METRO SHOES LIMITED

RISK MANAGEMENT POLICY

(As adopted by the Board of Directors on 4th March, 2015)

RISK MANAGEMENT POLICY

INTRODUCTION

Business Dictionary.com defines the term “risk” as a probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action.

In Insurance parlance, risk is likely consequential losses or damages. Risk means there is possibility of loss or damage. This damage may or may not happen.

Risks are events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the organization’s business objectives. The exposure to the consequences of uncertainty constitutes a risk.

Risk management refers to the practice of identifying potential risks in advance, analyzing them and taking precautionary steps to reduce the risk.

Risk Management is the process of systematically identifying, quantifying, and managing all risks and opportunities that can affect achievement of a corporation’s strategic and financial goals.

MANDATORY REQUIREMENT

As per Section 177 (4) (vii) of the Companies Act 2013, every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall include evaluation of internal financial controls and risk management systems.

Section 134(5)(f) of the Companies Act, 2013 states that that along with other statements, the Company shall attach a report by its Board of Directors which shall include a Director Responsibility Statement stating, along with others, that the directors have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems are adequate and operating effectively.

The Ministry of Corporate Affairs, Government of India has also accepted the concept of Risk Management and its relevance to the smooth functioning of the corporate sector in India and has therefore introduced a specific provision on Risk Management under paragraph (II) (C) of Corporate Governance Voluntary Guidelines, 2009.

The amended clause 49 of the Listing Agreement (applicable with effect from 1st October, 2014) requires the listed Companies to lay down procedure for risk assessment and procedure for risk minimization. The Company being unlisted the said clause is not applicable to the Company.

The Risk Management Policy has been framed for the benefit of the Company’s all stakeholders to minimize the risk of loss. The Company is committed to protect its stakeholders from various kinds of risks involved related to investments in the Company. This policy should be seen as a measure towards risk containment and not as an insurance against losses.

RISK MANAGEMENT POLICY

OBJECTIVE

The objective of this policy to provide appropriate roadmap and formulate the procedure and criteria for the Company to carry out risk management activities of the Company in better organized and transparent manner while recognizing the interest of all its stakeholders thereby strengthening the systems of the Company and making it a totally risk free Company.

The main objective of this policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. In order to achieve the key objective, the policy establishes a structured and disciplined approach to Risk management, in order to guide decision on risk related issues.

Following other objects will also be achieved as under.

- Better compliance of laws,
- Real time status of legal/statutory compliance,
- Safety valve against unintended non-compliance/prosecutions etc.,
- Cost savings by avoiding penalties/fines and minimizing litigations,
- Better Corporate image and positioning in the market,
- Enhanced credibility/ creditworthiness that only law abiding company can command,
- Recognition as Good Corporate Citizen,
- Self-Discipline and avoidance of last minute rush to comply the provisions which may result into partial or inaccurate compliance,
- Compliance with Code of Ethics and Professional Conduct

APPLICABILITY

The Company is in retail trading activity as under.

- Procurement of goods from various suppliers all India at Central warehouse of the Company
    - Footwear
    - Bags
    - Accessories
- Quality Check
- Branding and Packing
- Dispatch for sale to the Company's exclusive Showrooms all over India.

The major areas of company's operations are as under

- Showrooms (Business units) all over India
- Head Office at Mumbai
- Central Warehouse at Bhiwandi and storage places at various locations

RISK MANAGEMENT POLICY

The Company has been continuously reviewing its various systems and processes to make them more relevant to the changing needs of the business. The Company is ISO 9001-2008 certified which signifies that the Company has Quality Management Systems in place.

The Company also has an Internal Audit system which has been focusing on such reviews and corrective measures are taken for further improvement in systems and procedures.

In view of the growing size and nature of Company's business, the Company has decided to adopt a comprehensive risk management policy.

This Policy shall apply to all risk management initiatives and activities taken up by the Company for all its products and services, for all the locations where the Company carries out its business operations, for all the areas of Company's operations and such other matters as the Company may deem fit.

STRUCTURE

The Board shall be responsible for framing, implementing and monitoring the risk management plan for the company as detailed below.

