A. K. CAPITAL FINANCE LIMITED

RISK MANAGEMENT & EVALUATION POLICY

Adopted/Amendment of the Policy	**Board Meeting Date(s)**
Adoption of the Policy	March 16, 2012
Amendment of the Policy	November 10, 2014
Amendment of the Policy	January 12, 2017
Amendment of the Policy	October 25, 2021
Amendment of the Policy	February 03, 2025

Last reviewed on February 03, 2025

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1. BACKGROUND & LEGAL FRAMEWORK:

Risk Management is a key aspect of the "Corporate Governance Principles and Code of Conduct" which aims to improvise the governance practices across the Company's activities. Risk management & Evaluation Policy ("**Policy**") and processes will enable the Company to proactively manage uncertainty and changes in the internal and external environment to limit negative impacts and capitalize on opportunities.

The Company is prone to inherent business risks. This document is intended to formalize a risk management policy, the objective of which shall be identification, evaluation, monitoring and minimization of identifiable risks.

This policy is in compliance of Section 134, 177 read with Schedule IV of Companies Act, 2013, Regulations 4, 17, 21 read with Part C, Clause C of Part D of Schedule II of of SEBI (LODR) Regulations, 2015 as amended and made applicable from time to time and the Standard Listing Agreement entered into with the listed stock exchanges which requires the Company to lay down procedure for risk assessment and procedure for risk minimization and also in accordance with the provisions of Master Direction – Reserve Bank of India (Non-Banking Financial Company– Scale Based Regulation) Directions, 2023.

2. OBJECTIVE & PURPOSE OF POLICY:

The main objective of this policy is to ensure sustainable business growth with stability and to promote a pro-active approach in identifying, evaluating and mitigating risks associated with the business and operations of the Company. In order to achieve the key objective, the policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues.

3. SPECIFIC OBJECTIVES OF THE RISK MANAGEMENT POLICY

a) To ensure that all the current and future risk exposures of the Company related to financial, market, credit, liquidity, operational, sectoral, sustainability, information, cyber security risks or any other risk are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.
b) To establish a framework for the company's risk management process and to ensure its implementation.
c) To lay down risk appetite/ thresholds limits of the Company under different categories including sensitive sector limits.
d) To identify and develop qualitative and quantitative models for risk assessment.
e) To put in place a business continuity plan/ risk mitigation measures to ensure smooth functioning of the operations of the Company by ensuring timely identification and mitigation of various risks faced by the Company
f) To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.

4. TYPES OF RISKS

a) **Market Risk** - Market risks include interest rate risk, price risk, currency risk, and commodity risk. Interest rate risk covers the volatility that may accompany interest rate fluctuations due to fundamental factors, such as central bank announcements related to changes in monetary policy. Price risk is generally

associated with adverse changes in the price of securities invested into by the Company. Currency risks predominantly pertains to changes in foreign exchange rates. Commodity risks deals with increase or decrease in the price of commodities due to inflation and other factors

b) **Liquidity Risk** – means the risk of not being able to meet a financial obligation when it becomes due. Liquidity risk arises due to stress events, including those involving the loss or impairment of both unsecured and secured funding sources. The Company depend on banks, financial institutions and other NBFCs for their funding needs. In addition, NBFCs also resort to issue Non- convertible debentures, Commercial papers, Securitization transactions for meeting their funding requirements. Lack of adequate liquidity or non-availability of liquidity on time would seriously hamper the business prospects of the Company.

Our Company is also dependent on banks and financial institutions and other funding structures for its funding and hence the liquidity risk needs to be managed efficiently in order to ensure smooth functioning. Availability of liquidity alone is not sufficient but managing the cost of funds is a very important indicator to ensure company profitability. The cost of funds charged by the banks and financial institutions to NBFC depends on a multitude of factors (listed below) and it is the responsibility of the Risk Management Committee to keep a track of these factors and ensure that they stay in favour of the Company at all times.

Company size - The larger the company size, the lower the cost of funds.

Portfolio quality - Demonstration of a strong portfolio quality over long periods of time would help the company get cheaper funds.

Capital adequacy and Leverage- The higher the capital adequacy and lower the leverage, the company will be able to attract lower cost funds for its operations.

Credit rating - The better the credit rating of the company, the lower would be its cost of funds

Multiple sources of funds - A company which has access to multiple sources of funds will be able to rationalize its costs better than a company which is dependent predominantly on a single source of funds.

c) **Credit Risks:** The key risk for NBFC or any other institution involved in lending business is Credit Risk. According to RBI, credit risk is defined as Possibility of losses associated with a decline in the credit quality of borrowers or counter-parties, Default due to inability or unwillingness of a customer or counter-party to meet commitments in relation to lending, trading, settlement and other financial transactions, or Loss from the reduction in portfolio value (actual or perceived) Hence, it is imperative for the Company to have a robust credit risk management system to address the above risk. The effective management of credit risk is a critical component of the Company's comprehensive risk management and is considered essential for the long-term success of the Company.

