ABANS FINANCE PRIVATE LIMITED

RISK MANAGEMENT POLICY

VERSION V

Version	Adoption/Amended	Authority	Date
I	Adoption	Board of Directors	April 2, 2018
II	Revision	Board of Directors	April 24, 2019
III	Revision	Board of Directors	August 2, 2024
1V	Revision	Board of Directors	January 29, 2025
V	Revision	Board of Directors	May 27, 2025

INDEX

I. PREFACE

Abans Finance Private Limited ('AFPL' or 'the Company') is a Material Subsidiary of Abans Financial Services Limited. Since March 31, 2024, it has been categorized as a Middle Layer NBFC (NBFC – ML), pursuant to the scale-based regulation put forth by the RBI.

Given the significant evolution in the Indian financial markets over the last few years and consistently growing business of the Company, the risks associated with its business operations have become more complex and require continuous monitoring and strategic management. The Company operates in a regulated environment and is required to continuously monitor its liquidity and borrowing profile on a dynamic basis in conjunction with its onward lending portfolio.

Risk management in today's competitive environment is attempting to identify and then manage threats that could severely impact or bring down the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence and then taking appropriate actions to address the most likely threats.

Intense competition in business and continuous development in regulatory framework is expected to put constant pressure on the Company to maintain a fine balance amongst spreads, profitability and long term viability. This calls for structured and comprehensive measures and a dynamic and integrated management information systems and robust processes driven by comprehensive strategy.

Owing to risks which may exist or arise, exposure to credit risk, interest rate risk, liquidity risk and operational risk, etc., which require comprehensive risk management system & process, the Company has adopted the Risk Management Policy pursuant to the provisions as set out in RBI Master Directions and other applicable provisions.

II. OBJECTIVES OF THE POLICY / MISSION STATEMENT

The Risk Management Policy is put in place to ensure prudent management of risk, assets and liabilities and to address management and reporting of capital, liquidity and interest rate risk.

The broad objective of the policy is to:

- familiarise the management with risk as an integral part of the business processes;
- establish an effective system of risk identification, analysis and treatment;
- establish structured and comprehensive measures to ensure informed decision making;
- minimize exposure to significant reputational or financial loss and its impact;
- assess the benefits and costs of implementation of available options and controls to manage risk;
- Increase preparedness and reduce uncertainty;
- Strengthen corporate governance procedure to inhibit a culture of continuous improvement;
- Adequate reporting.

It is the responsibility of all Board members, Senior Management and employees to identify, analyse, evaluate, respond, monitor and communicate risks associated with any activity, function or process within their relevant scope of responsibility and authority.

The Risk Management Committee constituted in this regard is entrusted with the responsibility to ensure adequate and timely implementation of this policy.

III. RISK MANAGEMENT PROCESS

The Risk Management Process in the Company is rightly guided by the below mentioned steps:

Identification and prioritization of the inherent risks

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Assessment of risk

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Risk response and mitigation factors

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Monitor & Review

When these steps are taken in sequence, they support better decision making and enable greater insights into risks. However, the risk management process does not end with monitoring it is an endless loop of on-going function.

Each of the aforementioned steps are detailed below:

A. Identification and prioritization of the inherent risks

Identifying risk associated to a business function and the potential risks that may have an impact on the same shall be the responsibility of various department and functional heads. Risk may arise at every function including but not limited to Operations, Information Technology, Human Resource, Accounts/Finance, Taxation, Marketing, Legal and Secretarial Department.

The Company has adopted the “3 Lines of Defence” for management of Risks.
The Company shall ensure that each line of defence:

- Has clearly defined roles and responsibilities
- Is adequately resourced in terms of budget, tools and staff
- Is continuously and adequately training
- Promotes a sound operational risk management culture across the organisation; and
- Communicates with the other lines of defence to reinforce the ORMF.

The Seamless collaboration between these lines of defence forms a formidable shield, safeguarding both individual entities and the entire financial system against potential threats and vulnerabilities.

i. **First Line of Defence**

The heads of each department shall be responsible for locating and identifying risks associated with each of their business function. These departmental heads shall provide for the "first line of defence" in the Risk Management Process., responsible for identifying and managing risks inherent in their products, services, activities, process and systems. The Key Responsibilities of the heads include:

- Identifying and assessing Operational Risks using risk management tools.
- Establishing and assessing controls to mitigate these risks.
- Reporting on the adequacy of resources, tools, and training for risk management.
- Monitoring and reporting Operational Risk profiles and adherence to risk appetite and tolerance.
- Reporting residual risks, including operational loss events and control deficiencies.

ii. **Second Line of Defence**

The "second line of defence" shall consist of the Risk Management Committee duly constituted by the Board of Directors comprising of the Chief Executive Officer (CEO)/ Managing Director and other directors. This Organisational Operational Risk Management Function (OORF), which is functionally independent, forms the second line of defence and the responsibilities include;

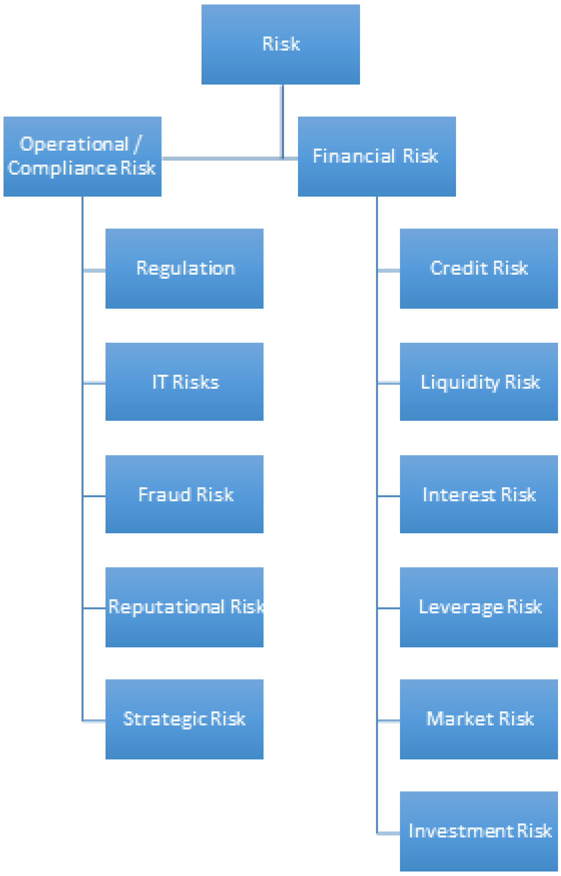
- Developing an independent view on Operational Risks, controls, and risk tolerance.
- Challenging the implementation of risk management tools and reporting systems.
- Developing and maintaining risk management policies and guidelines.
- Reviewing and contributing to Operational Risk profile monitoring.
- Providing Operational Risk training and promoting risk awareness.