The Board shall define the roles and responsibilities of the designated Risk Coordinator and may delegate monitoring and reviewing of the risk management plan to the Risk Coordinator and such other functions as it may deem fit. The Company's Secretary, CFO or COO will be (either jointly or severally) will be delegated the responsibility of Risk Coordinator.

The designated Risk Coordinator will be responsible for collating information from the Company's various Head of the Departments (HODs / Managers) for the new risks / events or changes in risk exposure on ongoing basis. The HODs /Managers are primarily responsible for identification, assessment, management of the risks as may be applicable to their respective areas of functioning and report to the Risk Coordinator / Board.

The Audit Committee shall review the implementation of the Risk management Programs periodically and issue necessary direction from time to time to ensure orderly and efficient execution of the Risk management programs in accordance with this Policy.

ROLE OF THE BOARD

The Board will undertake the following actions to ensure risk is managed appropriately:

- The Board shall be responsible for framing, implementing and monitoring the risk management plan for the company;
- The Board shall define the roles and responsibilities of the designated Risk Coordinator and may delegate monitoring and reviewing of the risk management plan to the Risk Coordinator and such other functions as it may deem fit;
- Ensure that the appropriate systems for risk management are in place.

- The independent directors shall help in bringing an independent judgment to bear on the Board's deliberations on issues of risk management and satisfy themselves that the systems of risk management are robust and defensible;
- Participate in major decisions affecting the organization's risk profile;
- Have an awareness of and continuously monitor the management of strategic risks;
- Be satisfied that processes and controls are in place for managing less significant risks;
- Be satisfied that an appropriate accountability framework is working whereby any delegation of risk is documented and performance can be monitored accordingly;
- Ensure risk management is integrated into board reporting and annual reporting mechanisms;
- Convene any board-committees that are deemed necessary to ensure risk is adequately managed and resolved where possible.

Role of the Designated Risk Coordinator

Specifically, the Risk Coordinator will be responsible for:

- Coordinating with the HODs / Managers for new risks identified or changes to risks;
- Review on an ongoing basis the list of key risks impacting achievement of objectives identified for the year and report changes, if any, to the Board;
- Reporting on key risks and key risk management measures regularly.
- Reporting identified risks.
- Adding and updating new risks.
- Reporting significant breakdowns in risk handling measures and actions to prevent their recurrence.

Role of the HODs / Managers

The Company's HODs / Managers working at its corporate office, showrooms (business units) Warehouse are the personnel who are best placed to identify and manage the risk / control or are best placed to report on the risk control. They will be given the authority to manage a particular risk and will be accountable for doing so. On an ongoing basis, they will monitor their areas for new risks / events or assess changes in risk exposure; as well as carry out periodic assessment of controls in line with the above.

Specifically the HODs / Managers within the Business Units and Departments will be responsible for:

- Ongoing identification and evaluation of risks with the business and operations and collating the information.
- Reporting to the designated Risk Coordinator on key risks and key risk management measures regularly.
- Selecting and implementing risk management measures on a day to day basis.
- Reviewing the effectiveness, efficiency and suitability of the risk management process and addressing weaknesses and reporting the same.
- Maintaining efficient and cost effective risk handling mechanisms or control framework in line with changes in the business

TYPES OF RISK

Strategic Risk – Major Threats

A source of threat that may give rise to significant strategic risk includes:

- Budgeting (relates to availability or allocation of resources)
- Fraud or Theft
- Unethical dealings
- Product and or services failure (resulting in lack of support to business process)
- Public perception and reputation
- Exploitation of workers and or suppliers (availability and retention of suitable staff)
- Occupational health and safety mismanagement and or liability
- Failure to comply with legal and regulatory obligations and or contractual aspect (can you sue or be sued)
- Civil Action
- Failure of the infrastructure (including utility supplies, computer networks etc)
- Failure to address economic factors (such as interest rates, inflation)
- Political and market factors (for management of risk, security etc)
- Operational procedures – adequate and appropriate
- Capability to innovate (to exploit opportunities)
- Failure to control intellectual property (as a result of abuse or industrial espionage)
- Failure to take on new technology where appropriate to achieve objectives
- Failure to invest appropriately
- Failure to control IT effectively
- Vulnerability of resources (material and people)
- Failure to establish effective continuity arrangements in the event of disaster
- Inadequate insurance/contingency provision for disasters such as fire, floods and bomb incidents.

