

# Risk Management Report

At Nucleus Software, our risk management approach is designed to help us achieve our business objectives. We do this by identifying, analyzing, evaluating, monitoring, governing and mitigating all known forms of risks or potential threats to these objectives. We have developed and continue to refine policies and relevant internal controls to ensure we have an effective and efficient risk management system in place, a system that ensures the proper management of the Company's resources and the appropriate mitigation of risks.

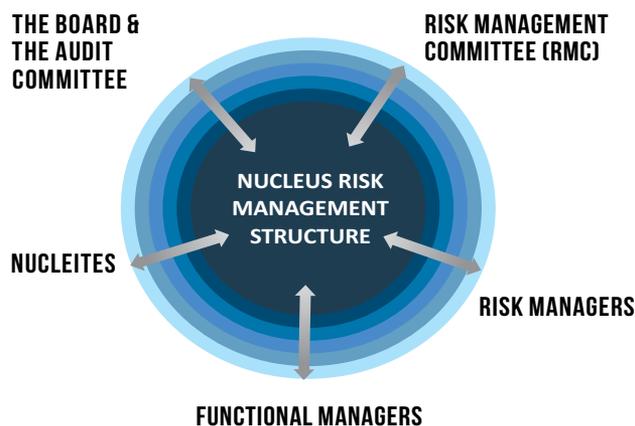
We seek to achieve an appropriate balance between risk and reward in our business, and continue to build and enhance the risk management capabilities that assist in delivering our growth plans in a controlled environment.

## Our Risk Management Objectives, Structure and Approach

The three main objectives of Risk Management at Nucleus are:

1. Enable the Company to reduce the impact of risk events if they occur
2. Empower the Management to take informed decisions, under the guidance of our Board of Directors, to maximize value, reduce costs and balance risk with returns.
3. Promote confidence amongst the Company's stakeholders in the effectiveness of the Company's business management process and our ability to plan and meet strategic objectives.

We adopt a comprehensive approach to risk management that is conducted across the organisation at various levels. The key components of Risk Management structure are as follows:

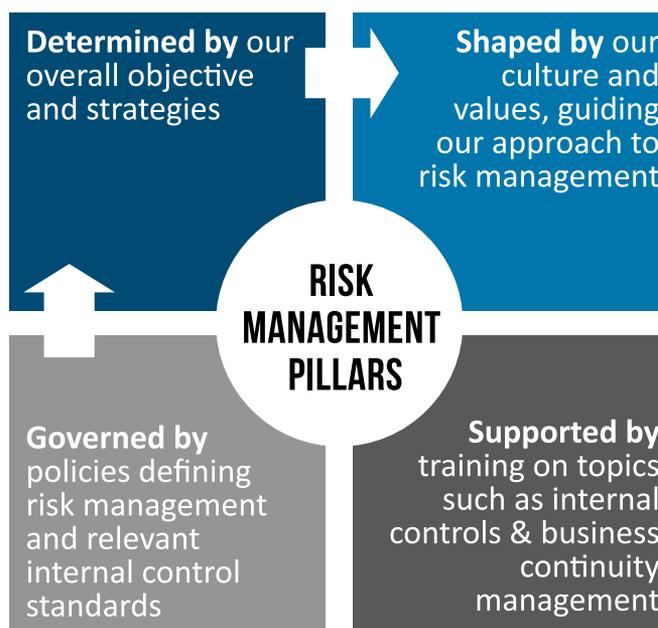


At a strategic level, our Risk Management practices are:

- **Risk Identification** – Risk Management Committee (RMC) is responsible for the identification, prioritization and review of risks and their associated mitigation plans. The RMC meets on a quarterly basis and works closely with the senior and middle level management of the Company. The RMC updates the Board on a quarterly basis, on the key risks facing the Company, along with their mitigation plans.
- **Risk measurement, mitigation and monitoring** – At the end of every quarter, the RMC reviews the current status of the mitigation plans put in place for the top identified risks and whether any changes have occurred in the nature of the risks during the quarter. If required the RMC then carries out an analysis of the exposure and potential impact. Mitigation plans

are finalized, owners are identified and progress of mitigation actions are monitored and reviewed. Each top risk is mapped as per a Risk Criticality Matrix.

