

ADVENTZ SECURITIES ENTERPRISES LIMITED

RISK MANAGEMENT POLICY

PURPOSE

Non Banking Financial companies (NBFCs) form an integral part of the Indian financial system. NBFCs are required to ensure that a proper policy framework on Risk Management Systems with the approval of the Board is formulated and put in place. Risk Management is achieved by implementing a suitable set of controls in both policy and practice. These controls may include policies, standards, guidelines, procedures, technologies and/or processes to define and explain instructions to users or other affected parties. The Audit Committee is responsible for the establishment of Risk Management Policy in consultation with the Board of Directors. This Risk Management Policy sets forth the guidance for the Company to maintain and ensure ongoing compliance with corporate risk management practices and risk tolerance levels as established by the management. This policy document has been prepared in line with the RBI guidelines.

SCOPE/APPLICABILITY

This policy applies to all the employees and associates of the Company. This includes all users, information systems and paper files at the Company and approved third-party facilities.

GENERAL PROVISIONS

This Policy represents the basic standards of Risk Assessment to be followed by the company. Changes in the Policy will become effective upon approval by the Board of Directors of the Company. All relevant employees must be thoroughly familiar or made familiar with it and make use of the material contained in this Policy.

POLICY STATEMENT

Risk assessment is the process of identifying risks, assessing and understanding those risks, and prioritizing risks. A formal risk assessment will be performed each year to identify threats / risks to the Company; to determine the risk of these threats occurring; and to recommend appropriate safeguards and countermeasures to reduce both the likelihood of threat occurrence and the effects produced if the threats are realized.

Company's goals for risk management are that risks are identified; risks are documented, understood and managed within tolerances established by management. Risk-acceptance decisions should be consistent with strategic business objectives, and should be explicit and communicated such that the expected return compensates for the risk involved.

In circumstances where the accepted risk of a particular course of action cannot be adequately mitigated, concerned risk owner may ask for a "Management Risk Acceptance Memorandum". Such a memorandum will document the requestor's business justification, for the increased risk and exposure it presents to the Company

RISK MANAGEMENT PROCESS

Approach for Risk Assessment involves the following steps:

- a. Define Risk measurement scale for the Company.
- b. Identification and assessment of operational risks
- c. Risk measurement as per measurement scale discussed and approved by senior management.
- d. Risk prioritization: Prioritized risks to be reviewed by the Audit Committee of the Board. Risk mitigation strategies to be documented and monitored periodically by management.
- e. Risk monitoring: Management process established for bi-annual evaluation of key risks in light of internal and external business changes. In order to facilitate this, management needs to –
 - i. Establish key risk indicators and metrics for key and non key risks in order to ensure risk levels are within established thresholds
 - Identify critical data points and data sources,
 - Collate data over specific period of time, and
 - Analyse data to develop thresholds.
 - ii. Assess the adequacy and operating effectiveness of mitigating controls.
 - iii. Review of updates to risk register by respective functions as a result of bi-annual in-house review to identify and evaluate new risks, if any.
 - iv. Periodical review of updates to risk register and risk monitoring system by outside agency
- f. The outcome of these risk reviews to be periodically reviewed by Risk Management Committee and reported to the Board of Directors and Audit Committee.

RISK IDENTIFICATION PROCESS

Risk management is a business facilitator by making more informed decision with balanced risk-reward paradigm. The Company shall follow a disciplined risk management process and identify the risks so as to making business decisions, ensuring growth and balancing approach on risk reward matrix. Risk identification sets out to identify an organization's exposure to uncertainty. Risks are being identified keeping in mind the market in which the company operates, the legal, social, political and cultural environment in which it exists, as well as the development of a sound understanding of company's strategic and operational objectives, including factors critical to its success and the threats and opportunities related to the achievement of these objectives.

The main types of risk associated with our Non- Deposit taking NBFC involved in the business of Investment are detailed as under:

1. Market Risk
2. Asset Health Risk
3. Legal Non Compliance Risk
4. Operational Risk
5. Investment Risk
6. Efficiency Risk
7. Profit Risk
8. Credit Risk

1. MARKET RISK

This is majorly external market dynamics, which gives rise to Risks like Liquidity risk, Interest Rate risk and Funding risk. Liquidity risk is the inability to meet financial obligations in a timely manner and without stress. Market risk, also called systematic risk, is a risk that will affect all securities in the same manner. In other words, it is caused by some factor that cannot be controlled by diversification. The Company shall resort to proper ways to manage such risks keeping in mind the recent trends of the present market.

