ABANS HOLDINGS LIMITED

RISK MANAGEMENT POLICY

(Revised by Board of Directors and Risk management Committee on 11-Nov-2024)

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1. Portfolio Management Services

1.1. Investment strategy

PMS as a strategy is collectively pooling of client funds and investing in different asset classes. PMS aim to deliver superior performance and generate alpha by investing in a diverse range of securities. These include equities, equity derivatives, various government and corporate bonds, and money market instruments, along with their derivatives.

Currently, we are adhering to an equity long-only investment strategy, without utilizing derivatives to enhance returns or hedge the portfolio

1.2. Risks associated with strategy

a) Price fluctuations and Volatility

With respect to equity investments, the returns on the PMS are closely related to the performance of the markets/underlying bench marks. The stock price fluctuations and the resultant volatility can skew the returns of the PMS. Thus, PMS investments are subject to market risk.

Value of the investments under the strategy can go up or down because of various factors that affect the capital market in general, such as, but not limited to, changes in interest rates, government policy and volatility in the capital markets. Pressure on the exchange rate of the Rupee may also affect security prices.

b) Concentration / Sector Risk

It refers to the potential for significant losses in a portfolio due to a large exposure to a single asset or a group of correlated assets. This risk arises when a portfolio is not sufficiently diversified, making it vulnerable to adverse events affecting those specific investments.

c) Liquidity Risks

In equity investments, liquidity can be grouped as arising out of trading volumes and settlement periods. These factors may also affect the Portfolio Management Service's decision to invest in certain stocks or ability to make intended purchases/sales, sometimes even missing out on potential investment opportunities.

These factors can also affect the time taken by PMS for redemption, which could be significant in the event of receipt of a high number of redemption requests or very large value redemption requests.

d) Key person risk

It refers to the potential negative impact on PMS' performance if a crucial employee were to leave, become incapacitated, or pass away.

This risk is significant because certain individuals (i.e. chief investment officer) may hold specialized skills, extensive knowledge, or vital relationships that are essential for the PMS' success

e) Trade execution risk

This refers to the risk of not being able to execute the trade fully at a desired price. This can play a significant part in overall returns of the PMS

f) Corporate governance Risk

Effective corporate governance ensures that a company and its employees operate transparently, ethically, and in the best interests of its stakeholders. Corporate governance risk refers to the potential for failures in a

PMS' governance framework, information leak from PMS to other business function which can lead to significant financial, legal, and reputational damage.

g) Technological Risk

This refers to the potential for financial losses, operational disruptions, and damage to an organization's reputation due to failures or security breaches within its technology systems.

i. *Cybersecurity Risks*

These include threats from cyber-attacks such as hacking, malware, ransomware, and phishing. These risks can compromise sensitive data and disrupt business operations.

ii. *Software Risks*

Issues related to software development and deployment, such as bugs, security vulnerabilities, and compatibility problems. These can lead to system failures, data breaches, and operational disruptions.

iii. *Hardware Risks*

Associated with physical components of IT infrastructure, including servers, workstations, and networking equipment. Hardware malfunctions can result in data loss, downtime, and reduced operational capacity.

h) Regulatory risk

Regulatory risk in portfolio management services refers to the potential for losses or disruptions due to changes in laws, regulations, or policies. Following are main aspects to consider:

i. *Compliance Requirements and management*

Investment management firms must comply with a range of regulatory requirements and frequent reporting obligations, which are subject to change. Failure to comply or errors in compliance and reporting can result in fines, legal action, and damage to their reputation.

ii. *Regulatory Changes*

New regulations or amendments to existing ones can impact investment strategies and portfolio performance. For example, changes in tax laws or financial regulations can affect the value of investments.

iii. *Operational Impact*

Regulatory changes can necessitate adjustments in operational processes, technology, and reporting systems, which can be costly and time-consuming.

iv. *Market Impact*

Regulatory changes can also affect market dynamics, influencing the performance of specific sectors or industries. For instance, stricter environmental regulations might impact investments in the energy sector.

i) Vendor Risk

Vendor risk refers to the potential risks that arise from relying on external vendors or third-party service providers. This risk amplifies if you are using one vendor for multiple critical services or functions.

j) Risks with investments of Idle cash

PMS's usually park some percentage of their idle cash in money market mutual funds. These money market funds are highly liquid in general, but it comes with its own set of risks.

i. *Market Risk*

Even money market instruments can be affected by changes in interest rates and market conditions, potentially leading to fluctuations in the fund's value.

ii. *Operational Risk*

This involves the risk of loss due to failures in internal processes, systems, or external events affecting the fund house.

iii. *Default Risk*

There's always a possibility that the issuers of the underlying securities might default on their obligations, impacting the fund's performance.

k) Custodian risks

Custodian in PMS parlance refers to an entity that handles the pool of client funds, manages trade allocation to the clients, their NAV and performance statements.

Custodian risk refers to the potential for loss due to the custodian's failure to safeguard the assets.

The custodian holds Power of Attorney for clients' demat, trading, and bank accounts. Often, the custodian is also the provider for all three types of accounts, which can amplify potential losses in the event of a failure.

i. *Operational Risk*

Failures in the custodian's processes or systems can lead to errors or delays in transactions.

ii. *Credit Risk*

Typically, banks serve as custodians, and when they also act as banking partners, this can introduce credit risk. If the custodian encounters financial difficulties or insolvency, it may affect their ability to safeguard clients' assets.

iii. *Legal Risk*

Changes in regulations or legal disputes can affect the custodian's operations and your access to your assets.

iv. *Fraud Risk*

There is always a risk of fraudulent activities by the custodian or its employees.

1.3. Risk Mitigation measures

We have implemented or and are continuously planning to trying to implement several measures to mitigate various risks.

a) Concentration risk mitigation measure

i. *Diversification Limits*

No strategy should allocate more than 10% of its total capital to a single stock at the time of purchase. Exceeding this limit requires prior approval from our investment committee.

ii. *Sector Allocation*

Any PMS strategy should not invest more than 35% of its total capital in a single sector, or exceed the benchmark weight for that sector, whichever is lower.

iii. *Shareholding Cap*

All PMS strategies combined should not hold more than 10% of the total outstanding shares of any particular stock.

b) Liquidity risk mitigation measures

i. *Stress test*

We periodically conduct stringent stress tests on our portfolio holdings to assess their liquidity performance and evaluate how they perform under sudden large redemption requests.

ii. *Cash Reserve*

We always maintain a reserve of idle cash to meet sudden redemption requests.

c) Trade execution risk mitigation measure

i. *Multiple broker*

To reduce trade execution risk, we are currently utilizing two brokers and plan to increase the number of brokers as our AUM (Assets under Management) grows.

d) Corporate governance risk mitigation measures

i. *Conflict of Interest Policies*

Establishing clear policies to identify and manage conflicts of interest between PMS and other business functions, we utilize external vendors (brokers, custodians and fund accounting). This ensures transparency and maintains the integrity of our operations.

Also, we have segregated the desk space of PMS team from other business/operational functions.

ii. *Disclosure Requirements*

Ensuring that all material information is disclosed to investors in a timely and accurate manner.

iii. *Compliance and Monitoring*

Regular monitoring and compliance checks to ensure adherence to regulatory standards and internal policies.

iv. *Ethical Standards*

Promoting a culture of ethical behaviour and integrity through training and enforcement of codes of conduct.

v. *Independent Oversight*

We have implemented independent oversight mechanisms, such as an Investment Committee, to review and assess various investment and governance practices.

vi. *Communication Protocols*

To ensure that information is shared appropriately and confidentially between parties, we will establish clear communication protocols that prevent any information leakage.

vii. *Investment in Associate companies*

Currently, we do not have any investments from our strategies in our associate companies. However, if we decide to invest in our group companies in the future, such investments will be subject to the following restrictions,

Security	Limit for investment in single associate/related party (as percentage of client's AUM)	Limit for investment across multiple associates/related parties (as percentage of client's AUM)
Equity	15%	25%
Debt and hybrid securities	15%	25%
Equity + Debt + Hybrid securities	30%	

e) Technological risk mitigation measures

To mitigate the risk of cyber-attacks, we have implemented strong measures and robust cybersecurity systems. Additionally, to address server risk, we are planning to deploy backup servers that will store data and ensure continuity in case the main server fails.

f) Vendor risk mitigation measures

Currently, for our two PMS strategies we have 2 different vendors for managing client accounting. As the PMS strategies increase, we will evaluate the need for diversifying the vendor usage. This approach will help diversify our dependencies and enhance overall system resilience. Currently we have one custodian for our 2 PMS strategies. With increasing AUM, need for diversification of custodian will be evaluated. This strategy will reduce the impact of any single custodian's failure on our operations, enhancing the security and reliability of our PMS.

g) Compliance and Regulatory risk mitigation measures

We have a dedicated compliance department to manage all compliance requirements and reporting. This department employs various tactics to mitigate risks, such as staying informed about regulatory developments, engaging with regulatory bodies, and implementing robust compliance programs. This helps in minimizing regulatory and compliance risk

1.4. Conclusion

In conclusion, our PMS risk policy is designed to ensure the highest standards of market integrity, compliance and operational resilience. By implementing diversifying vendors and custodians, and maintaining a dedicated compliance department, we proactively manage and mitigate potential risks.

These strategies collectively enhance the integrity and reliability of our portfolio management services, safeguarding our clients' assets and fostering trust in our operations.

1	Principal officer	Abhishek Bansal
2	Portfolio manager	Abans Broking
3	Fund manager	Kaushik Dani , Yashowardhan khemka

2. Structure Products

2.1. *Introduction*

These products are designed to generate alpha over the underlying performance. This is done through complex option structures with expiries greater than one year.

Since option structures have long dated expiries, these are unavailable on the exchanges to hedge and hence delta of the option structures is hedged. As expiry nears, some of these strikes do become active and we move to the actual options contract whilst unwinding the delta position

2.2. *Delta hedging for Structure Products*

When the client comes on board, basis the fund details available, option quantity is determined & delta is hedged for the same. This process is conducted on trading days at 3:10 pm or 15mins before the market close whichever is applicable.

We use two different methods to check the delta position of the product.

a) **First Method** is to use the delta provided by Bloomberg to calculate delta position and compare it with the existing position to decide whether to buy or sell and how much quantity needs to be traded.

b) **Second Method** is to retrieve data required to calculate the delta from Bloomberg including RFR, dividend yield, current spot price and volatility. We will take 7 days EWMA of the implied volatility and calculate the delta using Black-Scholes model. Delta multiplied by option units will give us the delta position.

Since, volatility in the market is unpredictable and sudden changes in volatility will impact on IVs and thus impact on delta of options for the day. Hence, we normalize the IVs by weighted average i.e. 75% weight for previous 6 days IVs and 25% weight for today's IVs.

For delta calculation data available from Bloomberg is used, i.e. the Rfs, Div Yield as per today's price scenario and IV for second method is EWMA of 7 days used basis which delta hedging is done.

For trade execution, if both the methods are indicating sell (buy), the trade will be executed equivalent to the nearest lot size possible rounded to 0.7 (and minimum quantity of the two methods), otherwise no trades will be executed.

2.3. *For mitigating the effects of temporary IV spikes.*

If today's IVs have sudden movements, then we replace today's IV with 7 days EWMA IV and normalise the quantity from second method for trade execution.

2.4. *For unprecedented Black swan events with extreme IV movements.*

In case of unprecedented black swan events, like COVID-19 etc., IVs will go through paradigm shifts. Such shifts will result in flawed results from both methods. To avoid this, IVs will be fixed as per last recorded IV before the commencement of event till the paradigm shifts return back to normal, for calculation of quantity from second method for trade execution.

B) Treasury

3. Bullion

3.1. Introduction

Abans entities are involved in the business of trading bullion-Gold, Silver and other precious metals. These metals are brought from designated suppliers like the bank, purchased locally from bullion vendors, ETF segment and sourced through special licenses (TRQ), online auction, MCX delivery and then these metals are sold to bullion traders, ETF's or deliver on exchange.