The Company's Credit policy includes: Target segments, Risk acceptance criteria, etc. Credit approving authority, Collateral management, and Legal scrutiny of collateral documents.
The risk of loss arising from a debt or borrower being unlikely to pay its loan obligations. Credit risks could be direct risks and related to settlement risk. Settlement risk could be wherein the client who based on

the trading fails to honor their commitment/obligations. Since all the transactions of the securities are settled through NSCCL/ ICCL the Company is not exposed to settlement risk / counter party risk.

d) **Process Risk**: Process risks arise out of inadequate internal controls or business disruptions. It is often associated with human error or inadequate procedures and controls.

e) **Human Risk:** The Company as a result of having a sizeable staff and operational team is vulnerable to human risk which could be mitigated through tighter processes, centralized control, strong Surveillance & Management Information System (MIS), Internal Checks.

f) **Operational Risk:** Another risk that is prevalent to many institutions is the inadequacy of processes to maintain checks and balances in its operations. Necessary controls are essential to ensure that there are no intentional or unintentional errors that creep into the process. In this regard, the respective operational teams, is responsible for maintaining the necessary controls over the various processes. The operational staff shall independently carry out or check the various processes like data entry, preparation and verification of data, necessary checks before disbursals, scrutiny of documents at each stage as required, maintain safe custody of the property documents and the like. With such independent checks, it is envisaged that the errors would decrease significantly.

g) **Reputation Risk**: Reputation Risk is associated with the strong brand of the Company which has built over a period of time on the basis of efforts put in by the team.

h) **Compliance Risk:** Compliance Risk is associated with non adherence to the rules and regulations and applicable laws. The risks are also associated with Know Your Client (KYC) norms, Prevention of Money Laundering (PMLA), Insider Trading with price sensitive information, etc.

5. CHARTER OF RISK MANAGEMENT COMMITTEE (RMC):

a) Structure:

The board of directors shall constitute a Risk Management Committee.

The Risk Management Committee shall have minimum 3 (three) members with majority of them being members of the board of directors, including at least one independent director. The Chairperson of the Risk management committee shall be a member of the Board of Directors and senior executives of the Company may be members of the committee. The risk management committee shall meet at least once in every quarter.

b) Quorum for Meeting:

The quorum for a meeting of the Risk Management Committee ("**RMC**") shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance.

c) Roles and Responsibilities of RMC:

The board of directors shall define the role and responsibility of the Risk Management Committee including delegation of monitoring and reviewing of the risk management plan and such other functions as it may deem fit.

The role of the committee shall, inter alia, include the following:

(1) To formulate a detailed risk management policy which shall include:
   (a) A framework for identification of internal and external risks specifically faced by the listed entities and NBFCs, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.
   (b) Measures for risk mitigation including systems and processes for internal control of identified risks
   (c) Business continuity plan.

(2) To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;

(3) To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems; risk categorization, credit deviation

(4) To periodically review the Policy, at least annually, including by considering the changing industry dynamics and evolving complexity;

(5) To oversee 'Money Laundering and Terrorist Financing Risk Assessment' exercise periodically to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk for clients, countries or geographic areas, products, services, transactions or delivery channels, etc.

(6) To monitor concentration and other risks faced by NBFCs and take necessary measures to mitigate the same;

(7) To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;

(8) The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) shall be subject to review and approval by the Board of Directors.

(9) The Risk Management Committee shall coordinate its activities with other committees, in instances where there is any overlap with activities of such committees, as per the framework laid down by the board of directors.

(10) The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

(11) The RMC is focused along product and process lines and will also take charge of Market, Credit Process, Compliance and Reputation Risk focused along product and process lines. Whenever the new products/ processes offered/ adopted by the Company, the specific risks associated with the new products/ process are appended/ taken into consideration after the consent of RMC.

(12) The Committee may place a sector or a client on watchlist and task the management with appropriate action, which could be freezing of exposure, run down of exposure, sale of exposure, client engagement etc. as required;

(13) To oversee enterprise level operational risk and mitigation plans.

(14) To oversee the effectiveness of the Information and Communication Technology risk management through the designated committee.

(15) To ensure root cause analysis, after any disruption to a business service with emphasis on critical Service.

