

JALAN CHEMICAL INDUSTRIES PVT LTD

RISK MANAGEMENT POLICY

(Formulated in terms of Chapter X of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023; approved and adopted by the Board of Directors at their meeting held on 31.03.2024)

Our Company, M/s. Jalan Chemical Industries Pvt Ltd, is an Investment and Credit Company “NBFC-ICC”, as defined in Para 5.1.19 of Chapter II of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (“the Directions”) issued by the Reserve Bank of India on 19th October, 2023. The Company is engaged in the business of providing finance by way of making loans and trading/investments in securities.

Section 134(3)(n) of the Companies Act, 2013 reads as under:

A statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company.

Having regard to the above Directions and other regulations, the Company has framed this policy.

OBJECTIVE

Section 134(3)(n) of the Companies Act, 2013, states that there shall be attached to statements laid before a company in a general meeting, a report by its Board Of Directors, which shall include– “a statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company”.

Further in view of RBI Guidelines, the company is required to devise a policy framework to address and mitigate integrated risks.

Accordingly, Jalan Chemical Industries Pvt Ltd (the “Company”) has adopted the Policy and Procedure (hereinafter referred to as ‘the Policy’) to be followed while conducting in due compliance with the Rules, their operations.



PREAMBLE

Indian regulations have been modified to reflect the developments in the Western world. Introduction of formulation of Risk Management Policy (RMP) in the Companies Act 2013, reflect the continuation of this trend.

- a) The Policy should be complied with both in letter and spirit.
- b) No dispensation would be granted to this Policy.
- c) Any lapse or non-compliance to the Policy would be viewed seriously and reported to the Management for suitable disciplinary action.
- d) Action of Company shall in no way preclude Reserve Bank of India or Ministry of Corporate Affairs from taking any action in case of violation of the Companies (Accounts) Rules, 2014.
- e) The progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the company shall be put up to the Board of Directors at regular intervals.
- f) The Policy is subject to review from time to time to comply with the regulatory requirements and industry standards.

SCOPE

The Policy shall apply to all such related controls as are relevant for proper risk management in respect of the company and which may be applied across the enterprise at every level and every unit, and includes taking an entity to minimize risks to the extent possible.

DEFINITIONS

- a) "the Act" means The Companies Act 2013
- b) "the Rules" means the Companies (Accounts) Rules, 2014
- c) "Company" means Jalan Chemical Industries Pvt Ltd or "the Company" for the purposes of this Policy.
- d) "Policy" means the Risk Management (RM) Policy.

RISK-MEANING & INTERPRETATION

The term "Risk" has not been defined in the Companies Act, 2013 or RBI Guidelines. Risk can be interpreted as a probability or threat of damage, injury, liability, loss, or any other



negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action. Financially, it can be stated as the probability that an actual return on an investment will be lower than the expected return. There are various types of risks such as Basic risk, Capital risk, Country risk, Default risk, Delivery risk, Economic risk, Exchange rate risk, Interest rate risk, Liquidity risk, Operations risk, Payment system risk, Political risk, Refinancing risk, Reinvestment risk, Settlement risk, Sovereign risk, and Underwriting risk.

Risk management is the identification, assessment, and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives) followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities

BUSINESS RISKS

The company Jalan Chemicals Industries Pvt Ltd (JCIPL), deals in the following businesses:-

- 1) Securities dealings;
- 2) Investments;
- 3) Granting loans and advances.

The risks involved in the above businesses are discussed as below:

1) Securities dealings –

a. Liquidity risk - This is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit). There are two types of liquidity risk:

- i. **Asset liquidity** - An asset cannot be sold due to lack of liquidity in the market - essentially a sub-set of market risk. This can be accounted for by:
 - Widening bid-offer spread
 - Making explicit liquidity reserves
 - Lengthening holding period for VAR calculations



ii. **Funding liquidity** - Risk that liabilities:

- Cannot be met when they fall due
- Can only be met at an uneconomic price
- Can be name-specific or systemic

b. **Market risk**- The four standard market risk factors are equity risk, interest rate risk, currency risk, and commodity risk:

- Equity risk is the risk that stock prices in general (not related to a particular company or industry) or the implied volatility will change.
- Interest rate risk is the risk that interest rates or the implied volatility will change.
- Currency risk is the risk that foreign exchange rates or the implied volatility will change, which affects, for example, the value of an asset held in that currency. The company does not have any transaction in foreign currency.
- Commodity risk is the risk that commodity prices (e.g. corn, copper, crude oil) or implied volatility will change. The company does not deal in commodity.

