreements (IMA's) with the NPS Trust for managing Government Sector Schemes, Private Sector Schemes and other schemes of NPS regulated/administered by PFRDA on 08.06.2021 after issuance of new certificate of registration by PFRDA on 30/03/2021 as pension fund.

Investment activities are governed by Investment Guidelines issued by PFRDA and the Investment Policy approved by the Board of Directors of the Company. The investment portfolio is required to be mark to market and NAV is declared on daily basis. Consequently, investments made are exposed to various risks viz. market risk, credit risk, liquidity risk and operational risk.

3.2. Range of Activities

The business undertaken by the Company may broadly be classified as under:

- Investment in Government Securities/SDL.
- Investment in Corporate Bonds.
- Investment in Equity.
- Investment in Money Market Instruments
- Investment in Term deposits/ Mutual Funds.

3.3. Key Risks:

In the current PFM business model, credit and market risks of the portfolio are "pass through" to the subscribers. Net Asset Value (NAVs) is arrived at by valuing the securities on mark-to-market basis and any loss in market value has to be borne by the subscriber. Nevertheless, reputation risk is a pass through to the Company and thereby, to the Group. As PFM, the business objective of the Company is to maximize returns to the subscriber and as such, the Company is required to identify measure, control and mitigate such risks. Keeping this in view, and inter-relationships between the risks, the following have been identified as key risks for the Company.

- Operational Risk
- Reputation Risk
- Market Risk
- Credit Risk & Investment Risk
- Other Risks (Compliance/Contagion/Strategic/Counter Party Risk/ IT Risk/Talent Risk)

Settlement of deals for all transactions is routed through Custodian appointed by NPS Trust. Further, settlement of government securities transactions is guaranteed by CCIL and equities transactions by Stock Exchanges. As such, the Settlement Risk stands mitigated.

3.3.1 Risk Identification:

We have adopted Risk Control Self-Assessment (RCSA) methodology to identify organization wide risks.

RCSA is a systematic and rigorous process which leverages collective knowledge of individuals with in organization to proactively identify, assess, mitigate/control, monitor and report significate risks in the areas of operative business.

All the functions shall participate in the identification exercise and document the results and analysis in the risk register. The register is to be reviewed annually or whenever there are material changes to the business environment.

The risks identified through the process of self-assessment includes:

- Credit/Market Risk
- Operational Risk
- Reputation Risk
- Regulatory/Compliance Risk
- Contagion Risk

An annexure detailing the reporting structure of RCSA is attached here with.

3.4. Risk Limits, Monitoring & Reporting :

3. 4. 1. Market Risk

a) Limit :

- Duration of the securities to be taken to consideration at the time of making investment decisions, depending on the market conditions.

- Management action trigger threshold:

- ✓ Bonds: In case of bonds, MAT would not be applicable for the price movements on account of interest rate movements. However, in case of downgrade of a security in the corporate bonds, an in-depth analysis would be carried out to assess the exposure based on the fundamentals of the company and the overall market scenario. A note would be recorded in such cases mentioning the proposed course of action and put up to the Investment Sub-Committee of the Company.

  The position would be continuously monitored and both Investment & Risk committee of the Company would be apprised of the same on a quarterly basis.

- ✓ Equities: MAT for investment in equities would be monitored under two categories, viz.
  - a) Securities which are part of benchmark equity indices, i.e NIFTY or SENSEX.
  - b) Securities which are outside the benchmark.

The MAT would be monitored as under:

Category (a) :

MAT may not be applicable in the case of securities in NIFTY/Sensex universe. In case of significant price corrections in these securities, the investment sub-committee may evaluate the merit in holding, going under weight/overweight depending on the outlook. In case of sale/purchase of any securities that has fallen more than 15% from the weighted average holding price, the reason for the same may be substantiated in the investment sub-committee note.

Category (b): MAT would be triggered on 15% adverse movement in the weighted average price (WAP) of a stock.

The investment Sub-committee (ISC) shall review the position in case of Bonds and decide whether to continue with the investment or to exit. The same will be recorded by way of note and will be informed to Investment/Risk Committee of the Company on quarterly intervals. In case of equities, the investments are based on fundamental evaluation. Once MAT is triggered in a security, the Investment subcommittee would evaluate the merit in continuing, adding to the holding or to exit partially or fully based on the fundamentals and capital market perception. An in-depth analysis would be carried out to assess the reason for the price correction based on the overall market scenario and the fundamentals of the company and a strategy to correct the position within a reasonable time frame would be chalked out.