- **Risk Reporting** – A Risk update is prepared every quarter and provided to the Audit Committee and the Board. Risks such as project risks, account level risks are reported to and discussed at appropriate levels of the organization.
- **Integration with strategy and business planning** – All relevant risks are used as key inputs for the development of Company's strategy and business plan.



## Risk Categorization

The Company believes that all Risks can be categorized as follows:

1. Business environment Risk
2. Regulatory Risk
3. Technology change Risk
4. Internal operational Risk

The Risk Management Committee continuously monitors and reviews various risks as identified for categorizing them under the above categories and finalize their mitigation plans.

The risks currently faced by the Company are described below along with their associated mitigation plans.

**Information Security, protection from Cyber-attacks, Data management, privacy and protection have become a critical requirement:** Our business practices with respect to our own data/IP, including data privacy and data protection, and in case of any data shared by the customers during our interactions, could give rise to operational interruption, liabilities or reputational harm as a result of governmental regulation, legal requirements or industry standards relating to consumer privacy and data protection. New Regulations such as the European Union's General Data Protection Regulation (GDPR) are evolving and may have impact that we cannot

## Risk Management Report

foresee today. The courts in different countries may interpret these laws differently. These may pose new type of risks for our business.

The Company is taking all necessary steps to ensure that the Infrastructure (Systems / Network / Physical location) is properly secured. Following additional measures are being taken:

- Multi Factor Authentication (MFA) for access to email and other critical applications
- Installation of End Point Detection and Response (EDR) solution
- Setting up of 24X7 Security Operations Center

With 100% of your Company's workforce working from home during the COVID-19 lockdowns, we have taken additional steps to ensure that there are enough safeguards to maintain security and confidentiality of our data.

Connectivity to the employees to enable work from home has been allowed via Virtual Private Network (VPN) which is a secured network and the machines are configured, to ensure restricted data transfer.

Proper background verification is done of people working on sensitive and high risk projects. We also keep our associates well informed to take care of the data and be well informed on what to do in case of any breach. In order to ensure security of both our data/IP, the Company will continue to take all measures to ensure the security of data by usage of processes and practices, tools and infrastructure that help in security of data along with terms and clauses in legal contracting that help in the same.

This Risk is primarily a "Regulatory/ Business operation Risk."

**Our business depends on our talent including our ability to attract and retain talent at all levels, and depending on key roles. At the higher levels of the organization Succession planning, for key positions in Senior Management and Heads of Departments is also a critical aspect of risk management**

The product-centric model of the Company depends on the retention of key talent; people with specific domain knowledge and technical skills. We also rely on our leadership team in the areas of product development, marketing, sales, services, and general and administrative functions and on mission-critical individual contributors in product development. We may lose key members of our management team or development and operations personnel, and may be unable to attract and retain employees we need to support our operations and growth.

High Attrition can happen due to many factors including growth, compensation expectations, work and empowerment processes, leadership, infrastructure etc.

To mitigate this risk, we continue to train our line managers to help them become more people centric, in collaboration with HR Team.

Your Company has outsourced recruitment of engineering team to multiple companies. This is being done in addition to the internal recruitment in all the areas The Company makes strategic hires to fill shortfalls, while continuing to focus on individual development programs across the entire organization. We have taken many initiatives in the last year through trainings and development programme to grow in-house talent and also retain the best talent

To put succession plans into action, the Company is focusing on:

- Identifying Critical Work/Roles

- Creating a probability matrix based on the criticality of role and the chances of leaving
- Pinpointing gaps between our current state and our desired state of next in line and putting in place training/coaching interventions

This Risk is primarily an "Internal Operational Risk."

