



Lucky Investments

# RISK MANAGEMENT POLICY

## Revision History

<b>Version</b>	<b>Policy Owner</b>	<b>Approval Authority</b>	<b>Effective Date</b>
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## Table of Contents

S. No.	Particular	Page No.
A	Introduction	3
B	Purpose	3
C	Scope	3
D	Risk Management Defined	3
E	Components of Policy	3
1	Governance and Organization- Roles and Responsibilities for Risk Management	3
i)	Board of Directors	3
ii)	Board Risk and Compliance Committee	3
iii)	Delegation of Powers	3
iv)	Three Lines of Defense	4
2	Risk Management Approach	5
i)	Identification and Assessment of Risks	5
ii)	Management of Risks	5
iii)	Formalizing Company's Risk Appetite	5
3	Managing Key Risks	5
i)	Fund / Separately Managed Account (SMA) Specific Risks	6
a)	Governance Mechanism for funds and SMAs	6
b)	Investment Risk	6
c)	Credit Risk	6
d)	Liquidity Risk	7
e)	Concentration Risk	7
ii)	AMC specific Risks	8
a)	Governance Mechanism	8
b)	Risk and Control Assessment	8
c)	Incident management/ Internal event escalation	8
d)	Third party Engagement / Outsourcing Arrangements	8
e)	Disaster recovery and business contingency planning	9
f)	Product governance	9
g)	Broad categories of AMC level Risks	9
4	Reporting Risks and Related Information	10
F	Review and Approval	10



## **A. Introduction**

This document sets out the Risk Management Policy (“Policy”) for Lucky Investments Limited (“the Company”) and describes the approach to managing risk to the Company. This policy is a macro-level description of risk management governance, the organization's risk appetite and key elements of its risk management process. This document is aligned with the requirements of Risk Management and Control Guidelines for AMC's issued by Securities and Exchange Commission of Pakistan.

## **B. Scope**

The Policy is applicable to the Company, Collective Investment Schemes and Voluntary Pension Fund (herein after collectively referred to as “the funds”), Separately Managed Accounts including discretionary and non-discretionary portfolio (herein after collectively referred to as “SMA”) and its employees. The risk management applies to all risks (AMC level risks and Fund / SMA level risks) that Company is exposed to in its operations and business.

## **C. Objective**

The objective of the Risk Management Policy is to assist the Board of Directors, Board Risk and Compliance Committee (a board level subcommittee) and Management of the Company in:

- a) Demonstrating high standards of due diligence in daily risk management.
- b) Promoting proactive management and early identification of risk.
- c) Assigning and increasing accountability and responsibility.
- d) Managing risk within the defined tolerance limits.

## **D. Risk Management Defined**

Risk Management is the overall process of identifying and understanding the full spectrum of an organization's risk and taking informed actions to help it achieve its strategic objectives, reduce the likelihood of failure, and decrease the uncertainty of overall business performance.

## **E. Components of Policy**

This policy covers following:

1. Governance and Organization.
2. Risk Management Approach
3. Managing AMC and Fund Specific Risk
4. Reporting Risks and related Information.

### **1. Governance and Organization- Roles and Responsibilities for Risk Management**

#### **i. Board of Directors**

The Boards of Directors shall have a responsibility to understand the major risks applicable to the Company and approve and periodically review the Entity-wide risk management framework including how risk is to be identified, assessed, monitored and controlled.

#### **ii. Board Risk and Compliance Committee (BRCC)**

The Board of Directors through Board Risk and Compliance Committee recognize its responsibility for ensuring that a comprehensive Risk Management system and Compliance policies and programs to ensure identification, assessment and management of risks is in place to assist Board in managing growth in a rapidly changing environment, ensuring sustainability, quality enhancement and to ensure that the Company is in compliance with statutory requirements. The Committee will be a review and recommend committee for the Board for all key risks and compliance matters.

#### **iii. Delegation of Powers**

The Board of the Company shall delegate management responsibilities to the CEO who shall through Executive Committee, Investment Committee and Risk Management Department, manage risk under the three lines of



defense model.

#### iv. **Three Lines of Defense**

The Company shall manage risk under three Lines of Defense (“LOD”) model to define roles and responsibilities within Company. The activity-based model delineates accountabilities and responsibilities for risk management and the control environment within each LOD. The model applies to all individuals and all risk types and supports the delivery of conduct outcomes.