In case of addition to the existing holding is made in a security where MAT is triggered, the same should be substantiated in the investment sub-committee note. Further, in case the prices continue to be on a downward trend for the 3 consecutive quarters after the quarter in which the MAT was triggered, partial/full exit from the position would be done gradually in the following quarter. The position would be continuously monitored and the Investment & Risk committee of the Company would be apprised of the same on a quarterly basis.

In the event of any securities getting excluded from NIFTY/Sensex, the security would be monitored as per the norms mentioned under category (b) and the rules would be applicable retrospectively; i.e. from the original date of fall by 15% from the weighted average price.

Monitoring and Control:

Business head shall monitor operations in their respective areas to guard against breach of limits and put in place various strategies to control the risk. The Mid-Office will independently track risk as per the limit structure and in case of breach of the threshold limits, will put up the position to the Investment Sub-Committee, for necessary action.

b) Management Reporting:

- Valuation report monitoring appreciation/depreciation of portfolio.
- Review of Daily portfolio NAV and NAV return.
- Action taken by the Investment Sub Committee on the occasion of breach of the threshold limits shall be reported to both Investment and Risk Management Committee of the Company.

3. 4. 2. Credit Risk:

a) Exposure Limits-Equity & Debt:

i. Exposure Limits: Sponsor Group

- NPS investments have been restricted to 5% of the 'paid up equity capital'* of all the sponsor group companies or 5% of the total AUM under Equity exposure whichever is lower, in each respective scheme.

*Paid up share capital': Paid up share capital means market value of paid up and subscribed equity capital.

- Investment exposure in debt securities of Sponsor Group Companies shall be restricted to 5 % of the net-worth of all Sponsor Group Companies or 5% of total Debt securities (excluding G-Securities) under each scheme, whichever is lower.

ii. Exposure Limits: Non-Sponsor Group

- NPS investments have been restricted to 15% in the paid-up Equity capital of all the non-sponsor group companies or 15% of the total AUM under Equity exposure whichever is lower, in each respective scheme.

- NPS investments have been restricted to 10% of the net-worth of all the non-sponsor group companies or 10% of the total AUM in Debt securities (excluding Govt. securities) whichever is lower, in each respective scheme.

iii. Exposure Limit: Industry Sector:

- Investment exposure to an industry sector (classification as per NIC classification) shall be restricted to 15% of all NPS schemes.

iv. Credit Rating:

- All investments to have minimum AA or equivalent grade rating from at least two rating agencies, with exception as mentioned in investment policy.
- In addition to the credit ratings, investments under debt instruments and related investments category shall be made after proper due diligence on the investee companies. The process which is to be followed are as under:

  a) Proper credit appraisal has to be carried out to assess the risk associated with any particular security/bond before investment is made by the fund.
  b) The risks analyzed should include, inter alia, credit risk, liquidity risk and solvency risk.
  c) A comparison of following parameters with the sector & industry to be done:

     i) Revenue

     ii) EBITDA

     iii) PAT

Large variations if any need to be commented upon in details.

d) A complete documentation of the analysis and assessment and due diligence done along with all backing documents, references and research needs to be maintained for scrutiny.
e) The credit appraisal should include detailed analysis of financials of company, the management of the issuer company, liquidity position and other parameters such as liquid investment or cash balances excess to unutilized credit lines, liquidity coverage ratio and adequacy of cash flows for servicing maturing debt obligation need to be analyzed.
f) It should also comment on the nature of business, industry characteristics, impact of economic conditions, business strategy, the competencies or deficiencies of management, key business and financial risk and its mitigating factors.
g) Comment should also be made in credit appraisal regarding pledge of shares by promoters, contingent liabilities of the company and group level leverage.
h) The analyst should also analyze the following parameters to evaluate accounting quality of the investee companies:

    i). Contingent liabilities as % of Networth (for the latest available year) for analyzing off-balance sheet risk.
    ii). CWIP to gross block, comments should be made in case of high ratio.
    iii). Cashflow from operations as % of EBITDA to check aggressive revenue and earning recognition practices.
    iv). Provisioning for debtors to check aggressive provisioning policies.
    v). Growth in auditor’s remuneration to growth in revenues. Faster growth in auditor’s remuneration vis-vis company’s operations should be commented upon.

i) As far as possible, it should be ensured that promotor/promotor group should not been involved in any corporate governance issues.
j) Avoid investment in companies whose promotors/management do not have good track record of being transparent to shareholders and have history of not protecting interest of minority shareholders.

k) In case of NBFCs other than Public Financial Institution (PFI), the following criteria shall be considered before investment (per issuances):