iii. **Third Line of Defence**

The "third line of defence" i.e Audit Function provides an independent assurance to the Board regarding the appropriateness of the Company's Operational Risk Management Framework (ORMF). The Staff involved in this function should not be involved in the development, implementation, and operation of Operational Risk Management processes, which are carried out by the other two lines of defence. The third line of defence reviews are generally conducted by the company's internal and/or external audit teams but may also involve suitably qualified independent third parties. The responsibilities include:

- Ensuring robust quantification systems.
- Reviewing the design and implementation of risk management systems.
- Ensuring independent validation processes.
- Ensuring prompt and adequate responses to issues by business units.
- Identifying gaps in the ORMF and reporting to the Board.
- Providing opinions on the adequacy and appropriateness of the ORMF.

We have categorized the main heads of Risks into two: Operational/Compliance, and Financial Risks.



B. Assessment of Risk

Assessment of risk shall mean a system to obtain estimates of the level of impact the risk may have on the operations of the Company. The responsibility to assess the risk shall lie with the Members of the Risk Management Committee. The Committee shall use quantitative as well as qualitative methods for descriptions of risks.

The Committee shall identify key indicators and ratios that need to be tracked and analysed regularly to assess the Company's exposure to risk in each area. The Committee may determine the frequency at which each indicator should be monitored and analysed.

The Company may adopt the following strategies to manage exposure to risk:

- Risk Avoidance
- Risk Acceptance
- Risk Transfer
- Risk Control

The output of risk assessment shall be the guide on how the Company may decide to respond to the given risk at any time.

C. Risk response and mitigation factors

Response to risk shall mean selecting the best option form the range of options identified by the Risk Management Committee for treating risk, assessing those options, preparing risk treatment plans and implementing them.
At this stage of the risk management process the Risk Management Committee, shall finalise the risk treatment option and assign the ownership and responsibility for each of those risk mitigation steps to concerned departmental heads and other personnel as may be deemed appropriate.
The following broad categories of risks have been identified in our Risk Management Framework along with possible mitigation factors:
We have categorized the main heads of Risks into two: Operational/Compliance, and Financial Risks ;
The Following sub-categories of risks have been identified by the organization:

I. COMPLIANCE/ OPERATIONAL RISK

The Company's business operations are subject to risks across various domains, including but not limited to, operational activities, information technology and physical security, human resources, and regulatory compliance as mandated by various statutory bodies. To effectively manage regulatory and compliance risks, the Company must adhere to all applicable statutes and regulations. To safeguard the Company's reputation, all operational and compliance risks have been identified, and comprehensive policies have been implemented to mitigate these risks.

A. REGULATION RISK

Regulatory and Compliance Risk: The Company faces risks associated with various statutes and regulations. Compliance with regulatory norms is essential to manage these risks effectively. An Effective Customer Redressal Mechanism and Fair Practices Code help control legal risk. Non-compliance can result in stringent actions and penalties from regulators or statutory authorities, posing a risk to the Company's reputation. These risks include non-compliance with RBI regulations, statutory regulations, and covenants laid down by lenders.

Operational Risk: This encompasses risks inherent to business operations, such as those related to business support activities, information security, physical security, human resources, and business activity disruptions.

Mitigation: Reviews are conducted and the compliance is reported to the Board on a regular basis.

B. INFORMATION TECHNOLOGY (IT) RELATED RISK:

Risk: The business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an enterprise. In this digital era, as organizations use automated Information Technology (IT) Systems to process their information; it is exposed to IT-related risks. Risk Management plays a critical role in protecting an organization's information assets from IT-related risks.

Some of the key risk areas are given below:

- Infrastructure management poses considerable risk to business
- Cyber Security is a major threat to any organization which conducts business over the internet
- Security Threats and Vulnerabilities
- Data Management and Protection Risk
- Technology Vendor and Third-party risk
- Ability to up skill or reskill existing individuals in fast changing technology landscape

Mitigation: Reviews are conducted and the compliance is reported to the Board on a regular basis.

C. FRAUD RISK

Risk : Fraud Risk Management includes the identification, assessment, mitigation and monitoring of risks associated with fraudulent activities. The Company's Fraud Risk Management Policy encompasses preventive and corrective measures.

Mititgation: Reviews are conducted and the compliance is reported to the Board on a regular basis.

D. REPUTATIONAL RISK

Risk : Reputation risk refers to the potential loss incurred by the Company due to damage to its image or standing, resulting from specific incidents or actions arising from its business operations. Such incidents or actions may be attributable to the Company, its employees, or executives, whether committed consciously or otherwise. Reputation risk may lead to a reduction in revenues, diminished shareholder value, and potential fines imposed by relevant regulatory authorities. The Company acknowledges that its goodwill, cultivated over many years, is intrinsically linked to its reputation. Therefore, safeguarding its reputation is of paramount importance. To this end, the Company has established and implemented necessary policies to ensure that its customers and employees are treated fairly and transparently, while simultaneously achieving its business objectives. This approach aims to prevent any actions that could tarnish the Company's reputation.

