



MASTER TRUST LIMITED

Risk Management Policy.

(As originally approved and adopted by the Board of Directors in its meeting held on 14th day of November 2014 U/s 134 (3)(n) of the Companies Act, 2013 and Clause 49 (VI) of the Amended Listing Agreement)

BACKGROUND

This document lays down the framework of Risk Management at Master Trust Limited (herein after referred to as the 'Company' or 'MTL') and defines the policy for the same. This document shall be under the authority of the Board of Directors of the Company. It seeks to identify risks inherent in business operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks.

OBJECTIVE

The objective of Risk Management at MTL is to create and protect shareholder value by minimizing threats or losses, and identifying and maximizing opportunities. An enterprise-wide risk management framework is applied so that effective management of risks is an integral part of every employee's job.

REGULATORY

Risk Management Policy is framed as per the following regulatory requirements:

A. COMPANIES ACT, 2013

Pursuant to the provisions of the Section 134(3)

There shall be attached to financial statements laid before a company in general meeting, a report by its Board of Directors, which shall include—

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(n) a statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company.

B. CLAUSE 49 OF THE LISTING AGREEMENT

Clause 49(IV)(C) Board Disclosures – Risk management.

The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

Master Trust Limited (MTL) being a listed company, is required to adhere to the regulations made both by the Companies Act, 2013 and Clause 49 of the Listing Agreement governed by the Securities and Exchange Board of India (SEBI). Where any stipulation is common between the regulations, more stringent of the two shall be complied with.

APPLICABILITY

This Policy shall come into force with effect from the date of approval by the Board of Directors.

DEFINITIONS

"**Audit Committee or Committee**" means Committee of Board of Directors of the Company constituted under the provisions of Companies Act, 2013 and Listing agreement.

"**Board of Directors**" or "Board" in relation to a Company, means the collective body of Directors of the Company. (Section 2(10) of the Companies Act, 2013)

"**Policy**" means Risk Management Policy.

POLICY

Before proceeding to the policy attention is drawn to the roles that the Board and Audit Committee are required to play under the above regulations governing Risk Management:

The Board's role under both the regulations is to ensure framing, implementing and monitoring risk management plan, having in place systems for risk management as part of internal controls with duty being cast upon Independent Directors to bring unbiased angle to the Board's deliberations on making risk management systems more robust.

Audit Committee's role is evaluate the risk management systems.

This policy shall complement the other policies of MTL in place e.g. Related Party Transactions Policy, to ensure that the risk if any arising out of Related Party Transactions are effectively mitigated. Accordingly, the policy shall be executed

in synchronisation with other existing or future to be implemented taking care of all the variables of different policies.

As a financial intermediary, Master Trust Limited is exposed to risks that are particular to its lending business and the environment within which it operates. Master Trust Limited'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, Master Trust Limited is primarily exposed to credit risk, market risk, liquidity risk, operational risk and legal risk.

The Audit Committee of Board of Directors of Master Trust Limited provides direction to and also monitors the quality of the internal audit function. The Risk Management Committee of Board of Directors of Master Trust Limited reviews risk management policies in relation to various risks including portfolio, liquidity, interest rate, off-balance sheet and operational risks, investment policies and strategy, and regulatory and compliance issues in relation thereto. It reviews developments in key industrial sectors and Master Trust Limited's exposure to these sectors. It is also responsible for managing the balance sheet and reviewing the asset-liability position to manage Master Trust Limited's market risk exposure.

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, exchange rates and other asset prices. The prime source of market risk for us is the interest rate risk we are exposed to as a financial intermediary, which arises on account of our asset liability management activities. 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, and exchange rate risk on foreign currency positions.

Interest Rate Risk

Since our balance sheet consists predominantly of rupee assets and liabilities, movements in domestic interest rates constitute the main 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. Exposure to fluctuations in interest rates is measured primarily by way of gap analysis, providing a static view of the maturity and re-pricing characteristics of balance sheet positions. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated re-pricing date. The difference in the amount of assets and liabilities maturing or being re-priced in any time period category, would then give an indication of the extent of exposure to the risk of potential changes in the margins on new or re-priced assets and liabilities. Interest rate risk is further monitored through interest rate risk limits approved by the Asset Liability Management Committee.

Operational Risk

Master Trust Limited 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. Master Trust Limited 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 Master Trust Limited's customers and counter-parties, including the foreclosure on collateral, creates legal risk. Changes in law and regulation could adversely affect Master Trust Limited. Legal risk is higher in new areas of business where the law is often untested by the courts. Master Trust Limited 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.

BROAD PRINCIPLES

The Board has to review the business plan at regular intervals and develop the Risk Management Strategy which shall encompass laying down guiding principles on proactive planning for identifying, analyzing and mitigating all the material risks, both external and internal viz. Environmental, Operational, Financial and others. Communication of Risk Management Strategy to various levels of management for effective implementation is essential.

