

Alpha Alternatives Financial Services Private Limited
(Formerly Known as Provincial Finance and Leasing Co
Private Limited)

Risk Management Policy

Version 5.0

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1 Introduction

Alpha Alternatives Financial Services Pvt Ltd (AAF SPL) maintains a robust risk management system to identify, access, manage, monitor and report risk it makes decisions best on a careful risk return trade of in line with define strategy and risk appetite.

AAF SPL Is majorly involved in raising funds via market linked debentures and investing in various liquid trading strategies in securities market. Trading strategies can be in equity, equity derivatives and commodity segment. The company also deals in corporate bond market actively. The company does not intend to build a separate lending business though there can be selective credit disbursements based on market opportunities and liquidity available. Thus, credit exposure will be limited, and it will be for the efficient utilisation of available liquidity.

Considering the nature of business, it is imperative that business is exposed to multiple risks like market, credit, interest rate, liquidity, operational risk. As defined in various reports and studies by central banks information technology and cyber security is one of the major emerging risks for on organizations. Other risk areas company can be exposed to are compliance and regulatory risk, governance risk, people risk, fraud risk and risk arising from outsourcing activities.

2 Purpose and Scope

Purpose of risk management policy is to outline the framework for the company and facilitate robust risk management while ensuring that risk management goals and objectives remain aligned with organisational objectives and strategies.

The policy describes three lines of defence approach which forms the foundation for overall risk governance and responsibilities. It includes description of the relationship of the risk management function with the management and business units.

Policy defines the mission, scope of work, accountability, authority and responsibilities of the risk management team, risk appetite of the company.

This policy document is approved by the Board. CRO`s office shall review annually to check whether the purpose, scope, accountability and responsibilities are defined in this policy continue to be relevant to the current business environment.

3 Risk philosophy and structures

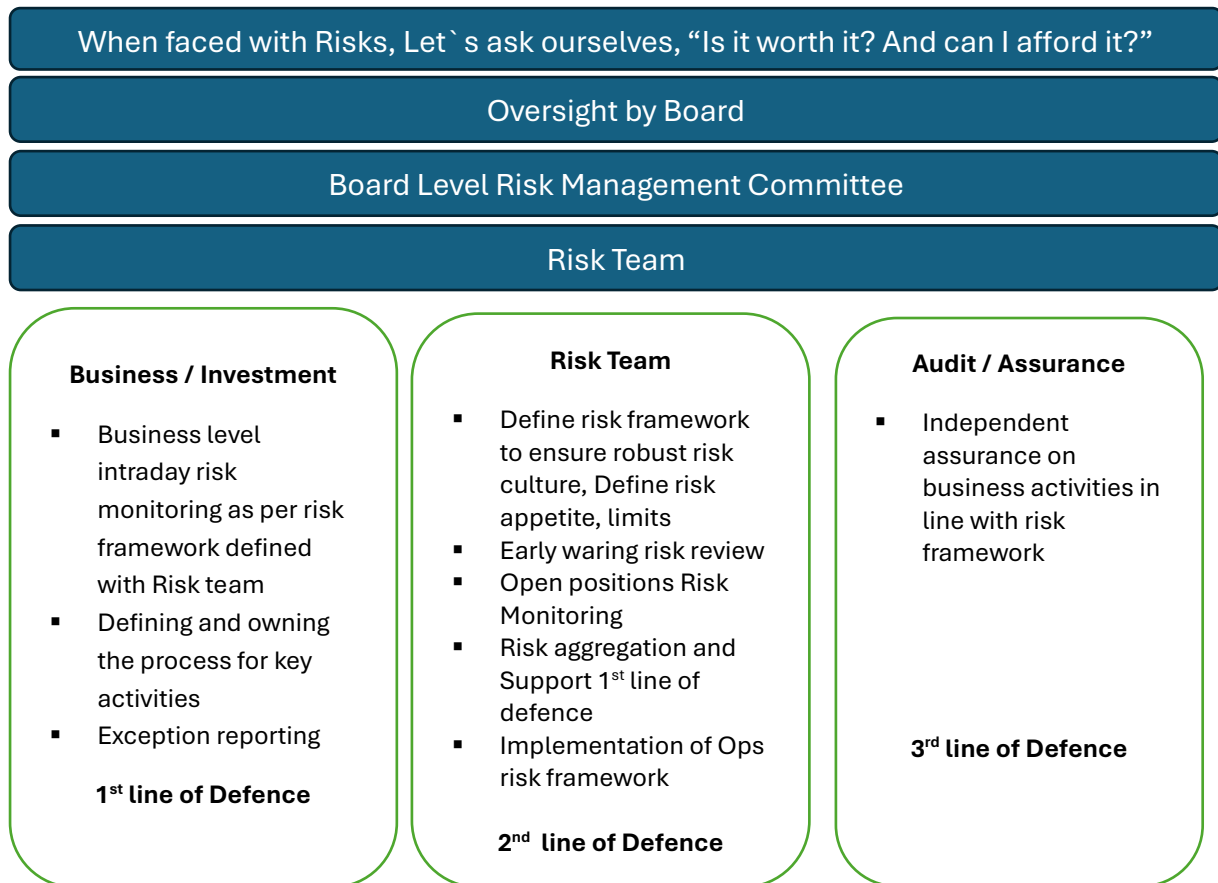
The risk strategy for the company starts with evaluating all the decisions based on the following 2 questions:

