Risk Management Guidelines for Sovereign Global Market Pvt. Ltd.

1. BACKGROUND:
   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 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 guidelines, the objective of which shall be identification, evaluation, monitoring and minimization of identifiable risks.

2. OBJECTIVE & PURPOSE: The main objective is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. 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. THE SPECIFIC OBJECTIVES ARE:

   a. To ensure that all the current and future material risk exposures of the company 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 enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.

4. Definitions:
   a. Market Risk - Market risks include interest rate risk, equity 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.

   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 Nonconvertible 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 company to keep a track of these factors and ensure that they stay in favour of the Company at all times.

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: According to RBI, credit risk is defined as Possibility of losses associated with a decline in the credit quality, default due to inability or unwillingness to meet commitments in relation to 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 risk of loss arising from a debt or 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. All the transactions of the securities are settled through NSCCL/ ICCL so there is no settlement risk / counter party risk.

d. Process Risk: Process risks arise out of inadequate controls or business disruptions. It is often associated with human error or inadequate procedures and controls. All the transactions in the securities are settled through National Securities Clearing Corporation Limited (NSCCL) / Indian Clearing Corporation Limited (ICCL) so there is no process risk.

e. Human Risk: Pan India presence through the employees and its own offices, SGMPL 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 company has created standard operating processes and conducts periodic training necessary for maintaining 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, scrutiny of documents as required. 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 SGMPL 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 also are associated with Know Your Client (KYC) norms, Prevention of Money Laundering (PMLA), Insider Trading with price sensitive information, etc.

5. Responsibilities of Management 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 guidelines in letter and spirit

6. 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 and issues 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.

Two most essential aspects for effective risk management are:

- Documentation of each processes.
- Timelines for each processes.

The broad guidelines include for Risk Management are as under:

Sr	Activities	Risk Profile	Risk Involved	Risk Mitigation Process
1	Market Risk			
	Price Risk – Price risk can have effect in investment in securities	Movement in interest rate, major events effecting Indian and/or global economy can have price risk	Price risk can create losses in the investment book	Strong process and system controls to cover risks associated by analyzing and foreseeing all probable scenarios. Securities of the current investment book shall be churned at appropriate frequency. Stop loss on current investments book shall be maximum of 15% of the purchase price by employees. Operations team to continuously monitor the mark to market of

				each security and intimate the CEO at different levels; i.e. 5%, 7% and 10%. For any deviation in the stop loss except if the trades are directly handled by the CEO, the same has to be approved by the Board. The company has a strong debt market experience, professional team and large client base for sale of debt securities. So, the price risk is perceived in advance.
	Liquidity Risk	Occurs due to 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 its financial obligations	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 board. The company shall have sufficient bank credit limits and other identified sources of funds to be used in case of requirements.
2	Credit Risks			
	Settlement Risk	Failure of square up before due date and time	Settlement default	Strong monitoring of settlement timelines and identification of SPOC for timely settlement
3	Process Risks			
	Incorrect process	Wrong assessment of risk involved	Objective of the process not achieved May result in monetary and compliance risks	Defining Risks associated with each and every process Strong analysis and comprehensive testing of probable scenarios Constant review of the process
	Wrong implementation of the process	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	Management of different mindsets into SGMPL's risk policy	Management may loose controls over actions of the staff at ground level	Every product as well as process backed by proper documentation Proper training of employees Strong MIS at various levels Exception reporting

			May result into employee unrest	
5	Reputation Risk	The processes, customer service and products match the reputation of SGMPL	The risk of reputation for SGMPL brand	Meeting the benchmark standards of customer service Immediate corrective actions by safeguarding the image of the brand
6	Compliance Risk	Adherence to the Rules and Regulations prescribed by the various regulators and Government	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 employees Proper preservation of documentation, physically and digitally
7	System Risk			
	Loss of data	Loss of data and processes	Business discontinuity may happen Losing of data and processes/ programs	On-line back up for the data Testing and creating back-up at frequent intervals from all stakeholders
	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