	Category I	Category II	Category III
Investment>	Amount as per Board approved policy	Max. Upto 200 crores per issue	Max. Upto 100 crores per issue
Total AUM	>=Rs. 25,000 crores	> Rs. 16,000 crores	> Rs. 8,000 crores
Networth	> Rs.2000 crores	> Rs.1500 crores	> Rs. 750 crores
Over Gearing	< 7 times	< 7 times	< 7 times
Net NPA Level *	< 2%	< 2%	< 2%
Capital Adequacy	Minimum 15%	Minimum 15%	Minimum 15%
PAT History	Net profit in at least last 3 years	Net profit in at least last 3 years	Net profit in at least last 3 years
Exposure norms	As per PFRDA guidelines	As per PFRDA guidelines	As per PFRDA guidelines

*The aforesaid criteria for Net NPA level may be relaxed upto 4% provided the Internal Investment sub-committee (IISC) evaluate the proposal and give proper reasoning for investment. Provided further that the investments under category II & III should have AA+ & above rating at the time of investment.

In case of NBFC-PFI such as NABARD, PFC, IRFC etc., the following criteria shall be considered before investment:

Total AUM	> Rs. 20000 crores
Networth	> Rs.500 crores
Over Gearing	=< 10 times
Net NPA Level*	=< 5%
Capital Adequacy	As per the RBI guidelines
Exposure norms	As per PFRDA guidelines

*The aforesaid criteria for Net NPA level may be relaxed up to 6% provided the Investment sub-committee evaluate the proposal and give proper reasoning for investment. This change is applicable for incremental investment under the category.

Further, the Internal Investment sub-committee is authorized to invest upto 20% of total NBFC exposure (sum of market value of the NBFC and

NBFC-PFI Investments) into NBFCs with total AUM between Rs. 5000 cr and Rs. 25000. However, it should be rated AA+ and above at the time of Investment.

l) In case of Small Finance Banks (SFBs) and Housing Finance Companies (HFC), the following criteria shall be considered:

AUM (Loan book or assets)	> Rs. 12,000 crore
Networth	> Rs. 1,000 crore
Over Gearing	< 10 times
Net NPA Level*	=< 2%
Capital Adequacy	Minimum 15%
PAT History	Net profit in at least last 3 years
Exposure norms	As per PFRDA Guidelines

*The aforesaid criteria for Net NPA level may be relaxed upto 4% provided the Internal Investment sub-committee evaluate the proposal and give proper reasoning for investment. This change is applicable for incremental investment under the category.

m) In case of Scheduled Commercial Banks (SCBs), the following criteria shall be considered:

Particulars	Public Sector Banks	Private Sector Banks
Net-worth	> Rs.500 crore	>Rs.500.00 crore
Gross NPA Level	=<10	=<6
Net NPA Level	=< 4%	=<2%
Capital Adequacy	Minimum 9%	Minimum 9%
Provision Coverage Ratio	>50%	>60%
Exposure norms	As per PFRDA Guidelines	As per PFRDA Guidelines

However, above criteria will not be applicable to a Bank categorized as Private Bank by Reserve Bank of India but ownership is as under:

- More than 51% is owned by Central Government.
- More than 51% is owned by State Government/Union Territory.
- More than 51% is collectively owned by Central Government and State Government/ Union Territory.

For Banks with aforesaid ownership the criteria's listed under Public Sector Banks will be applicable. The above- mentioned change will be applicable for incremental investment under the category.

n) In case of Corporates other than Banks, NBFCs, SFBs & HFCs, the following criteria shall be considered using consolidated financials:

Net-worth	> Rs.500 crore
Debt/Equity Ratio	<2.5
Interest Coverage Ratio (EBITDA/Interest)	>1.5
Profitability	Cash Profit in last 3 years
Exposure norms	As per PFRDA Guidelines

This is applicable for incremental investment under the category.

o) In case of Infrastructure Companies operating assets under Special Purpose Vehicle (SPV) route, the evaluation will be done on the following criteria only for such SPV which have achieved Commercial Operations Date (COD):

Net-worth	> Rs.100 crore
Debt/Equity Ratio	<6.5
DSCR	>1.15
Exposure norms	As per PFRDA Guidelines

This is applicable for incremental investment under the category.

v. If the securities/entities have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered.

vi. The maximum tenor for investment in Corporate Bonds shall be 15 years. No investment shall be made in perpetual bonds of any Body Corporate except in Basel III Tier-1 Bonds.