Strategic Commercial Risks

Examples of commercial risks includes

- Management will underperform against expectations
- Failure of suppliers to meet contractual commitments (this could be in terms of quality, quantity, and timescales on their own exposures to risk)
- Insufficient capital investment, shortfall in revenue expected / planned
- Fraud/Theft
- Failure to get retail showrooms at competitive rates
- An event being non insurable or cost of insurance outweighs the benefit

RISK MANAGEMENT POLICY

Economical/Financial/Market

- Exchange rate fluctuation
- Interest rate instability
- Inflation
- Shortage of working capital
- Failure to meet project revenue targets
- Market developments will adversely affect plans

Legal and Regulatory

- New or changed legislation may invalidate assumptions upon which the activity is based
- Failure to obtain appropriate approval (e.g. planning consent)
- Unforeseen inclusion or contingent liabilities
- Loss of intellectual property rights
- Failure to achieve satisfactory contractual arrangements
- Unexpected regulatory controls of licensing requirements
- Changes in tax structure

Organisation /Management / Human Factors

- Management incompetence
- Inadequate corporate policies
- Inadequate adoption of management practices
- Poor leadership
- Key personnel have inadequate authority to fulfil roles
- Poor staff selection procedures
- Lack of clarity over roles and responsibilities
- Vested interest creating conflict and compromising the overall aims
- Individual or group interests given unwarranted priority
- Personality clashes
- Indecisions or inaccurate information
- Health and safety constraints

Political

- Change of government policy
- Change of government
- War and disorder
- Adverse public opinion/media intervention

Environmental

- Natural disasters
- Storms, flooding
- Pollution incidents
- Transport (Logistics) problems

RISK MANAGEMENT PROCESS

The processes mentioned below are in the sequence followed, for performing risk management for the first time. However the process should not be followed strictly in a serial process for risk management on an ongoing basis. Risk Management is a dynamic process and almost any component can and will influence another.

- **Risk identification:**

  The risk management process starts with the systematic identification of key risks and their root causes. Only if such risks and root causes are recognized in a timely manner can they be successfully managed.

  A prerequisite for efficient risk identification and subsequent risk evaluation is a consistent and comprehensive understanding of business objectives and strategies. Based on these targets, potential opportunities and threats can be identified, which may lead to a deviation from objectives or plans.

  Key risks impacting achievement of objectives will be reviewed on an ongoing basis as a part of the daily business activities by the HODs / Managers.

  There could be other risks or root causes which will emanate because of changes in the internal or external environment due to uncertainties and increase in vulnerability within which the Company operates. These risks and root causes are to be identified by the HODs / Managers during the normal course of business and assessed using the risk tolerance levels and the likelihood parameters that have been defined.

  The new events / incidents post assessment should be reported periodically to the designated Risk Coordinator.

- **Risk Assessment**

  Once risks are identified, they are evaluated or assessed, i.e. the impact of the risk is quantified to determine its potential effect on the profit and its probability of occurrence. The key objective is to measure the relative importance of risks, which enables prioritization and focus on important risks. Key risks impacting achievement of objectives for the respective financial year will be assessed for impact and likelihood. The assessment will take into consideration the risk tolerances that have been defined for achievement of the Company's objectives.

Each risk will be assessed for impact (materiality of the risk if it occurs) and likelihood (at an agreed level of impact, the probability of the event taking place). These two parameters determine the importance of risk to the organization. Based on the impact and likelihood the risk exposure is categorized into four categories – extreme, high, medium and low.

Risks are assessed before and after risk handling measures. The assessment of risks at the inherent level (before considering actions management might take to reduce the likelihood or the impact of their risk) makes it possible to prioritize risks. The assessment of risks at the residual level (risk that remains after management's response to the risk) helps determine whether the current risk position of the Business Unit / Department is acceptable or requires improvement.

All risks are assessed at the inherent and residual levels.

- **Developing Risk Response and Assessing Control Activities**

The third stage of the risk management process is risk handling. Management selects a series of actions to align risks with the Company's risk appetite and risk tolerance levels to reduce the potential financial impact of the risk should it occur and / or to reduce the expected frequency of its occurrence. Possible responses to risk include avoiding, accepting, reducing or sharing the risks as explained below.