2) **Investment risks** –

- a. **Asset-backed risk** - Risk that the changes in one or more assets that support an asset-backed security will significantly impact the value of the supported security. Risks include interest rate, term modification, and prepayment risk.
- b. **Foreign investment risk** - Risk of rapid and extreme changes in value due to: smaller markets; differing accounting, reporting, or auditing standards; nationalization, expropriation or confiscatory taxation; economic conflict; or political or diplomatic changes. Valuation, liquidity, and regulatory issues may also add to foreign investment risk. The operations of the company are confined to Ind AS.

3) **Risks in granting loans and advances** –

- a. **Credit risk** - Credit risk, also called *default risk*, is the risk associated with a borrower going into default (not making payments as promised). Investor losses include lost principal and interest, decreased cash flow, and increased collection costs. An investor can also assume credit risk through direct or indirect use of leverage. For



example, an investor may purchase an investment using margin. Or an investment may directly or indirectly use or rely on repo, forward commitment, or derivative instruments.

- b. **Operational risk** - It is "the risk of a change in value caused by the fact that actual losses, incurred for inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from the expected losses".

It can also include other classes of risk, such as fraud, security, privacy protection, legal risks, physical (e.g. infrastructure shutdown) or environmental risks.

RISK MANAGEMENT POLICY

a. **Risk Management –**

JCIPL ("the Company") recognizes that Enterprise Risk Management is an integral part of a good management practice. Risk Management is an essential element in achieving business goals and deriving benefits from market opportunities.

b. **Policy –**

- a. The Company is committed to managing risk in a manner appropriate to achieve its strategic objectives.

c. **Risk Management Philosophy –**

The continued successful safeguarding, maintenance and expansion of the Company's businesses requires a comprehensive approach to risk management.

It should be the policy of the Company to identify, assess, control and monitor all risks that the business may incur to ensure that the risks are appropriate in relation to the scale and benefit of the associated project, business or practice and to ensure that no individual risk or combination of risks result in a likely material impact to the financial performance, brand or reputation of the Company.

Fundamental values of the Company should be respect for their employees, customers and shareholders and integrity in everything they do. By acknowledging that risk and control are part of everyone's job, and by incorporating risk management into JCIPL's daily business practices, the Company will be better equipped to achieve their strategic objectives, whilst maintaining the highest ethical standards.



All staff is expected to demonstrate the highest ethical standards of behavior in development of strategy and pursuit of objectives.

Individually and collectively the Company's employees shall:

- i. Consider all forms of risk in decision-making;
- ii. Create and evaluate group-wide ("corporate"), divisional and business unit risk profiles;
- iii. Continually monitor and seek ways to improve the risk management framework;
- iv. Retain ownership and accountability for risk and risk management at the corporate and divisional level

d. Risk Appetite –

JCIPL's risk appetite should represent the amount of risk the Company is willing to undertake in the achievement of its strategic objectives. It is inextricably linked to JCIPL's strategic and operating planning processes. In assessing risk appetite, the Board and management should consider the needs and expectations of JCIPL's shareholders, customers and employees and the desire to build a profitable, socially responsible and sustainable organisation. As an organisation that provides products and services that are all essentially of a compliance nature, the Board and management should acknowledge that stakeholder expectations are likely to be more challenging than could be applied to other organisations.

As a consequence JCIPL should not accept risks which could expose JCIPL to:

- i. unacceptable levels of financial loss relative to strategic and operational targets;
- ii. breaches of legislative or regulatory non-compliance;
- iii. damage to its reputation;
- iv. unacceptable interruption to the provision of services to customers;
- v. damage to relationships with its customers and key stakeholders;
- vi. health and safety metrics below target.