There shall be clear segregation between risk ownership (First LOD), risk oversight and stewardship (Second LOD) and independent assurance (Third LOD) to help support effective identification, assessment, management, and reporting of risks.

**First LOD** has ultimate ownership for risk and controls, including reading across assessments of identified issues, events and near misses. First LOD has two key stakeholders – Risk Owners and Control Owners;

- a) **Risk Owners** are the CEO and his direct reports, the executive level Risk Owners, who are accountable for identifying, assessing, managing, and reporting key existing and emerging risks that they own for their function in line with the risk appetite set by the Board. They shall also ensure an appropriate control framework operates effectively, and an appropriate risk and control culture is embedded within the organization.

Each direct report of CEO shall be responsible for managing risk emanating from the department under his supervision. Accountability for ensuring compliance with rules, regulations and laws lies with the Risk Owners who shall determine and implement necessary changes to their operations as a result of changes to rules, regulations and laws, by updating their procedures and ensuring appropriate controls have been implemented. The Company shall have Executive Committee (EC) for AMC specific risk matters and Investment Committee (IC) for fund / SMA specific risk matters.

- b) **Control Owners** are accountable for operating controls on behalf of Risk Owners. These are the direct reports of Risk Owners with the exception of cross functional control owners who may not be direct report of Risk Owners.

**Second LOD**, as Risk Stewards / Risk Management Function, provides subject matter expertise, advice, guidance, review and challenge the First LOD’s activities to help ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The Second LOD is independent of the risk-taking activities undertaken by the First LOD and includes Risk Management and Compliance functions. Risk Management and Compliance functions shall report directly to the CEO.

- a) **Risk Management Function (RMF)**

The RMF shall be hierarchically and functionally independent from the operating units of the Company's business. The RMF shall be headed by Head of Risk Management (HRM). RMF shall operate in accordance with adequate standards of competence and efficiency. RMF shall establish a risk management framework, identify and assess risks, develop mitigation strategies, monitor risk levels, and report on findings to ensure the Company operates within its risk appetite and comply with regulations. RMF shall provide independent oversight, collaborate with business units to integrate risk awareness into operations, and use data to inform decisions, ultimately protecting the organization's financial health and reputation.

RMF shall be responsible for identifying and understanding the rules, regulations and laws that affect their risks. RMF shall also be accountable for monitoring for changes to those rules, regulations and laws that impact their risk types, assessing the impact on their specific risk types, updating their policies as required, and communicating these changes to Risk Owners in a timely manner.



b) **Compliance Function (CF)**

The CF shall ensure that the Company adheres to laws, regulations, and ethical standards by monitoring compliance, developing policies, conducting risk assessments, educating employees, and reporting on compliance status to the EC. CF shall be headed by Head of Compliance.

**Third LOD** is Internal Audit. The Company shall have a Board Audit Committee to whom the Internal audit, inhouse or outsourced, shall functionally report. Internal Audit shall provide independent assurance that risk management, governance, and internal control processes are adequately designed and operating effectively.

v. **Establishment of a Shariah based Risk Conscious Culture**

One of the most important risk controls the Company can have is a risk conscious culture in which Key risks including Shari'ah Compliance risk are well-understood and tolerances are clearly defined. Creating a risk conscious culture requires conscious effort by executive level Risk Owners. Such Risk Owners set the ethical and fiduciary tone for the Company which reinforce the shari'ah values under the guidance of Shari'ah Advisor.

## 2. Risk Management Approach

i. **Identification and Assessment of Risks**

Risk identification is an ongoing process to ensure all material risks are known, well understood and proactively managed. Therefore, learning from the past and external events is as critical as recognizing new and emerging risks in preparing for what could happen in the future. Identified risks shall have clear ownership, and their potential impacts are assessed against the Company's risk profile. The Company shall proactively manage any material risks identified, and whenever possible, immediate action is taken to limit the impact on our business and investors.

When assessing risk, the First LOD (CEO Direct Reports), in collaboration with the Second LOD (Risk and Compliance) measures the likelihood of a risk occurring and the impact on the business against risk appetite. The outcome of the risk assessment should provide a forward-looking view that enables the prioritization of appropriate management actions to mitigate the most material risks. The identified risks shall be plotted on heat map. Risks shall be recorded in the risk register for reporting and management decisions.

ii. **Management of Risks**

Risk Management is an ongoing process involving both the First LOD and Second LOD to ensure monitoring and management of risks in accordance with the risk appetite and, where necessary, appropriate risk management actions are taken in a timely manner.

