Risk Management Policy

CMS Info Systems Limited
Reg. office: CMS House, Plot No. 91, Street No. 7, MIDC Marol, Andheri East, Mumbai - 400093

CONTENTS

Objective of the Policy

To ensure the highest standards of operational best practices and corporate governance, the Company seeks to establish a formal risk management policy.

The risk management policy sets out the objectives and elements of risk management within the organization and helps to promote risk awareness amongst employees and to integrate risk management within the corporate culture.

This Policy defines the approach towards risk management and the objective is to embed risk management as part of the culture of the organisation where the shared understanding of risk leads to well informed decision making.

The specific objectives of the Risk Management Policy are:

1. To ensure that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated and managed;
2. To establish a framework for the company's risk management process and to ensure company-wide implementation;
3. To address the responsibilities and requirements of the management of the company as they fulfill their risk management duties;
4. To enable compliance with reference to risk management, wherever applicable, through the adoption of best practices.

The policy once adopted by the Board is subject to on-going review whenever conditions warrant and at least on an annual basis. This Risk Management Policy replaces the existing risk policies.

Risk Philosophy and Principles

Risk is defined as any event that will impact achievement of the Company's objectives or, the level of exposure to uncertainties and level of vulnerability that the Company must and effectively manage as it achieves its objectives.

Risk will manifest itself in many forms and has the potential to impact the health and safety, environment, community, reputation, regulatory, operational, market and financial performance of the Company and, thereby, the achievement of the corporate objectives.

Risk Management is a continuous interplay of actions that choked the Company. It is effected by the Company's Board of Directors, management and other personnel. The

risk management process of the Company aims at providing reasonable assurance regarding achievement of the Company's objectives.

By understanding and managing risk we provide greater certainty and confidence to our shareholders, employees, bankers, customers and suppliers, and for the communities in which we operate.

In order to fulfil the objectives of this policy and lay a strong foundation for the development of an integrated risk management framework, the policy outlines the following guiding principles of Risk Management:

- We acknowledge that all activities have an element of risk and that not all risks can or should be transferred.
- Since many risks can impact our reputation, all risks must be evaluated in terms of the potential impact on our reputation.
- We do not intend to engage in speculative activities which are defined as a profit-seeking activity unrelated to our primary business objective.
- Risk issues will be identified, analysed and ranked in a consistent manner. Common systems and methodologies will be used.
- All business decisions will be made with the acknowledgement and acceptance of risks involved.
- The Risk Management Policy shall provide for the enhancement and protection of business value from uncertainties and consequent losses.
- All employees of the company shall be made aware of risks in their respective domains and their mitigation measures.
- The risk mitigation measures adopted by the company shall be effective in the long-term and to the extent possible be embedded in the business processes of the company.
- Risk tolerance levels will be regularly reviewed and decided upon depending on the change in company's strategy.
- The occurrence, progress and status of all risks will be promptly reported and appropriate actions be taken thereof.

Risk Management Organization

A robust organizational structure for managing and reporting on risks is a pre-requisite for an effective risk management process.

The responsibility for identification, assessment, management and reporting of risks and opportunities will primarily rest with the business managers. They are best

positioned to identify the opportunities and risks they face, evaluate these and manage them on a day to day basis.

The structure and roles and responsibilities of the risk organization will be as follows.

Role of Board of Directors:

The Company's Board of Directors has the responsibility for framing, implementing and monitoring the risk management plan for the Company. The Board shall define the roles and responsibilities of the designated Risk Coordinator. The Board of Directors will review this policy statement on an annual basis, or sooner, depending on the circumstances facing the organization.

Role of the Designated Risk Coordinator:

On an ongoing basis, designated Risk Coordinator will be responsible for collating information from Risk Owners for new risks / events or changes in risk exposure. He will be responsible for maintenance of the Risk Register.

Specifically the Designated Risk Coordinator will be responsible for:

1. Coordinating with Risk Owners for new risks identified or changes to risks;
2. Review on an ongoing basis the list of key risks impacting achievement of objectives identified for the year and report changes, if any, to the Board;
3. Reporting on key risks and key risk management measures regularly as per reporting templates outlined in Annexure B;
4. Reporting identified risks in Risk Register as per reporting format outlined in Annexure D.
5. Adding and updating new risks to the Risk Register as per reporting format outlined in Annexure D.
6. Reporting significant breakdowns in risk handling measures and actions to prevent their recurrence;

Role of Risk Owners:

Risk Owners are the personnel who are best placed to influence and manage the risk / control or are best placed to report on the risk / control. A risk owner is a person or entity that has been given the authority to manage a particular risk and is accountable for doing so. On an ongoing basis, Risk Owners monitor their areas for new risks / events or assess changes in risk exposure as well as carry out periodic assessment of controls in line with the above.

