



JM FINANCIAL ASSET RECONSTRUCTION COMPANY LIMITED
RISK MANAGEMENT POLICY
NOVEMBER 2022

1. *Preamble:*

In terms of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Risk Management Committee is required to formulate a Risk Management Policy. In view of the same, the JM Financial Asset Reconstruction Company Limited (“**Company**”) has formulated and adopted this Risk Management Policy (“**RMP** or **Policy**”).

2. *Objective:*

Risk Management is a structured process used to identify potential threats to an organisation and to define their strategy for eliminating or minimising the impact of the risks, as well as the mechanisms to effectively monitor, assess and evaluate the risks. The well-defined risk management process would provide confidence to its stakeholders that the Company’s risks are known and adequately managed thereby enabling Management to focus on the Company’s growth, strategy and value creation. The Company needs to assess which method best suits its objectives and its business.

Risk is known to the employees of the Company; however, it may not be brought to the attention of the senior management due to which it may have an adverse impact at a later date. Through the risk management process, the Company shall ensure that the risks would be overseen and monitored at all the levels.

In order to achieve the above objectives, the following needs to be ensured:

- a. Risk process should be known and implemented across the business and critical support functions;
- b. Risk management should be the responsibility of all the employees;
- c. Risk management should be directly linked to the business performance of the Company and also individual performance of the employees; and
- d. Each and every employee of the Company is responsible for identifying and managing the risks.
- e. Anticipate and respond to changing economic, social, political, technological environmental and legal conditions in the external environment.

3. *Risk Management Process:*

Risk is an integral part of the business and almost every business decision requires the management to balance the risks and rewards. The inability to manage risks can cause permanent damage. As a result, today’s volatile operating environment demands a rigorous and integrated approach to risk management. The risks are aligned and managed through risk management process. The critical importance of sustained risk management cannot be over emphasised in the context of the current rapidly changing risk terrain.

The financial services industry is subject to continuous evolution of legislative and regulatory environment due to increasing globalisation, integration of world markets, novel and more complex products & transactions. The industry is also going through an increasingly stringent regulatory framework. Risk is an integral part of the business and almost every business decision requires the management to balance the risks and reward. The ability to manage risks is of paramount importance for hindrance free growth of the Company.

Traditional risk management framework does not enable the business to innovate and pursue opportunities at the pace of the nimblest competitor. An adoptive approach builds risk intelligence into key processes and supporting technologies so that business can move quickly and safely.

While prevention must always remain a priority, advanced crisis preparation is imperative to build the agility and readiness in the face of fast evolving risks:

- a. **Risk Identification** – Various internal and external risks associated with the Company which can be identified, including but not limited to, are:
 - i. *Macroeconomic Risk*: Any adverse macro-economic situation may have direct correlation on borrower companies ability on revival process and debt servicing.
 - ii. *Liquidity Risk*: The lack of liquidity in the market could affect the Company's liquidity.
 - iii. *Timing / Delay Risk*: Delay in recovery and resolution of investments done by the Company. This could be due to delay in decision from courts or government action or inaction.
 - iv. *Asset Liability Management Risk*: Ability of the company to generate cash flows and /or arrange refinancing and debt repayment in time.
 - v. *Interest Rate Risk*: Risk arising from rising interest rate thus impacting borrowing cost and profitability of the Company.
 - vi. *Investment Concentration Risk*: Risk emanating from concentration of exposure in few high value corporate accounts.
 - vii. *Debt Aggregation Risk*: Impact on overall resolution strategy due to delay in aggregation of outstanding debt liabilities of the borrower from erstwhile lenders
 - viii. *Operational Risks*: The operational risks can result from a variety of factors, including failure to obtain proper internal authorisations, improperly documented transactions, failure of operational and information security procedures, computer systems, software or equipment, fraud, inadequate training and employee errors.
 - ix. *Reputational risks*: Reputational Risk is the current or prospective risk of business, earnings and capital arising from adverse perception of the Company on part of counterparties, shareholders, investors or regulators.
 - x. *Legal, Regulatory, Statutory and Compliance Risk*: Risk arising out of a change in laws and regulations governing the business or non-compliance of any existing laws and regulations.
 - xi. *Competition Risk*: The industry in which the Company operates is growing at a rapid pace and is exposed to tremendous competition. Entry of new players may increase the competition.