Mitigation : Reviews are conducted and the compliance is reported to the Board on a regular basis.

E. STRATEGIC RISK:

Risk: It is the risk to earnings and capital arising from lack of responsiveness to changes in the business environment and/or adverse business decisions, besides adoption of wrong strategies and choices.

Mitigation: Reviews are conducted and the compliance is reported to the Board on a regular basis.

II. FINANCIAL RISKS:

A. CREDIT RISK:

Risk ; Credit Risk arises from the potential failure of a borrower or counterparty to fulfill their contractual obligation of repaying debt as agreed. Any lending activity by the Company is exposed to this risk. Despite best efforts, repayment defaults may still occur, and failure to recover the expected value of collateral security could lead to potential losses, adversely affecting the Company's financial condition and results of operations.
Interest Rate Risk refers to the potential adverse impact on the Company's financial condition due to changes in market interest rates. This risk directly affects the Company's earnings by altering its Net Interest Income (NII). As the Company primarily offers fixed-rate loans, it manages this risk by pricing its loan products to cover interest rate fluctuations.

Mitigation: Reviews are conducted regularly, and compliance is reported to the Board to manage both Credit and Interest Rate Risks effectively.

1. Lending Vertical Policy

1.1 Introduction

The lending business of AHL is housed under Abans finance Pvt Ltd.AFPL gives loans to both external as well as group companies

The loans given are working capital loan, but AFPL can give Secured and Unsecured Loans under different heads as mentioned below:

- Personal Loans
- Business Loans
- Loans Against Property
- Consumer Finance
- Other permissible credit products as per RBI guidelines

Tenor of the loans is 12months and above, with quarterly/monthly interest payouts.

1.2 Screening of counterparty – KYC Process

The KYC process is carried out before processing application for loans for both individuals and corporate clients

Our screening stage commences once a customer has been identified, and our business team conducts an initial screening of the customer's creditworthiness.

Such screening typically involves a personal discussion with the customer, credit history checks, reference checks, an analysis of the customer's financial statements, know-your-customer verification and credit bureau checks for the borrowing entity and its directors.

Also, on case to case basis, a credit assessment officer of our business team will conduct a visit of relevant sites and submit a report on his findings. Further, we maintain an approved list of technical and legal experts that assist our credit assessment teams with the due diligence process when required.

The detail list of documents is attached in annexure 1.

1.3 Evaluation of proposal

Evaluation Stage: Upon the completion of this screening, the loan application process proceeds to the evaluation stage, where our team evaluates the prospective customer's business and financing needs and investigates the prospective customer's track record, market reputation and ability to repay any loans extended to it.

After the assessment is completed and the exposure to the prospective customer is determined to be acceptable, our business team would then formulate a debt financing structure that protects us from any identified weaknesses of the borrower and prepare a credit memorandum, setting out the details of the proposed transaction.

The credit memorandum will contain an analysis of the proposed facility and its impact on our overall portfolio, as well as explicitly address areas of concern detailed in our risk framework and policy.

Such credit memorandum is then presented to our finance committee for approval.

1.4 Approval Finance Committee

After a proposed transaction is approved by our finance committee, a final credit memorandum, taking into account the feedback received from the prior rounds of review, is prepared for presentation to and review by our finance committee for final approval.

Potential Ratios which could be used, basis which the applications are evaluated

- Loan to Value for secured lending
- Working capital ratio for unsecured
- Debt to equity/ Debt to assets
- Debt service coverage ratio
- EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)

These ratios, along with qualitative inputs from the committee members are discussed and decision to approve or reject the proposal is taken

1.5 Disbursal and Monitoring Stage

Once approval from our credit committee is obtained, our legal team would prepare relevant loan documentation, including a loan agreement. Our business team will work with the customer to complete pre-disbursement documentation and to fulfil the covenants of the relevant loan agreement and other documentation. The financial details of the transaction are entered into our database for loan management system, which generates a transaction memorandum that tracks the compliance status of pre disbursement covenants. Once the pre-disbursement covenants and conditions are performed, and our finance committee approves the transaction closing memorandum, the relevant funds would be disbursed to the borrower. A tracker measuring outstanding and days past due is used internally for efficient monitoring.

Stage	**Process Flow**	**Process Description**	**Basic Requirement**
A	**Customer Request**	Customer provides basic KYC documents and a request for Loan	KYC documents are provided and maintained at operations level
B	**Screening & Evaluation Stage**	All the documents along with CIBIL and CKYC will be verified and forwarded for approval	Employee Login and further upload of documents
C	**Approval Stage**	Loan will be approved for sanction and disbursal	Committee Login and approval
D	**Disbursal & Monitoring Stage**	Sanction Letter & Loan Agreement will be issued along with Loan disbursal. Further enhancement / reduction / renewals will also be done at this stage	Issue of Sanction Letter, Loan Agreements, etc. Different Field for Customer Master (Category, Loan Amount, Interest Rate, industry type, etc.)

1.6Measuring of NBFC adequacy ratios

All loan applications before disbursal are measured for impact on regulatory ratios, like Capital Ratio.

NBFCs shall maintain a minimum capital ratio consisting of Tier 1 and Tier 2 capital which shall not be less than 15 percent of its aggregate risk weighted assets on balance sheet and of risk adjusted value of off-balance sheet items.

This is tracked on a daily basis internally, based on outstanding loans.

1.7 Classification of NPAs

The NBFCs categorized as middle layer have an asset size of more than 1000Crs. We fall in this category and hence follow the NPA classification as mentioned below.

