MASTER TRUST LIMITED

## Risk Management Policy

(As per RBI Guidelines and Master Direction as amended from time to time)

**Introduction:**

**MASTER TRUST LIMITED** (MTL) is a Non-Banking Financial Company – Non-Deposit Taking Non-Systemically Important (NBFC-ND-NSI) registered with the Reserve Bank of India. The product range of the company includes Loan against Shares, Margin Funding, Margin for F&O etc.

**Risk Assessment & Controls:**

MTL has in place a robust and well defined risk assessment policy that drives all its core businesses. This Policy caters to both product/business specific guidelines and works within the overall risk framework for the organization. The risk framework has been implemented at various levels in the organization that govern the functioning of the organization both at macro and micro levels.

The risk controls in place at each of the above stated levels are described in detail in the following section:

**(A) ORGANIZATIONAL LEVEL:**

Important key risk controls put in place for the overall business are as follows:

1. As per the policy mandated, Capital market funding are all backed by valid collateral.
2. Loan book is restricted to 50% of the overall assets, thereby leading to control over client concentration.
3. The multiple/diversified product lines ensure risk mitigation.
4. Further, there is strict adherence to the single borrower limit (SBL) & group exposure norms for loans i.e. 15% & 25% of owned funds respectively.
5. Regulated compliance is ensured with a strict "no tolerance" policy for any kind of intentional regulatory breaches.
6. Company also aims to ensure fair dealings devoid of any fear or favour with all stakeholders including customers, vendors and employees.

**(B) PRODUCT/BUSINESS LEVEL:**

Further, various controls and measures have been put in place at product level that help control product level exposures:

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2. All loan files, as well as other critical documents are stored in a Record Management Unit The RMU is equipped with storage and security facilities that ensure that the documents are stored in clean, safe and hygienic conditions and they remain protected from any kind of damage, mutilation etc.

**(C) TRANSACTION LEVEL:**

1. Strict adherence to RBI stipulated guidelines on know your customer (KYC), Prevention of Money Laundering Act (PMLA) etc. whereby all our customers pass through the KYC requirements as well as all clear all negative databases as circulated by the various government bodies.
2. All customers are involved in a face-to-face interaction with an authorized employee, thereby ruling out risks of funding any suspicious individual etc.
3. CIBIL score, wilful defaulters list, world check, SEBI debarred list and watch out investors are checked for each borrower to evaluate credit history.
4. Collateral provided in the form of securities (LAS transactions) are regularly monitored and margin calls are made where there is a shortfall.
5. Clients are required to deposit upfront/ minimum margin.
6. Receivables are tracked and reminders for outstanding dues are sent to clients.
7. All our customers pass through the KYC requirements as well as all clear all negative databases as circulated by the various government bodies.
8. The credit approval process is multi-tiered based on the quantum and type of approval sought.

As a financial intermediary, MTL is exposed to risks that are particular to its lending business and the environment within which it operates. MTL's goal in risk management is to ensure that it understands measures and monitors the various risks that arise and that the organization adheres strictly to the policies and procedures which are established to address these risks.

As a financial intermediary, MTL is primarily exposed to credit risk, market risk, liquidity risk, operational risk and legal risk.

**Credit Risk**

In our lending operations, we are principally exposed to credit risk. Credit risk is the risk of loss that may occur from the failure of any party to abide by the terms and conditions of any financial contract with us, principally the failure to make required payments on loans due to us. We currently measure, monitor and manage credit risk for each borrower and also at the portfolio level. We have a structured and standardized credit approval process, which includes a well-established procedure of comprehensive credit appraisal.

**Market Risk**

Market risk is exposure to loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, and other asset prices. In addition to interest rate risk, we are exposed to other elements of market risk such as, liquidity or funding risk, price risk on trading portfolios.

**Interest Rate Risk**

Movements in domestic interest rates constitute the source of interest rate risk. Our portfolio of traded and other debt securities and our loan portfolio are negatively impacted by an increase in interest rates.