Control shall be defined in the policies and procedures, to ensure the risks are managed effectively and consistently across the entity. The effectiveness of identified controls must be tested taking into account both the design and operating effectiveness. Issues are raised and action plans are developed to address controls deficiencies and/or inefficiencies in order to improve the operating effectiveness of the current control environment in a timely manner. Remediation actions are recorded in the relevant system of record.

iii. **Formalizing Company's Risk Appetite**

The Company shall have a formally defined risk appetite that articulates the level and types of risks that the Company accepts to achieve its strategic objectives which shall be articulated through Risk Appetite Statement (RAS), approved by Board on recommendation of BRCC. The RAS consists of qualitative statements and quantitative metrics covering financial and non-financial risks with defined Risk Appetite and Tolerance thresholds. Risk Appetite Statement shall provide the foundation for the Second LOD to design policies and limits for the entity. These form the basis of the processes and decision making that the First LOD undertakes in its management of risks.



### 3. Managing Key Risks

The key risks are divided into two broad categories. The fund specific risks which are the risks majorly associated with the core activities of investment and portfolio management. The AMC specific risks are the risks associated with the functioning of fund management business by the Company.

#### i. Fund / Separately Managed Account (SMA) Specific Risks;

##### a) **Governance Mechanism for funds and SMAs**

The Company shall have Investment Committee (IC), chaired by the CEO, which shall select and develop appropriate investment and risk management strategies for the proper performance of the funds and SMAs under management of the Company and develop internal investment restrictions and limits. IC shall monitor risks such as Investment Risk, Liquidity Risk, Credit risk, etc. and other scheme specific risks (Compliance Risk, Governance Risk etc.). IC provides governance of investment and trading activities and reviews, discusses, set direction, and make decisions on associated management issues. HRM being member of investment committee shall provide expertise, oversight, and independent challenge to investment decisions from risk management perspective. The Fund Managers shall be the First LOD for complying with the regulatory and risk limits whereas the HRM being the Second LOD shall monitor the adherence to the limits by his presence on the IC.

The IC's governance oversight shall be supported by appropriate policies and procedures which provide the investment team with an operating framework for day-to-day investment management activities.

##### b) **Investment Risk**

Investment risk can be defined as the probability or likelihood of occurrence of losses relative to the expected return on any particular investment. Occurrence of losses relative to expected return on any particular investment arises largely through fluctuation in the market value of portfolio positions due to changes in market variable such as equity prices, interest rates or widening credit spreads due to deterioration of broad market fundamentals.

Investment risk management is based on reasonable investor expectations about the risks that the fund / SMA will take in order to achieve its investment objectives. Investment Risk along with Liquidity Risk and Credit Risk can be thought of as three key drivers of risk in a scheme or alternatively defines a scheme's risk profile.

Investment Risk must be managed through implementation of Investment and related policies and establishment of processes and controls for the investment process. Investments shall be made in line with investment objectives as set out in the investment policy mentioned in the respective Constitutive Document of the funds. The investments undertaken by the fund shall be ratified by IC.

Suitable investment risk management tools shall be used to monitor and manage investment risk. Advised methodologies are; Ex- ante tracking error which is the primary investment risk management tool for actively managed equity funds, where tracking error ranges are identified according to the underlying equity scheme category and monitored. For fixed income funds as well as multi-asset class funds, the Company can use ex-ante portfolio volatility as investment risk metric, where operating ranges for volatility are defined as per underlying scheme's risk profile. In addition, as a secondary metric, the Company can monitor portfolio turnover of individual schemes against an established turnover ceiling. Investment Risk metrics shall be monitored on quarterly basis by the RMF and any breaches are escalated to the Fund Manager, CIO or IC, as per devised procedure for the said purpose, for corrective action. Investment Risk metrics shall be reviewed and approved by BRCC.



## c) Credit Risk

The credit risk relevant to investments is the issuer credit risk attributable to individual securities and the negative outlook on specific sectors or industries and its consequent impact on the credit exposures. Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. To mitigate credit risk, The Company shall have in place a robust credit risk management criterion that spans issuer / counterparty selection and ongoing monitoring.

**Issuer / counterparty selection:** credit selection process must be built on the premises of independent and comprehensive assessment of each credit. The credit selection process is driven by fundamental research supported by tradability and liquidity of the instruments proposed to be invested. The internal credit rating, cash flow quality, debt servicing capability and history, and financial analysis. All decisions to invest in corporate debt / Sukuk shall be supported by relevant research input and risk analysis.