2. ASSET HEALTH RISK

The assets that comprise the capacity of the business have inherent risks or the potential for failure in terms of its health i.e. overtime it may become a non-performing or a slow performing asset. In addition, they have the potential for off-specification operation that could result in poor returns with higher investment rates. These risks must also be clearly understood and managed to assure cost-effective business continuation.

3. LEGAL NON-COMPLIANCE RISK

Compliance with legal aspects of the business is a worldwide necessary phenomenon. Non-compliance with this aspect leads to unnecessary complications and delays in business which results in loss. The Company shall endeavour to be legally complied in all fields pertaining to its business.

4. OPERATIONAL RISK

Any eventuality arising from the act relating to people, technology, infrastructure and external factors, which can give rise to some type of loss in the organisation, is termed as Operational Risk. Majorly it is internal and unknown. Therefore, the persons responsible shall keep continuous watch and shall gather the symptoms/warning signals to manage Operational risk.

5. INVESTMENT RISK

Investment risk is defined as the probability or likelihood of occurrence of losses relative to the expected return on any particular investment. Stating simply, it is a measure of the level of uncertainty of achieving the returns as per the expectations of the investor. It is the extent of unexpected results to be realized. The company will have to set internal levels and controls defining

the level of risk that it associates with a particular investment or asset class typically correlates with the level of return the investment might achieve.

6. EFFICIENCY RISK

Risk efficiency criteria are an attempt to reduce the collection of all possible alternatives to a smaller collection of risky alternatives that contain the optimum choice.

7. PROFIT RISK

Profit risk is a risk measurement methodology most appropriate for the financial services industry, in that it complements other risk management methodologies commonly used in the financial services industry: credit risk management and asset health/liability management. Profit risk would mean the concentration of the company's income so that it becomes invariable, and concentration is limited to number of customer accounts, products, markets, delivery channels, and salespeople putting the company at risk i.e. outlines the company's inability to grow earnings with high potential for future earnings losses. The Company shall resort to proper channels to work out a proper profit ratio in conjugation with the mitigation of other risk factors.

8. CREDIT RISK

This refers to the possibility that a particular instrument will not be able to make expected interest rate payments and/or principal repayment. Typically, the higher the credit risk, the higher the interest rate on the bond and securities.

RISK MITIGATION

- Risk shall be managed using a set of norms and policies. The Company shall have defined roles and responsibilities for originators and approvers. All credit exposure limits shall be approved by authorized persons.
- There shall be a structured and standardized approval process to ascertain the worthiness of the investment.
- The Company shall endeavour to develop internal risk evaluation team to make credit decisions more robust and in line to manage collateral risk.
- The Company shall follow a process of time-to-time revisiting the credit policy and processes, on the basis of experience and feedback.

PROCESS FOR ANALYSIS OF IDENTIFIED RISKS

The key step here is to chart out objectives of risk management process. It involves understanding the nature of risk and its associated factors (external/ internal)

External risks involve risks which are beyond the control of the organization. An indicative list is as follows:

- Slowdown in economic growth of the Country

- Fluctuations in the foreign currency exchange rate risk
- Threat to business continuity in the eventuality of disasters like riots, war with enemies, uncertainties of nature like floods, earthquakes, drought etc
- Unfavourable changes in government policies or lack of political support

Internal risks involve inability to perform despite favorable conditions prevailing in the market. An indicative list shown below.

RISK ANALYSIS

The risks that are being identified are displayed in a structured format by the Audit Committee. The Committee shall facilitate the Board about the description and assessment of risks. The maintenance of Risk analysis reports and studies is the responsibility of Audit Department. The same are updated/ reviewed basis the inputs received from the divisional heads.

The Company has drafted the Risk Framework and Risk Registers. Each risk identified is further classified as Key Risk or Non Key Risk based on the ratings as per following risk measurement scale (will need to be modified periodically and to be pre-approved by Risk Management Committee).