- **Risk Avoidance**: Withdrawal from activities where additional risk handling is not cost effective and the returns are unattractive in relation to the risks faced (e.g. refuse orders, withdraw from any projects).

- **Risk Acceptance**: Acceptance of risk where additional risk handling is not cost effective, but the potential returns are attractive in relation to the risks faced.

- **Risk Reduction**: Activities and measures designed to reduce the probability of risk crystallizing and / or minimize the severity of its impact should it crystallize (e..g. hedging, loss prevention, crisis management, business continuity planning, quality management).

- **Risk Sharing**: Activities and measures designed to transfer to a third party responsibility for managing risk and / or liability for the financial consequence of risk should it crystallize.

In accordance with the defined roles and responsibilities, the HODs / Managers will be responsible for implementing sufficient risk handling to manage risks at an acceptable level. If necessary, guidance on the development and implementation of risk handling measures may be attained from the designated Risk Coordinator or Board.

Where there is either insufficient or excessive risk handling it is the HODs / Managers responsibility to develop action plans to rectify the situation and ensure their timely completion. Action plans will be prioritized according to the risk content.

The cost of implementing additional risk handling needs to be recognized and wherever possible alternative options will be evaluated to find the most cost effective option to handle risks. In circumstances, where action plans have a long implementation timeframe consideration will be given to interim options.

- **Monitoring Risks and Controls**

There need to be adequate controls and ongoing monitoring mechanisms to enable timely notification of fundamental changes in risks or their handling measures. Since the internal and external environment within which the Company operates is exposed to change continuously, the risk management process must remain sufficiently flexible to accommodate new situations as they arise. Risk responses that were once effective may become irrelevant; control activities may become less effective, or no longer be performed; or entity objectives may change. In the face of such changes, management needs to determine whether the functioning of the risk management framework continues to be effective.

Monitoring in the Company will be done in two ways:

- **Internal Audit** or an external service provider will evaluate the relevance and effectiveness of the risk management framework at least annually.

- Ongoing monitoring by the HODs / Managers and designated Risk Coordinator

    - **HODs / Managers from Business Units** are responsible for monitoring the relevance of key risks and effectiveness of their counter measures. They are also responsible for the development and implementation of risk management action plans.

    - **The designated Risk Coordinator** is responsible for monitoring adherence to the risk policy and guidelines and reviewing the overall risk management system in light of changes in external and internal environment within which the Company operates.

- **Risk Reporting**

- Periodic reporting on risks is required to determine whether the impact or likelihood of the risk is increasing or decreasing and to ensure continuing alignment of organizational resources to priorities. The reporting of key risks and risk handling measures is necessary to:
    - Improve the quality of and support timely decision making ;
    - Determine priorities for action and improvement ;
    - Enable Senior Management to satisfy themselves that the key risks are being identified and managed to an acceptable level.

Details of risk profile facing various Business units / Departments will be documented in the formats as decided by the Board of Directors and maintained by the HODs / Managers and periodically reported to the designated Risk Coordinator along with the details of risk mitigation measures, etc. The designated Risk coordinator will in turn report to the Board for guidance.

Risk reporting comprises the following elements:

- Business unit / Department specific description of key risks and opportunities;

- Risk Rating or evaluation (after handling measures) of risk regarding expected probability and impact on 'Profit' or other key Company objectives as assessable;

- Description of key risk handling measures including value of these handling measures. The value of the risk handling measure is a sum of this associated incremental cost. This should be quantified wherever possible.

- Statement of changes (including materialized risks or including of risks compared to the last risk reporting of the Business unit / department.

REPORTING / DISCLOSURE

Appropriate documentation of the Company's Risk Management Policy, Risk Management activities, expenditure incurred on such activities etc. will be reported in the Annual Report of the Company.

OVERALL

In case of any doubt with regard to any provision of the policy and also in respect of matters not covered herein, a reference should be made to Board of Directors of the Company. In all such matters, the interpretation & decision of the Board of Directors shall be final.

All Provisions of this Risk Management Policy shall be subject to revision/ amendment in accordance with the Act and Rules of the Companies Act, 2013 and Guidelines on the subject as may be issued by the Government of India, from time to time.

The Company reserves the right to modify, cancel, add, or amend this Policy in order to adopt the best practices in the Industry and in the interest of the stakeholders of the Company.