(16) To lay down the risk appetite statement of the Company with well defined thresholds/ limits for each kind of risks.

(17) To develop various qualitative and quantitative aspects of risk assessments.

(18) To carry out any other function or undertake any other activity (from time to time) as is referred/ specified by the Board or enforced by any statutory notification/amendment or modification as may be applicable, whether under the Act, the listing regulations or by any other regulatory authority.

d) **Review**:

RMC meets at least once in every quarter. The RMC reviews the functioning of the company and discuss the business suitability of risk containment measures after considering the pros and cons and all related factors affecting the measure. At the specific request of any of the members, RMC may meet at more frequent intervals or for any business exigency as may be required.

e) Objective:

The primary objective of RMC is to control various risks associated with the operations of the Company with a view to preventing unacceptable losses; effective means of identifying, measuring and monitoring credit exposures incurred by the Company and keep such risk at or below predetermined levels; monitor, analyze, manage risk and containment of risk levels stemming from inadequate controls and or inadequate processes. RMC also has the primary responsibility to suggest risk containment measures for the products and processes that would be introduced by the Company in future.

f) Mechanics:

Risk Management is a process which has to be enforced at every operational and business process level. The risk involved in every process of business has to be identified, quantified and limits assigned. The

basic idea is to monitor and ensure that risk levels do not exceed the limits set by the management in accordance with the guidelines.

The RMC shall ensure that the above is strictly adhered to and in case of deviation, reasons for such deviations are questioned and remedial measures are immediately taken.

The RMC shall evaluate and review the guidelines and risk limits set for at regular intervals and decide on the changes to be made, if any. The RMC shall also decide on the risk profile of new products and its implication on the existing business processes. It shall also set out guidelines and limits which needs to be adhered to once the new product is implemented. The RMC shall also have the power to reject or modify any prior decision if it is felt that the risk profile of any such activity and product shall be detrimental to the overall risk policy/appetite of the Company.

g) Responsibilities:

The following shall be the responsibilities of RMC:

i. enforcing risk management policy throughout the Company
ii. evaluating the risk implication of every activity at regular intervals of time
iii. reviewing the guidelines and limits at regular intervals
iv. vetting new products
v. establishing best practices and standards and ensuring adherence of the same
vi. Developing effective Surveillance & MIS reports to review whether the Risk ManagementPolicy is effectively and efficiently implemented.

h) Responsibilities of Supervisors and Business Heads

The responsibilities may include but not limited to the following:

i. Training their staff to conduct the activities in the manner as laid down in the policy.
ii. Documentation of serious financial, operational, legal, compliance or regulatory issues.
iii. Reporting any deviations from the established guidelines.
iv. Endeavour to follow the Risk Management policy in letter and spirit

i) Risk Management Guidelines:

Broad guidelines are given for addressing the different risks associated with the operations of the Company. The guidelines set out hereunder are not exhaustive. As and when new areas andissues come up which may result in any potential risk to the operations of the organization, the same shall be identified, measured and managed after elaborate discussion. Once decided, the risk profile shall form part of this policy for future adherence.

Essential aspects for effective risk management are

i. Risk identification and evaluation.
ii. Proper risk profiling to understand the risks involved.
iii. Laying down well defined risk thresholds/ limits as per the risk appetite of the Company.
iv. Application of risks mitigation processes to minimize the impact to risk ascertained.

The Broad guidelines include for Risk Management are as under:

Sr No	Activities	Risk Profile	Risk Involved	Risk Mitigation Process
1.	**MARKET RISK**			
	Price Risk - Price risk is the risks that can have effect in investment in securities or lending against securities business.	Movement in interest rate, major events effecting Indian or global economy can have price risk.	The price risk can have losses on investment book. The price risk will reduce the price of the securities taken as security in the loan.	Strong process and system controls which would cover risk associated by analyzing and foreseeing the all probable scenarios. The securities of the current investment book shall be churned at appropriate frequency. The stop loss on current investments book shall be maximum of 15% of the purchase price. Risk department continuously monitor the mark to market of each security and issue a caution warning to treasury/CIO at different levels i.e. 5%, 7% and 9%. For any deviation in the stoploss is to be approved by the Investment committee / Board. The Company has long debt market experience, good team and big client base for sale of debt securities. So the price risk is perceived in advance. In case of loan against securities the loan to be given with sufficient margin (to be decided at the time of sanction) to

				cover the market risk. Any fall in the security value shall be substituted by additional security.
	Liquidity Risk	This occurs due to the inability to convert a security or asset to cash without a loss of capital and/or income in the process.	The risk that the Company may be unable to meet the financial obligations.	Strong surveillance of margin requirements in the loan book. The lending is done against only rated, listed and liquid debt securities. The securities to be invested or pledged shall be rated (minimum investment grade) and liquid securities. Any deviation in the policy to be approved by the investment committee. The client exposure and group exposure shall be strictly followed. The ALM to be done on monthly basis and any financial obligation to be planned in advance. Internal Prudential limits to be fixed for ALM mismatches in accordance with the guidelines prescribed thereon. The Company to maintain sufficient bank credit limits and other identified sources of funds to be used in case of requirement.