The aforesaid criteria of 15 years can be relaxed for investment in Companies with criteria mentioned below:

a) Company which is 51% and above owned by Central Government or State Government.
b) State Government or Central Government collectively own 51% and above in the Company.
c) The Company enjoys Central Public Sector Entity Status.
d) It should be rated AA+ and above at the time of Investment.

vii) Further, investments under Corporate Bonds with issue size of more than Rs.500 crore will be restricted to a maximum of 20% of the initial issuance amount. However, on a case-to-case basis, additional 5% investment (subscription) in an initial offering can be done i.e. maximum of 25% (including additional 5%) if there is a specific recommendation to the Internal Investment-Sub-Committee by the CIO/Debt Fund Manager providing justification for his/their recommendation.

In the rare need to invest more than 25%, the approval of the Investment Committee of the Board shall be obtained prior to such an investment through subscription in an initial offering.

In all the above three situations, the Company can subsequently take additional exposure through the secondary route within the prescribed limit/guidelines stipulated by PFRDA.

However, the aforesaid investment norms for subscribing to initial issuances shall not be applicable to Corporate listed below:

a) Company which is 51% and above owned by Central Government or State Government.
b) State Government or Central Government collectively own 51% and above in the Company.
c) The Company enjoys Central Public Sector Entity Status.

Provided the Corporates mentioned above at a), b) and c) above are rated AA+ and above at the time of investment in initial offering.

viii. Transactions routed through an empaneled broker not to exceed 5% of the aggregate purchase and sale of securities. In case this limit is exceeded, the justification therefore should be recorded and all such investments reported to the Trustees on yearly basis.

ix. For investment in equity shares, a list of companies of top 200 stock as provided by NPS Trust (last published) from time to time to be strictly followed by investment team and reviewed by the Internal Investment Sub-Committee. Out of the list of top 200 companies as provided by NPS Trust, the due diligence process which is to be undertaken before making any investment in shares of body corporates are as under:

a) A detailed research note should cover the promoter credentials, reputation, corporate governance, performance evaluation versus peers and benchmarks.
b) A comparison of following parameters with the sector & Industry to be done:
   i) Revenue
   ii) EBITDA
   iii) PAT
   Large variations if any, need to be commented upon in detail.
c) A complete documentation of the analysis and assessment and due diligence done along with all backing documents, references and research needs to be maintained for scrutiny.
d) The research note should include detailed analysis of financials of company (past and projections), business strategy, liquidity position, industry characteristics, impact of economic conditions, the competencies or deficiencies of management, key business and financial risk and its mitigating factors.
e) It should also comment upon pledge of shares by promoters, contingent liabilities and group level leverage.
f) As far as possible, it should be ensured that promotor/promotor group should not been involved in any corporate governance issues.
g) Avoid investment in companies whose promotors/management do not have good track record of being transparent to shareholders and have history of not protecting interest of minority shareholders.
h) The analyst should also analyze the following parameters to evaluate accounting quality of the investee companies:

   i). Contingent liabilities as % of Net worth (for the latest available year) for analyzing off-balance sheet risk.
   ii). CWIP to gross block, comments should be made in case of high ratio.
   iii). Cashflow from operations as % of EBITDA to check aggressive revenue and earning recognition practices.
   iv). Provisioning for debtors to check aggressive provisioning policies.
   v). Growth in auditor's remuneration to growth in revenues. Faster growth in auditor's remuneration vis-vis company's operations should be commented upon.

The research note, before making any investment in the company stock, will be put up to Internal Investment Sub-Committee (IISC) members for approval.

b) Monitoring and Control:

- All the corporate bonds shall be reviewed periodically i.e. once in every six months, or more frequently in case of any adverse development.
- Each equity stock under the NPS schemes shall be reviewed once in three/six months or more frequently especially in case of any adverse development.
- Ratings shall be monitored at monthly intervals or more frequently, in case of any adverse information.
- In the event of slippage in the rating below the minimum permissible investment grade prescribed for investment in the instrument when it was purchased, as confirmed by one credit rating agency, the option of exit shall be considered and exercised, as appropriate, in a manner that is in the best interest of the subscribers.
- Keeping in view, the lockdown due to Covid-19 pandemic and its impact on the economic activity and financial health of the Corporate India, below are some of the action points we propose for strengthening the monitoring process in the event of any pandemic in future to protect our portfolio from similar shocks:

  a) Analysis of the financials and results on timely basis for the portfolio companies which are expected to be impacted directly by the pandemic.
  b) Monitoring of all credit events like rating downgrade/change in outlook by the risk officer and the Investment team.

  The aforesaid process is already part of the existing monitoring process; however, we propose to strengthen the system and increase the focus over monitoring to proactively address the risk arising from the COVID-19 like pandemic in future.