Specifically risk and control owners within Business Units and Departments are responsible for:

- Ongoing identification and evaluation of risks within the business and operations and collating those in the reporting template outlined in Annexure A;
- Reporting to the designated Risk Coordinator on key risks and key risk management measures regularly in the reporting template outlined in Annexure B;
- Selecting and implementing risk management measures on a day to day basis;
- Reviewing the effectiveness, efficiency and suitability of the risk management process and addressing weaknesses and reporting the same using the template outlined in Annexure C;
- Maintaining efficient and cost effective risk handling mechanisms or control framework in line with changes in the business.

Risk Management Process

The processes mentioned below are in the sequence followed, for performing risk management, which is meant for uses at initial stage of implementing the Risk policy which can be used further also at later stage if required and feel so by the Board. Risk Management is a dynamic process and almost any component can and will influence another.

1. **Risk Identification**

The risk management process starts with the systematic identification of key risks and their root causes**.** Only if such risks and root causes are recognized in a timely manner can they be successfully managed.

A prerequisite for efficient risk identification and subsequent risk evaluation is a consistent and comprehensive understanding of business objectives and strategies.

Based on these targets potential opportunities and threats can be identified, which may lead to a deviation from objectives or plans.

A list of key risks impacting achievement of objectives will be reviewed on an ongoing basis as a part of the daily business activities by the Risk Owners.

There could be other risks or root causes which will emanate because of changes in the internal or external environment due to uncertainties and increase in vulnerability within which the Company operates. These risks and root causes shall be identified by the business managers (i.e. Risk Owners) during the normal course of business and assessed using the risk tolerance levels and the likelihood parameters that have been defined.

The reporting of new events / incidents post assessment should be done to the designated Risk Coordinator on a quarterly basis.

2. Risk Assessment

Once risks are identified, they shall be evaluated or assessed, i.e., the impact of the risk shall be quantified to determine its potential effect on the profit and its probability of occurrence. The key objective is to measure the relative importance of risks, which enables prioritization and focus on important risks. Key risks impacting achievement of objectives for the respective financial year will be assessed for impact and likelihood. The assessment will take into consideration the risk tolerances that have been defined for achievement of the Company's objectives.

Each risk will be assessed for impact (materiality of the risk if it occurs) and likelihood (at an agreed level of impact, the probability of the event taking place). These two parameters determine the importance of risk to the organization. Based on the impact and likelihood the risk exposure will be categorized into four categories - extreme, high, medium and low.

Risks are assessed before and after risk handling measures. The assessment of risks at the inherent level (before considering actions management might take to reduce the likelihood or the impact of the risk) makes it possible to prioritize risks. The assessment of risks at the residual level (risk that remains after management's response to the risk) helps determine whether the current risk position of the Business Unit/ Department is acceptable or requires improvement.

All risks are assessed at the inherent and residual7 levels.

3. Developing Risk Response and Assessing Control Activities

The third stage of the risk management process is *risk handling*. Management shall select a series of actions to align risks with the Company's risk appetite and risk tolerance levels to reduce the potential financial impact of the risk should it occur and/ or to reduce the expected frequency of its occurrence. Possible responses to risk include avoiding, accepting, reducing or sharing the risks.

Risk avoidance: Withdrawal from activities where additional risk handling is not cost effective and the returns are unattractive in relation to the risks faced (e.g. refuse orders, withdraw from projects).

Risk acceptance: Acceptance of risk where additional risk handling is not cost effective, but the potential returns are attractive in relation to the risks faced.

Risk reduction: Activities and measures designed to reduce the probability of risk crystallizing and/ or minimize the severity of its impact should it crystallize (e.g.; hedging, loss prevention, crisis management, business continuity planning, quality management).

Risk sharing: Activities and measures designed to transfer to a third party responsibility for managing risk and/ or liability for the financial consequence of risk should it crystallize.