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 shall be placed before the Risk Management Committee.

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 and whether each specific risk to be accepted or treated.

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

Borrower risk is evaluated by considering:

- the financial position of the borrower by analyzing the quality of its financial statements, its past financial performance, its financial flexibility in terms of ability to raise capital and its cash flow adequacy;
- the borrower's relative market position and operating efficiency; and
- the quality of management by analyzing their track record, payment record and financial conservatism.

Industry risk is evaluated by considering:

- certain industry characteristics, such as the importance of the industry to the economy, its growth outlook, cyclicality and government policies relating to the industry;
- the competitiveness of the industry; and

- certain industry financials, including return on capital employed, operating margins and earnings stability.
- occurrence of any significant event impacting that industry.

Working capital loans are generally approved for a period of 12 months. At the end of 12 months, Master Trust Limited reviews the loan arrangement and the credit rating of the borrower and takes a decision on continuation of the arrangement and changes in the loan covenants as may be necessary.

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.

REPORTING :

1. Internal Reporting

- a) Risk Management Committee
- b) Board of Directors
- c) Vertical Heads
- d) Individuals

2. External Reporting

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

DEVELOPMENT OF ACTION PLAN

The Risk Management Committee shall consist of Mr. Ashwani Kumar, Mr. Sudhir Kumar and Mr. Anil Kumar Malhotra, the Independent Directors and Mr. Harjeet Singh Arora, Managing Director as the Chairman of the Committee. The Committee shall not only assist in implementation of the Risk Management Plan of the Board but also monitor its implementation and review. The members of the Risk Management Committee shall discharge the role of "Think Tank", ideate and bounce off their collective suggestions to the Board for periodic updation of the Risk Management Plan to ensure that the same is in sync with changing macro and micro factors having bearing on all material aspects of the businesses MTL is engaged in or shall undertake.

Risk Management Committee shall critically examine the report of MD and each identified risk shall be assessed for its likely impact vis a vis the resources at the Company's disposal.

We conduct a comprehensive analysis of our loan portfolio on a periodic basis. The analysis considers both qualitative and quantitative criteria including, among others, the account conduct, future prospects, repayment history and financial

performance. This comprehensive analysis includes an account by account analysis of the entire loan portfolio, and an allowance is made for any probable loss on each account. In estimating the allowance, we consider the net realizable value on a present value basis by discounting the future cash flows over the expected period of recovery. Further, we also consider past history of loan losses and value of underlying collateral.

GUIDELINES TO DEAL WITH THE RISKS

Business Plan including Capital Expenditure and Fund Flow Statement together with SWOT analysis, Sales & Distribution, Assets, Accounts Receivables and Payables as well as Regulatory Regime applicable shall be reviewed in the light of the material risks identified. Through deliberations of the Committee a comprehensive plan of action to deal with the risks shall be developed and guidelines flowing from such plan shall be communicated to the employees concerned for mitigation of the risks.

BOARD APPROVAL

The Action Plan and guidelines decided by the Risk Management Committee shall be approved by the Board before communication to the personnel for implementation.

The Board shall approve the Risk Management (including Risk Treatment) strategy, control structure and policy guidelines and delegate authority and accountability for risk management to the Company's executive team.

The guidelines shall include prescription on:

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

Risk Treatment shall be applied at all levels through carefully selected validations at each stage to ensure achievement of the objective.

ROLE OF AUDIT COMMITTEE

The following shall serve as the Role and Responsibility of the Audit Committee authorized to evaluate the effectiveness of the Risk Management Framework:

- Review of the strategy for implementing risk management policy.
- To examine the organization structure relating to Risk management.

- Evaluate the efficacy of Risk Management Systems –Recording and Reporting
- To review all hedging strategies/risk treatment methodologies vis a vis compliance with the Risk Management Policy and relevant regulatory guidelines.
- To define internal control measures to facilitate a smooth functioning of the risk management systems.
- Ensure periodic review of operations and contingency plans and reporting to Board in order to counter possibilities of adverse factors having a bearing on the risk management systems.

INTEGRATION OF RISK MANAGEMENT STRATEGY

MTL's risk management strategy is to be integrated with the overall business strategies of the organization and its mission statement to ensure that its risk management capabilities aide in establishing competitive advantage and allow management to develop reasonable assurance regarding the achievement of the Company's objectives.

PENALTIES

The penalties are prescribed under the Companies Act, 2013 (the Act) under various sections which stipulate having a Risk Management Framework in place and its disclosure.

Section 134 (8) (dealing with disclosure by way of attachment to the Board Report) provides that :

If a company contravenes the provisions of this section, the company shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

There are other provisions of SEBI Act which stipulate stiff penalties. Therefore, this Policy prescribes that violation of the provisions applicable to Risk Management Framework is something the Company cannot afford to risk.

REVIEW

This policy shall evolve by review by the Risk Management Committee and 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.