3.2. Purchase

a) Import through Banks

The process to import precious metals through banks is as follows

- An indent to import a certain quantity is placed with the bank-At this stage the premiums & costing (except import price) of the deal are fixed. The bank then places the import order on our behalf. At this stage, dealer may hedge the same by going Long in Gold CME Futures since Price is not fixed and to reduce the risk of increasing prices.
- Once a request to raise BOE is placed by us, the bank informs its CHA to raise the same on portal. Once done, it reflects the duty amount to be paid by Abans
- We pay the duty to the bank, and it gets the goods cleared
- We then have to specify the location at which we want the metal to be transferred. The transfer is done by Bank through a logistics partner.
- Within 30 days or as agreed with the bank, these goods have to be priced and lifted
- Basis these pricing, money is paid to the bank.
    - Pricing is done in two parts:
    - <u>Pricing of metal</u>- The dollar value of the metal is fixed. This fixes the transactional value of the import
    - <u>Currency is priced</u>- This converts the dollar value of the transaction to a INR value
- As soon as the bank fixes the dollar value of the metal, the business team may unhedge its Long exposure or can continue to keep the hedge basis other Indents/anticipation and further hedges against physical stock by either
- Short Gold CME futures contract along with going long on USDINR futures. The long position in currency guards the desk against INR movement before the payment-sometimes these can be a couple of days.
    - If the currency is priced at the same time, the long hedge would not be required.
    - If the currency is priced on the same day, after pricing of metal, the long hedge would be unwound at that time.
- Gold MCX futures in India. Since the Indian hedge leg creates a dollar short position, the same is hedged by going long on USDINR futures. This long hedge of currency will be squared of once we fix price with the bank.

Metal hedging	Stage	Currency	Hedge	Implied exposure
Onshore	Pricing	$	Sell MCX	Metal Short, USDINR Short
			Buy USDINR	USDINR Long
	Payment	$	Sell USDINR	USDINR Short
Offshore	Pricing	$	Sell CME	Metal Short
	Payment	$	Sell USDINR	USDINR Short

b) Purchase from local Vendors: vaulted and non-vaulted

While purchasing from local vendors, the process can have two set ups

1. Taking delivery of vaulted goods: In this, the vendor's material is placed with a vaulting service provider. We have to take delivery from that service provider
2. Taking delivery of non-vaulted goods: In this, the vendor's material is not placed with a vaulting service provider and we have to take delivery from the vendor's location where the material is lying.

For taking delivery, we have to make payments to the vendor. This again can happen in two ways

1. Payment prior to taking delivery
   a. In this case since the payment is to be done before taking delivery, we run a risk on the counterparty not honouring the delivery. For such cases there is an approval matrix in place

Approver	**Amount (Rs Crs)**
Anup Mittal	Upto 2Crs
Chintan Mehta-CEO	>2Crs

In case CEO is not available for approvals, Risk head approval is sought.

2. Payment after taking delivery
   a. In this case, since payment is done after delivery, the risk is mitigated. This case is used specifically in case of non-vaulted goods delivery.

The payment approval matrix remains the same as above.

c) ETF segment

The Exchange traded fund (ETF), as the name suggests are instruments traded on the exchange. These track the underlying prices of Gold & Silver and act as an instrument for retail investors to buy these commodities as a part of their portfolios.

The ETFs themselves need to hold the underlying commodities in proportion to the ETF units issued. Fresh units are issued and assigned to a vendor like Abans, if we deliver the underlying precious metal to them. These units can then be traded on the exchange for funds.

We can buy units directly from open market and convert them to physical metal by liaising with the ETF service provider.

We act as market makers for major ETFs. Our role involves buying ETF units, based on our internal analysis, when there is selling pressure in the market,. This analysis determines whether we can profitably convert the ETF units into the underlying metal and sell it at a higher price.

The traded NAV of these ETFs can be at a premium or discount to current market prevalent metal prices. This difference is adjusted in the final settlement prices by the ETF service provider in the form of adjustment component, for conversion of units to metal and vice versa.

When adjustment component is positive investor has to pay while creation and will receive on redemption. In case of adjustment component being negative investor will receive on creation and will pay during redemption

d) Tariff Rate Quota (TRQ)

Comprehensive Economic Partnership Agreement (CEPA) between the Government of the Republic of India and the Government of the United Arab Emirates (UAE), the TRQ holders can take supply of gold through Nominated Agencies or can import through IFSCA approved Exchange IIBX in IFSC Gift City. Gold can be imported in India at custom duty 1% lower than the effective rate of duty.

The process to import precious metal under TRQ (Tariff Rate Quota) starts with execution of purchase leg on the IIBX exchange. We receive a Bullion Deposit Receipt (BDR) in our Demat, which can be exchanged for physical gold. The BDR needs to be extinguished to file the bill of entry and custom clearance. The physical goods are then available at the vault in our name. This can be sold to clients in India.

In this process while purchasing from supplier we hedge on INX/MCX and while selling we unwind the hedge. In some case we do back-to-back trade i.e. when we fix price with bank/Supplier for purchase at the same time, we fix sale price with client. In this case we don't take any margin against the sale transaction.

e) Tariff Rate Quota (TRQ)

We participate in auctions conducted by major bullion refiners, such as HZL, for gold and silver. These auctions can be for immediate or future delivery, as specified in the auction contract.

Participants bid at a premium or discount to the spot price. We analyze the potential return on investment and place bids accordingly. To hedge against market fluctuations, we typically hedge our positions at the time of pricing.

Once the metal is available on the value date, we can either deliver it to the exchange or sell it in the open market.

f) MCX Delivery

We also procure gold through MCX delivery by establishing long positions in MCX gold contracts when they are trading at a discount to the spot market price.

3.3. Sales

<u>Sales of Gold/Silver bars in India</u>

The business team sells the imported + locally procured gold/silver to clients in India. The same is done at prevalent rates

The sales can happen in 3 forms, which also serve as risk identification parameters:

a) Fixed Delivered

For fixed delivery transactions, the pricing and delivery of goods occur on the same day. Before finalizing the price, we require clients to provide a margin. Once the trade is confirmed, the client pays the remaining balance. After the balance payment is reflected in our system, we issue a delivery order (DO) along with the supporting invoice.

b) Fixed Undelivered

For fixed, undelivered transactions, the pricing occurs before the future delivery date. We require a margin (5%) from the client before confirming the price. To mitigate risks associated with potential price declines, we may hedge our position on the exchange. If the market price drops significantly, the client might attempt to avoid the deal by purchasing the goods at a lower price. To manage this risk, we closely monitor the mark-to-market (MTM) value of the trade and ensure that the client maintains sufficient margin.

c) Unfixed Delivered

For unfixed, delivered transactions, the delivery occurs before the pricing is finalized. In these cases, we require clients to pay a 110% margin based on the current market rate. Since we have already delivered the goods, we strive to maintain a 110% margin level until the client confirms the final price.

Forms	Price	Delivery	Risk	Mitigation
Fixed Delivered	Fixed	Done	No Risk	
Fixed Undelivered	Fixed	Not done	Price Risk	As the prices are fixed, the business would have un-hedged its position on the exchange. There is a chance that the client may refuse to take delivery of goods if the prices fall. To avoid this, 5% margin is received from client upfront. The same is tracked by margin reporting
Unfixed Delivered	Not fixed	Done	Price & Goods Risk	As the goods are delivered at a notional price to the client, there is a risk that the client may refuse to price the goods if the price rise substantially. To avoid this a 105% margin of the value of goods is received from client before delivering goods

In all the forms of sales, risk precipitates only if market price of goods becomes unfavourable for the deal. If deal is allowed to be closed without safety margins it is likely that the counterparty would default on the deal whenever prices move in his favour, incurring substantial losses to the business.

The 5% margin number is derived by risk team as a buffer considering the daily volatility of gold prices. The same is updated as per periodic review.

The margin shortfall/excess is monitored daily. If the margin falls below the threshold 5%, the same needs to be replenished back to 5% by the customer. The risk team discusses such shortfalls with business, which in turn arranges the funds required from the customer.

E.g. If Sale is made as per "Fixed-Undelivered" form, an amount equivalent to 5% of the priced goods is asked upfront from the counterparty.

Trade Date	Value Date	Counter party	Product	Qty(Kgs)	MCX Price	Prem/Disc (MCX/CMX)	Final Rate	Priced Goods	Current MCX Price	MTM	Ageing in days	Ledger balance	Balance After MTM Adjst	Cover
11-09-2024	15-09-2024	XYZ	GOLD	10	71,800	120.00	71,920	7,19,20,000	71,650	-1,50,000	1	10,00,000	8,50,000	1%
11-09-2024	15-09-2024	ABC	SILVER	210	83,700	650.00	84,350	1,77,13,500	83,100	-1,26,000	1	10,00,000	8,74,000	5%

The above example indicates a margin cover of 5.07% against the sale of 5Kg gold to the counterparty. If the margin falls below Rs 9,83,120 (0.05*19662391), business team would make a margin call to the client and recover the balance on the same day, to maintain the margin.

Similarly, in case of "Unfixed delivered" form of sale, an amount equivalent to 105% of priced goods is asked upfront from the counterparty.

Trade Date	Value Date	Counter party	Product	Qty(Kgs)	Current MCX Price	Prem/Disc (MCX/CMX)	Final Rate	Priced Goods	Ledger balance	Ageing in days	Cover
11-09-2024	15-09-2024	XYZ	GOLD	10	71,800	120.00	71,920	7,40,77,600	7,80,00,000	1	105%
11-09-2024	15-09-2024	ABC	SILVER	210	83,700	650.00	84,350	1,82,44,905	1,90,00,000	1	104%

In the above example, margin cover is maintained above 5%. Current Value of goods is calculated based on the daily LTP. If in case, Goods Value 9.71 Cr (25*38846*100) treads above the ledger value of 10.4 Cr, margin call is made to the client and balance is recovered the same day.

The business head can approve for lower margins to be recovered from client depending upon client relationships. The business team seeks business heads approval on case-to-case basis for such deviation. Such limits deviations are for positions no more than T+2 days.

Escalation by risk team to management is done, if ageing of deviation trades exceeds the 2-day threshold.

3.4. *Operational Risk*

a) Gold Hedging & Currency exposure

All physical metal exposure needs to be hedged at all points of time via derivative contracts on the exchanges. The same is monitored by the risk team. The business team shares information of all pricing done for purchase or sales of gold via Dealer pads maintained on dealing desks. The same is shared as and when trades happen and once at end of the day (EOD).

Risk team tracks open positions & exposures on EOD basis & publishes the risk report on T+1 basis at beginning of day (BOD).

Any open positions beyond agreed limits is updated & investigated by risk team along with business team, and duly hedged by the business team.

b) Limits for open positions

Open Commodity	Gold	1 Kgs
	Silver	30 Kgs
Open Currency	USDINR	$ 5000

Open positions beyond this range are regularised with CEO approvals.

c) Insurance Tracking

All transportation of precious metal is insured by the logistics partner, which recovers the cost, in its pricing.

Precious metal kept as inventory is stored with vaulting partners like Brinks, which in turn provides details of location wise storage. These service partners provide for insurance.

d) Delivery of Goods

Goods are delivered to client via a logistics partner or our Zaveri Bazar office. For delivery from Zaveri office, goods are first brought in by the logistics partner and immediately delivered to the client.

A delivery order is mandatory for both the type of deliveries. The banking team confirms the fund status for the client under consideration.

Delivery orders are issued by a subset of risk team-DO issuing team, after sufficient funds and margins are received from clients.

e) Trade Confirmation

All purchase & sales of goods are done over recorded phone lines. The business team record all transactions in a dealer pad –both physical & excel sheet. These dealer pads are essential for DO issuing team and accounts team to ascertain payment/receipt of clients.

Trades done with clients/suppliers are confirmed over recorded line through the day.

f) Inventory Tracking

The business team maintains location-specific inventory records, which are shared with the DO issuance team. We verify this inventory data against the inventory reports provided by our logistics partner. Before issuing a delivery order (DO) for any location, it is ensured that the inventory levels align by conducting a reconciliation.

4. Base Metals

4.1. *Introduction*

Abans deals with trading in base metal in domestic market. The price of a commodity can vary based on its geographical demand and supply. Business tries to take advantage of this pricing differential in between regions. We also trade commodities on the exchanges. Traders are allowed to trade in three types of strategy such as “Arbitrage”, Calendar, and Discretionary”.