**Adopting new Business model of pricing may not ensure similar growth in revenue:** The Business model where pricing is based on the growth of our customers' business may not always be a success. Our business growth may be hampered in cases where the customers' business does not grow and hence the expected revenues are not generated.

In order to mitigate the risk emanating from above, the Company will continue to improve the process of pre-qualification of its prospects before their on-boarding and also closely monitor the performance of its customers after their on-boarding. The Company further believes and ensures that value is consistently delivered alongside a superior customer experience in the form of Product upgrades, integration with the ecosystem, offering other modules, Report packs etc. Also high standards of customer support are very critical during the entire period of engagement.

This Risk is primarily a "Business Environment Risk."

**Our focus on providing products and services only in the Banking and Financial Services (BFS) domain to Banks and Financial Institutions exposes us to the risk of Industry concentration.**

For the foreseeable future, we expect to continue to derive our revenues from the products and services we provide to the financial services industry, which means that we are exposed to the global economic conditions in the financial services industry. Economic slowdowns can result in reduced levels of technology investment by banking & financial services firms as well as delaying decisions that are ongoing. This could have adverse effects on our business and financial conditions.

The digital revolution is redrawing the boundaries of financial services and lowering entry barriers encouraging challengers to emerge.

While acknowledging this risk, we continue to focus on this sector and are confident that our "Value" based solutions will find greater market success. Our focus now is on improving efficiency by maintaining existing operations at a lower cost. Also we adopt a proactive stance and keep building our levels of business agility by rolling out knowledge sessions and training courses for required skill sets. We empower our staff with the latest tools, techniques and technical designs. The ongoing investment we make in our products will help to maintain their competitive edge superiority. With each six-monthly release Nucleus products are evolving and increasing in size and sophistication.

This Risk is primarily a "Business Environment Risk."

**Delays in project executions may adversely affect our implementations and revenues.** The Company faces project execution risks, including the potential for project delays, poor customer satisfaction in the area of system quality and weak customer engagements. These factors may hinder our ability to deliver large projects with the required quality and within the

## Risk Management Report

agreed timeframes. Our projects depend on the availability of skilled resources and the availability of the required infrastructure. If these are not available then the project will be at risk.

Our customers' deployment timeframes vary based on many factors including the number and type of applications being deployed, the complexity and scale of the customers' businesses and operations, the configuration requirements, the number of integrations with other systems. Indeed many factors are beyond our control. In addition any issues, worries or concern raised by the customer must be handled with great care. There is also a risk of order cancellation, loss of market goodwill, financial liability and losses due to overruns on projects.

In the current scenario, due to the global spread of COVID-19, the Company's operations might be adversely impacted due to the incapacitation of sections of the global workforce due to exposure to the virus. Moreover, travel restrictions, social distancing and other new operating practices may delay the execution of existing projects.

Good project governance is crucial to mitigating this risk. In addition to the detailed project plan we continuously monitor projects in terms of:

- o Product Development capacity augmentation to deliver contractual commitments
- o Customer Expectation Management/ Connect with customer officials at relevant levels
- o Schedule and Cost containment
- o Continual Risk Monitoring
- o Regulatory requirements fulfilment
- o Product quality improvements

As a result of efforts from our COVID-19 Taskforce the Company has been able to meet all the committed deliverables to the customers despite the challenges of remote working. In the process we have earned appreciations from many customers.

This Risk is primarily an "Internal Operational Risk."

**We face strong competition across all markets for our products and services.** Our markets are highly competitive in terms of both existing and new competitors. We expect that our target markets will continue to attract new well-funded competitors, often leveraging disruptive new approaches. In addition to start-ups and FinTechs, our competitors include international software vendors and large technology companies. Our competitors range in size from Fortune 500 companies with significant research and development resources to small, specialized single-product businesses. In addition, we also compete with numerous small indigenous companies in various geographic markets. The competition is also from players who offer broad based software solution to our customers, including the solutions around Lending business of the customer.

