Risk Management Policy

The Management recognizes the risks to which the Company is exposed to, which are reviewed by the Board of Directors and the Board of Directors ensure that the required culture, practices and systems are in place to address such risks.

The Board shall mainly be responsible for the following risk management activities:

- Oversight of an integrated Company-wide risk management framework;
- Establishing a Company-wide strategy incorporating the risk management strategy;
- Defining the overall risk appetite of the Company and ensuring adequate capital for carrying out business activities under various business lines and products;
- Defining the risk management policies;
- Ensuring implementation of the risk management framework, and maintaining adequate and capable infrastructure to support the framework;
- Reviewing exception reports prepared by the Management highlighting deviations of activities and operations from established standards; and
- Regularly reviewing significant risk issues to determine their impact on the Company's strategy and aligning the strategy to address the existing or potential risks.

Strategy to Mitigate the Risk

Risk is referred to as a possibility that the outcome of an action or event could bring adverse impacts resulting in direct losses of earnings/capital, or imposition of constraints on the Company's ability to meet its business objectives. Risks may therefore potentially hinder the Company's ability to continue its ongoing business as planned, or to take benefit of opportunities to enhance stakeholder's value.

The Company has implemented sound risk management policies and controls which are depicted in our entity rating of AA and A1+ for the long and short term and Broker Management Rating of BMR I.

Risks and their sub-categories are defined as follows for which are managed through an integrated Company-wide risk management and Internal Control mechanism.

Framework:

1	Credit Risk	Credit risk of the Company arises principally from the trade debts, short term investments, loans and advances, deposits and other receivables. The carrying amount of financial assets represents the maximum credit exposure. To reduce the exposure to credit risk, the Company has developed its own risk management policies and guidelines whereby clients are provided trading limits according to their worth and proper margins are collected and maintained from the clients. The Company's policy is to enter into financial contracts in accordance with the internal risk management policies and investment and operational guidelines approved by the Board of Directors. In addition, credit risk is also minimized due to the fact that the Company invests only in high quality financial assets, majority of which have been rated by a reputable rating agency.

2	Market Risk	To manage and control market risk, a well-defined risk management structure is available which is approved by the Board. Risk Management Department is actively involved in identifying, measuring and setting risk control limits to optimize the risk and return of the Company. The Company's Investment Committee (IC) is primarily responsible for the oversight of the market risk, supported by Risk Management Department (RMD).
3	Interest Rate Risk	Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company manages fair value risk by investing primarily in variable rate term finance certificates, preferably with no cap and floor which insulates the Company from fair value interest rate risk, as coupon rates correspond with current market interest rate. The Company also invests in fixed rated bank accounts and Government securities such as Market Treasury Bills and Pakistan Investment Bonds.
4	Operational Risk	Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's operations either internally within the Company or externally at the Company's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risks arise from all of the Company's activities. The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors. The Company has the strategy for identification, assessment, mitigation, monitoring reporting and measurement of Operational Risk. The management ensures that adequate strategies are implemented to achieve the operational objective of the Company.
5	Liquidity Risk	Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to the dynamic nature of the business. The Company's treasury aims at maintaining flexibility in funding by keeping committed credit lines available. The Company has in place Board Approved policy for Liquidity Risk Management. The policy comprehensively defines risk methodology, control structure role and responsibility for managing the risk.