Arbitrage: Taking advantage of price difference between spot and future

Calendar: Trading spreads between future contracts with different expiries

Discretionary: Taking one-sided long or short trades on commodities either on exchange or physical

4.2. *Risks involved in the business*

a) Commodity Price Risk (Hedging)

Price moving unfavourably against our direction of trade

b) Counter-party Risks (Payment default, commodity default)

Counterparty defaulting at the time of payment or at time of delivery, either refusal to give to take delivery or provide substandard goods

c) Market / Exchange Risks (Basis Risk, Quantity Risk, Price Risk)

Spreads between spot/futures, future/future contracts can narrow or expand as per market forces, this may impact our positions. Also, directional trades can get impacted due to unfavourable price moves

d) Operational Risk (Warehousing, Quality, Insurance risk)

Metal inventories are subject to quality deterioration cos of oxidation if not stored properly. Also risk of theft persists

e) Liquidity Risk (OI limits)

Large positions may take time to liquidate and be subject to price fluctuation risk. These are measured with respect to exchange limits and physical positions

4.3. *Operations*

a) Purchase

Purchase & Trade Confirmation*:* - Purchase is done by trader & details are mentioned in dealer pad. Subsequently, trade is confirmed with Supplier on same day over the phone & email. After that, trade calculation is sent by the supplier. To reduce the price risk on executed trades, trader always hedges the positions on exchange.

There are two types of purchase process existing in business.

- Purchase from Supplier (Exchange quality goods)
- Exchange Stock purchase (MCX)
  - **Purchase from Supplier** - Purchase is done by trader & details are mentioned in dealer pad. Subsequently, trade is confirmed with Supplier on same day over the phone & email. After that, trade calculation is sent by the supplier. To reduce the price risk on executed trades, trader hedges the positions on exchange.

- **Exchange stock purchase** - Based on our internal analysis, we determine whether we can profitably convert the metal purchased on the exchange. To capitalize on potential price increases, we typically establish a long position in the first month's futures contract and a short position in the second month's contract. Upon expiration of the first month's contract, we take physical delivery of the metal and sell it to clients.

Hedging: - When a purchase trade is done with a supplier, the business negates the price risk on the commodity by hedging on the exchange, there should not be any mismatch between buy and sell quantities. The position of spot purchase is compared to sell positions on exchange of the underlying commodity. The same is reconciled and published on T+1 basis.

b) Sales

1. Sales & Trade Confirmation: Sales is done by trader & details are mentioned in dealer pad. Subsequently, trade is confirmed with Buyer on same day over the phone & Email. To reduce the price risk on executed trades, trader always hedges the positions on exchange.

Business hedges its price risk on exchange by unwinding its exchange short positions at time of spot sales. A sudden price fall can cause the client to buy the commodity cheaper from another supplier. It is essential to track the MTM on such trades.

2. Delivery order (DO) issuance*:* - DO's are issued once entire payment has been received from counterparty. DO have a validity of 1 days usually. If the client fails to lift goods within day, the same stands cancelled & the client has to request for reissue of a new DO or Revised DO.

The warehouse executive checks DO validity before allowing client to pick up goods.

Sometimes DO can be issued despite shortfall on funds received from client

Authorizing Person	Authorization type
CEO	Approval on Teams

c) Inventory Report Management

The operation team, which is a part of the business team, maintains the inventory & daily operations of the Inventory. The inventory report captures location of all inventories along with its current status. It is essential to check if goods mentioned in inventory are available in physical in the warehouse.

For this, warehouse confirmation is fetched every month where quantities are matched between warehouse and inventory report.

For DEMAT goods, reconciliation in done with compliance team.

d) Insurance

The goods at the time of transfer or storage are covered by insurance. The transit service provides for insurance. We can also take insurance ourselves, depending upon the negotiations with the service provider.

The insurance coverage for the time of vaulting is provided by the vaulting agency.

5. Domestic Agri

5.1. *Introduction*

Domestic Agri commodity process involves trading of agricultural commodities in domestic markets. The price of a commodity can vary based on its geographical demand and supply. Business tries to take advantage of this pricing differential in between regions. High value Agri commodities are procured in physical from the regions of abundance and sold in the region of high demand. We also trade commodities on the exchanges. Traders are allowed to trade in three types of strategy such as “Arbitrage”, Calendar, and Discretionary”.

Arbitrage: Taking advantage of price difference between spot and future

Calendar: Trading spreads between future contracts with different expiries

Discretionary: Taking one-sided long or short trades on commodities either on exchange or physical

Following Risks are involved in the business:

- Commodity Price Risk (Hedging)
- Counter-party Risks (Payment default, commodity default)
- Market / Exchange Risks (Basis Risk, Quantity Risk, Price Risk, Concentration Risk)
- Operational Risk (Warehousing, Quality, Insurance risk)
- Liquidity Risk (OI limits / Stock limits)

5.2. *Operations*

a) Purchase

i. Purchase & Trade Confirmation

Purchase is done by trader & details are mentioned in trade register. Subsequently, trade is confirmed with Broker/seller on same day over the phone, and then deal slip is prepared. On the same day trade is confirmed with Broker/Seller over email. After that, trade calculation is sent to Broker/Seller. To reduce the price risk on executed trades, trader always hedges the positions on exchange.

There are three types of purchase process existing in business.

- Loose Stock (Non-Exchange) purchase
- Exchange Quality Stock purchase, directly buying from clients
- Exchange Stock (NCDEX) purchase

➢ *Loose Stock (Non-Exchange Goods) purchase*

As per payment terms & conditions we make 90% payment on receipt of CDTF (Commodity Deposit Transaction Form) & rest 10% after receiving of WHR & invoice slips. The residual 10% payment acts as a cushion for any quality and quantity variation.

➢ *Exchange Quality Stock purchase, directly buying from client*

Goods with quality accepted by exchange are deposited by supplier at exchange accredited warehouses. As per payment terms & conditions we make 90% payment on receipt of CIS (Commodity Inward Slip) & rest 10% after receiving the goods in our DEMAT.
The process of conversion of goods from CIS to WHR can take up to 7 working days, with risk of goods being rejected. Ageing of DIP (Demat in Process) is tracked. The residual 10% payment acts as a cushion for any quality and quantity variation. In case goods are rejected, supplier replaces goods within a week. The rejected goods act as cushion against advanced paid.

➢ *Exchange Stock purchase*

Stock is purchased from exchange by holding a long position on expiry of futures contract. As per exchange payment terms & conditions we make payment and receive delivery on T+2 basis. Goods can be purchased from supplier in DEMAT form as well, where the supplier deposits goods directly in our DEMAT & we release payments to clients once the corresponding stocks reflected in our demat account.

ii. Hedging

When a purchase trade is done with a supplier, the business negates the price risk on the commodity by hedging on the exchange, there should not be any mismatch between buy and sell quantities. The position of spot purchase is compared to sell positions on exchange of the underlying commodity. The same is reconciled and published on T+1 basis.

For purchase leg, there is a time gap between hedging done on exchange and goods received from supplier. There may be a situation where the counterparty may dishonor the trade if the prices rise substantially (as it may get more favorable rate).

As we are short on the exchange, we can suffer on account of the MTM loss on these trades. Such deals are tagged as <u>pending purchase</u> and tracked for their ageing and MTM.

b) Sales

i. Sales & Trade Confirmation

Sales is done by trader & details are mentioned in trade register. Subsequently, trade is confirmed with Broker/seller on same day over the phone, and then deal slip is prepared. On the same day trade is confirmed with Broker/Seller over email. After that, trade calculation is sent to Broker/Seller. To reduce the price risk on executed trades, trader always hedges the positions on exchange.

We have two types of Sales:

- Exchange Stock Sales (NCDEX Stock)
- Loose Stock (Non-Exchange) sales

➢ *Exchange Stock Sales*

Stock is sold on exchange by holding a short position on expiry of futures contract. As per exchange payment terms & conditions we receive payment and give delivery on T+2 basis.

➢ *Loose Stock (Non-Exchange) sales*

As per payment terms & conditions client is given delivery (issuing Delivery order) when full payment is received from the client.

Business hedges its price risk on exchange by unwinding its exchange short positions at time of spot sales. A sudden price fall can cause the client to buy the commodity cheaper from another supplier. It is essential to track the MTM on such trades. Such deals are tagged as <u>pending sales</u> and tracked for their ageing and MTM

ii. Delivery order (DO) issuance

DO's are issued once entire payment has been received from counterparty. DO have a validity of 7 days usually. If the client fails to lift goods within 7 days, the same stands cancelled & the client has to request for reissue of a new DO. As the goods are earmarked for a particular client when DO is issued, warehouse charges post validity of DO is to be borne by client. The same is charged and collected at time of reissuing the DO. This is tracked through the <u>DO ageing report</u>

The warehouse executive checks DO validity before allowing client to pick up goods.

Sometimes DO can be issued despite shortfall on funds received from client as per the below matrix with a 10 day validity.

Authorizing Person	Authorization type
CEO	Approval on hubbler

c) Purchase on Advance payment & Credit Sales

The business can undertake purchase trades by payment of advance as per the below matrix. Trades are considered as such if payment is made before receipt of CIS or CDTF slips. Business can also undertake sales on credit basis as per the above matrix. Trades are considered as such, if DO is issued without receipt of funds from clients.

Authorizing Person	Authorization type
CEO	Approval on Hubbler

d) Inventory report management

The operation team, which is a part of the business team, maintains the inventory & daily operations of the Inventory. The inventory report captures location of all inventories along with its current status (saleable, sales assigned, pledged etc). It is essential to check if goods mentioned in inventory are available in physical in the warehouse.

For this warehouse confirmation is fetched every month where quantities are matched between warehouse and inventory report. Also, operations team arranges for periodical visit to warehouses.

For DEMAT goods, reconciliation in done with COMTRACK. Also, exchange quality goods come with a validity date called FED (final expiry date). Goods need to be delivered on the exchange before this date or else they will no longer be considered acceptable delivery. Post the FED date, goods need to be moved out of exchange accredited warehouse and converted to loose inventory. This is a cost incurring exercise, and hence FED expiry of goods is tracked through monthly FED expiry report.

e) Pledging of inventory

For efficient working capital management business can pledge goods with banks & NBFC. As prices fall, there may be chance of margin calls from such institutions. This is tracked through Pledged Goods value - Current market Value.

5.3. Risk Reports

a) Agri Risk Report

Basically, through this report we track all existing and potential risks of the Agri business. We track & match months wise positions, hedging quantities, unhedged quantities, Inventory distribution phase wise, total book value. This report covered all “arbitrage”, “calendar”, “inventory positions”.

In MT

Strategy	Commodity	Book Size	Gross Qty	CMP	20-Feb-20	20-Mar-20	31-Mar-20	20-Apr-20	Spot qty	Net Qty
ARBITRAGE	CASTOR	0.64	168	3,818	-	-	-	-	**168**	168
	COCUDAKL	0.18	100	1,807	100	-100	-	-	-	-
	DHANIYA	0.52	84	6,258	-	-	-	-80	**84**	4
	GUARGUM5	9.28	1,455	6,379	5	-630	-	-825	**1,450**	0
	SYBEANIDR	0.43	115	3,782	-	-115	-	115	-	-

In MT

Strategy	Commodity	Book Size	Gross Qty	CMP	20-Feb-20	20-Mar-20	31-Mar-20	20-Apr-20	30-Apr-20	29-May-20
CALENDAR	CASTOR	0.04	10	3,818	-	-10	-	10	-	-
	COCUDAKL	0.18	100	1,807	-100	100	-	-	-	-
	GUARGUM5	0.29	45	6,379	-5	45	-	-40	-	-
	JEERAUNJHA	0.54	39	13,935	-	-39	-	39	-	-
	SYBEANIDR	2.10	555	3,782	-	-555	-	555	-	-

In Cr

Book Size	Amt(Crs)
Arbitrage	11.3
Calendar	3.4
Discretionary	-

Particular	Commodity	DO Issued	Rejected	Client Sale	WHR	Demat Qty	Exchange buy sell	DIP	Supplier	Remat	Shortage	Total
Inventory	CASTOR	-7	106	0	115	0	-	-	-1	53	6	**168**
	DHANIYA	-749	60	1	13	80	-	-	0	743	-5	**84**
	GUARGUM5	-45	-	-0	1,306	145	-	-	-	45	-	**1,450**
	GUARSEED10	1	-	-0	-0	-	-	-	-	-	-1	**-0**
	JEERAUNJHA	-15	-	-	-0	-	-	-	-11	-	26	**0**

b) Counterparty Risk Report

This is counterparty wise report. We prepare this report to track and highlight the present conditions of the trades.

Negative number in the risk column reflects the current risk of that client. Risk is calculated through client pending payment & current MTM of trades.

