

TREET GROUP: FINANCIAL RISK MANAGEMENT POLICY

Wealth creation/shareholder value of the Treet Group (the “Group”) is directly correlated with the level of financial risk to which Group is exposed to. Through this policy framework, the Group develops the control mechanism along with effective and efficient systems of internal controls that adapt to the changing business and operating environments, mitigate risks to an acceptable level, and support sound decision-making and governance of the organization. The risks, as a result of business inherent limitation, an ever-evolving business environment, unpredictable future events, could impact on each of the Group entity’s ability to generate adequate shareholder returns.

The activities of the business expose it to a variety of risks and creates opportunities in the normal course of business. Taking risk is important to remain competitive and ensure long term sustainability. Risk and opportunity management encompass an effective framework to conduct business in a well-controlled environment where risk is mitigated and opportunities are availed. Each risk and opportunity should be properly assessed and considered before making a choice. Effective decisions are formulated only if opportunities outweigh risks. This document covers financial risks that the Group is, or could be, exposed to.

Generally, the risks are categorised as follows:-

- Business Risk
- Country Risk
- Environmental risk
- Industry Risk
- Financial Risk
- Compliance Risk

Risk management shall be carried by the management in accordance with the Risk Management Policy as approved by the Board of Directors (BoD). The policy not only covers specific financial areas but also identifies non-financial risks associated to our businesses.

Assignment of Responsibility for Financial Risk Management

- The ultimate responsibility for the financial risk management lies with the Company’s Board of Directors.
- Monitoring of the financial risk management process shall be performed by the internal audit function.

Policies for Assessment of Financial Risk Exposure

The Management shall conduct financial risk assessments regularly so as to identify exposures, set priorities and quantify how the same affect the business objectives, such as, profitability and shareholder value. These assessments shall cover all the aspects of corporate structure starting at the apex levels of management and working through all the functional levels. Head of Internal Auditor (IA) shall report to the Audit Committee of the Board on a regular basis, his assessment of the exposures of the entities to various risks, and checks and controls established by the management.

SCOPE:

The policy shall apply to all entities of the Group where it has majority control or controlling share.

EFFECTIVENESS

Policy shall become effective once it is approved by the Board of Directors.

OWNERSHIP, IMPLEMENTATION AND UPDATE

Board of Directors shall be responsible for the implementation of this policy. (*Chapter III, 10(4)i CoCG*)

Head of Internal Audit Function shall be responsible to ensure its compliance and report to the Chairman of the Audit Committee any deviation or non-compliance.

The CFO shall be responsible to implement this policy and also for the update at regular intervals that are in line with the requirement of the Code of Corporate Governance, Company's Ordinance 2017 and internal control framework.

The Company Secretary shall be responsible for the implementation of the Compliance Risk policy at the entity level, and ensure that the BoD and its committees are fully informed and updated about the effectiveness and implementation of this policy.

FINANCIAL RISK MANAGEMENT POLICY

Financial Risk is categorized under the following heads

- Currency Risk
- Interest Rate Risk
- Credit Risk
- Liquidity Risk
- Financial Transaction Risk
- Foreign Currency Exchange Risk
- Credit Management Risk
- Regulatory Risk
- Capital Risk

The overall financial risk management programme and specific internal control procedures focus on the mitigation of risks identified above due to business inherent limitations, volatile financial markets and changing circumstances of the economic situation locally and internationally that effect the business directly or indirectly.

The policy covers in detail all the areas of financial risks, and provides guidelines for the mitigation and minimization of the risk exposure.

i)- Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the change in foreign exchange risk. Currency risk mainly arises from the future commercial transactions or receivable or payables that exist due to the transactions in foreign currency.

Group is exposed to currency risk arising from the various currency exposures. The foreign currency exchange risk exposure is restricted to the amount of receivable/payable from/to the foreign entities.