The Board and management should acknowledge that JCIPL operates in sectors that are growing and consolidating. Opportunities exist to supplement organic growth with selected acquisitions to grow the business, provide enhanced opportunities for our people and improved returns for our shareholders, and reduce the reliance on any one single



income stream. The Board and management should accept that acquisitions are inherently risky but accept this risk providing the acquisition:

- i. is consistent with strategic objectives;
- ii. is financially compelling; and
- iii. is subjected to detailed financial and legal due diligence reviews.

e. Risk Framework -

- a. Risk Management in identifying, assessing, monitoring and reviewing risks.
- b. Risk identification, assessment and treatment are part of the yearly business planning process. Risk ownership is allocated to management for risk assessment and risk treatment plan determination.
- c. Regular review, assessment and monitoring of existing risks is to occur quarterly. New risks are to be managed as they arise. All risks must be re-assessed when there is an organisational change to the business structure (i.e. an acquisition, management change or restructure of the business).
- d. Risk Assessment is conducted using a risk matrix for likelihood and consequence, taking the existing controls into consideration. The consequence assessment covers:
 - i. Financial;
 - ii. Service delivery;
 - iii. People (including health and safety);
 - iv. Reputation and Brand; and
 - v. Regulatory and Compliance.
- vi. Risk Treatment options are considered in determining the suitable risk treatment strategy. Planned action plans supporting the strategy are recorded in an on-line risk management database identifying responsibilities and a time line for completion. Risk treatment options include:
 - Avoid the risk;
 - Reduce the likelihood of the occurrence;
 - Reduce the consequences of the occurrence;
 - Transfer the risk (mechanism includes insurance arrangements);
 - Retain the risk.
- e. Senior management are required to monitor and review existing risks recorded in the risk management system and to add new identified material risks at least quarterly. It is the responsibility of senior management to ensure that risk records are updated.



- f. Key risks reports, with progress of risk treatment implementation and the effectiveness of controls, are to be reviewed by the Board not less than quarterly.
- g. Reports relating to the risk management framework are reviewed by the Board, with “risk management” being a standing item on each meeting of the Board.
- h. The Company’s Assurance Services division manages its risks by ensuring compliance with relevant standards. The Assurance business is subjected to periodic, independent audits by the accreditation bodies, against our registered/approved scope in accordance with the relevant standards. In addition, the business undertakes its own internal audits, the performing of which is a requirement of the accreditation procedures.

f. Risk Management Responsibilities and Authority–

i. Board

The Board should oversee the establishment and implementation of the Company’s enterprise risk management framework and shall review annually the effectiveness of that system. The Board should oversee the operation of the enterprise risk management system and ensure its adequacy. The Board should monitor the internal policies for identifying and determining key risks to which the Company is exposed.

The Board is also responsible for reviewing, approving and documenting market and credit risks and monitoring and enforcing limits for all product areas.

The members of the Board are responsible for monitoring and reviewing the risk at reasonable intervals for completeness, continued relevance of risk assessment, effectiveness of risk treatment plan and timeliness of implementation of risk treatment actions, taking into account changing circumstances. The Principal Officer or any person so designated should provide a statement to the Board in writing that the Company’s risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

ii. All Staff–

The effective management of risk is the responsibility of all managers, staff and others engaged to act on behalf of the Company.



g. Internal Compliance and Controls

- i. In addition to the risk management framework, the Company should have an internal compliance and control system based on the following:
 - A financial reporting control system which aims to ensure that financial reporting is both accurate and timely.
 - The Company has a number of control processes in place to help ensure that the information presented to senior management and the Board is both accurate and timely.
- ii. The control processes include, among other things:
 - Annual audit by the Company's external auditor or as may be decided by the Board
 - Planned review by internal team reviewing the effectiveness of internal processes, procedures and controls;
 - Monthly/ Quarterly/ Annually review of financial performance compared to budget and forecast.