To ensure that there is minimal counterparty/settlement risk, the Company shall have an approved internal process for classifying and on-boarding counterparties for OTC fixed income trades, based on their category and structure. List of counterparties shall be refreshed every year and reviewed by IC.

**Ongoing monitoring:** The research team continuously evaluates potential early warning signals on an ongoing basis based on traded price of the market instruments, sharp movements in yields, market news/events, earnings announcements, rating actions and analyst/ratings conference calls to constantly monitor the developments on the industry and company. Any change in the credit quality of the issuer shall be discussed in the IC. This includes deterioration in credit profile and rating changes. Alongside the course of action is also discussed which could include reduction in tenor for prospective investment, exit option for existing investment, not taking any fresh investments or holding on the existing investment until maturity.

## d) Liquidity Risk

Liquidity is a measure of how easily an investment can be converted to cash without experiencing material exit barriers or significant loss of value. Liquidity Risk/ Mismatch is the risk that a fund may encounter difficulty meeting its obligations in respect of financial liabilities, thereby compromising existing or remaining investors. Lack of liquidity may compel fund managers to exit an asset at a price lower than its fair value thus harming interests of existing investors in the fund.

Liquidity management shall be integrated into the investment process. Due consideration is given to liquidity while constructing portfolios both in equity, fixed income and multi-asset schemes. Adequate liquidity is maintained in the funds on an ongoing basis to meet redemptions as they arise.

Liquidity at fund level shall be monitored using internal liquidity management methodology and liquidity is assessed in normal and stressed market conditions. There shall be liquidity risk metrics (lower bounds) set for all open-ended schemes which must be monitored on quarterly basis, and the funds are expected to maintain the minimum level of liquidity. Liquidity risk monitoring shall be performed by RMF. Apart from this, less liquid securities held in individual funds shall be monitored. This ensures that the tail liquidity risk remains within acceptable levels. On the liability side, RMF monitors redemption trends in all schemes and tracks significant redemptions across 30-day windows to help understand redemption patterns over time. Liquidity risk is also subject to stress testing for all in-scope fixed income schemes on a quarterly basis and any concerns are flagged off to the Fund Manager /CIO /IC based on approved liquidity risk monitoring limits.

## e) Concentration Risk

Concentration risk can be defined as the potential for financial loss due to an overexposure to a single counterparty or sector. The presence of concentration risk increases the vulnerability of a portfolio to market fluctuations and economic downturns.

One of the key triggers for scheme specific risks is concentration of exposures at the portfolio level (asset



side) or concentration of investors in a scheme. Concentration thresholds shall be defined at the issuer (credit)/company (equity) level both at the specific fund level and at an aggregate level and these thresholds are used for tracking concentration levels on a quarterly basis. Investor concentration and distributor concentration shall be tracked by RMF across all funds on a quarterly basis and shall be reported to IC and BRCC.

## **ii. AMC specific Risks**

The AMC specific risks are the risks associated with the functioning of business by the AMC. These are the non-financial risk i.e. the risk of loss resulting from people, inadequate or failed internal processes, data or systems, or external events. These risks arise during day-to-day operations (including those undertaken by a Third Party on our behalf), while taking financial risks (Fund Specific Risk). Non-financial risks may have an impact on management of financial risks, for example, inaccurate financial reporting may lead to unexpected capital or liquidity risk, or a trading process failure may result in higher market risk taking. AMC specific risk management are detailed in the sections below -

### **a) Governance Mechanism**

The Policies and procedures of the Company shall support the management of AMC specific risks and it is a key element in risk management of AMC specific risks. They are critical to making sure that the risks are effectively controlled in line with our risk appetite. These documents define the minimum risk management and control requirements that must be adopted throughout the Company to ensure consistency and appropriate management of risk. Each AMC specific risk type shall have associated policies and procedures, and adoption of the policies and procedures is well embedded across the three lines of defense with individual accountability either as a Risk Owner, Control Owner, or Risk Steward.

### **b) Risk and Control Assessment**

The assessment of AMC specific risks and the associated control environment is carried out through the Risk and Control Self-Assessment (RCSA). It is a structured review of the material risks being faced by the Company and the effectiveness of the mitigating controls in place to manage those risks, in order to assess whether risks are being managed within 'appetite'. This process shall be reviewed and refreshed on annual basis and dynamically updated based on trigger events.