If the functional currency, at the reporting date fluctuates by 5% against United States Dollar (USD) with all variables held constant, its impact on the Profit and Loss shall be reported in the financial statements. Currency risk sensitivity to the foreign exchange movement is calculated on symmetric basis.

ii)- Interest Rate Risk

Interest rate risk represents the risk that the fair value of the future cash flows of the financial instrument will fluctuate because of the changes in the market interest rate.

The Group's exposure to the interest rate risk arises from the borrowing it has obtained from various banks/financial institutions at variable rates and any contractual obligation that carries any penal or mark up clauses on delayed payments.

The interest rate risk is mitigated through managing borrowing at optimal levels that are essential to run the business. Short term borrowings shall be done to match the timing differences between fund receipt and disbursements. Any penal clauses or mark up on delayed payments shall be negotiated with the vendor at the time of placement of orders.

CFO shall be responsible to ensure that mark-up rate from banks/ financial institutions is market based that commiserate with the financial standing of the group. CFO shall also ensure that all contracts/purchase orders are well negotiated to reduce the exposure.

iii)- Credit Risk

Credit risk represents the risk that one party to the financial instrument will cause loss for the other party by failing to discharge its obligation. Credit risk is mainly attributable to trade debts and balance at the bank.

Most of the entities of the Group have a policy of cash sales or very limited credit period. The export sales are made against advance payments, export L.C, or cash against documents. Therefore, the Group's exposure to credit risk is minimum. Timely realization of sale proceeds under the credit period are critical for cashflow management, reduced level of borrowing, efficient utilization of funds and, meeting financial obligations on a timely basis.

Wherever the entity allows credit to its customer, the credit period will be determined on the basis of customer credit history, sales volume, customer financial standing, sponsors profile. All resources should be realised within the stipulated credit period. In case of any delays or default, it must be reported through ageing report, and the concerned entity head shall be responsible for the realisation of funds.

1) Exchange Risk Management

- a) The Management may use hedging techniques as are approved by the State Bank of Pakistan. However, prior to using any such techniques or instruments including, but are not limited to, currency futures, currency swaps, currency options, forward exchange contracts, forward rate agreements) specific approval for the type of the hedging technique to be used shall be obtained from the BoD.
- b) The CFO will be responsible for tracking and monitoring the movements of exchange rates on a periodic basis.

iv)- LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with the financial liabilities.

An entity is exposed to liquidity risk if its financial obligations outnumber its cash generations due to losses, higher costs, excessive inventory holdings and excessive borrowings. The liquidity risk is managed through effective and efficient cash flow forecasting and management, starching payables and raising equity.

The Group is mitigating this risk through effective cash flow planning, cost control techniques and proper raw material inventory management.

Financial Transaction Risk Management Policy

Financial transaction is defined as an action by an individual(s) that commits/exposes the company to an obligation either to give or take:

- Money
- Goods
- Services
- Assets

for the purpose of the advancement of the business.

The Group CFO shall have the responsibility to ensure that all financial transactions are timely and proficiently executed and recorded in the financial statements. The CFO shall ensure that all internal controls are effectively in place and appropriate checks have been incorporated in the system.

The head of Internal Audit shall carry out periodic review and report to the Chairman of the Audit committee, the compliance, shortcomings and suggest improvements in the internal controls.

The Group's financial risk management policy is targeted towards minimising the financial risks associated with the Group's revenue and cost streams, safeguarding the assets, addressing key areas of capital and financing structure and cash management. The policy regarding key areas relevant to the financial transaction management of the Group are as follow:

1. Bank Selection

Establishing and managing bank relationships is an effective tool in the diligent performance of a cash management system. The following important policies will be adopted in this respect:

- 1.1. The BoD will approve the panel of banks/financial institutions as proposed by the Chief Executive Officer **CEO**, from time to time. Banking transactions will be carried out with approved banks/financial institutions.
- 1.2. Any new relationship with a bank/financial institution will be entered into with the prior approval of the BoD. Such relationships include, but are not limited to, obtaining any banking facilities and entering into any modes of financing through banks or financial institutions.
- 1.3. Signatories for all bank accounts and banking activities will be carefully controlled and limited to person(s) responsible for, and in fact with the related financial transactions and obligations, and not routinely processing accounting records and/or bank reconciliations.
- 1.4. The Group Chief Financial Officer **CFO** where applicable, will approve quotes for each piece of new business on a stand-alone basis from all the banks/financial institutions on the Company's panel so as to ensure the competitiveness of business being carried out with the selected bank(s)/financial institution(s).