Credit risk in terms of failure of counterparty in a deal does not arise as the deals are settled on exchanges through the custodian. Settlement of the government securities transactions are guaranteed by CCIL. However, we have included the counterparty risk separately due to the current market scenario.

c) Management Reporting:

- Rating slippages, if any, initially shall be reported to MD & CEO. Rating slippage shall also be reported to Investment/Risk Management Committee of the Company at quarterly intervals, for necessary action.

- Deviations from exposure limits, if any, to be reported to the Risk Management Committee of the Company on quarterly basis and to NPS Trust at monthly intervals.

3. 4. 3. Liquidity Risk:

Premature redemption of contributions is envisaged in the following circumstances:

- Death of Subscriber.
- Redemption of units under Tier 2 (which is essentially a savings scheme)
- Switch out of schemes.
- Change of PFM.

a) Monitoring and Control:

The redemption request /withdrawals from the various NPS schemes have to be met/managed from the schemes as per regulatory guidelines.

As of now redemption request, is generally matched with corresponding inflows. However, if corresponding inflows are insufficient to match the outflows, the shortfall can be met by liquidating the securities by accessing the markets on T+1/T+2 basis, since the pay-out of the funds take place on T+3 basis.

Asset Liability Management /Liquidity of investments has been addressed in Investment policy. To meet out any eventuality of mass redemption, liquidity and ALM concerns, in Scheme Corporate CG, Scheme E Tier I and Scheme G Tier I, which may occur if a Corporate decides to change the Pension Fund Manager, the scheme should have sufficient investments in liquid securities in G-Secs and liquid equity scrips.

b) Management Reporting:

The quantum of premature redemptions shall be monitored from the perspective of adequacy of the mitigation mechanism.

3. 4. 4. Operational Risk:

Operational risks are arising due to inadequate or failed internal processes, people and systems or from external events. Such risks include failure of critical systems and infrastructure, obsolete systems, critical knowledge loss/skill shortage, administrative errors and natural disaster risks etc.

Monitoring and control/ Management reporting:

a. People
- Financial and administrative powers shall be defined and delegated.
- The accounting system shall be based on maker-checker concept.
- The work ethics for dealing room is laid down.

b. Processes
- Investment Management Operations Manual has been prepared and updated.
- Company operations are subjected to Concurrent and Internal Audit by external agencies. Observations, if any, are attended to & reported to appropriate authorities.

c. Systems
- IT systems are secured and reliable. IT operations are subject to comprehensive system audit to identify and address shortcomings.

d. External Events
- A formal backup and recovery plan have been developed for major physical disaster for systems, communications and power failures.
- The Disaster Recovery and Business Continuity plan is in place. The Company has far disaster recovery site at CTRL S, Hyderabad and near DR site at BKC, Mumbai.
- Fire Alarms and protection equipments are in place. The physical assets of the company at the Company office are adequately insured.

3. 4. 5. Other risks:

✓ **Compliance Risk:**

The Company faces the following major compliance risks:

- Risk of non-compliance with regulatory requirements leading to censure and/or penalties,
- Financial or reputational loss resulting from non-adherence to the Company's internal compliance rules, regulations, code of conduct, other best practices and standards.

a) **Monitoring and Control:**

- The Company has put in place a comprehensive Compliance Policy duly approved by the Board of Directors defining the minimum standards that shall guide the Company and the Compliance risk management framework including compliance structure/ roles and responsibilities/ risk monitoring and reporting requirements.

✓ **Reputation Risk:**

The reputation Risk may arise due to the followings:

- Non-compliance inviting regulatory action.
- Cases of system failures, breakdown of internal controls
- Adverse press coverage.
- Performance slippage in comparison with other PFMs.

a) **Monitoring and Control:**

- Review and analysis of Audit Findings relating to internal controls and business processes issues.
- Reputation Risk scoring sheet updated at annual intervals and reviewed along with the ICAAP at annual intervals.
- Performance tracking on absolute and comparative basis (peer group).

b) **Management Reporting:**

- Quarterly Internal Audit Report to be placed before the Audit Committee of the Board along with Management comments and corrective measures initiated, if any.
- Certificate from the Internal Auditor for regulatory compliances relating to investment management shall be obtained and placed before the Audit Committee of the Board.
- Certificate of Compliance with various Laws and Regulations governing the operations of the Company shall be submitted to the Board at quarterly intervals.
- Reputation Risk scoring sheet shall be compiled and placed with ICAAP at annual intervals.
- Performance of the Company shall be reviewed by the Board at quarterly intervals.