“is it worth it?” and “can we afford it?”

The strategy is to achieve sound governance and strong risk culture throughout the Company.

To support the risk strategy and effective risk management, the company has “Three lines of defence” model in place to ensure accountability, oversight and assurance. This is mainly to provide clarity on the responsibilities for the risk and control activities for effective and efficient

risk governance practices throughout the organization. An overview of three lines of defence is shown and explained below:



First Line of Defence:

The business and its supporting units are the first line of defence and are key in managing risks. The first line ensures the risk profile adheres to the established risk appetite, complies with the risk policies, standards and guidelines and promotes a strong risk culture. They own and manage the risks and are responsible for implementation of the risk management framework. The first line has the responsibility to:

- Identify, assess risks with a forward-looking view
- Escalate risk events, limit breaches, report incidents in accordance with the policies
- Establish a control framework, monitor and report on key risk and control measures
- It is the responsibility of the business teams to highlight any risk items to CRO`s office as and when identified

Second Line of Defence:

CRO office is responsible for creating robust risk culture and defining risk framework to ensure effective risk aggregation, monitoring, oversight and governance. The second line

overseas and advises the first line and exercises oversight and guides the first line in their risk management activities. The second line is independent from the first line of defence but works in close collaboration with the first line supporting in their risk management responsibilities.

With reference to the Master Directions of RBI for Non-banking Finance Company a Chief Risk Officer (CRO) is required to be appointed for a fixed tenure with the approval of the Board.

The CRO shall have direct reporting lines to the MD / ED / CEO / RMC of the Board. The RMC/ Board shall meet CRO without presence of the ED/ MD / CEO at least on a quarterly basis.

The CRO does not have any reporting relationship with the business verticals and not being given any business targets. CRO is involved in the process of identification, measurement and mitigation of risks. The CRO`s role in deciding investment / credit proposals is limited to be an advisor.

Third Line of Defence:

Internal audit: Third line of defence is responsible for independent assurance on ongoing business activities in line with the Risk Based Internal Audit policies and practices. The 3rd line of defence provides advice and insights to the Audit Committee, Board on the quality and effectiveness of the internal controls risk management and governance systems and processes. Thereby helping the Board and senior management to protect the organization and its reputation.

Board Responsibility

The Board has ultimate responsibility for the business objectives, strategy and culture. For overseeing the effective risk management, the Board will be responsible for:

- Review the key risk profile on quarterly basis
- Provide direction and guidance
- Sign-off and accept risks wherever it cannot be mitigated
- Sign-off Risk Appetite thresholds in line with the Company`s guiding principles business strategies and aspirations.