NBFCs have an NPA norm of 90 days. Our NBFC also follows 90 day period tracking

Counterparty	DPD >90 days	Loan value(In Rs Crs)	Collateral Value(In Rs Crs)	Cover(x Times)	Type
ABC	NA	1	3	3	Secured
XYZ	10	1	-	-	Unsecured

1.8 Provisioning for NPAs

Provision policy followed is as per RBI norms for NBFC which is

- NBFC shall make provisions for standard assets at 0.40 percent of the outstanding loan balance.
- NBFC should provide for Expected Credit Loss as required by applicable Indian Accounting Standards (Ind AS-109)

1.9 Capital Raising by NBFC

- Raises money through NCDs
- AHL equity infusion
- Promoter funding

*1.*10 Other tracking followed to measure loan book exposure

1. Funding Concentration Risk: Concentration of a single source of funds exposes the Company to an inability to raise funds in a planned and timely manner and resort to high-cost emergency sources of funds. Further, concentration of funding sources can also result in a skewed maturity profile of liabilities and resultant Asset-Liability mismatch.
2. Asset-Liability Mismatch: A skewed asset-liability profile can lead to severe liquidity shortfall and result in significantly higher costs of funds; especially so during times of crises.

Mitigation: Reviews are conducted and the compliance is reported to the Board on a regular basis.

B. LIQUIDITY RISK:

Risk: Liquidity Risk in the context of NBFCs involved in the activity of lending is the risk of inadequate liquidity to further the business. Lack of adequate liquidity or non-availability of liquidity on time hampers the business prospects of NBFCs. Measuring and managing liquidity needs are vital for effective operations of NBFC. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system.

Mitigation: Reviews are conducted and the compliance is reported to the Board on a regular basis.

C. MARKET RISK:

Risk: It is the risk of losing value on financial instruments on the back of adverse price moments driven by changes in equities and interest rates due to volatility in the market.

1. Bonds

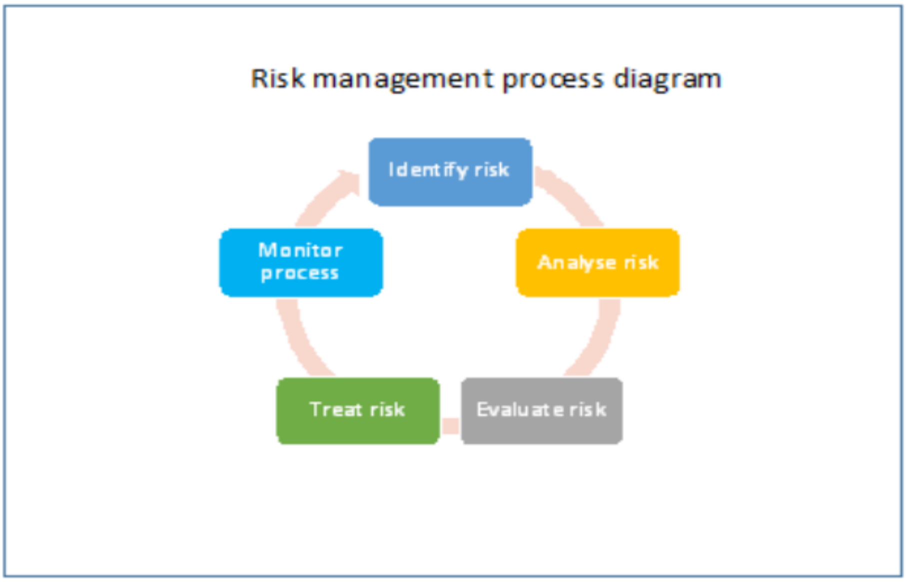
1.1. Introduction

Managing risk is crucial to keeping our investments safe and profitable. This Risk Policy explains how we handle different types of risks that come with investing in bonds. Our aim is to protect our investments from extreme losses while also looking for opportunities to grow. We cover various risks, including sovereign risk, interest rate risk, liquidity risk, and more. By following these guidelines, we strive to keep our portfolio balanced and strong, matching our investment goals and risk tolerance. We regularly review and update our risk management practices to stay ahead of market changes and regulatory requirements. This helps us navigate the bond market's complexities and consistently deliver profits.

a) Risk Framework

We have 5 step risk management process.

- Identify risk: Recognizing potential events or conditions that could negatively impact our investment.
- Analyse risk: This involves assessing risks, determining their likelihood of occurring.
- Evaluate risk: Evaluating severity of risk and potential impact of risk on our investments.
- Treat risk: We use various strategies to treat the risk effectively.
- Monitoring process: We continue to monitor our process even after we have dealt with risk.



1.2. Investment Strategy

Currently the desk is majorly investing and pledging from TREPS in Indian government issued bonds of different tenure with the view on interest rates in India. The underlying trade is to capture the movement in bond prices along with yield differential between the borrowing rate and coupons on the bonds.

This differential between yields allows us to leverage our books while positioning for rise in bond prices.

1.3. Risks associated with strategy

There are two legs of risks here.

Risks associated with bonds

a) Sovereign risk:

Sovereign Risk refers to the risk that a government might default on its debt obligations. Government securities, issued by central the Companys on behalf of the federal government, are considered to have sovereign credit. This means they are backed by the government's promise to pay interest and principal, implying no default risk. For domestic borrowers and lenders, the credit risk on such securities is nearly zero, earning them the label "risk-free securities" or "zero-risk securities."

b) Price-Risk or Interest-Rate Risk:

In Fixed Income Bearing Securities, the Coupon rate is determined at the time of investment and paid/received at the predetermined frequency.

These types of bonds (Government securities, from our current perspective) run price-risk.

Generally, when interest rates rise, prices of fixed income securities fall and when interest rates drop, the prices increase.

The degree of fall or rise in the prices depends upon coupon, frequency of coupon, days to maturity and magnitude and direction of change in the level of interest rates.

The prices of Government Securities (existing and new) will be influenced majorly by movement in interest rates in the financial system.

c) Reinvestment Risk:

Investments in fixed income securities may carry reinvestment risk as yield prevailing on buying date may differ from interest rates on coupon receiving dates forcing us to reinvest coupons at lower rates.

d) Liquidity Risk:

Longer maturity government securities (G-secs) are relatively illiquid compared to shorter maturity G-secs. This illiquidity makes them difficult to sell, may require us to sell at discount.