2. Account Operating Instructions to Banks

The relationship between the Group's entity and its banks/financial institutions in respect of operation of the bank accounts shall be governed as per the policy approved by the BoD, and is defined in the Financial Risk Matrix.

3. Managing Transactions through Banks

Each of the entities of the Group will adhere to the following general policies for managing transactions through banks/financial institutions:

- 3.1. All banks accounts shall be opened and maintained in the name of the entity/Company. No person (whether natural or legal) shall be allowed to operate any bank account for the Company under his/her name.
- 3.2. All cheques issued by the Company shall be signed by two authorised signatories. As defined the Financial Delegation Matrix.
- 3.3. Payments in cash will be made only in compliance with Section 21 of the Income Tax Ordinance, 2017.

- 3.4. The Company will not issue bearer cheque(s) or cheque(s) with crossings cancelled for any payments except for petty cash withdrawals not exceeding Rs. 250,000/- (Rupees Two Hundred and Fifty Thousand).

4. Cash Forecasting

- 4.1. The Group Treasury Manager shall plan the future financing strategies in accordance with the periodic cash-flow forecasts prepared on the basis of the best-estimates of expected sales, raw material payments, operational payments, capital expenditure and receipts to determine the level of expected cash surplus / deficit.
- 4.2. The actual cash-flows shall continuously be monitored by CFO to identify any modification to the financing strategy formulated on the basis of expected cash-flows.

5. Investment of Funds

- 5.1. Investments of the surplus funds will be made after the approval from Group CFO in banks/financial institutions and Asset Management Companies (AMC). Investment decisions will be made based on the highest rate of return offered by any bank or AMC. It would normally be the highest bidder, but can be any other bank/financial institution as deemed fit by the CFO with the concurrence of the CEO/ED.
- 5.2. Placement and investments will made on the basis of forecasted cash flows and surplus funds available with the Company. In order to mitigate the level of exposure with any one bank/financial institution, the funds will not be placed for more than three (3) months and not more than the Pakistani Rupee 350,000,000/- (PKR three hundred and fifty million).
- 5.3. The Company's funds will not be invested in speculative business, i.e. investment will be only in banks/financial institutions and AMC where a guaranteed fixed return is identified.

6. Borrowing Policies – Working Capital

- 6.1. All borrowings of the company will be at a competitive rates and, only from the bank/financial institutions approved by the BoD for banking transactions.
- 6.2. All borrowings must be collateralized in the best interest of the company and in line with the applicable laws and regulations.
- 6.3. The BoD will have the authority to set the overall borrowing limits of the company.
- 6.4. It is imperative for the CFO to ensure that funds required are borrowed at the most competitive rates available.
- 6.5. The CFO will be responsible for tracking and monitoring the movements of interest/mark-up/profit rates on a periodic basis.

7. Transaction Authorities

All transactions shall be executed according to the Financial Delegation Matrices as approved by the BOD. The authorities necessary to complete a transaction shall be divided as follows into three parts:

- 7.1 Authority to Commit: This represents the authority to enter into contracts and agreements with third parties (including employees) on behalf of the Company. Actions by which employees commit the Company to a third party include:
- (i) signing contracts, agreements or similar documents;
 - (ii) making binding oral commitments;
 - (iii) authorising the issuance of purchase orders;
 - (iv) accepting proposals from third parties.
- 7.2 Authority to Spend: This represents the authority to approve the utilisation of the Company's resources which is also referred to as the budget authority.
- 7.3 Authority to Disburse: This represents the authority to disburse the Company's funds to third parties (including employees). The disbursement of funds is generally contingent upon verification of the authority to spend and authority to commit and, where applicable, on verification of the receipt of goods or services by the Company.