RCSA process shall help the Company in assessing both the Inherent Risk as well as Residual Risk that a business can face. Against each of the risks, specific controls shall be developed which shall be made part of risk register. Fundamental to the RCSA process is assessing the Inherent Risk as well as Residual Risk for each sub-level risk and assigning dedicated Risk Owners and Control Owners for these risks.

The assessment of current control environment involves review of control effectiveness and identifying control weaknesses. If control weaknesses are found to exist, they must be documented and be the subject of appropriate and prompt corrective action plan. The department/function head shall initiate corrective action plan and thereafter track resolution.

### **c) Incident management/ Internal event escalation**

An internal event is a risk event that has or is expected to have financial, customer, regulatory or reputational impacts on Company, resulting from inadequate or failed internal processes, people, and systems, or from external events that lead to a loss, gain or near miss.

Any member of staff discovering an incident must immediately notify the line manager and the matter shall be escalated in accordance with the approved procedures.

### **d) Third party Engagement / Outsourcing Arrangements**

To serve the investors and meet the regulatory obligations the Company interacts with a wide range of different Third Parties. These interactions create risk exposure which the Company remains accountable for even though



## Lucky Investments

they arise outside the Company. Inadequate management of third-party risk can lead to a failure to meet our operational and business requirements which, in turn, may involve regulatory breaches, civil or monetary penalties or damage both to shareholder value and to our reputation/brand image.

The Company shall outsource functions where required and allowed by applicable laws like as Registrar & Transfer (R&T) activity, Fund Accounting and Custody activities to third parties. The Company considers the outsourcing arrangement to be material if the outsourcing arrangement involves sharing of the Company's customer's information, outsourcing of technology operations and other key activities.

The Company shall be responsible for risk assessment, on-boarding and ongoing due-diligence, documentation for third parties. All Third-Party arrangements shall comply with the Company's requirements, if any, on data privacy and customer confidentiality. Third parties shall be subject to due diligence including information security review at time on arrangement and on periodic basis.

**e) Disaster recovery and business contingency planning**

Business Continuity Plan (BCP) shall aim to reduce the impact and likelihood of a disruption to the normal operations of Company's business. The BCP shall seeks to minimize the adverse effects of major incidents by protecting staff, customer services, revenue generation, reputation, regulatory requirements and the integrity of data and documentation. It therefore covers both recovery from disruption but also prevention and resilience. The Company shall have a business continuity plan approved by the Board.

**f) Product governance**

Product Governance is the process through which the Company exercises management control and oversight against the risks of launching and distributing new or materially changed products or services. It also covers continuing oversight of products and services during their lifecycle, including withdrawals and exits. The Company through said approach to product governance shall ensure to deliver fair outcomes to our customers, meet our regulatory obligations, and maintain market integrity.

Product approval documentation must evidence a holistic risk and control assessment, post implementation reviews and the appropriate consideration of, and representation from, all impacted risk types. Regular reviews of existing products shall be carried out and the Company must ensure that staff engaged in launching funds or services have sufficient relevant expertise to understand the characteristics and risks of the funds, or services.

Accountability for managing product governance is consistent with our three LOD model. The First LOD is responsible for establishing and maintaining the controls required to comply with all applicable policies and regulations, with guidance, review and challenge provided by the Second LOD as necessary.

**g) Shari'ah Governance**

**Shari'ah Compliance Risk**

Shariah Compliance risks are those risks associated with adopting practices and / or employing funds in investments that are not consistent with the Maqasid e Shariah.

**Shari'ah Advisor**

For the management of Shariah Compliance Risk, the Company shall appoint an independent Shari'ah Advisor in accordance with applicable laws and regulations. The Advisor shall provide opinions, guidance and directions on Shari'ah matters relating to the Company's activities, and the Company shall act in accordance with such guidance. The Shari'ah Advisor shall have full access to all relevant records and information to enable effective oversight.

**Shari'ah Compliance Officer**

The Company shall designate a Shari'ah Compliance Officer (SCO) responsible for day-to-day



implementation of Shari'ah Advisor directions, coordinating with the Advisor, and ensuring internal processes and products remain in line with Shari'ah requirements.

## Internal Audit Oversight

The Internal Audit function shall, as part of its normal responsibilities, review compliance with Shari'ah Advisor guidelines and report any findings to the Board and the Shari'ah Advisor as appropriate.

