

PT KGI SEKURITAS INDONESIA RISK MANAGEMENT POLICY

Risk Management Framework

The Firm's comprehensive risk management framework involves:

- a. Financial Risk Management: Managed through key financial risks faced by the Firm, namely credit risk, liquidity risk and market risk;
- b. Capital Adequacy Management: Managed through capital injection and subordinated loans coupled with the capping of financing to clients at a certain percentage of the Firm's Net Adjusted Working Capital both on client and Firm's level;
- c. Enterprise Risk Management: Managed through identifying potential events that may affect the Firm and setting the risk level within the risk appetite.

Credit Risk

As a provider of margin financing to customers, the Firm is exposed to risk of losses due to the failure of a customer to meet its obligations to settle outstanding amounts in accordance with agreed terms. Credit risk is the most material risk faced by the Firm given its principal activities of margin financing despite adequate collateral which is subject to haircut.

Credit risk also includes concentration risk, which is the risk related to margin portfolio quality deterioration due to large exposures to single customer, or margin financing concentration in certain counter.

One of the key risk mitigation adopted by the Firm is through diversification by ensuring that exposures to a single client and to a single security comply with the Firm's risk management policy and the relevant regulations.

The aggregate exposure of the Firm to each stock collateral and client is measured daily to allow for close monitoring and early detection by the Firm for any limit breach.

Liquidity Risk

Cash and time deposits are placed only with reputable financial institutions which have low probability of failing to meet its obligations. Prudent liquidity risk management entails maintaining sufficient cash and adequate banking credit facilities.

Market Risk

Market risk relates to risk of losses in positions arising from fluctuations in market prices. The Firm is exposed to market risk arising from proprietary equity positions that may have been taken as well as falling value of collaterals posted by customers to secure the margin financing. The Firm ensures that the collaterals after having applied the haircut remain sufficient to cover client's exposures.

To adopt a risk conscious culture, it is critical that management strictly adhere to the followings:

- a. Link strategy with risk: When planning business models and strategies, management must give due consideration to risk;
- b. Clear visibility of risk exposure: It must be one of the key focuses and the level of risk must be communicated effectively in a transparent manner to senior management;
- c. Daily discipline: Risk management control must be taken seriously and being integrated as part of daily business activities

Risk Management is responsible for implementing and maintaining an effective risk management framework to identify, assess, monitor and manage the major risks facing the Firm.

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