- ✓ **<u>Contagion Risk:</u>**

With the corporate strategy of using common logo and uniform branding across the SBI Group, adverse developments in any Group entity could affect the operations & image of the Company.

a) Monitoring & Control / Management Reporting:

- The Back Office shall submit exception reports, if any relating to dealing processes/rates to the Top Management, if any.
- Concurrent Auditors will conduct audit of all transactions to mitigate regulatory risk.
- The Internal Audit Reports and Audit Reports from other external agencies appointed by NPS Trust shall be put up to the Audit Committee of the Board.

- ✓ **<u>Strategic Risk</u>**

As the Company cannot undertake any other business without the specific, prior approval of the Regulators, the best indicators for Strategic Risk shall be in terms of consistent inability to meet business goals and objectives despite favorable market conditions. The inability of the Company to grow due to lackadaisical performance consistently vis –a-vis the peer group shall also be an indicator under this risk.

a) Monitoring and Control/ Management Reporting:

- The progress on the implementation of various strategic initiatives viz. Business Development, AUM Growth, League table ranking shall be monitored by the Top Management and the Board through regular performance reviews.
- The Strategic Risk Index shall be compiled and reviewed along with the ICAAP at annual intervals.

- ✓ **<u>Counter Party Risk</u>** : It is the probability that the other party in an investment, credit, or trading transaction may not fulfill its part of the deal and may default on the contractual obligations.

Credit risk in terms of failure of counterparty in a deal does not arise as the Settlement of deals on behalf NPS fund management is on Delivery Versus

Payment (DVP) basis with all transactions routed through Custodian, the Custodian appointed by NPS Trust. Further, settlement of the government securities transactions is guaranteed by CCIL and equities transactions by respective Stock Exchanges. As such, the Counter Party and settlement Risk stands mitigated. However, the counterparty risk in terms of OTC trades may arise during the settlement process.

a) Monitoring and Control/Management Reporting :

- Back-office should follow-up with Custodian for settlement of all the deals and reconciliation of bank account and holding of stocks should be done on daily basis. Exceptions if any related to the non-settlement of deals should be reported to the top management.

- Concurrent audit will check and verify all the transactions and in case of any discrepancies, it should be reported to the top management and also in their monthly reports.

- KYC of Counter Party : In order to address the counterparty risk in the OTC trade for Corporate Bonds, we propose to introduce KYC for all our counterparties. However, in order to streamline the process of KYC without impacting the investment activity, we propose for six months' time period from the date of enacting this policy for onboarding of all the existing counterparties. Till such time, investment activities will continue as per guidelines prevailing before KYC requirements. However, post six months investment in Corporate Bonds through OTC will not be allowed with Counterparty who have not completed the KYC requirement.

✓ **IT Risk :**

IT risks include hardware and software failure, human error, spam, viruses and malicious attacks, as well as natural disasters such as fires, cyclones or floods. It is identified through key risk indicators, cyber events, incident reports, Annual IT Audit report by third party qualified auditors, various audit observations, Vulnerability Assessment & Penetration Testing (VAPT) of all critical internet facing web applications and infrastructure etc.

a) Monitoring and Control/ Management Reporting:

- The monitoring of the Information Security preparedness for the organization is done through continuous monitoring framework providing visibility into organizational assets, awareness of threats and vulnerabilities, etc.
- Assistant Manager (Systems/IT) is designated as Chief Information Security Officer (CISO) who is responsible for establishing and maintaining the enterprise vision, strategy and program to ensure information assets and technologies are adequately protected against cyber security threats. CISO should periodically evaluate and review effectiveness of Information security policies, procedures, standards, guidelines and processes etc.
- CISO will also be responsible for maintaining a record of information security incidents & breaches, take remedial action to reduce / diminish the impact of information security incidents & breaches and report the same to top management approval immediately on occurrence of such incidents.
- Identification, authorization and granting of access to IT assets.
- Ensuring compliance with legal and regulatory requirements for Information security.
- Management of technology solutions for information security like a firewall, anti-virus/anti-malware software, monthly patch management, backup, offsite backup retention, Baseline IT security for all IT devices and application etc.
- Issuing alerts and advisories with respect to new vulnerabilities / threats to all concerned.
- Clearly indicating acceptable usage of IT assets including application systems that define the information security responsibilities of users (staff, service providers and customers) in regard to the use of IT assets
- Annual Information Security Audit Report by Third party qualified auditors.
- Board approved Information Technology and Cyber Security Policy is in place.
- Periodic review of the policy at least on annual intervals and in case of any significant event occurs.
- Business Continuity Plan (BCP) and Disaster Recovery Plan (DPR) is in place and periodically conduct of full operations at DR site to evaluate effectiveness of business continuity plan.
- Firewall for network protection is in place.
- Providing role-based training on information security to the workforce.
- Maintenance of records of Information security incidents and breaches.
- Risk Control Self-Assessment (RCSA) at annual intervals or as and when required.