In addition to the risk of competition in traditional way, Banking and Financial Services business are facing huge pressure from known and yet-to-be known challengers who are attempting to re-define financial services businesses and trying to bring in disruption in the traditional BFSI Business model. It is not clear how this tussle will unfold in the coming decade, however the Company is trying to proactively understand the impact it may have on business in future.

We compete based on our ability to offer to our customers' competitive integrated solutions that provide the most current and desired product and services features. Another lever to mitigate this risk are the Investments we make in research and development which help us to remain ahead in the innovation curve.

Our ability to remain competitive depends on our success in making, marketing and selling innovative products and services. A broad referral base created throughout our history, also helps us derive an edge over some of our competitors. The Company maintains a constant focus on product differentiation as well as product diversification to mitigate this risk.

This Risk is primarily a "Business Environment Risk."

**Legal Compliances world-wide expose us to risks.** As an incorporated legal entity the Company can be impacted by changes in various laws, rules and regulations such as Companies Act, Accounting Standards, Labour laws, SEBI Regulations, etc.

Further the Company is incorporated in India, and has subsidiaries overseas in Japan, Netherlands, Singapore, USA, Australia and South Africa; which caters to customers operating in various countries and a significant part of the revenue is derived from international sales.

Our operations world-wide may be affected by changes in the political scenario, trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment. This risk could typically result in penalties, financial loss, and loss of reputation and are assessed on dimensions such as process effectiveness, compliance with policies and procedures and underlying controls.

To mitigate these risks, various departments within the Company, taking care of compliances of applicable laws/rules etc., are manned by qualified personnel. A proactive team of legal experts is also positioned at the head-office of the Company, and external, expert advice/opinion, is also taken, as per requirement, to ensure compliance.

This Risk is primarily a "Regulatory Risk."

**Less than adequate protection of our Intellectual Property (IP) rights** The Company has an IP-led business model and globally licenses IP in the form of products for the Banking and Financial Services Industry. We rely on patent, copyright, trade secret and trademark laws, trade secret protection, and confidentiality or license agreements with our employees, customers, partners, and others to protect our intellectual property rights. Protecting our global intellectual property rights and combating unlicensed copying and use of software and other intellectual property is challenging. Any inaction to prevent violation or misuse of intellectual property could cause significant damage to our reputation and adversely affect our revenue and results of operations

We continue to make significant expenditure related to the use of technology and intellectual property rights as part of our strategy to manage this risk. The Company has system and processes in place to ensure the protection of our intellectual property rights. Our legal team regularly identifies incremental artefacts and files for their protection. Any violations or unauthorized use of License, are pursued through legal route.

As a policy, the Company develops own IP at its own cost using its own resources and is actively engaged in seeking maximum legal

## Risk Management Report

protection for the Intellectual Property through a combination of trademarks, confidentiality procedures and contractual provisions. There are also restrictions put in our network to detect and report of misuse of source code.

This Risk is primarily a “Regulatory / Internal Operational Risk.”

**Product Obsolescence/ Rapid Changes in Technology may affect our business potential.** The IT sector is characterized by rapid technological change, the evolution of existing products and the introduction of new products. The latest technology trends need to be closely monitored to ensure that products are in compliance with industry standards.

As a Product Company, our growth is based on our ability to offer products taking the latest technology trends and evolving industry standards into account. If we are unable to provide enhancements and new features for our existing applications or new applications that achieve market acceptance or that keep pace with rapid technological developments, our business and results of operations could be adversely affected.

Our future success will depend on our ability to absorb new technology trends and develop solutions that will keep pace with changes in the markets in which we provide services.. Our new Product Strategy is based on rapid and continuous evolution of our Products. The timely delivery of the planned Scope of our roadmaps is key. Any delay or scope change can impact Sales and meeting customer commitments.