- xii. *Business Continuity Risk*: Incidents like fire, natural calamity, breakdown of infrastructure, acts of terrorism etc., may result in the risk of loss of data which can adversely affect the Company's financial results.
 - xiii. *Force Majeure Risks*: Force Majeure risks constitute an unprecedented macro-economic shock, pushing the economy into a recession of uncertain magnitude and duration. Pandemic and resultant lockdowns were are such risks.
 - xiv. *Cyber/ Information Technology Risk*: Risk of financial loss, disruption or damage to the reputation of an organisation resulting from the failure or compromise of cyber resources / information technology. Cyber threats include phishing attacks, malware attacks, ransomware attacks etc. and can result in to loss of data, control over information systems and could result into adverse impact on the operations
 - xv. *Data Protection Risk*: Data Protection Risk includes failure of data storage device resulting in the loss of transactional data. It also includes corruption of data caused due to data rot causing business processes to fail.
 - xvi. *Money Laundering Risk*: Negative publicity; damage to corporate reputation and loss of goodwill; legal and regulatory sanctions; an adverse effect on the bottom line, are all possible consequences of an organisation's failure to manage the risk of money laundering.
 - xvii. *Crisis Management Risk*: Crisis management risk is the identification of threats to an organisation and its stakeholders, and the methods used by the organisation to deal with the threats arising on account of unpredictability of global events.
 - xviii. *Succession planning risk*: Succession planning risk is the chance that a critical role will become vacant and cannot be filled satisfactorily before the vacancy has unacceptable impact on the organisation.
 - xix. *Criticality of the risks*: Criticality of the risks is based on the consequence of failure of managing the risk.
- b. **Risk Rating** - Quantitative parameters like impact on top and bottom line, etc., and Qualitative parameters like loss of reputation etc., shall be developed and considered for rating the risks as High, Moderate or Low.
 - c. **Risk Appetite** - Risk appetite is the level of risk that the Company is willing to accept (including risks leading to financial and operational impacts) while pursuing its business objectives and before any action is determined to reduce the risk. Risk appetite depends on a number of factors, such as industry, company culture, competitors, the nature of the objectives pursued and the financial strength and capabilities of the Company. Risk appetite can change over a period of time and also depends on the prevailing circumstances.
 - d. **Risk Assessment** – Risk can be assessed in various levels based on its criticality.

- e. **Risk Monitoring and review** - Monitoring & reviewing the execution of the risk management activities, and risk mitigation strategies. Risk monitoring techniques and results shall be presented to the Committee. The Committee shall review the risk event update report of the Company.
- f. **Risk Management Report** intends to provide a semi-annual update to the Audit Committee and Board of Directors about the risk events (Macroeconomic, Liquidity, Competition Risks, Regulatory Risk, Operational Risks, etc.) during the relevant six months period associated with the business of the Company covering the aspects of Risk Identification, Risk Classification, Impact Assessment and Risk Mitigation/Management:



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| Risk Identification | → | Firstly, a risk is identified |
| Risk Classification | → | Define the base/criteria on which the identified risk shall be classified into <i>high, medium</i> or <i>low</i> category. |
| Impact Assessment | → | An impact assessment is done of the identified risk. |
| Mitigation/ Remedial Measures | → | Mitigation steps or remedial actions are designed to minimise the adverse impact of the identified risk. |

a. Risk Events Update

This section provides details of all the risks identified during the period of six-months under review. Based on the risk impact and likelihood, the Risk Events are further categorised and mapped into:



These Risk Events are presented/plotted by way of a Risk Matrix (heat-map). The impact analysis of the above risks shall be presented to the Committee, which shall include financial, reputational and regulatory (categorised by way of separate columns) impact of the risks.

4. Roles and Responsibility:

The oversight responsibility for implementation of the RMP of the Company shall primarily lie on the Committee. The Committee shall review the risk report and review the risks which are categorised as 'High Risk' items. The top risks shall be presented to the Committee/Board of Directors of the Company.

The following persons/committee shall be responsible to give the report:

i) Risk Management Committee (RMC):

The RMC shall include members of the Board of Directors apart from the senior executives of the Company. The broad roles and responsibilities shall, among others, include the following:

- Formulate risk management policy which shall include identification of internal and external risks and assessing the risk profile of the Company and key areas of risks in particular;
- Formulate and put in place the systems and processes to monitor, control and mitigate the risks;
- Review business continuity plan;
- Review and evaluate the risk management policy and practices with respect to risk assessment, risk appetite and risk management processes;
- Review and evaluate the risk report;
- To review the risk management policy, at least once in two years;
- Perform such other functions as may be necessary or appropriate for the performance of its oversight function; and
- Any other matters as the Board may delegate from time to time.

ii) Risk Owners:

The Risk Owners shall be individual business process owners taking ownership for the control effectiveness and will be responsible for the actual management of risk. Their main roles and responsibilities shall include:

- Identify the risks by participating in meetings and deliberations;
- Develop initial level of control and implement the controls/mitigation plan for both corporate and functional risks;
- Take ownership for the risks and implementation of measures to mitigate the risk;
- Take responsibility for the adequacy and effectiveness of the control; and
- Track risk indicators and the report to the Committee.

iii) Internal Auditors:

Independent Internal Audit firms, not from within the JM Financial Group, are appointed to review and report on the business processes and policies of the Company.

Internal Financial Controls (IFC) framework (as per the provisions of the Companies Act, 2013) and Standard Operating Procedures (SOP) Manual is laid-down which briefly highlights the processes, Risk Control Matrices (RCMs) with a focus on Entity Level Controls.

iv) Firm Management:

The Firm management comprising top management shall identify and discuss new risk events as and when they arise.

5. Periodicity:

- The risk identification will be carried out on a half-yearly basis by conducting risk management based meetings, deliberations and interviews with senior management across all the departments to understand the risks faced by the respective departments.
- During the year, continuous risk identification due to changes in the stated strategic and operational objective or in the business environment will be done through periodic reviews.

6. Review of Plan:

This Plan shall be reviewed by the Risk Management Committee and the Board of Directors atleast once in two years.