V)-Credit Management Risk

The company's credit exposure to the credit risk and impairment losses relates to the trade debts. This risk is largely mitigated by the fact that, majority of our sales are on cash basis. We also have established dealership and retail networks with strong relationship with our customers. We do not expect non-performance by our customers, hence, the credit risk is minimal.

The CEO is authorized to approve any write off of bad debts, advances and receivables. However, any write off approved by the CEO will be placed before the BoD for ratification.

VI)-Regulatory Risk

The company is exposed to regulatory risk when it raises capital through the capital market, issuance of Sukuk, and right shares, private and equity placement, etc.

Company shall seek prior approval from the BoD and /or shareholders as per the requirement and seek all relevant regulatory authorities approvals, in respect of any proposed financing.

All borrowing arrangements entered into by the company shall be compliant with the relevant regulatory requirements.

VII)-Capital Risk

The company's objective when managing its capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and, to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust capital structure, the company may adjust the amount of dividends, return to shareholders through repurchase of shares, issue new shares or sell assets to reduce debt. Consistent with the industry and, the requirement of the lenders, the company monitors the capital structure on the basis of a gearing ratio.

CAPITAL BUDGETING:- Equity Investment/JV/Acquisition/Merger/Disposals of investment

All capital nature investments and disposals shall only be approved by the BoD and shareholders.

The CEO and CFO shall formulate the proposal for any new investment, clearly indicating future benefits associated with the investment in term of returns, using Capital expenditure techniques - discounted cash flows (DCF), Discounted Dividend Model (DDM) and/or Capital Asset Pricing Model (CAPM). The investment proposal should also indicate the source of funding and its terms and conditions.

Financial Delegations Matrix

Figures in '000'					
Description	MD/CEO	Executive Director	Group CFO	COOs	Group Head Treasury, HR, SC GM, DGMs Section Heads
Revenue Expenditure Commitment within an Approved Budget	Yes	Yes	Yes	Yes	yes
Unbudgeted Revenue Expenditure Commitment	100,000	50,000	-	-	-
Credit Sales within approved credit period	yes	yes	yes	Yes	yes
Credit Sales beyond Approved Credit Period	yes	-	-	-	-
Raw Inventory Management					
-Raw Material Requisition	-	-	-	Yes	DGMs, Section Head
-Raw Material Commitment Authorisation	-	-	yes	Yes	-
-Purchase Order	Only Group head SC can authorise these.				
Capital Commitments within an Approved Budget	No limits	No Limits	-	-	-
Unbudgeted Capital Commitments	15,000	10,000	-	-	-
Sales of Scrap	yes	yes	yes	-	-
Asset Disposal - Zero Book Value	yes	Yes	-	-	-
Asset Disposal - Breakdown	Book Value	Book Value	-	-	-
Asset Disposal - Obsolescence	Book Value	Book Value	-	-	-
Asset Disposal - During Life	Book Value	Book Value	-	-	-
Approval of Gifts (each)	100	100	-	-	-
Travel authorisation	All	Domestic	Domestic	Domestic	-
Ex gratia payments to employees	yes	yes	-	-	-
Discretionary loan to employees	yes	yes	-	-	-
Petty cash purchases	1,000	1,000	500	500	25
Expenses claims for subordinates	All	All	150	150	-
Additional Delegations					
Cheque signing & letter of Credit	All cheques require two signatories, one from each group. Individual signatory cannot sign independently. Group A includes MD -TCL, COO-TCL, Group CFO Group B Group Treasury Head, Chief Accountant & Financial Controller				
External Recruitments	CEO, other than appointments made by the Board.				
Raw Material Purchases	CFO only to approve orders to increase Stores levels				
Petty cash/Cash Advance	Limit of Rs. 250,000/- for any one transaction.				
As per Code of Corporate Governance	Chapter III, 10(4)xii				