To mitigate this risk, continuous investments are made in conducting research and development to enhance both the technology and features of our products and to develop new products. Technology and functionality road maps for products are prepared and reviewed by the senior management and implemented. Each year we plan and deliver new releases for each of our Products and we focus engineering capacity to this effort. While an overload of “Asks from customers and prospects” can place too many demands on the Roadmap and while tactical demands may lead to the wrong prioritization of enhancements, our approach to six-monthly releases reduces this problem while increasing in size and sophistication of our Product.. As our product complexity increases, we have increased our focus on automation of testing in our Development environments.

We interact with top-class academic institutions to keep abreast of the latest advances and changes.

For more information on product launch during the year, please refer section “New product Launches “in Directors’ Report.

This Risk is primarily a “Technology Change Risk “

**We have partnerships with third parties for product sale and for product implementation; failure on their part to deliver, could affect our performance.**

In some cases, we partner with third party vendors, for software and / or hardware, who provide embedded or aligned products to support the services and product offerings provided by us. With a business partner, we have a group of people who not only sell and/ or implement our products, but share with us their vision, and value system. Onboarding a wrong partner or a partner that does not align to our values and operating principles may cost our company in

terms of efforts, money and brand visibility. The Company may face following risks:

- Reputation Risk
- Scale mismatch risk
- Credit risk
- Legal & Regulatory Compliance Risks
- Country Risk
- Risks Owing to Cultural & Value Base Differences

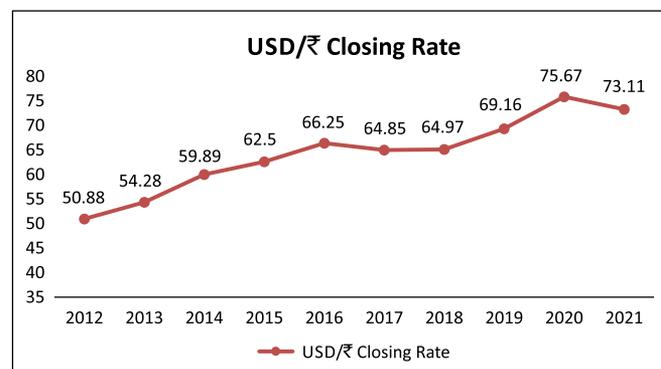
If we or our partners fail to deliver appropriately, our ability to complete the contract may be adversely affected, which may have a material and adverse impact on our revenue and profitability

To counter this risk, the Company has a dedicated “Alliance Management Team” to ensure proper contractual formalities before aligning with any such partner to reduce or limit the risk of their non/low performance. The team also works with current partners to enhance the partnership. The team ensures that in case of appointment of Partner in a new geography, there is extensive information available on economic, social and political conditions of the country and risks associated. There is evaluation of the commercial structure & clauses by the legal and finance teams.

This Risk is primarily an “Internal Operational Risk.”

**The Company is constantly exposed to the risk of volatility in foreign exchange rates.** The Company operates internationally in more than 50 countries and a major portion of our business is transacted in currencies other than the Indian Rupee. Nearly seventy percent of our revenue is denominated in foreign currency, predominantly the US Dollar. Seventy percent of our expenses are in the Indian Rupee. Foreign exchange currency markets are volatile, and such fluctuations in foreign currency exchange rates could materially and adversely affect the Company’s profit margins and results of operations and therefore the Company is exposed to continuing risk of foreign exchange fluctuation.

The exchange rate of the Rupee has been extremely volatile in the last ten years as shown by the chart below.



The volatility in the foreign currency markets may make it difficult to hedge our foreign currency exposures effectively. Inadequacies in the hedging mechanisms to deal with exchange rate fluctuation could expose the Company to even larger losses than envisaged due to exchange rate fluctuations, and changes in currency exchange rates can adversely affect customer demand and our revenue and profitability.