Supplier	Total Payment made	Total Receipt	Balance Receipt	Fund Settlement	MTM	Balance Payment	Inflow	Risk
	-	88,12,650	45,398	-	-	-	45,398	-45,398
	58,17,483	-	-	-	-	31,935	-	31,935
	-	6,16,66,065	-78,580	-	-17,835	-	-60,746	60,746
	-	3,14,89,170	-61,736	-	-	-	-61,736	61,736
Grand Total	**58,17,483**	**10,19,67,885**	**-94,918**	-	**-17,835**	**31,935**	**-77,084**	**1,09,019**

c) DO Ageing Report

Delivery order has a validity of seven days, if the client fails to lift goods within 7 days, the same stands cancelled & the client has to request for reissue of a new DO. As the goods are earmarked for a particular client when DO is issued, warehouse charges post validity of DO is to be borne by client. The same is charged and collected at time of reissuing the DO. This is tracked through the DO ageing report

Deal ID	Symbol	Supplier	DO Issue Date	DO Issued	Ageing
S713	GUARSEED10	XXXXXX	29-08-2024	199.5	13
S719	GUARSEED10	XXXXXX	29-08-2024	199.6	13
S720	GUARGUM5	XXXXXX	09-04-2024	29.9	7
S721	GUARGUM5	XXXXXX	09-04-2024	29.8	7
S722	GUARGUM5	XXXXXX	09-04-2024	25.0	7
S723	TMCFGRNZM	XXXXXX	09-06-2024	10.0	5

d) Inventory Ageing Report

As inventory ages, the quality parameters of the goods can change or deteriorate. It is good practice to not hold inventory for long periods and churn the inventory. The same is tracked through inventory ageing report. Business is encouraged to check for quality parameters of goods if ageing exceeds 12 months.

30-08-2024		Ageing in months											
Commodity	WSPNAME	5	7	8	9	10	11	12	13	14	15	>15	Total
DHANIYA		-	-	4.9	-	-	-	-	-	-	-	-	4.9
DHANIYA		-	128.5	85.3	-	19.6	30.1	-	-	-	-	35.6	299.2
DHANIYA		-	-	-	-	-	-	-	-	-	-	18.7	18.7
DHANIYA		-	889.4	-	21.0	-	-	-	-	-	-	76.4	986.8
GUARGUM		-	-	-	-	-	-	-	-	-	-	84.7	84.7
GUARGUM		-	59.6	-	-	-	218.8	-	-	59.6	-	408.6	746.6
GUARGUM		-	-	-	-	-	-	-	-	-	-	174.3	174.3
GUARGUM		-	-	-	-	-	-	-	163.9	-	119.1	397.5	680.5
GUARSEED		-	-	-	-	-	-	-	-	-	-	461.9	461.9
GUARSEED		-	-	-	-	-	-	-	-	-	-	1,277.9	1,277.9
GUARSEED		-	-	-	-	-	-	-	-	-	-	1,047.6	1,047.6
TURMERIC		333.6	-	75.1	-	-	-	208.9	-	-	-	-	617.6
TURMERIC		-	-	-	-	-	-	-	-	-	-	10.1	10.1
Total		333.6	1,077.5	165.3	21.0	19.6	248.9	208.9	163.9	59.6	119.1	3,993.3	6,410.7

e) Monthly WSP Confirmation recon

It is essential to check that goods mentioned in inventory report are available in physical in the warehouse. For this warehouse confirmation is fetched every month where quantities are matched between warehouse and inventory report. We highlight the difference quantity to business team & register the reason for the same.

Janhavi Promoters Private Limited 31-08-2024					
Commodity	Inventory Qty In MTs	Warehouse Qty in MTs	Difference	Location	Warehouse address
DHANIYA	4.918	4.83	-0.088	GONDAL	

National Commodities Management Services Limited 31-08-2024					
Commodity	Inventory Qty In MTs	Warehouse Qty in MTs	Difference	Location	Warehouse address
DHANIYA	59.78	59.89	0.11	GONDAL	
DHANIYA	128.54	128.54	0	GONDAL	

f) Monthly FED Exp Report

Exchange quality goods come with a validity date called FED (final expiry date). Goods need to be delivered on the exchange before this date or else they will no longer be considered acceptable delivery. Post the FED date, goods need to be moved out of exchange accredited warehouse and converted to loose inventory. This is a cost incurring exercise, and hence FED expiry of goods is tracked through monthly FED expiry report.

Grade	Commodity	FED Date	Qty In MTs
NCDEX	DHANIYA	10-Feb-24	4.918

g) WSP Concentration Report

A warehouse concentration report is used to analyse the distribution of inventory across different warehouses. It provides insights into the storage capacity utilization, product distribution, and potential risks associated with having too much or too little inventory in specific locations.

WSP Name	DHANIYA	GUARGUM	GUARSEED	TURMERIC	Grand Total
		85			85
	5				5
	299	747	462	618	2,125
	19	174	1,278		1,471
	987	680	1,048	10	2,725
Grand Total	**1,310**	**1,686**	**2,787**	**628**	**6,411**

Location	DHANIYA	GUARGUM	GUARSEED	TURMERIC	Grand Total
Basmath				10	10
BIKANER		161	2,520		2,681
GONDAL	270				270
JODHPUR		1,516	148		1,664
KADI					-
KOTA	1,040				1,040
NIZAMABAD				284	284
NOKHA		10			10
SANGLI				334	334
SRIGANGANAGAR			119		119
Grand Total	**1,310**	**1,686**	**2,787**	**628**	**6,411**

Warehouse	Value Rs	Concentration
	87,77,547	2%
	3,30,588	0%
	20,84,95,078	42%
	8,65,50,950	17%
	19,33,74,172	39%
	49,75,28,335	

6. Bonds

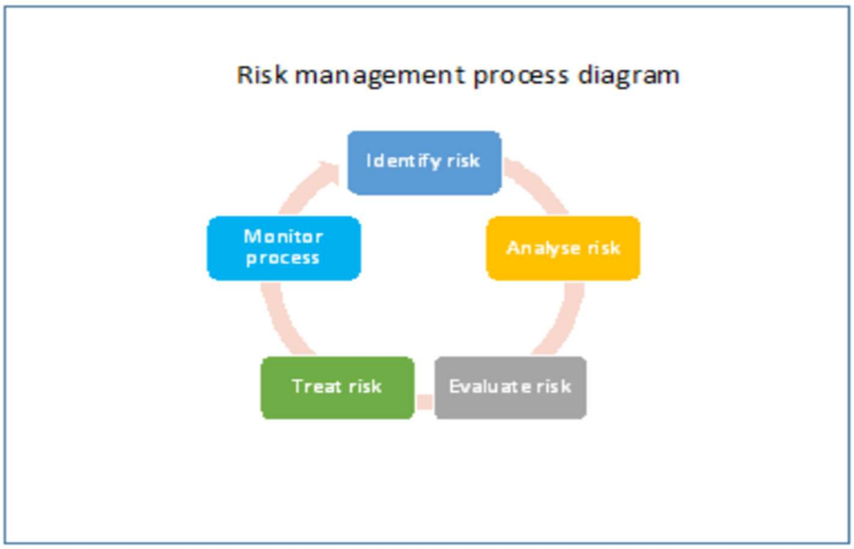
6.1. Introduction

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.



6.2. 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.

6.3. 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 banks 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.

6.4. 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

6.5. 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.

6.6. 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.

6.7. 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 Banks 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.

6.8. *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		

7. High Frequency Trading

7.1. Purpose and Scope

The purpose of this risk management policy is to identify, monitor, and mitigate the risks associated with high-frequency trading, including market, operational, technology, and regulatory risks. This document provides the necessary guidelines to ensure the trading desk remains compliant, secure, and capable of managing risks inherent in HFT environments.

The scope of this risk policy encompasses all High-Frequency Trading (HFT) activities conducted by the trading desk, including:

a) Instruments and Markets

- The policy applies to all financial instruments traded by the HFT desk.
- All global markets where HFT strategies are employed.

b) Participants

- This policy covers all employees, contractors, and service providers directly or indirectly involved in the development, deployment, monitoring, and execution of HFT strategies.

c) Technological Infrastructure

- All technology systems used for HFT, including trading Algorithms, servers, data centers, and co-location facilities.
- Infrastructure supporting trade execution, risk management, and compliance systems, including backup and disaster recovery setups.

d) Risk Domains

The policy applies to the following risk domains:

- Market Risk: Risks associated with adverse price movements in traded assets.
- Liquidity Risk: Risks arising from insufficient market liquidity affecting the ability to execute trades.
- Operational Risk: Failures in trading systems, Algorithms, and processes.
- Technology Risk: Latency, system failures, and security breaches.
- Compliance Risk: Risks related to adherence to regulatory frameworks across jurisdictions.
- Model Risk: Errors or inaccuracies in the HFT Algorithms or assumptions.

e) Geographic Coverage

- The policy applies globally, covering all geographical regions where the HFT desk operates and is engaged in trading activities. It also considers cross-border regulatory and compliance requirements.

f) Regulatory and Legal Frameworks

- The scope includes all applicable regulatory frameworks governing HFT in the respective jurisdictions where trading takes place.

7.2. Introduction to High-Frequency Trading (HFT)

a) Definition

HFT is a type of Algorithmic trading that involves executing large volumes of orders at extremely high speeds, typically in fractions of a second. HFT strategies rely on sophisticated Algorithms, powerful computers, and co-located servers to execute trades faster than other market participants.

b) Key Characteristics of HFT

- <u>Speed</u>: The hallmark of HFT is the ability to execute orders in microseconds or nanoseconds, leveraging the latest technology and co-location with exchanges.

- Order Volume: HFT strategies involve high volumes of small trades, contributing to market liquidity but also increasing the risk of systemic events like flash crashes.
- Market Arbitrage: Many HFT strategies aim to exploit minor price differences across markets or securities.
- Short Holding Periods: Positions are often held for very short durations, sometimes seconds or less, which can amplify exposure to sudden market movements or technology failures.

c) Factors impacting HFT

Aspect	Impact on HFT
Execution Speed	Directly affects the ability to seize short-lived market opportunities by enabling rapid trade placement.
Algorithm Performance	Crucial for making quick, accurate decisions, directly influencing the success rate of trades.
Data Transfer Speed	Vital for timely market analysis and fast response, supported by a low-latency network.
Risk Evaluation Process	Needs to be both swift and thorough to manage the risks associated with the fast-paced nature of HFT.

7.3. *Key Risks and Mitigation*

a) Software specific risks

- *Large Position build-up*:
  HFT Algorithm (Algo) might run into an infinite loop and fills uncontrollable position, either full cycle or partial. Alternatively, Algo might place single orders with a larger lot size than desired
- *Wrong Trades/prices being captured:*
  In cases where Algo is not able to receive complete information sent by exchange, it leads to incomplete order book binding. In such cases, Algo would try to capture the trades based on this information leading to incorrect trade completion. Alternatively, Algo might also enter in to illiquid contracts, leading to undesired trade positions
- *Incomplete Trades captured:*
  Due to various factors such as latency, system malfunctioning or erroneous messages (receipt or sent), Algo may end up creating partial trades
- *Incorrect inputs and updates:*
  Software updates are mandatory requirements, either due to internal factors like strategy upgrades and new features or external factors such as compliance changes, Exchange link updates, etc. In any case, if Algo is not updated correctly it can lead to faulty operations.

b) Software risk mitigation

- Internal controls for trade execution*:*
  Equipping Algo with internal control features such as limiting the number and size of trades for the day, prevents build-up of uncontrollable positions. Also, setting desired spread capture, cash requirement and slippage checks ensure only quality trades are entered

- *External controls for trade execution*:

Pre-trade checks can be applied to UserID through which Algo is placing the trades. Such checks includes a) limiting per lot value and volume, b) instrument-wise exposure limit. Thus, Algo cannot place unlimited orders outside the exposure limits. Also, single order size would be limited

- Post-trade checks*:*
  RMS screens provide real-time position for monitoring trades executed through Algo. Any incomplete legs or erroneous build-up can be checked and managed. Also, such real-time trade information can be utilized to compare the Algo outcome vs desired outcome

- *Post-upgrade checks*:
  Every time the underlying code in the Algo is updated, it must go through mandatory check-list to confirm if all the features are working as desired.

c) Hardware related risks

- *Sub-optimal performance*:
  Since Algo's performance is directly linked to hardware performance, any pressure on hardware viz. increase in core temperature or hard disk usage can slowdown the system thus affect the information flow to and from the Algo, indirectly affecting the performance of Algo itself.

d) Hardware risk mitigation

- Periodic Maintenance*:*
  All the component of the hardware must be periodically checked to ensure the robustness and optimal performance.

e) Compliance risk

- *Trading Price ranges*:
  Exchange defines the price ranges for the day. Trades placed outside the set range, would be cancelled. If due to any reason Algo tries to place orders outside this range it might lead to incomplete trades. Also, repeated attempts might result in temporary user log out from Exchange for a specified time frame

- PNC/OTR*:*
  In order to protect order manipulations, exchange monitors OTR (Order to Trade ratio) and PNC (Persistent Noise Creator) flags. If Algo keeps modifying the bids placed in a certain contract. It can trigger PNC or OTR flags, resulting in temporary time out for the client or prop account

- *Position and Exposure Limits*:
  Exchange has stipulated various position limits at client-level as well as prop-level. New positions above these limits would not be allowed. It can also lead to penalties at broker level.