IMPACT	INSIGNIFICANT	MINOR	MODERATE	MAJOR	SEVERE
Strategic – Investment Services & Loans and Advances					
Impact on Profit	<1%	>5%	>10%	>20%	>40%
Impact on operational Income	<1%	>5%	>10%	>20%	>40%
Considered on basis of Average Projected Profit of the Company taken at Rs. 50 lakhs					
Market Risk					
Global Causes	-	-	-	-	Any instances of in Inter-Bank Interest rate and/or other factors which would affect investments market in India adversely
Political Changes/Policy Changes	-	-	-	-	Turbulence in the political scenario of India which could bring about major policy changes
Asset Health Risk & Investment Risk					
Principal O/S	-	30 days	31-60 days	61-90 days	> 90 days and after several reminders
Interest O/S	-	10	31-60 days	60-90 days	> 120 days provision shall be made in the financial statements to treat asset as NPA
Market Traded Securities	-	<5%	<10% -20%	<20-25%	Any fall in returns for individual securities resulting in 25% and above shall be a categorized as severe risk factor and treated as such
Legal Non-Compliance					
Non-compliance with RBI, NBFC Guidelines, ROC	NA	Follow up with Department / Divisional Heads	Arbitration and/or settlement involving minor penalties	Involvement of judicial and quasi - judicial bodies	Any involvement with Management and KMP directly which could lead to prosecution/penalties
Compliance with guidelines of any other statutory body	NA				Any involvement with Management and KMP directly which could lead to prosecution/penalties

All the risks are reviewed by the members of Risk Management Committee and ratings are decided based on the consensus of the members. In case of any conflict, final rating is decided by the majority votes.

The Company will also use SWOT analysis / matrix, a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in present and future business opportunities of the Company. While most of the external factors have been covered extensively in the risk registers the SWOT analysis will help in analysing the internal risk factors at a closer range. The SWOT matrix may be reviewed annually to decide the respective strengths, weaknesses, threats and opportunities that the company may make/face in the particular year with respect the current policies of the nation i.e. any external factors which may affect the internal working of the Company.

INTERNAL		EXTERNAL	
Strengths	Operational Risk such as changes in human resources, technology and infrastructure can have both adverse and beneficial risk for the Company	Opportunities	Change in market factors such as international events and political changes in the country may give rise to new opportunities as well as appear threatening for the business.
Weaknesses	Credit worthiness of investments is to be done through internal evaluation team and while eliminating bad investments, the decision making time is increased	Threats	Sudden major changes being implemented by Regulatory authorities which may impact carrying out activities of Non-Banking Financial Companies or limit imposed for investments in general.

The above matrix represents only a broadbase of SWOT characteristics. The same principle will be followed annually after the policy has been adopted by the Company to line out more specific characteristics, as reviewed by the Audit Committee.

RISK EVALUATION

When the risk analysis process has been completed, it is necessary to compare the estimated risks against risk criteria which the organization has established. The risk criteria may include associated costs and benefits, legal requirements, socio-economic and environmental factors, concerns of stakeholders, etc. Risk evaluation is used to make decisions about the significance of risks to the organization.

A concerned person is to be assigned against each risk who will be responsible for monitoring and mitigating it.

Way forward are the control measures which management would be taking to mitigate the risks.

RISK TREATMENT

Risk treatment is a process of selecting and implementing measures to modify/reduce the risk. Risk treatment may include any of the below mentioned measures:

- i. **Accept:** The committee members may decide to the go forward with the existing risk as it is. No mitigation plan may be drafted against such risk as either these risks are

governed by the external factors which are not directly under organization's control or the cost of implementing the mitigation plan is higher than the implication of the risk.

- ii. **Transfer:** The risk may be transferred to a third party, wherever needed by taking the insurance cover.
- iii. **Reduce:** The members may agree to draft a mitigation plan against each risk so as to reduce the impact of the same on the organization.

RISK REPORTING AND COMMUNICATION

- Internal Audit to focus on risk areas.
- Basis the inputs received from internal auditors, the key risks are discussed in Risk Management Committee.
- Subsequent to the discussion in Risk Management Committee, the key risks are presented in the Audit Committee and Board (if needed).