Committees to Manage Risk

For overseeing the effective risk management across all business units the current risk committees include:

- Risk Management Committee (RMC)
- Asset and Liability Committee (ALCO)
- Committee of executives (COE) for Fraud Risk management
- Identification and Review committee for Wilful Defaulters

- IT Steering Committee
- IT Strategy Committee

Policies for effective Risk Management

Risk Management policy along with key policies including but not limited to Credit risk policy, Operational Risk Management Framework, ICAAP policy, ECL Policy, Fraud risk management policy, policy for Wilful Defaulters, Risk Register, Exception reporting database, Operational Loss data base, policies related to IT Risk Management, policies related to Liquidity risk management constitute overall risk framework for the Company.

4 Roles and Responsibilities

The role of Risk Management function is to support business, the management and the First Line of Defence in the realisation of its business objectives by defining boundaries for taking risks and by delivering a robust risk management framework to identify, access, mitigate and manage the risks.

Each business conducts its own strategic business risk management and ensures an aggregated and consolidated view of the risks for its business is presented to the management. Business shall highlight any risk items to the CRO`s office as and when identified.

CRO`s office is responsible for consolidating the key risk updates across businesses and risk vectors and discussing the same in the RMC.

CRO office shall have:

- Direct and independent access to the senior management and Board members
- Authority to request for any business information data required for managing the larger interest of the Company`s risk management
- Authority to challenge business practices to achieve highest risk management goals
- Authority to inquire into any matter to ensure the robust risk environment

5 Risk Identification and Assessment

AAFSPL is majorly involved in the business of investments / trading in securities market (equity, equity derivatives, commodity derivatives, fixed income and corporate bond market). Credit / lending business can happen on selective basis considering the market opportunity and to achieve efficient liquidity management.

Considering above business strategy of the Company, risk framework consists of 11 risk vectors as follows: Business, Market, Credit, Liquidity, Compliance and Regulatory, IT and Cyber security, Fraud, Operational risk, Reputation, People, Physical and Infra.

Risk classification supports effective risk management by providing a clear definition and common understanding of the risk management.

Risk Vector	Definition
Business	Risk of not achieving implementation of business strategic goals and objectives, inability to adopt changes in the dynamic external environment, not able to foresee the external events like changing regulations affecting the business model
Market	Risk of loss in trading an investment book resulting from adverse movements in the market environment
Credit	Risk of loss due to inability or willingness of counterparty or borrower to meet contractual obligations, incorrect due diligences / assessment, deficient collateral
Liquidity	Risk of not being able to raise funds or monetise an asset within a reasonable time frame at a fair price, leading to an inability to meet short term financial obligations
Operational	Risk of loss resulting from inadequate or failed processes, systems human negligence
Compliance	Non-compliance with spirit of laws and regulations
Reputational	Risk arising from negative perception on the part of investors customers, shareholders lenders, media reports that can adversely affect to maintain or establish new business relationships
IT & Cyber security	Risk of unauthorised use, disruption, modification or damage of information whether physical or computerised. Failure to protect the Internet facing systems and application and data stored in these systems
Fraud	Risk of loss due to activities undertaken by an external / internal individual or entity that are done in a dishonest or illegal manner to give a disadvantage to the internal / external individual or entity
People	risk of not having motivated and right team of people to implement and achieve the business strategic goals in a timely manner
Outsourcing	Risk arising due to dependence on external vendors to carry out certain business activities

All above eleven risk vectors shall be assessed in terms of their inherent risk faced by the Company depending on its nature, size and complexity of business, changes in external market environment, changes in the regulations and any other external events affecting the Company. Also, the company should have the focus on comfort level for each risk vector and continuously strive through active risk management and actions to achieve and maintain the comfort level.

6 Risk Management Process

The Company shall have a well-defined risk management process in terms of important risk parameters for each risk vector, risk monitoring and reporting, risk controls and mitigations.