2.	**CREDIT RISKS**			
	Settlementrisks	Failure of square up before exhausting the margin already collected.	Recoveries from the clients.	Strong surveillance of the market movement and positions. Legal clauses in the agreement to address the recoverable from the clients. Sufficient and robust margins which are linked to exposure as well as volatility.
3.	**PROCESS RISKS**			
	In-correct process	Selection of inappropriate processes Failure to analyse the probable test cases	The objective of the process would not be achieved. May result into monetary	Defining Risks associated with each and every process Strong analysis and comprehensive testing of probable scenarios Constant review of the processes.
	Wrong implementation of the process	Process not properly implemented as per the procedures laid down due to internal gaps and loopholes.	Failure to obtain desired objective Result into monetary or compliance risks	Preparation of operational guidelines for every process. Proper training to the employees for proper implementation of the Process
4.	Human Risk	Alignment of the mindset of people associated with risk management/ and other employees with risk management framework of the Company.	Management may loose controls over the actions of the staff at ground level May result into employee unrest Hamper proper implementation of	Every product as well as process is backed by proper documentation. Proper induction training of the employees. Strong MIS at various levels. Exception reports to the management.

			risk management framework	
5.	Reputation Risk	The processes, customer service and products match with the reputation of the Company.	The risk of reputation for the brands AKCF.	Meeting the bench mark standards of customer service Immediate corrective actions by safeguarding the image of the brands.
6.	Compliance Risk	Adherence to the Rules and Regulations prescribed by the various regulators and Govt.	Penalties and punitive actions from the regulators	Tracking of circulars and implementing the latest requirements Obtaining legal opinions from consultants where clarity of the provisions is required Strong KYC procedures, implementation of PMLA guidelines and creating sense of Compliance among the employees Proper preservation of documentation, physically and digitally.
7.	**System Risk**			
	Loss of data	Loss of data and processes	Business dis continuity may happen Losing of data and processes/programs	On line back up for the data at Disaster Recovery site Testing of back up at frequent intervals.
	Client Servicing	Wrong information about processes	Decision by clients based on information given. Claim for compensation	Structured reply for queries, disclaimer
		Wrong information about market status	Decision by clients based on information given. Claim for compensation.	Structured reply for queries, disclaimer

6. RISK APPETITE STATEMENT

Risk appetite is about the extent of risks an organisation is willing to bear and is a crucial aspect of the risk management framework of the Company. The risk appetite statement shall suitably be designed to enable the organisation to effectively manage various kinds of risks in pursuit of achieving its goals and objectives. In view of the same the Board/ Board Committee needs to establish risk appetite statement of the Company and put in place a framework to effective measure and monitor the risk appetite of the Company.

a) **Points to be considered when setting Risk Appetite Statement**:

The following points shall be considered while setting a risk appetite statement:

i) To align the same with organization goals and objectives
ii) Overall financial position of the Company
iii) Senior management attitude towards risk handling
iv) Clearly stating what risks are acceptable and what are not acceptable
v) Limits and thresholds for each kind of risks
vi) Measuring performance against each threshold/ limits of risk appetite.

b) Framework to Formulate Risk Appetite Statement:

Risk appetite statement shall be developed on the basis of a mix of qualitative and quantitative models of risk assessment. There are generally two approaches in developing a risk appetite statement top down and bottom up approach. However a more sophisticated approach to be followed is the top-down approach.

c) Risk Appetite Statement shall be developed in the following manner:

i) Taking into account the Company risk perception to be considered into the statement
ii) Company strategic goals and objectives, stakeholder's expectations, company's client base, regulatory environment and other factors.
iii) Detailed discussion with senior management and functional heads to determine risk levels for various activities/ products of the Company.
iv) Selection of different types of risk dimensions to be included in the statement viz. Profitability, Earning, Stability, Capital Adequacy, Credit Risk, Operational Risk, Concentration Risk, Compliance Risk, etc.
v) Laying down key risks metrics against each risk dimension and determine the risk appetite for each metrics.

d) Risk Appetite Threshold/ Limits: (Quantitative Aspect)