Risks associated with TREPS

a) Increase in borrowing costs:

Increasing borrowing costs will erode our spread, reducing overall returns from the strategy. If erosion of spread sustains beyond a particular level for an extended period of time, we may be exposed to the risk of unwinding the strategy abruptly, incurring additional costs. This, combined with falling prices of G-secs, can significantly impact returns.

b) Unable to roll TREPS borrowing:

Due to liquidity issues, if we are unable to roll over our borrowing from TREPS, we will have to borrow at significantly higher costs until we can unwind our leveraged position.

1.4. Risk Analysis and Evaluation methods

We employ robust risk analysis and evaluation mechanisms to stay ahead of the curve, proactively identifying and mitigating risks to protect our portfolio. To support this, we conduct various exercises both daily and periodically. Bond Risk Metrics are:

a) Bond Value at Risk

The Value at Risk (VaR) of a bond portfolio represents the estimated maximum potential loss, at a specified level of confidence, over a given time horizon. It provides a quantitative measure of the portfolio's risk by assessing the range of potential losses based on market fluctuations and other relevant factors. Essentially, VaR helps investors and risk managers understand the potential downside risk associated with holding a particular bond portfolio, offering insights into the level of financial exposure within a specified confidence interval.

b) Bond VaR calculated at 95 percentile level

A 95th percentile bond Value at Risk (VaR) is a measure used to estimate the potential loss in the value of a bond portfolio at a 95% confidence level over a specific time horizon. A 95th percentile bond VaR gives an estimate of the potential downside risk in the bond portfolio, with the understanding that, in 5% of cases, losses may exceed the calculated VaR.

c) Bond VaR calculated at 99 percentile level

A 99th percentile bond Value at Risk (VaR) is a measure used to estimate the potential loss in the value of a bond portfolio at a 99% confidence level over a specific time horizon. A 99th percentile bond VaR provides an estimate of the potential downside risk in the bond portfolio, with the understanding that, in 1% of cases, losses may exceed the calculated VaR.

d) Modified Duration of Bond Portfolio

Modified duration is a measure used to estimate the sensitivity of a bond's price to changes in interest rates. It is expressed as a percentage and provides an approximation of the percentage change in the bond's price for a 1% change in interest rates.

We derive Yield from current market price of Bond and the prices are shocked by 1% increase and decrease in yield to reach the modified duration.

e) DV01 of Bond Portfolio

DV01 is a measure used in finance to quantify the change in the market value of a bond (or a bond portfolio) for a 1 basis point (0.01%) change in yield or interest rates. It represents the rupee amount by which the bond's value is expected to change for a 1 basis point movement in yield.

f) Leverage ratio

We monitor leverage of our position constantly and adjust it actively according to risk metrics and our macro-economic views

1.5. Stress testing and scenario analysis

We perform rigorous periodic stress testing across various parameters and various market scenarios to remain fully informed about potential risks if market conditions deteriorate.

1.6. Macroeconomic trends

Additionally, we monitor and analyse domestic and global macroeconomic trends to stay aware of potential risks to our portfolio and position ourselves according to situations.

1.7. Risk factors associated with Imperfect Hedging

Hedging is a valuable tool for managing risk, but it does come with its own set of challenges and complexities.

a) Hedging Cost:

Hedging instruments act as an insurance for adverse moves in the markets with respect to our portfolio. The cost attached to buying this insurance will affect the P&L, if anticipated change do not occur.

b) Credit Risk:

There can be a default risk on the counterparty providing the hedge leg. However, in case of IRS the counterparties are The Companys governed by RBI and in case of IRFs the counterparty are the national exchanges, thereby reducing the overall credit risk of the transaction.

c) Basis Risk:

This arises from the imperfect correlation between the securities in the portfolio and the IRF/IRS contracts. The movements in their prices might not match perfectly, leading to differences in the P&L from both the legs.

1.8.Summary

Risk factors		Risk monitoring	Risk mitigation
Bond risks	Sovereign risk	Daily reporting of various risk measures like DV01 & VaR	Hedging with various derivatives as per the need and availability
	Interest rate risk		
	Reinvestment risk	Scenario analysis and stress testing	
	Liquidity risk		
TREPS risks	Increment in borrowing costs	Tracking macro economic changes	
	Liquidity risk		

2. Derivatives

2.1. Introduction

Given the dynamic and often volatile nature of financial markets, it is crucial to understand the risks inherent in our current investment strategy. This Equity Futures and Options (F&O) Risk Report provides a comprehensive analysis of the risks associated with our company's trading activities in the equity derivatives market. As we actively engage in trading equity futures and options across various sectors and hold significant positions in index futures, understanding and managing these risks is crucial to safeguarding our financial performance. The report will outline key risks, including market risk, liquidity risk, and leverage risk, among others, and will provide actionable strategies for monitoring and mitigating these risks effectively. This analysis aims to enhance our risk management framework and support informed decision-making in our F&O trading activities.

2.2. Risk Management for Equity F&O Trading

a) Risk Identification

We begin by identifying potential risks associated with our equity F&O trading, categorizing them into market risk, liquidity risk, leverage risk, counterparty risk, and sector-specific risk. Tools like historical data analysis and stress testing help us understand these risks and their potential impact.

b) Risk Assessment

After identifying risks, we quantify their potential impact using metrics like Value at Risk (VaR) and sensitivity analysis. These tools help us gauge our exposure to various factors, such as price fluctuations and volatility, ensuring we understand the possible extent of losses.

c) Risk Monitoring

Continuous monitoring of risks ensures they stay within acceptable limits. We track key metrics like trading volume and market correlations in real-time, using automated systems that provide alerts if any risk thresholds are breached, allowing for prompt action.

d) Risk Mitigation

To reduce risks, we use strategies like diversification, hedging, and strict position sizing. Tools such as stop-loss orders and limit orders help manage our exposure, ensuring it aligns with our risk appetite and reduces the potential for significant losses.

e) Risk Governance

Effective governance is key to managing risks. We define clear roles within our team and regularly review our risk policies. A dedicated risk committee meets periodically to assess exposures and ensure our risk profile aligns with our strategic goals.

f) Risk Reporting

We produce regular reports detailing key risk metrics and mitigation efforts. These reports are shared with senior management and other stakeholders, ensuring transparency and enabling informed decision-making about our risk exposures.

g) Risk Review and Improvement

Our framework evolves with market conditions. We regularly review our processes, back test models, and incorporate lessons from past experiences to continuously improve and adapt our risk management strategies.