- Peak Margin Limits*:*
  Broker and clients can only place trades limited to the collateral that is placed with the exchange. If Client's collateral exceeds 90% of its value than it would be utilized from the broker collateral. However, Exchange would charge penalty to the broker. Also, Exchange monitors peak margin for the day at client level and Broker is required to ensure it has sufficient margin available from Client against it

- *Pre-defined line rate*:

Colocation line with a pre-defined line rate (say 40 messages per second) is the communication channel between Algo and Exchange. If this line rate is breached, Exchange would temporarily log out the user.

f) Compliance risk mitigation

- Internal Controls*:*

  While entering an order Algo checks if price is within the stipulated ranges. These checks shall be incorporated as per inferences derived from compliance circulars

- *External Controls and monitoring*:

  Position and Exposure limits can only be tracked in the Post-trade RMS. Sufficient buffer needs to be kept such that these limits should not exceed even with changes in market conditions. Constant monitoring is done by both the trading team and the RMS team

g) Market specific risks

- *MTM risk:*

  MTM on Futures positions have to be settled on daily basis, while options settle on expiry. And, EQ positions are settled only at square-off. Thus, in a trading set-up which incorporates multiple instruments utilized for hedging as well as core-strategy. Daily MTM has to be monitored and managed

- *Delivery risk:*

  Derivatives positions devolve into Equity or physical commodity at expiry. While derivative positions are leveraged, Physical positions have to be fully paid up. Thus, if any strategy leads to delivery at expiry, it needs to be monitored and managed as per delivery requirement

- *Market Liquidity risk:*

  While entering into the trades Algo ensures if there is sufficient liquidity in the contract, however while exiting some contracts may not have sufficient liquidity. Thus, we need to either wait till expiry or maintain the position for a longer than desired time

- Financial Liquidity risk*:*

  Margins and cash are required at client as well as broker level. Thus, shortage in either of the component would disrupt entry or maintenance of trading positions.

h) Mitigation

- Well-Defined Investment Methods & Goals*:*

  Desk is currently focusing on risk free strategies in Indian equity markets, with faster execution speed. Pre-deciding how much fund needs to be deployed, for how much time horizon and its comfortable return and loss would facilitate scaling through difficult market conditions
- *Square-Off Policy / Stop Loss policy*:

  As per market conditions, decisions must be taken to either exit the positions at minimal loss or hedge the position with equivalent opposite contract so as to create equivalent profits to pay-off the losses
- Dynamic Positioning*:*

  Shifting strategies as per market conditions and fund requirements
- Continuous Monitoring and Evolution:

  Regular monitoring and evaluation of performance and results allows for timely assimilation and mitigation of any unexpected risks associated with trading mechanism and with underlying securities.

8. Derivatives

8.1. 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.

8.2. 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.

8.3. *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.

8.4. *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.

8.5. 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 Banknifty 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.

8.6. 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.

II. Broking Vertical

9. Broking Risk Management Policy

9.1. Objective

To pre- define limits for each terminal and monitor the same on a continuous basis.

9.2. Background

Risk Management is an integral part of any organization. An organization in stock broking services needs to manage risks like Credit Risk, Market Risk, Default Risk, and Liquidity Risk. In the Securities Market, clients have to be alerted with respect to their obligations, open positions, market conditions, margin requirements, regulatory requirements, and steps are initiated by the brokers in case of changing market conditions. Trading Terminals are allotted to Members by exchanges. These terminals enable members to place, modify and execute orders on behalf of clients. There may be instances where due to punching error unusual orders may be placed at high prices which might lead to execution of unrealistic orders or orders being executed at unrealistic prices. In cases where the order/price of such orders is high, it might lead to huge losses to broker. In order to avoid such a situation it is imperative that certain limits are prescribed for each terminal allotted to member broker and monitored on a continuous basis.

9.3. Pre-trade Controls

The following limits shall be defined for each terminal:

- Quantity Limit for each order
- Value Limit for each order
- User value limit for each user ID
- Spread Order Quantity and Value Limit (Derivatives & Currency Derivatives segments)

a) Setting up client's Exposure limits:

Our policy ensures that a Minimum pre-trade risk controls for all categories of orders placed on Stocks, Exchange Traded Funds (ETFs), Index Futures, Stock futures and Currency Derivatives shall be as follows:

b) Quantity / Value Limit per order:

- No order with value exceeding Rs.10 crores per order will be allowed for execution in the Exchanges
- In addition, we will be using the following clients' exposure limit formula as a standard procedure compliant with market regulators.

c) Clients' available margin constitutes of the following

Customers' Ledger Account Balance

(+) Add	Open Payout Securities value (Securities yet to be received from Exchange)
(+) Add	Margin Pledged Securities Value
(+) Add	CUSA Securities Value (Client Unpaid Securities Account - CUSA)
(-) Less	Unclear value of cheques
(-) Less	Open Payin Securities Value (Securities yet to pay into the exchange)
(-) Less	Previous day's MTM profit in Cash Segments

(Here, Securities Values will be considered after deducting appropriate haircut of Exchanges or as set by Abans)

Trading Limits will be allowed on the basis of available margin as specified by exchange for all segments at combined level i.e. Equity + Equity Derivatives + Currency Derivatives + Commodity Derivatives + SLBM (Securities Lending and Borrowing Mechanism). Margin will be collected as per the requirement of the Exchanges. i.e. Total Margin comprises of VaR Margin (Value at Risk) + Extreme Loss Margin (ELM) + SPAN (initial) Margin + Additional Margin + Tender Period / Delivery Margin + Special Margin (if any made applicable by the Exchanges from time to time). Abans at its sole discretion may collect additional margins on the basis of risk perception or any other factor considered relevant.

As per exchange guidelines, only approved lists of securities for margin will be accepted as the net value of securities after applying the prescribed haircut. The haircut will be considered based on exchange haircut. Abans at its sole discretion may revise the percentage of haircut as deemed fit from time to time.

d) Algorithmic orders and trades: LFT

The minimum order-level risk controls shall include the following:

- Price check - The price quoted by the order shall not violate the price bands defined by the various Exchanges for the security.
- Quantity Limit check - The quantity quoted in the order shall not violate the maximum permissible quantity per order as defined by the various Exchange for the security.
- Orders per second limit for algorithmic trading
- The numbers of orders per second from a particular CTCL ID/ATS User-ID will not exceed hundred orders per second.
- Orders generated using algos, shall satisfy the following minimum levels of risk controls -
- Price check – Algo orders shall not be released in breach of the price bands defined by the various Exchanges for the security.
- Quantity check – Algo orders shall not be released in breach of the quantity limit as defined by the various Exchanges for the security.
- Order Value check - Algo orders shall not be released in breach of the ‘value per order’ as defined by the various stock Exchanges.
- Cumulative Open Order Value check – There will be an individual client level cumulative open order value check of Rs.100 crores for the domestic Exchanges (Cumulative Open Order Value for a client is the total value of its unexecuted orders released from the stockbroker system.)
- Automated Execution check – An algo shall account for all executed, unexecuted and unconfirmed orders, placed by it before releasing further order(s).

Further, the algo system shall have pre-defined parameters for an automatic stoppage in the event of algo execution leading to a loop or a runaway situation.

In the interest of orderly trading and market integrity, we will put in place a system to identify dysfunctional algos (i.e. algos leading to loop or runaway situation) and take suitable measures, including advising such clients to shut down such algos and remove any outstanding orders in the system that have emanated from such dysfunctional algos.

9.4. *Limit Setting & Exposures*

Scrip wise Exposure Limits:

a) Cash Segment:

To keep in mind the surveillance measures and also to stop unusual activities in illiquid stocks, scrip wise limits will be set on the basis of the following parameters at the Abans level:

Parameter	Mode
Scrip which has open interest and also volume on previous day	Open
All scrips where F&O trades are allowed	Open
Scrip (only future) which has open interest but no volume on previous day	Open
Scrip (other than future) which has open interest but has no volume on Previous Day	Square-off Mode
Scrip which has no open interest but has a volume on previous day	Square-off Mode
Scrip does not have open interest and also no volume on previous day	Square-off Mode

The scrip on which unsolicited news circulations are taking place (SMS Scripts) may be banned for transactions.

b) F & O Segment:

For retail clients far month future, stock, and options contracts, i.e. Third-month contracts onwards will not allowed for derivative trades.

Collection of Margin in Equity and all Derivatives Segments from clients:

As per SEBI directives, the collection of upfront VaR and ELM margins from clients is required mandatorily for the cash segment also. The clients must ensure that the VaR margins and ELMs are paid in advance of trades failing which the exposure may not be approved or assigned.

As per revised framework of upfront collection of margin, members are also required to ensure peak margins in addition to the above mentioned margin requirements. Peak margin is the maximum of clients' intraday upfront margin requirements across various snapshots provided by exchanges.

Clients, at any point of time, are required to maintain adequate margins as prescribed by the exchanges. In case of short collection or non-collection of margins, the client will be levied the following penalty:

'a' (Short-collection OR non-collection of margins per client per segment per day)	Per day Penalty as %age of 'a'
(<Rs 1lakh)And(<10% of applicable margin)	0.5
(≥Rs1lakh)Or(≥10%of applicable margin)	1.0

If short / non-collection of margins for a client continue for more than 3 consecutive days, then penalty of 5% of the shortfall amount shall be levied for each day of continued shortfall beyond the 3rd day of shortfall.

If short/non-collection of margins for a client takes place for more than 5 days in a month, then penalty of 5% of the shortfall amount shall be levied for each day, during the month, beyond the 5th day of shortfall.

Client-wise differential Limits:

Abans shall have the prerogative to allow differential purchase limits and sell limits varying from client to client, depending upon credit worthiness, integrity and past conduct of each client.

9.5. Handling of Client's Securities

Customers **having no outstanding debit** ledger balance/margin obligations / other dues, on the payout date, **Abans** may transfer the securities purchased by its customers to their Demat account irrespective of whether POA is there or not.

Customers **having outstanding debit** ledger balance/margin obligations / other dues, Abans as per SEBI directives vide CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated 20th June 2019 shall transfer the securities in the CUSA (Client unpaid securities account).

If any client fails to fulfill the required funds' obligation and/or Margin Obligations /other dues, the securities may be liquidated on or before T+1+5 days (T indicates Trading Day) as per regulation.

9.6. Right to sell clients' securities or close clients' positions on account of non-payment of dues

a) Intro

It is the clients' obligation to settle the dues on T+2 days (T indicates Trading day). In case the client falls short of providing clear funds on or before 3rd trading day of pay-in/pay-out day or due date in case for derivatives segments, Abans has the right to sell the clients securities and the right to close the open positions of the clients in derivatives segments to the extent of shortfall amount and/or settlement dues and other dues.

Abans at its sole discretion may hold the debits beyond T+2+5 days and liquidate the customer securities from CUSA, Demat Account, and/or Pledged securities on the basis of the net risk position of the client. Abans may liquidate the client positions in case of shortfall in margin obligation with or without giving prior notice to the client.

Abans at its sole discretion may not liquidate the securities and/or allow exposure, where there are no dues outstanding against the settlement obligations of its clients. Such debits may arise because of charges against brokerages, value- added services, delayed payment charges, and any other charges as applicable.

Abans may liquidate securities by prioritizing

1) FIFO (First in First Out) securities from the CUSA account.

2) For the clients where POA is given in the favor of Abans, low VAR (Value at Risk) and the highest value securities in the Demat account.

3) Low VAR and the highest value margin pledged securities. For more than one security having the same VAR margin, the script with the highest closing price on T-1 day may be selected first for liquidation.

However, in case, the securities are not sold due to any legitimate reasons like low liquidity or lower circuit, or any other reason, then Abans may liquidate other securities to clear the outstanding debits.

3% additional amount of the stock or Rs. 1000 whichever is higher is marked on outstanding Debit obligations for liquidation of the securities. Abans reserves rights to change the formulas base on market conditions if need be and inform the client by possible mode of communication.