S No.	Risk	Parameters	Threshold Limit
1	Credit Risk	Exposure to Top 20 Borrowers in lending business	Less than 25% of AUM
		90+ DPD	Not more than 5% of AUM
		Loan to Value Ratio in case of secured lending business	Not to exceed 100% of secured borrowers

		Average Ticket Size in lending business	Not more than Rs. 150 Crores of disbursements to be done in a quarter to a single borrower in a single tranche.
2	Concentration Risks	Exposure Norms	Single Borrower Exposure – 25% of net owned funds
			Single Group of Borrower's Exposure – 40% of net owned funds
3	Capital Risks	Leverage Ratio	To be mantianed at7%
		Capital Adequacy Ratio	To be mantianed at20%
4	Liquidity Risk	Cap on Borrowing Structure based on Product	Not more than 50% in any single borrowal product (other than TL)
		ALM Mismatch	Cumulatively not more than 20% across time buckets
			Not more than 20% in 1-7, 8-14 and 15-30/31 buckets
5	Sector Sensitive Risks	Exposure to Capital Markets	Not to exceed 10% of AUM
		Direct Real Estate Exposure	Not to exceed 25% of AUM
6	Security Risks	Loan Against Property	Not to exceed 20% of AUM
		Loan against Securities	Not to exceed 10% of AUM
		Financing of Securities Purchases/ applications for Public Offering	Not to exceed 5% of AUM
		Financing of Purchases (applications) for Mutual Funds (MF) Units	Not to exceed 10% of AUM
		Unsecured Lending	Not to exceed 15% of AUM

e) Risk Appetite (Qualitative Aspects)

i) Credit Risk: To include quality of borrowers profile, credit score and repayment behavior.
ii) Industry & Sectoral Risks: Exposure to high risk sectors and industries.
iii) Operational Risk: Efficiency of the internal process and procedures followed in reviewing and approving loan and investments proposals.
iv) Litigation & Disputes: Pending litigation and disputes that can hamper financial health and reputation of the Company.
v) Regulatory Risks: Risks arising out of changes in the applicable regulatory framework and country's economic conditions.
vi) Cyber Risks: Reliability of IT systems, introduction of new cyber threats and ability to keep pace with technological advancements.

The above risk appetite statement shall be monitored on a quarterly basis by the RMC. Any breaches in the same would be escalated through RMC to the Board and appropriate measures would be taken to address the same.

7. INTERNAL RISK MANAGEMENT COMMITTEE

The internal committee with the nomenclature of Internal Risk Management Committee ("IRMC") shall be formed to deal with the day to day operational risks arise while dealing with the customers for lending, monitoring of credits and facility covenants on continual basis and to take necessary steps to mitigate the risks. IRMC shall report to RMC., IRMC shall facilitate ICC to take appropriate decision on lending and investment process.

The IRMC shall comprise of at least two members out of which one member having the designation of Associate Vice President or above and the other member having the designation of Vice President or above Members. The Committee reports to the RMC of the Company.

a) Introduction to IRMC and its objective:

The basic purpose for any risk management policy is to benchmark the company's standards for risk taking for every single activity and provide a guide to each employee for any queries or doubts. Essentially the risk policy may cover Market risk, Credit risk, Process risk, Human risk, Reputation risk, Compliance risk, etc. This policy shall apply to all products, throughout the company. IRMC shall be consist of group of senior executives to review the product as well as process. The new products areintroduced after accessing the 'risk and return' involved after proper documentation. IRMC will review and provide its recommendation to ICC on lending and Investments

b) Rationale

A. K. Capital Finance Limited (hereinafter referred to as "Company" or "AKCF") is predominantly an investment and Credit company. The Company is in the business of investment in rated and/or listed securities, lending business and syndication / distribution of debt financial products.

8. AKCF IS IN THE FOLLOWING BUSINESS

Investment in securities - The Company invests majorly in rated and/or unrated debt securities. The Company also invests its surplus funds into mutual funds, lending through CBLO framework, investments in Pass through certificates (PTC).

Lending business – The Company is into giving loans to corporates, individuals, IPO funding etc. The lending is against pledge of the securities, shares, securities and/or fixed assets, receivables, book debts and /or unsecured.

Syndication / distribution of debt financial products – The Company has a vast client base of over 2000 institutional investors in debt securities. The Company distributes debt financial products to these investors and earns fees income from the issuer of these debt instruments.