2.3. Investment strategy

Currently the desk holds a diversified portfolio comprising Equity Cash positions, as well as Futures and Options across various sectors. In addition to these sector-specific investments, we maintain strategic positions in index futures and options. This multi-faceted approach allows us to leverage opportunities in different market segments while managing exposure across broader indices.

2.4. Risks associated with strategy

Below is a list of risks associated with our equity investments and trades, including positions in Equity cash, Futures, Options, and Index Futures and Options:

a) Market Risk

- Price Volatility: The value/price of equities, futures, and options can fluctuate significantly due to changes in market conditions, economic data, investor sentiment, and global events.
- Systematic Risk: Broad market movements, driven by macroeconomic factors such as interest rates, inflation, and geopolitical events, can impact all investments, including indices.

b) Sector-Specific Risk

- Concentration Risk: Exposure to specific sectors can lead to higher volatility if those sectors experience downturns due to regulatory changes, technological disruptions, or economic shifts.

- Sector Cyclicality: Some sectors are more cyclical and sensitive to economic cycles, which can lead to increased risk during economic downturns.

c) Leverage Risk

- Amplified Losses: Futures and options can involve significant leverage, meaning small adverse price movements can result in large losses, potentially exceeding the initial investment.
- Margin Calls: Leveraged positions may require additional capital if market conditions move against the position, leading to margin calls and forced liquidation.

d) Liquidity Risk

- Market Liquidity: In times of market stress, the liquidity of certain equities or derivatives might dry up, making it difficult to enter or exit positions without significant price impact.
- Option Liquidity: Certain options, especially those on less liquid stocks or indices, might have wide bid-ask spreads, leading to higher transaction costs.

e) Counterparty Risk

- Default Risk: In derivative transactions, Counter party risk is negligible as transactions are settled by exchanges and clearing corporations.

f) Interest Rate Risk

- Impact on Valuation: Rising interest rates can negatively impact the valuation of equities and increase the cost of financing leveraged positions.
- Derivative Pricing: Interest rates also affect the pricing of futures and options, potentially altering the value of these positions.

g) Volatility Risk

- Implied Volatility: The price of options is influenced by implied volatility, which can change rapidly, affecting the profitability of options strategies.
- Volatility Spikes: Sudden spikes in market volatility can lead to sharp moves in prices, impacting both the underlying equities and the derivatives linked to them.

h) Time Decay Risk (Theta)

- Options Decay: The value of options contracts diminishes over time due to time decay, particularly affecting out-of-the-money options, which can lead to a loss if the underlying asset does not move in the anticipated direction.

i) Regulatory Risk

- Changes in Regulation: New laws or regulations, particularly those affecting financial markets, trading practices, or specific sectors, can impact the performance and strategy of your investments.
- Taxation Changes: Alterations in tax policies affecting capital gains, dividends, or trading profits could affect net returns and reduce the attractiveness of certain investments or trading strategies.

j) Event Risk

- Earnings Reports: Unexpected earnings results can lead to sharp price movements in individual stocks or sectors, affecting both equity and options positions.
- Corporate Actions: Events such as mergers, acquisitions, or spin-offs can alter the risk profile of equity investments and impact related derivatives.

k) Correlation Risk

- Unexpected Correlation: During market turmoil, assets that typically move independently may become highly correlated, increasing overall portfolio risk and reducing diversification benefits.

l) Political and Economic Risk

- Geopolitical Events: Political instability, trade wars, or economic sanctions can have significant effects on market sentiment and the valuation of equities and indices.
- Currency Risk: For investments with international exposure, fluctuations in exchange rates can impact returns when converting back to the base currency.

2.5. Risk Analysis & Evaluation Methods

We employ robust risk monitoring mechanisms to stay ahead of the curve, proactively identifying and mitigating risks to protect our portfolio. To support this, we conduct various exercises both daily and periodically.

a) Market Risk

Value at Risk (VaR): We publish daily VaR report to estimate the maximum potential loss over a given period with a specified confidence level. For example, a 1-day VaR at 95% confidence level might indicate the worst loss expected over one day with 95% probability.

Open Gap: We publish daily Open Gap Report to estimate a potential payment that may arise due to adverse movements in market indices leading to movements in current holdings exposure of the company.

b) Liquidity Risk

Bid-Ask Spread Analysis: Measure the bid-ask spread as a percentage of the asset price to gauge liquidity. Larger spreads can indicate higher liquidity risk. For example, a spread of 2% might suggest lower liquidity.

Traded Volume Risk Analysis: We do volume analysis of our traded positions v/s the 95% worst positions that might be available for trade on a risky day and strive to keep our volume exposure less than the worst volume in the market.

c) Volatility Risk

Implied Volatility (IV) Analysis: Use IV from options pricing models (e.g., Black-Scholes) to gauge market expectations of future volatility. Compare IV with historical volatility to assess potential volatility risk. We run Scenario Analysis to check our exposure levels of different Volatility.

d) Event Risk

Event-Driven Sensitivity Analysis: Use sensitivity analysis to estimate the potential impact of specific events (e.g., earnings reports) on asset prices. For example, estimate the price impact using historical price reactions to similar events.

e) Correlation Risk

Correlation Coefficients: Calculate pairwise correlation coefficients between assets in the portfolio to assess diversification. Use a correlation matrix to visualize how asset returns move in relation to one another. We calculate *Beta* with respect to both Nifty and The Companynifty to keep a check on market exposure.

f) Options Greeks Risk

Options Greeks: We calculate Greeks of all options positions to check our Delta, Gamma, Theta, Rho, so that we can keep a tab on options' exposure movements as per the movements in price, time, volatility and interest rate respectively.