Abans may not allow further exposure if client ledger debit is not cleared on or before T+1+5 days. Delayed payment post-settlement day will carry an interest charge up to 24% per annum on actual debit balance inclusive of clients' open margin obligations.

Abans may liquidate the client position in the future and option segment in case of the mark to market (MTM)loss and/or margin short fall by liquidating collaterals as provided by the client and also recover losses from the sale of such collaterals.

Abans at its sole discretion may revise the procedure without giving any reason and inform the clients by possible mode of communication.

b) Intra-day Positions:

Abans shall have right to close out any intra-day positions taken by the client after a defined "Cut-off" time (Presently 15 minutes before close of market) or the MTM erosion reaching the BEP or whichever is higher.

c) Real-time Risk-based Square off (Anytime during the Day):

Whenever markets are volatile and price movements become very erratic because of some events which can be pertaining to a particular stock or stock market as a whole, Abans Risk Management systems may monitor such volatility in real time. If the losses arising out of carry forward derivatives open position, Intraday trades in Cash and Derivative segment erodes more than or equal to 85% of the Net worth of the client, then the Risk team may square off all open positions for the client(s). Open Position includes all Intraday Trades in Cash and Derivative segment and all Overnight Open Positions in the Derivatives Segment.

d) Margin Shortage in F&O (equity derivatives + currency + commodity) and Equities Segments:

The Margin Shortfall is intimated to the clients over call for all segments. Clients need to deposit the cheque or make an online fund transfer to Abans on the same day of intimation. In case the client fails to transfer the funds, as per exchange guidelines the client has to bear the penalty on the shortages from 0.5% to 5%. If required, Abans may liquidate positions to the extent of shortfall for clients in critical situations. In case of a shortfall due to high fluctuations in security price during the day, Abans may liquidate any open position to mitigate MTM loss or to ensure sufficient margin for clients. The client has to deposit cheque or transfer funds for shortfall amount, ledger debit and any other dues as per regulation to avoid position liquidation. For reporting of the available margin of clients' to the exchanges will be prioritized as per mentioned segment; 1. Equity Derivatives, 2. Currency Derivatives, 3. Commodity Derivatives and 4. Equity.

e) Physical Settlement in Equity Derivatives: (Current month expiry)

Based on the criteria specified in the SEBI circular, Exchange shall identify securities which shall be settled through delivery on expiry. Exchange publishes a list through a circular from time to time.The clients whose positions are open in physical equity derivatives contracts before T-1 day of the current expiry day, intimation will be sent on/before T-1 day to square off of the position and avoid physical settlement. In case the positions are not cleared by the clients, the contract will be settled physically for long futures, and short futures, ITM options, and short options. In case of short options and short futures if clients do not have cash holding of that particular stock to the extent of short quantity then short quantity will get auctioned and client will have to bear the penalty as per exchange guidelines.

Higher Margin Requirement in case of physical equity derivative contracts before T-4 days for current expiry.

Clients can trade in physical settlement option (buy) derivatives by utilizing 10%, 25%, 45%, and 70% of available margin respectively till 4 days before current month expiry and physical settlement of future or option (sell) derivatives as per exchange applicable margin. In case F&O shortfall arises due to delivery margin charge, the client has to deposit the shortfall amount on the same day of intimation else, client has to bear the shortfall penalty as per exchange guidelines. If required in critical situations, Abans may initiate square off from T-3 days till current month expiry day.

f) Any Other Square Off:

Abans may initiate square off of positions for a particular client without prior intimation due to market volatility, debarred by SEBI or any regulatory authority or as prescribed in any other rules and regulations.

g) Commodity Segment Physical Delivery:

Physical delivery commodities with compulsory delivery will be closed from the start of their respective tender period / delivery intention if clients are not willing to take delivery as per required margins. All the deliverable contracts of MCX, NCDEX and ICEX enter "Tender Period positions" as mentioned by exchange from time to time. Clients' positions will be squared off from the start of the "Tender Period" till expiry date, where compulsory delivery period of the contract is applicable and if the intention of the client is not submitted to take / give delivery of the said contract. No positions will be allowed to carry over in Tender Periods except clients having Demat a/c complied with GST registration for commodity segments (COMRIS, CCRL or NERL A/C).

9.7. Other Surveillance Action

a) Refusal of order of penny stocks / illiquid contracts

Abans shall have the absolute discretion to accept, refuse or partially accept any buy or sell order for execution from a client in respect of penny stocks, illiquid stocks, stocks having low liquidity, illiquid "options", far month "options", writing of "options", stocks in S, Z and B2 category and any other contracts which as per the perception of Abans are extremely volatile or subject to Market manipulation.

Abans may permit restrictive acceptance of orders in such script/contracts in controlled environments like orders received from clients being forwarded by branches to a centralized desk at HO instead of allowing trading in such script/Contracts at branch level or through Online trading platform. Abans shall not be responsible for delay in execution of such orders and consequential opportunity loss or financial loss to the client

Abans may cancel orders in such script received from clients before execution or after partial execution without assigning any reasons thereof. Abans may take appropriate declarations from the clients before accepting such orders.

Abans shall have the prerogative to place such restrictions, notwithstanding the fact that the client has adequate credit balance or margin available in his account and/or the client had previously purchased or sold such securities / contracts through Abans itself.

b) Regulatory conditions under which a client may not be allowed to take further position or Abans may close the existing position of the client:

In case overall position in a scrip / derivatives contract has reached the Regulators prescribed or any limit set by Abans / Exchange limit / Market wide open interest limit / Client level limit, then client may not be allowed to take further positions, till such time Regulators prescribed limit comes down to create a new position.

Further Abans may close the existing position of a client to the extent of debit balances to release the margin from the Exchange. In case if Abans has sufficient margin cover on behalf of its clients, it may still decide based on the market conditions and risk perception not to allow further position or may close the existing position of a client.

c) PMLA Guidelines:

All Clients will be categorized as High, Medium and Low risk customer as per their risk appetite and current profile as mentioned in the KYC. The same will be reviewed at regular intervals.

The exposures to clients may be governed by the customer profiling elucidated above as well as clients financial income made available from time to time. Further the clients need to furnish their income details on a yearly basis.

Exposure to the client may also be governed by customer profiling mentioned above from time to time. The client needs to furnish their income details on a yearly basis. Following documents will be accepted as income proof:

- Copy of ITR Acknowledgement
- Copy of Annual Accounts
- Copy of Form 16 in case of salary income
- Net worth certificate
- Salary Slip
- Bank account statement for last 6 months
- Copy of Demat account holding statement
- Any other relevant documents substantiating ownership of the assets

If there is a major disparity between financial details and trading volumes, the client may be asked to furnish suitable explanations and based on the same further trading limits will be sanctioned.

d) Suspension of Clients:

Abans may withhold the payout of a client and suspend trading account due to any internal surveillance (if client indulges into manipulative trade practice) / regulatory orders (debarring orders), etc.

In case the client has created any position in banned securities, penalty as levied by stock exchanges will be applicable.

Abans may withhold the payout, if the client has traded in unsolicited SMS securities identified by exchanges periodically. Further trading on such scrips may be barred.

e) Further as per NCL circular no.44977 dated July 10, 2020:

- Internal escalation matrix with respect to non-compliances / defaults by TMs/CPs Compliant, if any, will be sent to compliance@abans.co.in within 2 working days, customer is connected and if the problem or complaint not resolved then escalated to Compliance officer and to the Director.
- Performance evaluation process of TMs/CPs registered with the CMs including its periodicity – Performance evaluation takes place as per the defined time by regulators or half yearly. We are TMC and doing clearing for CP not of other TMs.

- Seeking data information from TMs/CPs in the event of repeated cases of shortfall in margins / margins on Consolidated Crystallized Obligation or governance issues – We are TMC and not doing clearing of other TMs. In case, if any, repeated shortfall of margins take place then connect to the CP or client for the same and analyses our system and process with immediate effect. Procedures for segregation of TM proprietary and Client collaterals – We don't act as clearing member for other TMs. Funds and collaterals of proprietary and clients are segregated as per regulatory guidelines. We are not doing clearing of other TMs.
- Upper Cap for acceptance of securities from a member and / or across all members in absolute terms and / or on an overall basis to avoid concentration risk is not applicable to us.
- We accept list of banks which are approved by regulators for FDRs and BGs. Approved list of securities provided by regulator is accepted as collaterals. Also components of cash & non cash collaterals will be followed as per regulators /or exchange norms.
- Ratio of Cash and Non cash component of collateral – 50:50. Haircut percentage for all types of collaterals other than Cash, FDRs and BGs.
- In this regard, Securities subject to a minimum of VAR. and other collateral shall be subject to minimum haircut of 10% - Haircut as defined by the exchange and/ or regulators for approved securities.
- Timelines and threshold limits beyond which action such as square off of positions shall be undertaken by CM for non-payment of margins on Consolidated Crystallized Obligation by the TMs/CPs -

MTM Loss monitoring during trading hours. During the day, if the client's loss exceeds 50% of the total available margin, warning alerts will be sent to the client at 60%, 70% as a margin call to top up with additional margin. If the client fails to bring in adequate margin, all open positions would be squared off at 80% by RMS Team at market price. If MTM loss breaches 80%, positions will be liquidated at the market rate on a best effort basis and clients will be liable for any such losses resulting due to such orders.

All open positions of the clients excluding the CNC buy position and option buy position would be squared-off by RMS Team once MTM is triggered. The MTM square-off would also consider brokerage and other taxes and charges which are levied. These charges would not be exact but be levied on an ad-hoc basis so as to cover a part of the actual amounts. Actual brokerage will be charged as per agreed brokerage after billing process.

Timer based Auto square off - The Clients are required to square off their (Intraday) positions up to3:12 pm (the system will be in square-off mode from 3:12pm to 3:15pm). Client will not be allowed any fresh positions in Intraday after 3.15 pm. All intraday positions will be squared off at 3.15 pm. The above is applicable for Cash and FNO Segments. In Currency, clients are required to square off their (intraday) positions before 4:42 pm (the system will be in squared off mode from 4:42 pm to 4:45 pm). The Client will not be allowed any fresh position in Intraday after 4:45 pm. All intraday positions will be squared- off at 4.45 pm. The above is applicable for the Currency Segment. In MCX, Agri commodities Market closes at 5.00 PM. The international referenceable commodities market closed at 9.00 PM. Bullion, Base Metal and Energy commodities market closes at 11.30 PM Hence, client needs to square off their Intraday positions before 4.42 pm for Agri commodities, before 8.42 pm for International referenceable commodities, and before 11.12 pm for Bullions Metal and Energy. After that the system will square off all intraday positions of clients at 4.45 pm, 8.45 pm and 11.15 pm respectively. During daylight saving days MCX Market time is extended till 11.55 pm for Bullion, Base Metal and Energy commodities and during that period clients need to square off their position before 11.32PM and the System will square off those positions at 11.35 pm

9.8. *Enhanced Obligations & Responsibilities*

a) Risk Management Team:

The Risk management team of the company ensures the implementation of strong and effective risk management and controls within the organization promotes stability throughout the entire financial system. Specifically, internal risk management controls provide four important functions:

- to protect the firm against market, credit, liquidity, operational, and legal risks.
- to protect the financial industry from systemic risk.
- to protect the firm's customers from large non-market related losses (e.g., firm failure, misappropriation, fraud, etc.).
- to protect the firm and its franchise from suffering adversely from reputational risk.

The importance of effective risk management and controls in protecting against serious and unanticipated loss is best illustrated where risk management and controls broke down or were not properly implemented. To avoid such risks and to survive in this competitive environment, the Company itself maintains Risk Management system, follow up regular basis at the separate client level activities. To protect the capital & interest of the company for good self, the risk of the daily business is monitored regularly by the organization.

b) Review of Process and Maintenance of Records

The Risk Management team at Head Office of Abans shall be responsible for maintenance of records namely message logs or any other record as may be prescribed by the Regulators and demonstrating the adequacy of the Risk Management System to the Internal Auditors. The process of setting of limits shall be reviewed on a quarterly basis by the Compliance Team. Based on the regular review, the Compliance Officer may also review the process on a test check basis.