## Risk Management Report

The hedging strategies that we have implemented, or may in the future implement, to mitigate foreign currency exchange rate risks, may not reduce or completely offset our exposure to foreign exchange rate fluctuations. This may also expose our business to unexpected market, operational and counterparty credit risks.

Further, the policies of the Reserve Bank of India may change from time to time, also have a bearing on our operations and hence the revenues. Full or increased capital account convertibility, if introduced, could result in increased volatility in the fluctuations of exchange rates between the rupee and foreign currencies.

To mitigate this risk, the Company follows a well-defined policy of hedging close to receivables through Forward Contracts which are designated as Highly Probable forecast transactions. The Company has a conservative approach and does not speculate in foreign currency markets. Forwards are held to maturity and regular reporting and monitoring systems are in place including quarterly updates to the Audit Committee. Clear guidelines for concluding derivative transactions have been laid down and arrangements have been institutionalized to facilitate periodic review and audit of the operation, impact and consequences of such transactions, including verifying compliance with extant laws and regulations.

This Risk is primarily a “Business Environment Risk.”

**Business continuity risk pose a threat to successfully running our operations.** Our inability to put in place an effective Business Continuity Plan (BCP) to ensure the maintenance or recovery of operations, including service delivery to our customer, when confronted with adverse events such as a disruption or failure of our systems or operations in the event of a Fire, major earthquake, weather event, cyber-attack, terrorist attack, or other catastrophic event which could cause delays in completing sales, providing services, or performing other mission-critical functions. A significant portion of our research and development activities, and certain other critical business operations are located in Noida, India (our corporate headquarters) which is adjacent to the national capital of India, Delhi. Here it may be worthwhile to mention that, according to a seismic zoning map issued by the Bureau of Indian Standards and quoted in the National Disaster Management (NDM) report, Delhi belongs to Zone IV, a severe intensity seismic zone. Any catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could harm our ability to conduct normal business operations.

To counter this risk, we have setup an Online disaster recovery site to replicate our IPR (Source code) in different seismic zone and backup copy on tape. In addition to this we are also having Disaster Recovery setup for few customers in different seismic zone who has agreement with Nucleus for business continuity and uninterrupted support though this facility is not in place for all the customers. The Company is continuously investing in security of its operations & processes and evaluating the risks on periodic basis. We are an ISO 27001: 2013 (ISMS) certified organization, which reflects our attitude to increase adherence to secure practices. More so for business continuity, the growth of any product business is directly linked to the install base and the feedback of existing customers. These two factors are key for the purchase decisions of prospective customers.

Hence a large negative impact on Company’s reputation can be a big setback. The Company enjoys a very positive reputation of being a committed and high integrity company with solid software solutions.

On the security front, strict procedures are in place to control the level of access to Datacenters and other sensitive areas. Access to the premises is controlled through Biometric access control systems and proximity cards. The Company has invested significantly in a state of the art network infrastructure for managing its operations and for establishing high-speed redundant links to overseas destinations. Additionally, the Internet filtering tools prevent any type of non-business usage over Internet within office and outside office. We have implemented Data loss prevention on mail gateway and laptops to safe guard the company IPR.

This Risk is primarily an “Internal Operational / Business environment Risk.”

**Adverse geo-political and market conditions may harm our business.**

Our business is influenced by a range of factors that are beyond our control, including:

- General economic and business conditions;
- The overall demand for enterprise software;
- Customer budgetary constraints or shifts in spending priorities; and
- General political developments

Your Company has customers located in more than 50 countries and nearly 65% of the revenue comes from international sales. The global nature of business creates operational and economic risks such as deterioration of social, political or economic condition in a country or region and difficulties in staffing and managing foreign operations. The IT spends in any market are affected by the domestic as well as global economic conditions.

Adverse geo-political and economic conditions leading to negative / low GDP growth may cause lower IT spending and adversely affect our revenue. Customers may curtail and / or postpone their budgets for investments in technology. Challenging economic conditions also may impair the ability of our customers to pay for products and services they have purchased. As a result, provision for doubtful accounts and write-offs of accounts receivable may increase.