2.6. Risk Mitigation

Here are risk mitigation measures for the risks identified in our equity F&O trading activities:

a) Market Risk

- Hedging: Use options, futures, or other derivatives to hedge against adverse price movements in underlying assets.
- Diversification: Spread investments across different sectors and asset classes to reduce exposure to market volatility in any single area.

b) Volatility Risk

- Options Strategies: Use options strategies like straddles or strangles to benefit from or protect against high volatility periods.
- Volatility Index Tracking: Monitor volatility indices (e.g., VIX) to anticipate market conditions and adjust positions accordingly.

c) Correlation Risk

- Portfolio Diversification: Regularly assess and diversify the portfolio to manage correlations between different assets and sectors.
- Correlation Analysis: Use correlation matrices to understand the relationships between assets and adjust the portfolio to reduce excessive correlations.

- Hedging with Uncorrelated Assets: Incorporate uncorrelated or negatively correlated assets into the portfolio to offset potential losses.

d) Time Decay Risk (Theta)

- Theta Management: Monitor the Theta of options positions and adjust strategies to manage the impact of time decay.
- Rolling Positions: Regularly roll options positions to later expirations to reduce the impact of Theta on near-term options.
- Use of Spread Strategies: Employ options spread strategies that are less sensitive to time decay to manage Theta risk.

e) Event Risk

- Event Hedging: Use options or futures to hedge against potential market-moving events, such as earnings reports or economic announcements.
- Event-Driven Analysis: Conduct thorough analysis of upcoming events and adjust positions in anticipation of potential impacts.
- Reduce Exposure Pre-Event: Temporarily reduce exposure to assets likely to be impacted by known upcoming events to limit risk.

Mitigation: Reviews are conducted and the compliance is reported to the Board on a regular basis.

D. INVESTMENT AND TREASURY RISK

Risk: It is defined as the probability or uncertainty of losses rather than expected profit from investment due to a fall in the fair price of securities.

Mitigation: The Management mitigates this risk by relying on the Investment policy of the Company, diversifying its portfolio in various segments & industries and internal research. The Management follows concentration norms prescribed under Master Direction – Reserve The Company of India (Non-The Companying Financial Company – Scale Based Regulation) Directions, 2023 for each party exposure limit.

IV. MONITOR & REVIEW

The Risk Management Committee shall monitor and review the effectiveness of the response. This will ensure that the any deviation from the estimates can be easily tracked and rectification measures can be promptly initiated.

Risks will be continuously monitored and reviewed; and the effectiveness of the controls in place and of the risk action plans is assessed to ensure changing circumstances do not alter risk priorities.

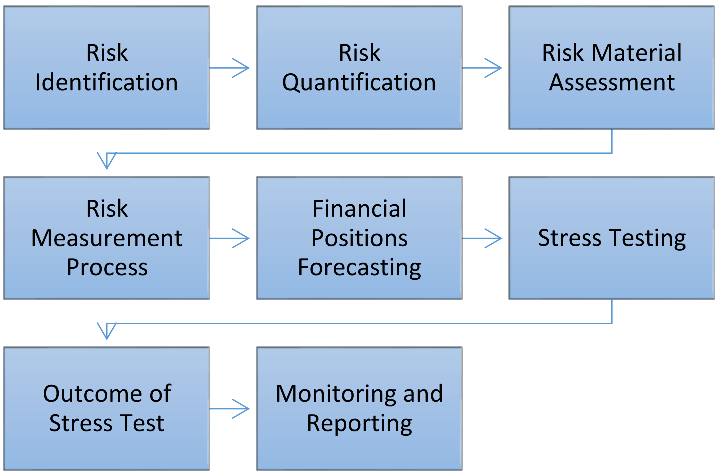
The Company shall ensure that the risk management strategies and their adequacy are reviewed by the Risk Management Committee at adequate intervals.

V. ICAAP (Internal Capital Adequacy Assessment Process)

The objective of ICAAP is to ensure availability of capital to support all risks in business as also to encourage the Company to develop and use better internal risk management techniques for monitoring and managing their risks.

A. ICAAP Structure

An illustrative depiction of the ICAAP structure is given in the following table;



B. ICAAP Documents

The ICAAP Document would be comprehensive Paper furnishing detailed information on the ongoing assessment of the Company's entire spectrum of risks, how the Company intends to mitigate those risks and how much current and future capital is necessary for the Company, reckoning other mitigating factors. The purpose of the ICAAP document is to apprise the Board of the Company on these aspects as also to explain to the RBI the Company's internal capital adequacy assessment process and the Company's' approach to capital management. The ICAAP could also be based on the existing internal documentation of the Company. The ICAAP Document should contain the following sections:

a) Executive Summary
b) Background
c) Summary of current and projected financial and capital positions I
d) Capital Adequacy

e) Key sensitivities and future scenarios
f) Aggregation and diversification
g) Testing and adoption of the ICAAP
h) Use of the ICAAP within the Company

The details to be mentioned in the sections will be as per the Annex 14 of the **Master Circular – Basel III Capital Regulations.**

C. Reporting of ICAAP to the Board

Ultimate responsibility for the ICAAP will be with the Board. Accordingly, the Board shall define strategy and approach for ICAAP, at the same time monitor the same, making relevant changes as and when necessary.
The broad responsibilities of the board shall include:

a) Setting up of the risk tolerance levels;
b) Ensure that the senior management:
   • establishes a risk framework in order to assess and appropriately manage the various risk exposures;
   • develops a system to monitor the risk exposures and to relate them to the capital and reserve funds;
   • establishes a method to monitor the compliance with internal policies, particularly in regard to risk management;
   • effectively communicates all relevant policies and procedures;
c) Adopt and support strong internal controls;
d) Appropriate written policies and procedures should be put in place;
e) Ensure that there is an appropriate strategic plan in place, which, as a minimum, shall duly outline
   • current and future capital needs;
   • anticipated capital expenditure; and
   • desired level of capital.