9. GUIDELINES FOR FUNDING AGAINST THE DEALING IN SECURITIES

The IRMC will place certain scrips for funding from A. K. Capital Finance Limited and allow Clients to take positions after bringing the necessary margin as set out. The guidelines for selection of stocks is given below;

a) Selection of stocks:

The basic eligibility criteria for inclusion of debt securities in Funding Category are rating, liquidity, tenure of the securities. The basic eligibility criteria for inclusion of equity securities in Funding Category are, price band, trading volume, listed segment, stock exchange listed, historical price movement, investee company profile etc. The Funding will be done with a margin ranging from 5% to 35% for securities and depending upon the rating and liquidity of the debt or equity securities as the case may be. Any variation in the range of margin can be decided by the Risk Management Committee/ Finance Committee of the Company depending upon the rating, liquidity etc.

b) Period of funding:

The period of funding will be at the discretion of the IRMC/ Finance Committee of the Company. The funding will be in the nature of call loan where the lender will have option to call back the loan any time. The prepayment of loan by the borrower shall be subject to prepayment charges at the discretion of IRMC. The borrower has to repay the loan as per the repayment schedule of the facility. If the borrower further wants the loan on the same security the same shall be taken up as a new proposal. However, at the option of the Risk Management Committee/ Finance Committee of the Company the said loan can be extended/ renewed for a further period as may be deemed fit.

c) Creditability of borrower:

The company shall perform know your client & anti money laundering (KYC-AML) checks, credit bureau, peer lending reference check and other essential checks for all the borrowers to assess the creditability of the borrower. The creditability of the borrower will be assessed by the IRMC. Any deviation has to be approved by the IRMC for the same.

d) Risk categorization of the Borrowers:

The IRMC or the Officer/(s) as may be authorised by the Board of Directors shall classify the borrower into various risk categories into High, Medium and Low Risk as mentioned in the Know Your Customer (KYC) Policy and Anti Money Laundering Policy of the Company.

e) Concepts in risk management:

i. **Ledger Balance (LB)** is derived by totaling the values of debit entries and the value of credit entries. If the total value of debit entries is higher as compared to the total value of credit entries, then the difference is said to be the debit balance of the ledger, and vice versa.
ii. **Gross Holding Value (GHV)** is the total value of all stocks for those clients who have provided power of attorney as per policy of A K group.

iii. **Adjusted Holding Value (AHV)** is the total value of all stocks after applying haircut percentage for those clients who have not provided power of attorney.
iv. **Total Holding Value (THV)** is the total value of all stocks.
v. **Limit** is the amount up to which client can buy or sell.

f) **Margin Funding for primary application in securities (MFPA)**:

The borrower opens a bank account (POA to the lender) with any other bank as approved by the lender and demat account (POA to the lender) with A. K. Stockmart Private Limited (or any other depository as approved by the lender). The borrower brings in the margin money in the bank account and balance amount is funded by AKCF. The primary application in the securities is made mentioning the POA bank account and POA Demat account details.

On allotment the securities get credited in the POA demat account. The borrower then sells the securities and receive the payment in the POA bank account which is adjusted against the loan and interest. The balance after adjusting the loan amount and interest is refunded back to the borrower.

In case of refund the money gets credited in the POA bank account and gets adjusted against the loan and interest. The balance after adjusting the loan amount and interest is refunded back to the borrower.

Funding against pledge of securities: The client will pledge the securities in favor of AKCF. AKCF will lend money against the pledge of the said securities on confirmation of pledge after deducting the haircut. The borrower will repay the loan and AKCF will release the security of the borrower.

10. LIQUIDITY RISK MANAGEMENT POLICY, STRATEGIES AND PRACTICES

In order to ensure a sound and robust liquidity risk management system, the Board of Directors of the Company shall frame a liquidity risk management framework which ensures that it maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. It shall spell out the entity-level liquidity risk tolerance; funding strategies; prudential limits; system for measuring, assessing and reporting/ reviewing liquidity; framework for stress testing;

Liquidity planning under alternative scenarios/ formal contingent funding plan; nature and frequency of management reporting; periodical review of assumptions used in liquidity projection; etc.

a) Governance of Liquidity Risk Management:

Successful implementation of any risk management process has to emanate from the top management in the NBFC with the demonstration of its strong commitment to integrate basic operations and strategic decision-making with risk management. The Risk-Head appointed by the Company shall be involved in the process of identification, measurement and mitigation of liquidity risks.

b) Liquidity risk Tolerance:

The Company shall have a sound process for identifying, measuring, monitoring and controlling liquidity risk. It should clearly articulate a liquidity risk tolerance that is appropriate for its business strategy and its role in the financial system. Senior management should develop the strategy to manage liquidity risk in accordance with such risk tolerance and ensure that the NBFC maintains sufficient liquidity.