## Board and Management Responsibility

The Board of Directors remains ultimately responsible for Shari'ah governance and shall ensure that adequate resources, systems, and reporting mechanisms are in place to address Shari'ah Non-Compliance Risk. Senior management shall implement Shari'ah Advisor directions and promptly rectify any breaches, including income purification where applicable.

## Regulatory Alignment

The Company's Shari'ah governance framework shall comply with applicable supervisory and regulatory requirements.

### h) AMC level Key Risks are mentioned hereunder;

<b>Operational Risk</b>	Risk of loss resulting from inadequate or failed processes, people and systems or from external events, e.g., internal fraud, external fraud, physical damage caused by nature or man-made, etc.
<b>Technology, Information and Cyber Risk</b>	Disruption to a Business Service as a result of error or failure of an IT Asset / IT Service and/or Disruption to a Business Service as a result of malicious activity impacting an IT Asset, IT Service, or Data (including cyber-attack)
<b>Reputation and Conduct Risks</b>	Reputation risk is defined as the failure to meet stakeholder expectations as a result of any event behavior or action or inaction, either by the Company itself, its employees or those with whom it is associated, that may cause stakeholders to form a negative view of the Company.  Conduct Risk is the risk that the Company does not deliver fair outcomes for customers and/or disrupt the orderly and transparent operations of the financial
<b>Outsourcing Risk</b>	Inadequate management of outsourced processes lead to errors, frauds, Inefficiencies, poor quality investor services, breach of fiduciary duties data pilferages and long-term impact on reputation and contractual obligations
<b>Sales and Distribution Risk</b>	Risks associated with managing distribution channels and processes, commission pay-outs, brokerage disbursements, sales expenses, etc.
<b>Financial Reporting Risk</b>	Financial Reporting Risk is defined as the risk of reporting financial information incorrectly or untimely.
<b>Legal and Tax Risk</b>	Legal & Tax risk is the risk of loss to an institution which is primarily caused by: i. A defective transaction. ii. A claim (including a defense to a claim or a counterclaim) being made or some other event occurring which results in a liability for the institution or other loss (for example, as a result of the termination of a contract). iii. Failing to take appropriate measures to protect assets (for example, intellectual property) owned by the institution. iv. Change in law v. Misinterpretation of statutes and regulations. vi. failure to collect or pay appropriate taxes or submit required returns or information.
<b>Talent/People Risk</b>	Talent risk is the risk of not having the right people in place at the right time to drive current and future business growth.
<b>Shari'ah Compliance Risk</b>	Shariah Compliance risks are those risks associated with adopting practices and / or employing funds in investments that are not consistent with the Maqasid e Shariah.



<b>Compliance Risk</b>	Failure by the AMC to meet its regulatory obligations or manage changes in legal statutory and regulatory requirements may result in investigations, fines, financial forfeiture, or regulatory sanctions and material loss to investors and the Company.
<b>Data Risk</b>	Data Risk is the risk associated with a failure in the collection, storage and retention, use, transfer, management, security, or disposal of Data that is captured, created, or acquired by the Company.
<b>ESG Risk</b>	ESG risk is the potential negative impact on a company's financial performance and reputation due to its environmental, social, and governance (ESG) factors.
<b>Strategic Risk</b>	Strategic risk is the threat of failing to achieve an organization's core business objectives due to poor strategic decisions or a failure to respond to external changes.

#### 4. Reporting Risks and Related Information

Risk reporting helps Risk Owners to understand what the top risks are and if they are managed within risk appetite. It also provides visibility of common themes and systemic issues across the Company, which enables to manage risks more proactively and effectively. The risk reports shall provide a consistent end-to-end view of risk management across the entity. The risk report shall be presented in the BRCC and EC on quarterly basis which shall include;

- a) Risk Appetite Profile - monitors the performance of risk appetite metrics against the Risk Appetite and Tolerance Thresholds.
- b) Risk Register and Heat Map – provides a second LOD view of the residual risk profile of the entity.
- c) Emerging Risks Profile – provides forward-looking analysis of risk themes (which are often external / internal circumstances or events) that could have a material impact on our risk profile but are not under active management and are difficult to predict and are not immediate.

#### F. Review and Approval

The implementation of this Policy shall be subject to recommendation of BRCC and approval of the Board of Directors of the Company. The approved policy shall be subject to review every three years unless there is amendment / promulgation of the applicable law which necessitates earlier revision.