- Conducting Information security awareness among management, employees, vendors and other stake holders.

Further, CISO will analyze and evaluate the IT related risks and inform about the risks if any to Risk Management committee at quarterly intervals.

✓ **Talent Risk :**

- Risk of Key performers or employees in the company quitting their jobs.
- Risk of key critical positions remaining unfulfilled or not having a succession plan for them.

a) Monitoring & Control:

- Continuous tracking of attrition is done by the HR team with main focus on key positions.
- If any spike in the attrition parameters is observed, the same are considered for immediate and urgent action.
- The company has a Board approved HR policy which is issued to all employees.
- It is ensured that salaries and benefits are competitive and in tune with the market.
- Performance Linked Incentive policy is in place to retain key/critical talent.
- Multiple avenues for employees to provide feedback through performance discussion, during off-site visit etc.
- Regular training is provided to employees in their respective areas to enhance knowledge, skill and competency.
- Succession plan is in place for key positions in the company.
- For hiring of critical/specialized talent, the company is using HR consultant e.g. Pathfinder, Naukri.com, LinkedIn platform etc.

b) **Reporting**:

- Periodic updates are shared with Management for information and action.
- Staff Attrition' is one of the Key Risk Indicators (KRI) which is monitored and reported on a quarterly basis. If the KRI breaches the defined risk appetite, mitigating actions are put in place.

3.5. Risk Management Committee of the Company(RMCC):

The Company has constituted a Risk Management Committee of the Company with two Independent Directors, the MD & CEO, Chief Risk Officer (CRO), Chief Investment officer (CIO) and the Compliance Officer (CO) as members. The Committee shall exercise Board level oversight over the risk management operations of the Company. The minimum quorum for the Committee meetings shall be two with at least one Independent Director present in the meeting. The Committee shall meet quarterly.

The role of the Committee will include inter-alia, formulating and reviewing risk policy, reviewing deviations from Guidelines/Policy, if any, examining underlying business processes to identify inherent and emerging risks, assess/ prioritize and put in place mitigation plans, etc. In its' oversight functions, the Committee will be assisted by Chief Risk Officer.

3.6. Chief Risk Officer (CRO):

The risk monitoring & control function shall be the responsibility of the CRO who shall report directly to the Managing Director & CEO. Broadly the role and responsibilities shall, inter-alia, include:

- Identification, measurement, monitoring/ control/ reporting, analysis and mitigation of risks, embedded and emerging, in the Company's business.
- Assisting RMCB in formulating and reviewing risk management policies, setting and reviewing risk parameters, formulating ICAAP etc.
- Risk Control Self-Assessment (RCSA) exercise with a view to identify and mitigate various risks.
- Monitoring ALM/Liquidity Management, Management Action Trigger (MAT), Monitoring of Investment Guidelines, Broker Limits, NIC Limits (sectoral limits), Downgrades in Corporate Bonds. In case of any deviation /breach of limits, flag the same to investment subcommittee.
- Appointment of Internal & Concurrent Auditors. Ensure smooth conduct of various audits, to deal with audit reports objectively.
- Preparation of reports for submission to NPS Trust/Regulators, Sponsors; MIS reports for Top Management
- Periodical review of external credit ratings of investments in debt securities, preparation/ review of NSE F&O lists, empanelment of brokers and review, etc.
- Monitoring all information security logs, configurations, Access Controls and incidents. Report any breaches of any deviations and mitigate and report all IT

security incidents, take appropriate actions to prevent recurrence in coordination with IT department.

- Fraud Monitoring and timely reporting: Checking Bank Reconciliation (for scheme & Company) & reconciliation of security holding with Custodian Holding for scheme holdings.
- Empanelment of Brokers and periodical review thereof including conveying of any changes to the list to the Chief Investment Officer (CIO) well before the date from which such change/(s) would become effective.

3.7. Operational Guidelines

The Company has in place IC/Board approved Investment Management Operations Manual covering all the operations of the Company. The operations of the company shall be subject to Internal/ Compliance audit by external auditors. The Company has a Compliance Officer to ensure compliance with various laws and regulations applicable to its operations and a Compliance Certificate relating to regulatory and statutory compliance governing the operations of the Company is submitted to the Board of Directors at quarterly intervals.