c) Liquidity Costs, Benefits and Risks in the Internal Pricing:

The Company should endeavour to develop a process to quantify liquidity costs and benefits so that the same may be incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

d) Collateral Position Management:

The Company shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets. It should monitor the legal title and physical location where collateral is held and how it may be mobilised in a timely manner. Further, the Company should have sufficient collateral in the form of unencumbered high quality liquid assets to meet expected and unexpected borrowing needs and potential increases in margin requirements over different timeframes.

e) Stress Testing:

Stress Testing shall form an integral part of the overall governance and liquidity risk management culture in the Company. The Company should conduct stress tests on a regular basis for a variety of short-term and protracted NBFC-specific and market-wide stress scenarios (individually and in combination). In designing liquidity stress scenarios, the nature of the Company's business, activities and vulnerabilities should be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the NBFC is exposed.

f) Contingency Funding Plan:

The Company shall formulate a contingency funding plan (CFP) for responding to severe disruptions which might affect the Company's ability to fund some or all of its activities in a timely manner and at a reasonable cost. Contingency plans should contain details of available/ potential contingency funding sources and the amount/ estimated amount which can be drawn from these sources, clear escalation/ prioritisation procedures detailing when and how each of the actions can and should be activated, and the lead time needed to tap additional funds from each of the contingency source.

g) Internal Controls:

The Company shall have appropriate internal controls, systems and procedures to ensure adherence to liquidity risk management policies and procedure. Management should ensure that an independent party regularly reviews and evaluates the various components of the NBFC's liquidity risk management process. The Asset and Liability Management committee is having authority to review and implement adequate CFP from time to time.

h) Managing Interest Rate Risk:

Interest rate risk is the risk where changes in market interest rates might adversely affect Company's financial condition. The immediate impact of changes in interest rates is on the Net Interest Income ('NII'). A long term impact of changing interest rates is on the Company's Market Value of Equity (MVE) or net-worth as the economic value of the assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates.

The re-pricing risk arises due to differences in the timing of re-pricing of assets and liabilities as well as the cash flows. The re-pricing gaps affect Company earnings as well as economic value.

i) Interest Rate Risk Measurement ("IRR"):

Effective IRR measurement and management is a critical function for the Company. IRR is an inherent part of the banking business and can be an important source of profits and shareholder value. Mismanagement of IRR poses a significant threat to Company's earnings and capital base as changes in interest rates can dramatically change the present value of Company's assets and liabilities. Accordingly, the Company will follow the below tools to manage the IRR:

1. Traditional Gap Analysis (TGA)

To begin with, the traditional Gap analysis is considered as a suitable method to measure the Interest Rate Risk in the first place in the prescribed manner.

2. Duration Gap Analysis (DGA)

The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions). An asset or liability is normally classified as rate sensitive if:

i. within the time interval under consideration, there is a cash flow;
ii.the interest rate resets/reprices contractually during the interval;
iii. dependent on RBI changes in the interest rates/Bank Rate;
iv. it is contractually pre-payable or withdrawal before the stated maturities

The Gap Report shall be generated by grouping rate sensitive liabilities, assets and off-balance sheet positions into time buckets according to residual maturity or next repricing period, whichever is earlier.

All investments, advances, deposits, borrowings, purchased funds, etc. that mature/ reprice within a specified timeframe are interest rate sensitive. Similarly, any principal repayment of loan is also rate sensitive if the NBFC expects to receive it within the time horizon. This includes final principal payment and interim instalments. Certain assets and liabilities to receive/pay rates that varies with a reference rate. These assets and liabilities are repriced at pre-determined intervals and are rate sensitive at the time of repricing.

The negative gap between the average rate of borrowings and lending should not be more than 10% at any given point of time. The Earnings at Risk (EaR) due to adverse effect of interest rate sensitivity shall not be more than 10% of the average cost borrowings. The limits provided under this para shall not be applicable to the transactions entered in Collateralised Borrowing and Lending Obligations (CBLO) and lending to group companies.

The Gaps may be identified in the following time buckets:

i) 1 day to 7 days
ii) 8 days to 14 days
iii) 15 days -30/31 days (One month)
iv) Over one month to 2 months
v) Over two months to 3 months
vi) Over 3 months to 6 months
vii) Over 6 months to 1 year
viii) Over 1 year to 3 years
ix) Over 3 years to 5 years
x) Over 5 years
xi) Non-sensitive

11. AUDIT COMMITTEE AND ROLE OF INTERNAL AUDIT FUNCTION

The Audit Committee is primarily responsible for oversight of financial reporting & disclosures as well as effectiveness of internal control processes and internal audit function. The Audit Committee also plays an important role in monitoring the KYC-AML checks performed by the Company to arrive at risk categorization of customers from KYC and credit perspective. The Committee also deals with various external auditors viz. statutory, secretarial, information system auditor to identify, asses, evaluate and mitigate risks arising in their respective audits. In view of the same the Audit Committee plays an important role in the Company's Risk Management framework.