**Operational Risk**

MTL is exposed to many types of operational risk. Operational risk can result from a variety of factors, including failure to obtain proper internal authorizations, improperly documented transactions, failure of operational and information security procedures, computer systems, software or equipment, fraud, inadequate training and employee errors. MTL attempts to mitigate operational risk by maintaining a comprehensive system of internal controls, establishing systems and procedures to monitor transactions, maintaining key back–up procedures and undertaking regular contingency planning.

**Legal Risk**

The uncertainty of the enforceability of the obligations of MTL's customers and counter-parties, including the foreclosure on collateral, creates legal risk. Changes in law and regulation could adversely affect MTL. Legal risk is higher in new areas of business where the law is often untested by the courts. MTL seeks to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting internal and external legal advisors.

**Governance of Liquidity Risk Management**

Successful implementation of any risk management process has to emanate from the top management in the MTL with the demonstration of its strong commitment to integrate basic operations and strategic decision-making with risk management.

A desirable organizational set up for liquidity risk management should be as under:

**a) Board of Directors**

The Board shall have the overall responsibility for management of liquidity risk. The Board shall decide the strategy, policies and procedures of the MTL to manage liquidity risk in accordance with the liquidity risk tolerance/limits decided by it.

**b) Risk Management Committee**

The Risk Management Committee, which reports to the Board and consisting of Managing Director and heads of various risk verticals shall be responsible for evaluating the overall risks faced by the MTL including liquidity risk.

**IDENTIFICATION AND RISK ANALYSIS**

Risk Identification is obligatory on all vertical and functional heads, who with the inputs from their team members are required to report the material risks to the Managing Director (MD) along with their considered views and recommendations for risk mitigation.

Analysis of all the risks thus identified shall be carried out by MD through participation of the vertical/functional heads and a preliminary report thus finalized.

The following steps to be taken:

**Risk identification:**

To identify organization's exposure to uncertainty. Risk may be classified in the following:

a) Strategic
b) Operational
c) Financial
d) Regulatory

**Risk evaluation:**

After risk analysis, comparison of estimated risks against organization risk criteria is required. It is to be used to make decisions about the significance of risks.

In order to assess the credit risk associated with any financing proposal, MTL assesses a variety of risks relating to the borrower and the relevant industry.

**Risk estimation:**

Can be quantitative, semi quantitative or qualitative in terms of probability of occurrence and possible consequences. Impact level on performance/profit – Both Threats and Opportunities.

**Liquidity risk Tolerance**

MTL shall have a sound process for identifying, measuring, monitoring and controlling liquidity risk. It should clearly articulate a liquidity risk tolerance that is appropriate for its business strategy and its role in the financial system. Senior management should develop the strategy to manage liquidity risk in accordance with such risk tolerance and ensure that the NBFC maintains sufficient liquidity.

**Liquidity Costs, Benefits and Risks in the Internal Pricing**

MTL should endeavor to develop a process to quantify liquidity costs and benefits so that the same may be incorporated in the internal product pricing, performance measurement and new product approval process for all material business lines, products and activities.

**REPORTING:**

1. Internal Reporting

a) Risk Management Committee

b) Board of Directors

c) Vertical Heads

d) Individuals

3. External Reporting

To communicate to the stakeholders on regular basis as part of Corporate Governance.

**RISK TREATMENT**

Treatment of Risk through the process of selecting and implementing measures to mitigate risks. To prioritize risk control actions in terms of their potential to benefit the organization. Risk treatment includes risk control/mitigation and extends to risk avoidance, risk transfer (insurance), risk financing, risk absorption etc. for

1. Effective and efficient operations
2. Effective Internal Controls
3. Compliance with laws & regulations.
4. Risk Treatment shall be applied at all levels through carefully selected validations at each stage to ensure achievement of the objective.

**REVIEW**

This policy shall evolve by review by the Board from time to time as may be necessary.

This Policy will be communicated to all vertical/functional heads and other concerned persons of the Company.

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