In accordance with the defined roles and responsibilities, the Risk Owner shall be responsible for implementing sufficient risk handling to manage risks at an acceptable level. If necessary, guidance on the development and implementation of risk handling measures may be attained from the designated Risk Coordinator or Board.

Where there is either insufficient or excessive risk handling it is the Risk Owner's responsibility to develop action plans to rectify the situation and ensure their timely completion. Action plans will be prioritized according to the risk content.

The cost of implementing additional risk handling needs to be recognized and wherever possible alternative options will be evaluated to find the most cost effective option to handle risks. In circumstances where action plans have a long implementation timeframe consideration will be given to interim options.

4. Monitoring Risks and Controls

There shall be adequate controls and ongoing monitoring mechanisms to enable timely notification of fundamental changes in risks or their handling measures. Since the internal and external environment within which the Company operates is exposed to change continuously, the risk management process shall remain sufficiently flexible to accommodate new situations as they arise. Risk responses that were once effective may become irrelevant; control activities may become less effective, or no longer be performed; or entity objectives may change. In the face of such changes, Risk Coordinator shall determine whether the functioning of the risk management framework continues to be effective.

Monitoring in the Company will be done in two ways:

1. **Internal Audit** or Risk Officer may be asked to evaluate the relevance and effectiveness of the risk management framework on periodic basis.

2. Ongoing monitoring by the Risk Owners and designated Risk Coordinators:

- **Risk Owners from Business Units** are responsible for monitoring the relevance of key risks and effectiveness of their counter measures. They are also responsible for the development and implementation of risk management action plans.
- **The designated Risk Coordinator** is responsible for monitoring adherence to the risk policy and guidelines and reviewing the overall risk management system in light of changes in external and internal environment within which the Company operates.

5. Risk Reporting

Periodic reporting on risks is required to determine whether the impact or likelihood of the risk is increasing or decreasing and to ensure continuing alignment of organizational resources to priorities. The reporting of key risks and risk handling measures is necessary to:

- Improve the quality of and support timely decision making;
- Determine priorities for action and improvement;
- Enable senior management to satisfy themselves that the key risks are being identified and managed to an acceptable level.

Details of risk profile facing various Business Units/ Departments will be documented in the form of a Risk Register maintained by the Risk Owners and periodically

(quarterly) reported to the designated Risk Coordinator along with details of risk mitigation measures, etc. The designated Risk Coordinator will in turn report to the Board for guidance.

Risk reporting shall comprises the following elements:

- Business unit/ department-specific description of key risks and opportunities;
- Risk Rating or evaluation (after handling measures) of risks regarding expected probability and impact on 'Profit' or other key Company objectives as assessable;
- Description of key risk handling measures including value of these handling measures. The value of the risk handling measure is a sum of this associated incremental cost. This should be quantified wherever possible;
- Statement of changes (including materialized risks or including of risks into Risk Register compared to the last risk reporting of the Business unit/ Department.

Glossary

1. **Risk Appetite:** The quantum of risk the Company is willing to bear within its overall capacity, or the broader level of risk that the organization can assume and successfully manage for an extended period of time; this is factored into the Company's strategy at the time of drawing up the annual and long term business plans.

2. **Risk Tolerance**: Variability that the company is willing to accept to pursue its defined objectives.

3. **Risk Scale**: Risk Scale provides a range for rating of risks on possible impact and likelihood considering the objectives of the company. It is based on the risk tolerance capability of the organization.

4. **Risk Profile:** Risk Profile provides a snapshot of the key risks and summarizes information relating to the potential impact and likelihood of the risks that can be used by management to manage risks effectively.

5. **Inherent Risks**: The risk an organization faces, absent actions management might take to alter either the risks probability or impact. These are risks inherent to the organization, based on its specific structure, objectives, systems and environment.

6. **Residual Risks**: The risk that remains in operation in an organization after all possible, cost-effective risk mitigation measures have been applied.

7. **Risk Avoidance :** A risk response strategy that entails withdrawal from activities where additional risk handling is not cost effective and the returns are unattractive in relation to the risks faced (e.g. refuse orders, withdraw from projects);

8. **Risk Acceptance:** A risk response strategy that entails acceptance of risk where additional risk handling is not cost effective, but the potential returns are attractive in relation to the risks faced.

9. **Risk Reduction:** A risk response strategy that entails activities and measures designed to reduce the probability of risk crystallizing and/or minimize the severity of its impact should it crystallize (e.g. hedging, loss prevention, crisis management, business continuity planning, quality management).