Our global exposure enables us to leverage growth from both developed and emerging economies. In addition, our solutions help our customers to significantly reduce their costs in a difficult environment. Further, our target market covers financial institutions of different sizes – from large multi-national banks to niche NBFCs across a range of business areas – from retail and corporate lending to transaction banking.

This Risk is primarily a “Business Environment Risk.”

**Risks Associated with Acquisitions and New Product Lines and Markets.** The transactions and arrangements such as acquisitions and development and launch of new product categories and product lines, involve significant challenges and risks including (but not limited to):

1. they do not advance our business strategy,
2. they do not meet projected or satisfactory level of sales, profits and/or return on investment as originally envisaged.
3. they may pose difficulty, delays and/or unanticipated costs in integrating the business, operations, personnel, and/or systems of an acquired business, or,

## Risk Management Report

4. they distract management from our other businesses,
5. the Company's ability to retain and appropriately motivate key personnel of an acquired business.

The success of these transactions and arrangements will depend in part on our ability to leverage them to enhance our existing products and services or develop compelling new ones. It may take longer than expected to realize the full benefits from these transactions and arrangements, such as increased revenue, enhanced efficiencies, or increased market share, or the benefits may ultimately be smaller than we expected.

Acquisitions, where made, are done in pursuit of our overall company strategy, i.e. in adjacent or complementary markets. This reduces our risk as we are leveraging our existing expertise and experience. When creating new products we undertake rigorous analysis of the market to ensure we minimize the risk.

This Risk is primarily a "Business Environment/ internal Operational Risk"

**There is a risk of Insider Trading that may happen in the shares of your public Limited Company.** The Company's shares are listed on the National Stock Exchange of India Ltd. and the Bombay Stock Exchange Ltd. Hence there is an inherent risk of Insider Trading that may happen in the shares of the Company. Trading in Nucleus shares by the designated employees of the Company on the basis of price sensitive information or communication counseling or procuring any unpublished price sensitive information to or from any person may be termed as insider trading.

Insider trading is a matter of concern for the Management of the Company and to mitigate this risk, a "Code for Prevention of Insider Trading" is implemented in the Company. The code is reviewed by the Audit Committee regularly to ensure compliance and it is updated with the regulatory amendments. Secretarial audit includes a review of policies and processes governing any trading in the Company's shares by various stakeholders.

This Risk is primarily an "Internal Operational Risk."

**If we cannot maintain our corporate culture, we could lose the innovation, teamwork and passion that we believe contribute to our success, and our business may be harmed.** We believe that a critical component of our success has been our corporate culture, as reflected in our core values: Integrity, Respect, Result Orientation, Innovation and Collaboration. As we continue to grow, we will need to maintain our corporate culture among a larger number of employees dispersed in various geographic regions. Any failure to preserve our culture could negatively affect our future success, including our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives.

The management conducts many workshops and trainings on continuous basis across the organization, to instill a system and keep reminding the workforce about the values, which has helped the organization to grow in the past. In addition, we actively consider value-alignment during the recruitment of new employees. Performance appraisals also seek to reinforce our value system

This Risk is primarily an "Internal Operational Risk."

**Our organization structure, processes and business models may not be scalable.** The structures and processes of the Company business operations may not have adequate potential to grow the revenue base significantly faster than the cost base; and hence may not be adequate for growth. Business models, how we sell, how we license, how we support, how we develop and manage the lifecycle of our products, how we go to market, may not be suitable for significant year on year growth.

The Management is working to mitigate this risk by instilling measures to develop and refresh leadership skills and competencies in employees, to retain the best-suited talent, to automate processes including installing enterprise software systems and through the development and deployment of innovative business models.

This Risk is primarily a "Business Environment/ Internal operational Risk."