Abans has a discretion to alter/change any of exposure limit, margin limit, and/or liquidation/close out parameters defined in this policy on the basis of prevailing market conditions, considering the dynamics of operations, business plans, and strategy of managements from time to time, and/or any risk perception with or without prior intimation and can use their discretion to grant any kind of exemptions/permissions in case they deem fit on case to case basis. In the time of extreme volatility or major impending event which might trigger such volatility, Abans reserves the right to withdraw the same. The company may modify or amend any of these rules without prior notice. The amended policy will be uploaded on the website of Abans from time to time.

c) Risk Monitoring (Online Surveillance)

• Pre-trade risk controls are handled using Greek Soft, which ensures that all trades meet predefined risk criteria before execution. Post-trade risk management is conducted through Zicuro's Risk Management Software, which continuously monitors risk in real time for each client after trades are completed.

• Zicuro's PTRMS, provides client wise ledger details such as Net Ledger, Collateral for exposure, Collateral Available, Collateral Margin Util Per, Available Exposure, Ledger Margin Utilized Per., to understand and get an idea with respect to each client's ability to take new positions in the market. The attached below image is working math of these terms along with an example of the same and an snapshot from the application.

$$NetLedger = (OrgLedger + Pledge\ Collateral)$$

$$Collateral\ for\ Exposure = 90\ \%\ of\ \text{"}NetLedger\text{"}$$

$$Collateral\ Available = Collateral\ for\ Exposure - Total\ Margin\ Utilized$$

$$CollateralMarginUtilPerc = (TotalMarginUtilized / CollateralForExposure) * 100$$

$$Available\ Exposure = Remaining\ of\ Net\ Ledger = Net\ Ledger - Total\ Margin\ Utilized$$

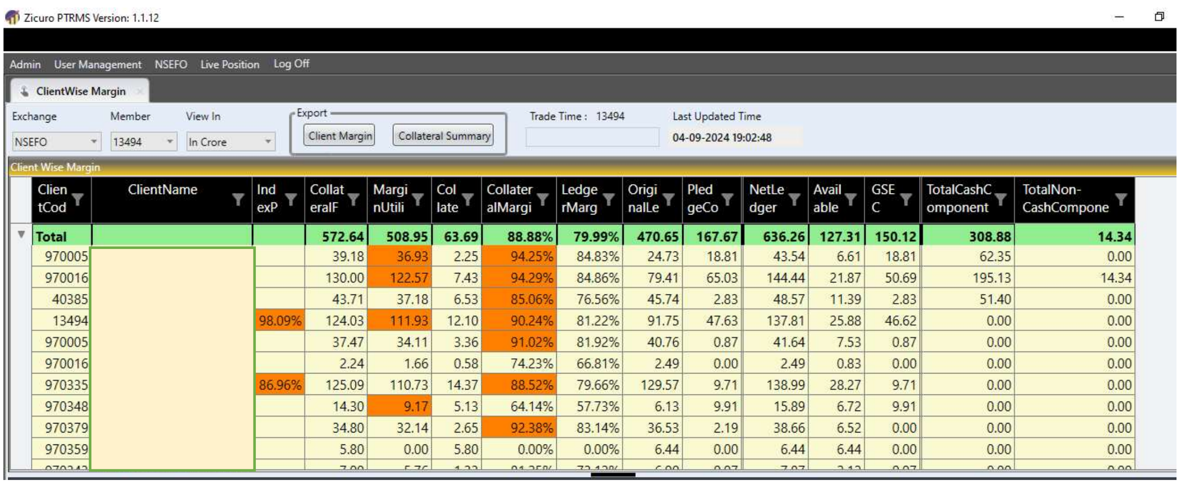
$$LedgerMarginUtilizedPerc = (TotalMarginUtilized / NetLedger) * 100$$

ID	Name	Intial Margin	Exposure margin	Total Margin Utilized	org Ledger	Pledged	NetLedger	Collateral for Exposure	Collateral Available	CollateralMarginUtilPerc	Available Exposure	LedgerMarginUtilizedPerc
13494		70.87	30.09	100.96	90.19	35.78	125.97	113.38	12.42	89.05	25.01	80.14
970005		91.93	19.70	111.63	89.30	50.94	140.24	126.22	14.59	88.44	28.62	79.59
970016		1.00	0.24	1.24	2.08	0.00	2.08	1.87	0.63	66.19	0.84	59.57
970343		4.43	1.13	5.56	7.38	0.96	8.34	7.51	1.95	74.04	2.78	66.63
970348		16.67	3.41	20.08	10.17	20.00	30.17	27.16	7.07	73.95	10.09	66.55

• Client wise ledger analysis can be monitored respectively for each exchange (NSEFO, NSECD, NSEEQ, MCX etc.)

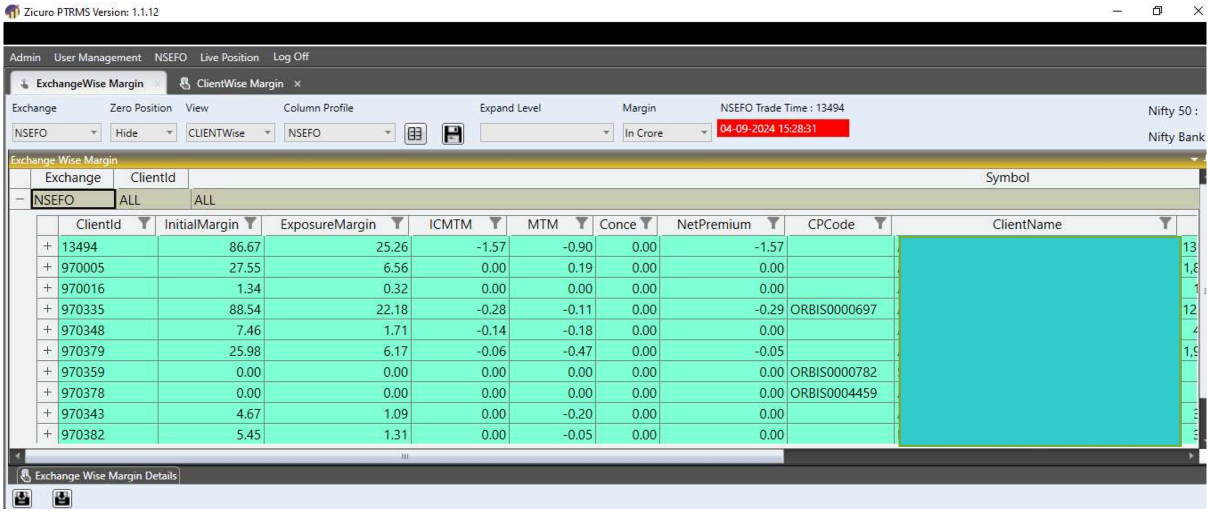
• Client wise analysis mainly involves tracking of availability of funds with respect to margin requirements (BOD & Peak margin obligation), Track clients intraday crystallized losses.

• The PTMS application highlights the clients who have utilized a certain percentage of their fund / collateral.



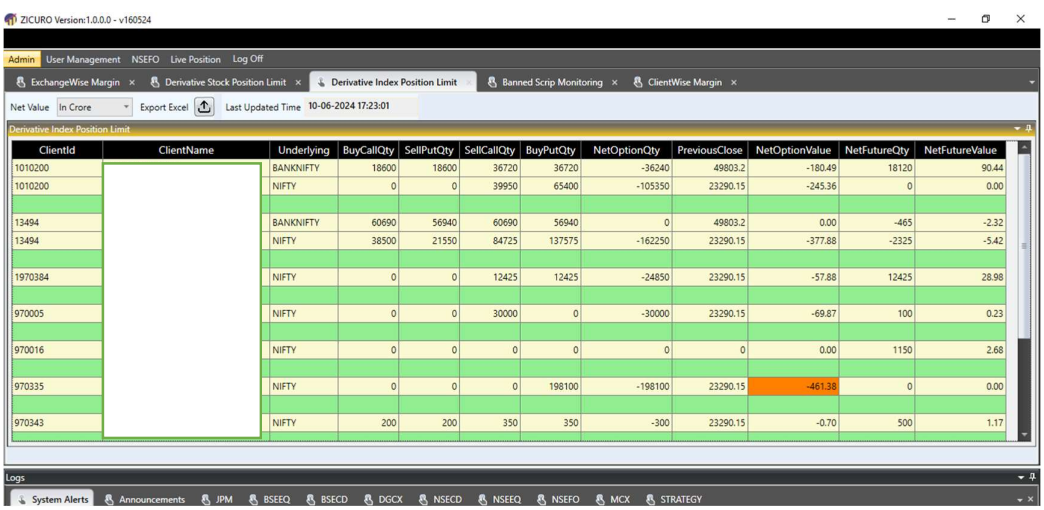
ClientCod	ClientName	IndexP	CollateralF	MarginUtili	Collate	CollateralMargi	LedgerMarg	OriginalLe	PledgeCo	NetLedger	Available	GSEC	TotalCashComponent	TotalNon-CashCompone
Total			**572.64**	**508.95**	**63.69**	**88.88%**	**79.99%**	**470.65**	**167.67**	**636.26**	**127.31**	**150.12**	**308.88**	**14.34**
970005			39.18	36.93	2.25	94.25%	84.83%	24.73	18.81	43.54	6.61	18.81	62.35	0.00
970016			130.00	122.57	7.43	94.29%	84.86%	79.41	65.03	144.44	21.87	50.69	195.13	14.34
40385			43.71	37.18	6.53	85.06%	76.56%	45.74	2.83	48.57	11.39	2.83	51.40	0.00
13494		98.09%	124.03	111.93	12.10	90.24%	81.22%	91.75	47.63	137.81	25.88	46.62	0.00	0.00
970005			37.47	34.11	3.36	91.02%	81.92%	40.76	0.87	41.64	7.53	0.87	0.00	0.00
970016			2.24	1.66	0.58	74.23%	66.81%	2.49	0.00	2.49	0.83	0.00	0.00	0.00
970335		86.96%	125.09	110.73	14.37	88.52%	79.66%	129.57	9.71	138.99	28.27	9.71	0.00	0.00
970348			14.30	9.17	5.13	64.14%	57.73%	6.13	9.91	15.89	6.72	9.91	0.00	0.00
970379			34.80	32.14	2.65	92.38%	83.14%	36.53	2.19	38.66	6.52	0.00	0.00	0.00
970359			5.80	0.00	5.80	0.00%	0.00%	6.44	0.00	6.44	6.44	0.00	0.00	0.00

• The MTM losses or gains can also be monitored irrespective of the exchange on real time basis on this software, below is an image of the same.



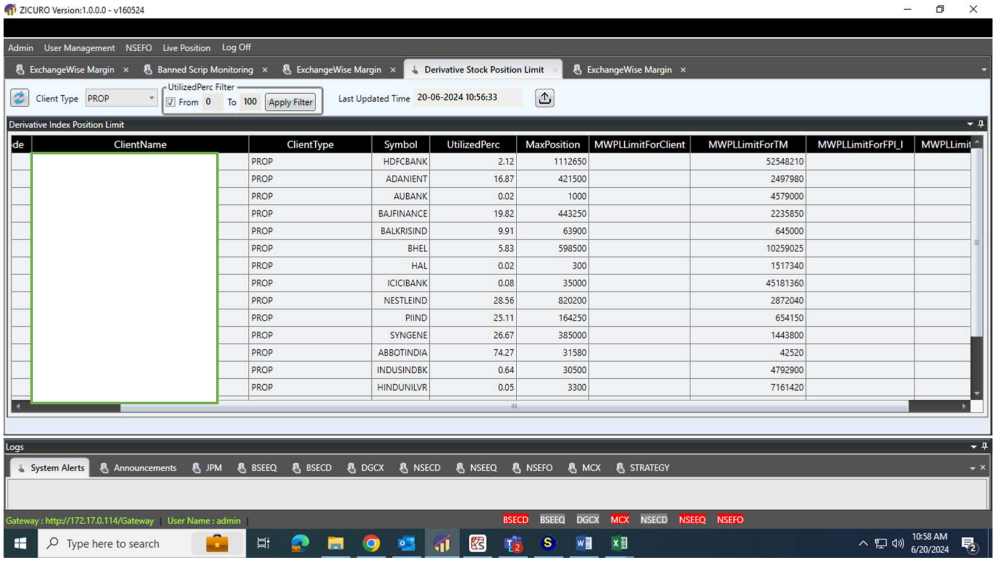
ClientId	InitialMargin	ExposureMargin	ICMTM	MTM	Conce	NetPremium	CPCode	ClientName
13494	86.67	25.26	-1.57	-0.90	0.00	-1.57		
970005	27.55	6.56	0.00	0.19	0.00	0.00		
970016	1.34	0.32	0.00	0.00	0.00	0.00		
970335	88.54	22.18	-0.28	-0.11	0.00	-0.29	ORBIS0000697	
970348	7.46	1.71	-0.14	-0.18	0.00	0.00		
970379	25.98	6.17	-0.06	-0.47	0.00	-0.05		
970359	0.00	0.00	0.00	0.00	0.00	0.00	ORBIS0000782	
970378	0.00	0.00	0.00	0.00	0.00	0.00	ORBIS0004459	
970343	4.67	1.09	0.00	-0.20	0.00	0.00		
970382	5.45	1.31	0.00	-0.05	0.00	0.00		

• Client level position limits are also monitored via Zicuro's PTRMS, as per exchange guidelines, below image depicts the same for the NSEFO segment where neither TM (Prop) nor FPI nor the clients can hold more than 500 Cr. of contract value each in futures and option contract respectively in index derivatives. & the position limits of Trading members / FPIs (Category I) / Mutual Funds in individual stock derivative is related to the market-wide position limit for the individual stocks. The combined futures and options position limit shall be 20% of the applicable Market Wide Position Limit (MWPL).