10. **Risk Sharing:** A risk response strategy that entails activities and measures designed to transfer to a third party responsibility for managing risk and/or liability for the financial consequence of risk should it crystallize.

11. **Risk Matrix**: Risk Matrix is a matrix that is used during risk identification and assessment to categories various risks depending on their source and impact they could have on various business objectives. This is a simple mechanism to increase visibility of risks and assist management decision making. Risks are classified to group various individual risks having logically similar expectations of loss.

The classification facilitates risk assessment and provides a clear risk framework.

Sources of risk –

a. Internal: Executives within the Company such as leadership teams, management, officers and employees of the Company.
b. Partners: Dealers, suppliers and strategic partners such as technology/ design-partners, JV partners.
c. Customers: Consumers of products/ services sold by the Company.
d. Competition: Entities who directly/ indirectly compete with the Company's products and services.
e. PESTEL: Environment factors affecting the Company – Political, Economic, Social, Technological, Environmental and Legal factors

Classification

a. Volume at Risk: Adverse events which impact sales volume of the Company usually measured in terms of quantity of measures.
b. Value at Risk: Adverse events which impact value realized by the Company usually measured in monetary terms.
c. Cost at Risk: Adverse events which impact cost of the Company's product/ services usually measured in monetary terms in currency.
d. Growth at Risk: Adverse events which impacts growth of the Company – new product launch / market entry, new / expansion of facilities, M&A, etc.
e. Governance at Risk: Adverse events which impacts compliance with best practices, statutory, regulatory, corporate citizenship requirements of the Company.
f. Brand at Risk: Adverse events which impacts brand value, image and reputation of the Company.

12. Uncertainty: Uncertainty refers to events outside the Company that could result in an unfavourable outcome of a business decision and the probability of such events is either not known nor can be precisely estimated.

13. Vulnerability: Vulnerability is an indication of the susceptibility of the Company in the future, notwithstanding uncertainties in the environment. This measures the Company's shortcomings in its state of readiness, agility, adaptability or even business continuity.

AMENDMENTS TO THE POLICY

The Board of Directors on its own can amend this Policy, as and when required as deemed fit. Any or all provisions of the Policy would be subject to revision / amendment in accordance with the Regulations on the subject as may be issued from relevant statutory authorities, from time to time.

Reporting Templates

A. Risk Library *(All the risks identified by the Risk Owners shall be forwarded to the designated Risk Coordinator at the beginning of the year)*

Sector/ Department							
Assessed by							
Date of assessment							
Risk Category	**Risk Category Description**	**Impact**	**Likelihood**	**Risk identified/ reassessed**	**Root cause**	**Risk driver**	**Evidence**

- Format subject to change / updation

B. Risk Reporting Template *(To be used for annual reporting to the Board)*

Causes/ Classification	**Internal**	**Partners**	**Customer**	**Competition**	**PESTEL#**
Volume					
Value					
Cost					
Growth					
Governance					
Brand at Risk					

PESTEL: Political, Economic, Social, Technological, Environmental and Legal factors

C. Risk Analysis Template *(To be used for quarterly reporting to the Board)*

Risk Classification	**Volume / Value / Cost / Growth / Governance / Brand**
Description of Risk	
Risk Owner	
Impact on Business	Inherent impact on objective – pre mitigation
Root Causes	
Lead Indicators	
Lag Indicators	
Mitigation Plan	

Residual Risk	Impact on Business Objective – post mitigation
Residual Risk	Impact <Rating> Likelihood <Rating> Value <Amount>
Overall Rating	Extreme / High

D. Risk Register *(To be maintained for Extreme/ High Risks & to be forwarded to the designated Risk Coordinator on quarterly basis by the Risk Owners)*

Risk Register - for Financial Year -- --					
Risk		**Risk description**			
1	Extreme				
2	High				
Risk Description					
Risk Owner					
Key Performance Indicators					
Root Causes		**Current Controls/ Desired Controls**	**Control Owner**	**Action Plan**	**Action Update**

Date Approved

The above policy is adopted by the Audit Committee of Board of Directors of the Company in its meeting held on 27th July, 2016, and herewith recommended to the Board of Directors for necessary approval.

For CMS Info Systems Limited

Jimmy Mahtani
Chairman

PLACE: Mumbai