3.8. Audit

The operations of the company shall be subject to Internal/ Concurrent audit by an external agency/Statutory Audit by CAG appointed Auditor/Scheme Audit by NPS Trust appointed Auditors. Observations, if any, of the auditors shall be attended to immediately and action taken reported to the Audit Committee of the Board at quarterly intervals.

4. Review/ Renewal

The Risk Management Policy shall be reviewed at half yearly intervals or earlier, if required. If any change is approved by the Board subsequent to this policy, consequent upon any change in corporate strategy, regulatory guidelines, market conditions, changes in risk profile of the Group. etc., such changes and approvals shall be deemed to be a part of the policy until the next review.

Annexure

Risk Control Self-Assessment

RCSA is a business practice followed within our Organisation that helps to manage, identify and appraise significant risks inherent in the company's activities. It also aims at instructing departmental managers and segment-level employees on ways to ensure that internal controls, policies and procedures are functional and adequate. Thus, it broadly deals with Operational Risk Components.

Following risks are broadly covered in the RCSA exercise:

Sl No.	Risk Type	Description	Specific Risk under the category
1	Business Risk	The risk of failing to achieve business due to inappropriate strategies, inadequate resources or changes in the economic or competitive environment.	Inability to give returns better or at par with peers, risk of fall in market share, risk of fall in revenue.
2	Operational Risk	The risk of loss due to actions on or by people, processes, infrastructure or technology or similar which have an operational impact including fraudulent activities.	Attrition of key employees, Loss/ damage to documents/ records. Inadequate record keeping, Irregularities in following the operating procedures/manuals prescribed by the Company.
3	Concentration Risk	The risk of loss arising out of larger exposure to a particular group of counterparties.	Non-adherence to investment guidelines issued by PFRDA and investment policy of the company.
4	Regulatory Risk	The risk of non-compliance with legal or regulatory requirements.	Non-Reporting/Late Reporting / Incorrect Reporting. Non-disclosure as per regulatory requirements. Risk of noncompliance with regulatory updates and non-reporting to Board. Omission of Policy creation due to oversight, wrong interpretation of regulations etc. Policy created may not address all

			aspects of company's operations. Policy not put in place within a stipulated time frame.
5	Information Security Risk	The risk that's associated with any facet of information technology	Access to confidential information due to unauthorised exploitation of systems, network and technologies. Data Loss.
6	Reputational Risk	The risk that the reputation of the Organization will be adversely affected.	Performance slippage in comparison with other PFMs. Adverse media publicity, Non-compliance inviting regulatory action.

Each risk follows the cycle of i) identification of risk, ii) identifying contributing factors and iii) providing the mitigating measures. A typical RCSA worksheet would, including the above three, include the following:

- ✓ Risk Category
- ✓ Statement of Risk (Description)
- ✓ Risk Drivers (Casual/contributing factors)
- ✓ Current initiatives/practices to manage risk
- ✓ Parameters to rate the risk as high, medium, low.
- ✓ Risk rating based on impact and likelihood.

Methodology for assessment of risks under RCSA exercise-

- ➢ Risks have been rated in terms of impact and likelihood on a scale of 1 to 5. The scale is defined as under:

Impact	**Likelihood**
5= Catastrophic	5= Almost Certain
4= Major	4= Likely
3= Moderate	3=Possible
2= Minor	2= Rare
1= Insignificant	1- Unlikely

- ➢ Where ever possible, parameters have been prescribed for facilalting the Groups in the rating table.
- ➢ Based on rating, the risks have been classified as under:

Impact	Likelihood	Classification
4 or above	4 or above	Critical
	3	High
	2	Medium
	1	Low
3	4 or above	High
	3	Medium
	1 or 2	Low
2	4 or above	Medium
	1-3	Low
1	1-5	Low

- The product of the score under “Impact” and “Likelihood” would translate into following table:

Product of scores	Risk Rating
16 and above	Critical
12 to 15	High
8 to 11	Medium
1 to 7	Low

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Risk Rating of each department is as under :

Departments	Low	Medium	High	Critical	Grand total
Funds Mgmt	5	5	0	0	10
IT	4	3	0	0	7
Compliance	11	1	0	0	12
Back Office	14	4	1	0	19
Grand Total	**34**	**13**	**1**	**0**	**48**

Department	Rating in % (A)	Max Score (B)	Product Score (A*B)	Risk Rating
Funds Mgmt	28.80%	25	7.20	Low
IT	30.86%	25	7.71	Medium
Back Office	23.79%	25	5.95	Low
Compliance	20.00%	25	5.00	Low