6.1 Market Risk

Overview:

Trading and investment in financial instruments and securities is an important activity of the Company. Business team have two important investment portfolios as Equity linked trading strategies, Commodity linked trading strategies.

- **Equity Linked trading strategies:**

These trading strategies involve active positions in equity and equity derivatives in stock market and are highly liquid and can be liquidated in a trading session. Trading strategies are Absolute return strategies i.e. performance of the portfolio will not be dependent on the directional movement of the market.

- **Commodity Linked trading strategies:**

These trading strategies involve active positions in commodity derivatives via MCX / NCDEX and are highly liquid and can be liquidated in a trading session. Trading strategies are Absolute Return strategies i.e. performance of the portfolio will not be dependent on the directional movement of the market.

- **Fixed income portfolio:**

The business teams also take positions in the fixed income market via investment in central government and state government bonds, T Bills, corporate bonds commercial papers and corporate deposits.

Company can have investments for longer duration as well out of its surplus liquidity.

Risk Monitoring and Reporting:

Considering above trading strategies and investments in the market, Major risks are price risk due to adverse price movement, high concentration in a sector / script / commodity.

Risk on derivatives positions is leveraged, non-linear and exponential due to Greeks of the derivatives positions such as:

- **Delta:** rate of change of derivative with respect to change in underlying
- **Gamma:** it is the rate of change of delta i.e. how delta keeps changing with respect to time to expiry of the Option instrument, volatility in the market and changing the underlying price

- Vega: it is change in the price of the options with respect to change in the volatility of the underlying in the market
- Theta: it is the change in the price of the options with respect to time to maturity of the option

Risk can be mitigated by thorough analysis of risk inherent in the trading strategy before executing the trade. Business team shall validate each trading position / strategy in terms of its sensitivity to the plausible market movement, potential loss in stress scenario and ways of unwinding the position.

Business team shall assess and monitor the price risk of its trading positions actively in the market. Impact of options greeks on the trading positions shall be monitor by the business.

Risk team shall monitor the end of day open market positions independently by calculating various loss scenarios such as Opening Gap movement, value at risk, sensitivity of the portfolio to the option Greeks etc.

Fixed income instruments are sensitive to the interest rate movement in the market. Fixed income instruments also face the risk of rating downgrade, credit spread, counterparty risk and liquidity in the market. Business and risk team though shall monitor interest rate sensitivity, Rating concentration, industry concentration, counterparty concentration of the fixed income positions.

Risk models shall be developed to capture above risks parameters and also to generate various stress scenarios value at risk models to test the vulnerability of trading positions.

Trading terminals are used to take market positions. Terminal level various limits single order limit, loss limit, margin utilisation shall be installed. Intraday MTM loss limits, margin utilizations shall be monitored actively.

Risk appetite in trading portfolio shall be clearly defined and monitor regularly. Various risk limits such as opening gap limits, loss limits, exposure limits and escalation matrices shall be established for the trading book.

6.2 Credit Risk

Overview:

The Company can have selective credit exposure based on the market opportunities and liquidity available though it does not intend to build and scanner the lending business. The Company shall adopt in depth credit appraisal process where every proposal is critically evaluated against the risk reward.

Risk Monitoring and Reporting:

Risk can be mitigated by and controlled by right amount of qualitative and quantitative collateral mix and ringed fencing by legal documentation which gives the lender the right to protect and recover its capital in case of event of default. The company aims to control and mitigate the credit risk at the point of origination itself.

Continuous risk monitoring shall be done at account level and at security level to ensure the asset quality and check for any delinquencies. Periodic reporting and review ensure that timely identification and resolution of any risks.

6.3 Liquidity Risk

Overview:

It is the risk that a company will not be able to meet expected and unexpected current and future cash flows without affecting daily operations or financial condition.

Risk Monitoring and Reporting:

Liquidity risk is monitored and measured as per liquidity risk framework and ALM policy approved by Board and implemented via ALCO.