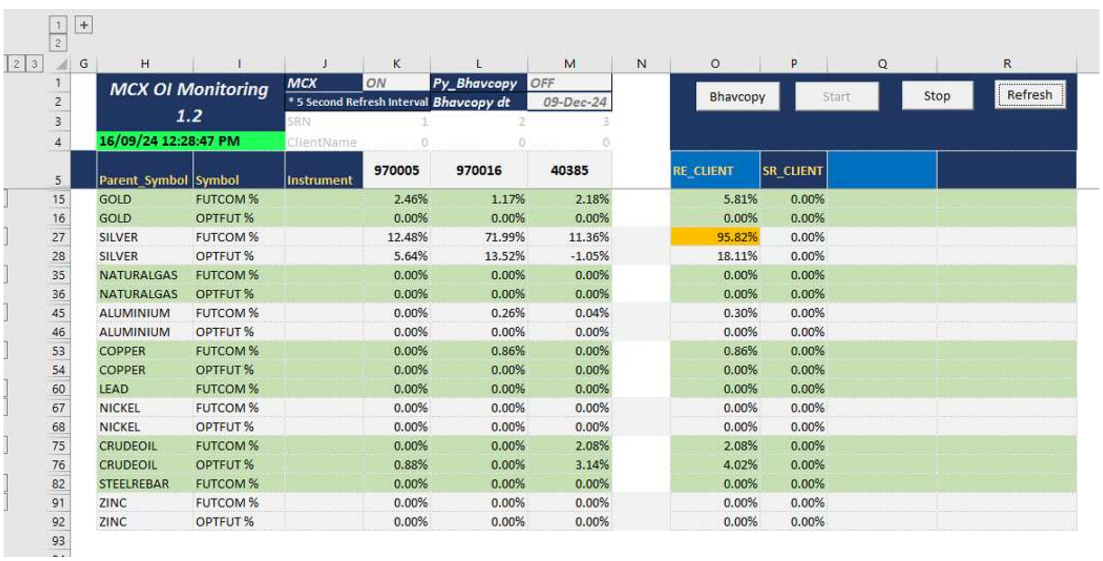


ClientId	ClientName	Underlying	BuyCallQty	SellPutQty	SellCallQty	BuyPutQty	NetOptionQty	PreviousClose	NetOptionValue	NetFutureQty	NetFutureValue
1010200		BANKNIFTY	18600	18600	36720	36720	-36240	49803.2	-180.49	18120	90.44
1010200		NIFTY	0	0	39950	65400	-105350	23290.15	-245.36	0	0.00
13494		BANKNIFTY	60690	56940	60690	56940	0	49803.2	0.00	-465	-2.32
13494		NIFTY	38500	21550	84725	137575	-162250	23290.15	-377.88	-2325	-5.42
1970384		NIFTY	0	0	12425	12425	-24850	23290.15	-57.88	12425	28.98
970005		NIFTY	0	0	30000	0	-30000	23290.15	-69.87	100	0.23
970016		NIFTY	0	0	0	0	0	0	0.00	1150	2.68
970335		NIFTY	0	0	0	198100	-198100	23290.15	-461.38	0	0.00
970343		NIFTY	200	200	350	350	-300	23290.15	-0.70	500	1.17

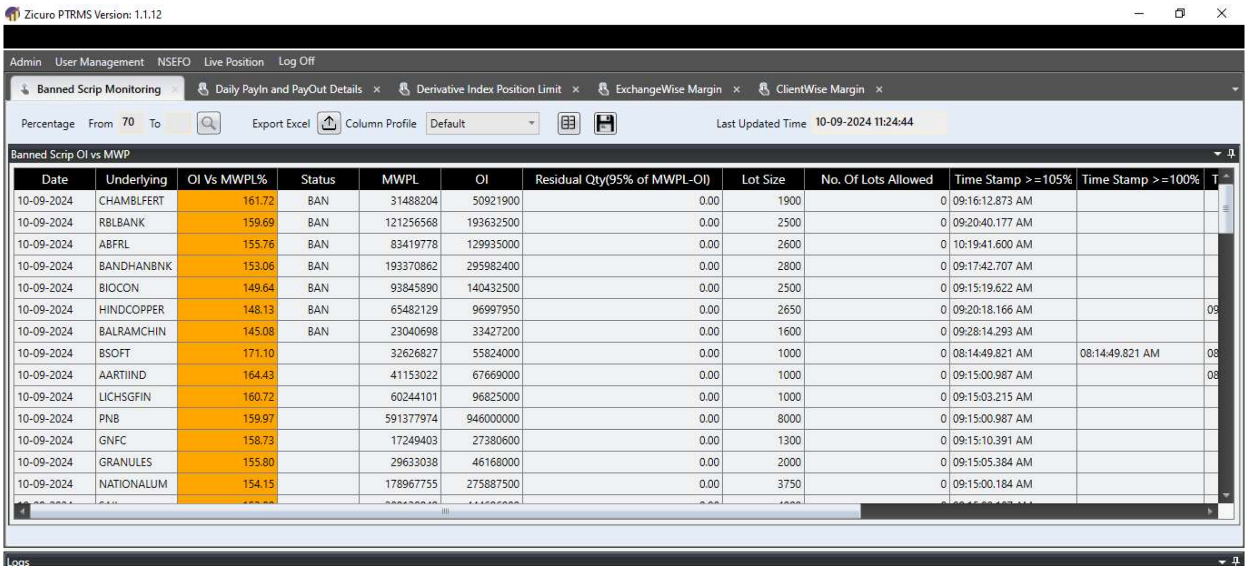
![ABANS logo]



• In Commodity exchanges, if a client or member holds OI greater than a particular percentage of the total exchange OI, the client would have to deposit an additional higher margin over SPAN & ELM, i.e Concentration Margin. The RMS also monitors the client OI as applicable. Below image depicts the same.

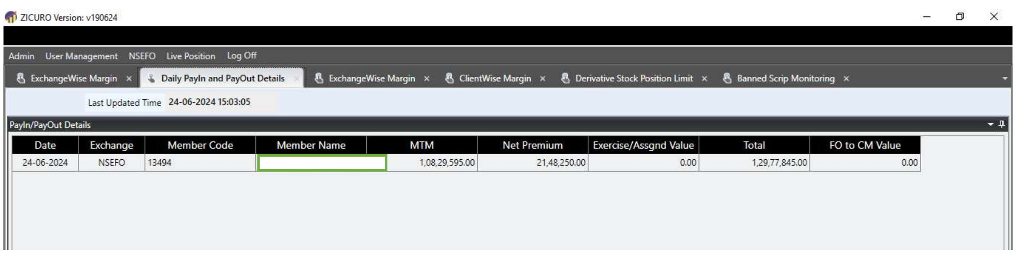


• To avoid client from taking new exposure in the banned scripts, a separate dashboard is available to view daily banned scripts along with their OI vs MWPL percentages along with the timelines. Below is an image of the same.



Date	Underlying	OI Vs MWPL%	Status	MWPL	OI	Residual Qty(95% of MWPL-OI)	Lot Size	No. Of Lots Allowed	Time Stamp >=105%	Time Stamp >=100%
10-09-2024	CHAMBLFERT	161.72	BAN	31488204	50921900	0.00	1900	0	09:16:12.873 AM	
10-09-2024	RBLBANK	159.69	BAN	121256568	193632500	0.00	2500	0	09:20:40.177 AM	
10-09-2024	ABFRL	155.76	BAN	83419778	129935000	0.00	2600	0	10:19:41.600 AM	
10-09-2024	BANDHANBNK	153.06	BAN	193370862	295982400	0.00	2800	0	09:17:42.707 AM	
10-09-2024	BIOCON	149.64	BAN	93845890	140432500	0.00	2500	0	09:15:19.622 AM	
10-09-2024	HINDCOPPER	148.13	BAN	65482129	96997950	0.00	2650	0	09:20:18.166 AM	
10-09-2024	BALRAMCHIN	145.08	BAN	23040698	33427200	0.00	1600	0	09:28:14.293 AM	
10-09-2024	BSOFT	171.10		32626827	55824000	0.00	1000	0	08:14:49.821 AM	08:14:49.821 AM
10-09-2024	AARTIIND	164.43		41153022	67669000	0.00	1000	0	09:15:00.987 AM	
10-09-2024	LICHSGFIN	160.72		60244101	96825000	0.00	1000	0	09:15:03.215 AM	
10-09-2024	PNB	159.97		591377974	946000000	0.00	8000	0	09:15:00.987 AM	
10-09-2024	GNFC	158.73		17249403	27380600	0.00	1300	0	09:15:10.391 AM	
10-09-2024	GRANULES	155.80		29633038	46168000	0.00	2000	0	09:15:05.384 AM	
10-09-2024	NATIONALUM	154.15		178967755	275887500	0.00	3750	0	09:15:00.184 AM	

- Net pay in and pay out analysis on real time is also monitored



Date	Exchange	Member Code	Member Name	MTM	Net Premium	Exercise/Assgnd Value	Total	FO to CM Value
24-06-2024	NSEFO	13494		1,08,29,595.00	21,48,250.00	0.00	1,29,77,845.00	0.00

d) Pre Trade

To make the RMS system even more robust, we are in process of migrating to Greeksoft, which can significantly monitor and control Pre/Post Trade RMS requirements.

e) Post Trade

We are also continuously improving the post trade RMS requirements through our in house software of Zicuro.

III. Lending Vertical

10. Lending Vertical Policy

10.1. 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

10.2. 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

10.3. 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 credit lending committee for approval.

10.4. Approval Credit Lending Committee

After a proposed transaction is approved by our credit lending 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 credit committee for final approval.

The current committee structure is two tired basis the loan amount

Loan Amount	Committee	Members
< 5Cr	Credit Lending Committee	Nirbhay Vassa, Karan Heda, Rahul Agarwal
> 5Cr	Credit Committee	Nirbhay Vassa, Mahesh Kumar Cheruvedu and Abhishek Bansal

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

10.5. Disbursal and Monitoring Stage

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
C.1	*Loan till 5 CR will be approved by Credit Lending Committee*	*Committee consist of Nirbhay Vassa, Karan Heda and Rahul Agarwal*	
C.2	*Loan more than 5 CR will be approved by Credit Committee*	*Committee consist of Nirbhay Vassa, Mahesh Kumar Cheruvedu and Abhishek Bansal*	

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.)

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 credit lending 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.

10.6. Measuring 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.

10.7. Classification of NPAs

The NBFCs categorised 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

10.8. Provisioning for NPAs

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

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

10.9. Capital Raising by NBFC

1. Raises money through NCDs
2. AHL equity infusion
3. Promoter funding

10.10. 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.

10.11. 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. Bank 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. Bank 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. Bank 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.

Accounts of Sole Proprietary Firms/concerns	Certified copy of OVD as applicable to the Individuals (i.e. of proprietor) shall be obtained. In addition to the above, any two of the following documents as a proof of business/activity in the name of the proprietary firm shall also be obtained: i. Registration certificate (in the case of a registered concern) ii. Certificate/licence issued by the municipal authorities under Shop and Establishment Act. iii. GST and Income tax returns. iv. CST/VAT/GST certificate, whenever applicable Certificate / registration document issued by Sales Tax / Service Tax / Professional Tax authorities / GST authorities. v. IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT/Licence/certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute. vi. Complete Income Tax Return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/acknowledged by the Income Tax authorities. vii. Utility bills such as electricity, water, and landline telephone bills (not older than 2 months). In cases where the Company is satisfied that it is not possible to furnish two such documents, it would have the discretion to accept only one of those documents as proof of business/activity.

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	