The board may also be required to define the role that ICAAP would play in the decision-making function of the Company

D. Review of the ICAAP Outcomes

The Board of Directors shall, at least once a year, assess to know whether the processes relating to the ICAAP implemented by the Company covers all aspects envisaged is able achieve any specific objectives envisaged by the board. Risk Management and members of the senior management shall also and review the reports regularly to evaluate the sensitivity of the key assumptions and to assess the validity of the Company’s estimated future capital requirements. In the light of such an assessment, appropriate changes in the ICAAP shall be instituted to ensure that the underlying objectives are met.

VI. AUDIT TRAIL

As per Rule 3(1) of the Companies (Accounts) Rules, 2014, every Company which uses the accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in the books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.

Following are the prime responsibility of the Management;

(a) Use only such accounting software which has the following features: Records an audit trail of each and every transaction, creating an edit log of each change made in the books of account along with the date when such changes were made;

(b) Ensuring that audit trail is not disabled and there is no option to disabled;

(c) Effective Implementation.

VII. AMENDMENT

The Board of Directors of the Company reserves the power to review and amend this Policy from time to time, subject to revision / amendment in accordance with applicable laws as may be issued by relevant statutory, governmental and regulatory authorities, from time to time. In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant statutory, governmental and regulatory authorities are not consistent with the provisions laid down under this Code, then such amendment(s), clarification(s), circular(s) etc. shall prevail upon the provisions hereunder.

Annexure — I

Customer Identification Procedure

Features to be verified and documents that may be obtained from customers

Customers/Clients	Documents (Certified Copy)
Individual	i. Pan Card or form No.60 as defined in Income-Tax Rules, 1962; ii. Aadhaar card issued by Unique Identification Authority of India containing details of name, address and Aadhaar number; iii. Passport; iv. Voter's Identity Card; v. Driving License; vi. Audited Financials for past 3 years vii. The Company Statement for past 6 months viii. ITR for past 3 years ix. Passport Size Photograph of Borrower and co-borrower x. GST Certificate xi. 6 months GST Returns xii. Networth Statement of Borrower xiii. Post dated cheques / Undated Cheques – equivalent to sanction Amount. xiv. End use certificate
Company	i. Certificate of Incorporation; ii. Memorandum of Association and Articles of Association; iii. A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf; iv. An officially valid document in respect of Mangers, Officers or Employee holding an attorney to transact on its behalf; v. Copy of PAN card; vi. List of Directors/ Promoter and their KYC Documents; vii. List of shareholders and Shareholding Pattern; viii. Networth Statement of Borrower; ix. Audited Financials for past 3 years; x. The Company Statement for past 6 months; xi. Rating Letter - If rated xii. GST Certificate; xiii. 6 months GST Returns; xiv. Copy of the Utility Bill (not older than 2 months); xv. Post dated cheques / Undated Cheques – equivalent to sanction Amount; xiv. Passport Size Photograph of authorized person. xv. End use Certificate

Partnership Firm	i. Registration certificate, if registered; ii. Copy of PAN Card; iii. Partnership deed; iv. Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf v. Any officially valid document identifying the partners and the persons holding the power of Attorney and their address vi. Utility Bill (not older than 2 months) in the name of firms / partners vii. Net worth Statement of Borrower viii. Audited Financials for past 3 years ix. The Company Statement for past 6 months x. Rating Letter - If rated xi. GST Certificate xii. 6 months GST Returns xiii. Post dated cheques / Undated Cheques – equivalent to sanction Amount xiv. Passport Size Photograph of authorized person.
Trusts & Foundation	i. Registration certificate, if registered; ii. PAN Card or form No.60 as defined in Income-Tax Rules, 1962; iii. Trust deed; iv. Power of Attorney granted to transact business on its behalf; v. Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders / managers / directors and their address; vi. Resolution of the managing body of the foundation / association; and vii. Utility Bill (not older than 2 months) in the name of trust / trustees.
Unincorporated Association or a Body of Individuals	i. Resolution of the managing body of such association or body of individuals; ii. Power of attorney granted to him to transact on its behalf; iii. Such information as may be required by the reporting entity to collectively establish the legal existence of such an association or body of individuals; iv. An officially valid document in respect of the person holding an attorney to transact on its behalf.

No	Document required for Loan against property	
1	Property Title Deed Registered Sale Agreement Original registration receipt for the above agreement Allotment Letter By Municipal Corporation / Authorised Govt.authority such as MHADA, CIDCO, HUDA, DDA, JDA, GIDC, etc Previous chain of sale deed establishing title Most recent property tax bill or most electricity bill having the same address Approved plan/map if the property being pledged is a built one Link documents, that prove the ownership history of the said property for the previous 30 years A latest property tax receipt Occupancy proof	Mandatory
2	There can be additional documents depending upon the city from where the loan application is made.	
3	Non-encumbrance letter from Co-op Society (wherever applicable). Permission to create Equitable Mortgage from society / Development Authorities. (wherever applicable)	Mandatory
4	No objection letter from your Existing Lender/ housing society for mortgage and creation of charge against the said property	Mandatory
5	Applicable for purchase of land plot, a declaration by loan borrower stipulating the date by which to construct a house.	
6	Mortgage loan agreement to be franked with_% of loan Amt as a stamp Duty (as applicable from time to time).	
7	Report stating the valuation of property in standard format.	
8	Property Insurance is mandatory before disbursement	Mandatory
9	ROC charge to be filed within 30 days upon disbursement	Mandatory
10	Intimation to Mortgage to be filed within 30 days upon disbursement and Original Receipt of the same to be submitted to Abans Finance Private Limited.	Mandatory
11	Report stating the valuation of property in standard format	