RMC shall evaluate liquidity strength by liquidity levels like LCR, cumulative mismatch % in cash flows, stress testing on cashflow projections.

6.4 Operational Risk

Overview:

Operational risk is defined as risk of loss resulting from inadequate or failed internal processes, people, systems or external events. The goal is to keep operational risk at an appropriate level related to the characteristics of the Company's businesses.

Risk Monitoring and Reporting:

Company shall achieve the compliance with Board approved Operational Risk Management Framework.

6.5 IT and Cyber Security Risk

Overview:

Information and cyber security are important emerging risk classified by Reserve Bank of India.

Risk Monitoring and Reporting:

The Company shall have strong IT governance in place and shall achieve compliance with respect to IT and cyber security frameworks and IT Risk and Governance policies through CISO and IT Steering Committee.

6.6 Compliance and Regulatory Risk

Overview:

Compliance risk is the potential exposure to the legal penalties, financial forfeiture, loss resulting from its failure to act in accordance with the industry laws and regulations, internal policies and code of conduct and ethics.

Risk Monitoring and Reporting:

Compliance team under guidance of Chief Compliance Officer (CCO) shall conduct compliance audits and testing to check that the business processes and operations are following irrelevant regulations send policies.

6.7 Reputational Risk

Overview:

Reputational risk is multidimensional and reflects the perception of other market participants about the Company.

Risk Monitoring and Reporting:

The Company shall aim at identifying reputation risk and issues as early as possible and manage them appropriately the primary responsibility for identifying reputation risk and other ends to the control requirements sits with the business and support function where the risk arises.

6.8 Outsourcing Risk

Overview:

The company faces various risks while outsourcing its business activity to outside vendors.

Risk Monitoring and Reporting:

The Company shall have well defined outsourcing policy in place. Vendor empanelment, assessment shall be carried out before onboarding the vendor. The Company shall ensure that RBI directions on the outsourcing are followed. Review out of outsourcing activities shall be performed periodically and shall be placed to RMC.

6.9 Fraud Risk

Overview:

The company can face various instances of fraud by internal as well as external people entities.

Risk Monitoring and Reporting:

The Company shall have a detailed fraud risk management framework as per the Master Directions of RBI. The Company shall ensure that it is in compliant with the Board approved fraud risk management policy.

7 Risk Tolerance - Appetite Statement

Risk Appetite is defined as the amount and type of risk that the Company is willing to take within the context of its business strategy. It sets the outer boundaries for the risk taking and forms input to the business and capital planning process. Risk appetite links the risk strategy to the business strategy through set of comprehensive indicators.

The risk appetite framework shall satisfy the following key elements:

- Clear articulation of the levels and types of risks that afspa and is willing to accept.
- Quantification of the risk limits for each material risk
- Qualitative measures that can be translated into thresholds

➤ Market Risk

Trading and investment are the major activity of the Company. The Company aims to be moderately exposed to the market movements in the trading environment.

Trading and Investment Book		Risk Threshold	Early Warning Threshold
EQAR	Opening Gap Risk +/- 10% Opening Gap Risk +/- 20% Value at Risk - 99%ile one day Loss Limit - FTD / FTM / FTY	15% of EQAR assets 25% of EQAR assets 3% of EQAR assets 7% of EQAR assets	12% of EQAR assets 22% of EQAR assets 2.5% of EQAR assets 5% of EQAR assets
CAR	Opening Gap Risk +/- 2 SD Opening Gap Risk +/- 3 SD Value at Risk - 99%ile one day Loss Limit - FTD / FTM / FTY	2% of CAR assets 3% of CAR assets 3% of CAR assets 5% of CAR assets	1.5% of CAR assets 2% of CAR assets 2.5% of CAR assets 3% of CAR assets
Fixed Income	Investment in Gsec Investment in Corporate Bonds 1 PVBP (Cr) 99%ile 10 Day VaR	Min 50% of total FI Max 30% of total FI Rs 3 cr 2% of total FI	60% of total FI 25% of total FI Rs 2.1 cr 1.5% of total FI

➤ **Credit Risk**

The company avoids having large credit lending book.