The Internal Audit is an audit the Company's internal process and procedures including operational and financial functions. The Internal Audit functions acts as a second line of defence to assess the risks identified during internal audit in various functions of the Company and take timely remedial actions. The Internal Audit function has a direct reporting line to the Audit Committee.

The synergy between the Risk Management Committee and Audit Committee will help the organisation gain a clear idea of areas of critical risk faced by the Company and measures required to mitigate the same**.**

12. RISK MITIGATION

The detailed strategy of the Company with respect to Risk Mitigation is elaborated in Annexure I of this policy.

13. REVIEW / AMENDMENT OF THE POLICY

The Board shall review the Policy at yearly interval and suggest changes/ modifications in the Policy as may be required.

This Policy should always be read in conjunction with relevant provisions of Act, Scale Based Regulation SEBI LODR and other directives and instructions, for the time being in force.

The Company shall reserve the right to review and make amendment to this Policy from time to time as it deems fit in accordance with the applicable laws, rules and regulations for the time being in force. In the event of any conflict between the provisions of this Policy and the Act or Scale Based Regulations or any other statutory enactments, the provisions of such Act or Scale Based Regulations or statutory enactments shall prevail over this Policy.

Annexure I

Risk Mitigation

1. **Purpose**:

The purpose of the Risk Mitigation policy is to ensure that all business activities of the Company are maintained at normal levels following an incident/adversities that has the potential to disrupt or destroy the smooth functioning of the Company.

2. **Objective**:

a) The purpose of this policy is to establish Business Continuity Management as an integral part of the A. K. Capital Finance Limited's ("**AKCF**"/ "**Company**") business activities, operations and risk culture. Its implementation is mandatory to meet strategic, operational, contractual, legal and client requirements. The key objectives of this policy are :

b) To ensure that the business continuity activities are conducted and implemented in an agreed and controlled manner so as to cause minimal impact and risk to the business from variousdisruptions.

c) Achieve and maintain a business continuity capability that meets the business needs and isappropriate to the complexity and nature of the Company's growing business.

d) To review and assess the quality, integrity and effectiveness of the risk management systems and ensure that the risk management policies and strategies are effectively managed and implemented.

e) To ensure that a systematic, documented assessment of the processes and outcomes surrounding key risks is undertaken on a regular basis.

f) To oversee formal reviews of activities associated with the effectiveness of risk management and internal control processes. A comprehensive system of control should be established to ensure that risks are mitigated and that the Company's objectives are attained.

3. Process for storage of original documents:

The following process shall be followed for storage of documents:

a) The original documents for the lending transactions shall be finalised by the Credit Department, Structuring & Execution Department in assistance with Compliance and other concerned departments.

b) All the original documents pertaining to the lending transaction shall be kept in the safe custody at Mumbai/Delhi office of the Company, depending upon the location of execution of the documents.

c) The scanned copies of the abovementioned original documents alongwith the index containing the list of documents shall be stored in the pen drive or any other electronic storage media.

d) An external Safe keeper shall be appointed by the Company for the purpose of safe keeping the original/soft copies of all the lending transactions.

e) In the event any transaction would require execution of any further agreement or letters/document, the Company shall store such newly executed documents in the pendrive which is in the custody of external safe keeper.

f) The Original documents/Pen drives along with the index mentioning the list of documents stored in it shall be handed over to the safe keeper appointed by the Company after the express approval of the Management. The compliance department shall maintain the record of all the documents handed over to the safe keeper.

4. **Record Keeping:**

All the employees of the Company shall implement the following for record keeping of the documents:

a) **Storing records:**

Records shall be stored in such a way that they are accessible and safeguarded against environmental damage. The documents shall be stored in a filing cabinet in an office. Vital records shall be stored in a disaster-resistant safe or vault to protect against any force majeure events such as fire, flood, earthquakes and conflict.

b) **Retrieval of records:**

In addition to being able to store records; retrieval of records shall also be established. The documents shall be easily retrieved, in the event they are needed for the purpose of audit or litigation or any other purpose.

c) **Destruction of records:**

Destruction of records shall be as authorized by law, rules, statute, regulations, or operating procedure and the records should be disposed of with care to avoid inadvertent disclosure of information.