Parameter	Risk Threshold	Early Warning Threshold
Exposure limit on Credit Book	Rs 500 cr	Rs 350 cr
Exposure to Real Estate sector	Rs 250 cr	Rs 200 cr
Capital Market Exposure	Rs 350 cr	Rs 250 cr
Single Exposure Limit	25% of Tier I	25% of Tier I
Group Exposure Limit	40% of Tier I	40% of Tier I
AIF	Rs 500 cr	Rs 350 cr

➤ **Liquidity risk**

The Company`s business operations are such that against long-term borrowing investable asset are highly liquid. Thus, have limited exposure to liquidity risk. Businesses are not allowed to run structural liquidity mismatches.

Parameter	Risk Threshold	Early Warning Threshold
LCR	110%	115%
SLS – Cumulative -ve mismatch for 6 months	No -ve mismatch for 6 months	No -ve mismatch for 6 months

➤ **Compliance and Governance risk**

The Company is committed to a high level of governance and compliance with relevant legislations, regulations as well as internal policies and sound corporate governance principles.

Parameter	Risk Threshold	Early Warning Threshold
<ul style="list-style-type: none"> ▪ Instances of Regulatory penalty by RBI, SEBI, or any other regulators ▪ Instances of inaccuracies or delays in regulatory instances ▪ Instances of deviations from stated compliance procedures through all levels of organization ▪ No of Show Cause Notices issued by Regulators ▪ No of overdue RMP concerns 	<p>0</p> <p>2</p> <p>3</p> <p>1</p> <p>1</p>	<p>0</p> <p>1</p> <p>2</p> <p>1</p> <p>1</p>

➤ **Operational Risk**

The company aims to have adequate and effective control environment of Company`s operations. It aims to have early identification of any activities / processes which can create significant losses.

Parameter	Risk Threshold	Early Warning Threshold
Gross loss due to single instance of operational lapse	Rs 2 cr	Rs 1.5 lacs
	Rs 5 cr	Rs 3 cr

Cumulative Gross loss due to operational lapses in a quarter	Rs 10 cr	Rs 7 cr
Cumulative Gross loss due to Operational lapses in a year		

➤ **IT and Cyber Security Risk**

Company has a very low appetite for the risks of vulnerability of the systems to end users. Company has low appetite for damage to Company`s assets and reputation from friends arising from malicious attacks Also has low appetite NO tolerance for the loss of confidential data.

Parameter	Risk Threshold	Early Warning Threshold
No of DLP - Data Loss Prevention alerts reported in a quarter	2	1
No of cyber security breach instances in a quarter	2	1
No of instances against brand protection security in a quarter	2	1

➤ **Fraud risk**

The company has incorporated Early Warning System to identify the potential frauds and have and have very low appetite for fraud incidents.

Parameter	Risk Threshold	Early Warning Threshold
External fraud - single instance causing loss	Rs 25 lacs	Rs 10 lacs
External fraud - cumulative loss in a quarter	Rs 50 lacs	Rs 50 lacs

➤ **People risk**

The Company is strictly committed to zero tolerance for sexual harassment and takes essential steps to ensure that employees are not subjected to any form of harassment. The company aims to have attrition rates within the acceptable limits.

Parameter	Risk Threshold	Early Warning Threshold
Attrition rate (YTD (cumulative till date / max up to 1 yr))		
Senior	25%	20%
Middle	40%	35%
Junior	50%	40%
Overall	45%	40%

➤ **Outsourcing risk**

Company is carrying out its score business activities by itself not engaged in outsourcing to the 3rd party. Currently Company has service level agreement with Group.

In future Company engage 3rd party vendor for outsourcing as per Outsourcing Policy. Company is concerned about the quality services provided by outsourced vendors.

Parameter	Risk Threshold	Early Warning Threshold
Critical events reported of outsourced vendors during the quarter	2	1