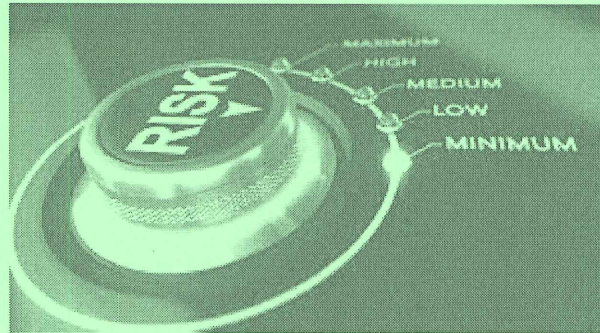


First UDL Modaraba


**Policy
for
Risk Management**



Implemented by: Board of Directors

Document no: FUDLM/SOP-3/Risk Mgmt/24.10.19

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Objective and Scope

Risk Management Policy of First UDL Modaraba (FUDLM) encompasses risk management requirements of Code of Corporate Governance, Anti Money Laundering and Countering Financing for Terrorism Regulation 2008 / SRO 245(I)/2019 of February 2019, Pakistan Stock Exchange (PSX) Rules, NBFC Regulations , Shariah Guidelines & Companies Act.

Risk Management Committee (RMC)

| | |
|----------------------|----------|
| Mr.Shuja Malik | Chairman |
| Mr.Majid Hasan | Member |
| Mr.Abul Rahim Suriya | Member |

Terms of Reference

- The overall responsibility of overseeing risk management processes, including how risk is identified , assessed, monitored, mitigated , controlled and reported including management and internal control procedures.;
- To protect FUDLM assets, safeguard certificate/ shareholders' investment/interests and address possible risks to the businesses, including any possible impact on business continuity.
- Review risk assessment methodology that should cover the risk emanating from customers, products, ~~and~~ geography and delivery channels; elaborate risk tolerance level and assess residual risk after implementation of mitigation measures.
- Constitute organization risk management team and define its roles and responsibilities.

Risk Management Team (RMT)

The RMT assists the board risk management committee in overall FUDLM risk management. The RMT comprises of Head of Credit, Risk Management & Chief Compliance Officer, Manager Credit and Compliance Officer and will obtain guidance from RMC, Chief Financial Officer, Shariah adviser and Head of Internal Audit.

The RMT's main responsibility is to implement and establish best risk management practices across the company and provide standard processes to identify, manage, monitor and report risks inherent in its business strategies.

Shuja Malik

Risk Management Policy Definitions

Risk:

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. It also includes risk associated with anti money laundering and financing for terrorism.

Risk Management:

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 and optimize the reward/risk ratio.

Risk Assessment:

Risk Assessment is an ongoing process which includes risk categorization, risk analysis and risk evaluation.

Risk Tolerance/Risk Appetite:

Risk tolerance or Risk appetite indicates the maximum quantum of risk which the FUDLM is willing to take as determined from time to time by RMC.

Risk Strategy:

The Risk Strategy of a FULM defines the company's standpoint towards dealing with various risks associated with the business. It includes the company's decision on the risk tolerance levels, and acceptance, avoidance or transfer of risks faced by the company and its categorization.

Regulated person (RP)/(SRO 245/2019):

means securities brokers, futures brokers, Insurers, Takaful Operators, NBFCs and Modarabas.

Handwritten signature in purple ink



Sumi Hussain

Guideline Principles

FUDLM risk management framework covers the below guide principles for effective risk management:

1) Risk Governance

One of the keys to effective risk management system is risk governance structure that provides appropriate senior level oversight, segregation of functions, independent controls and organization check and balance.

2) Three Lines of Defense

1) Business lines / front/Customer relation offices serve as first line of defense and are primarily responsible for managing risks on day-to-day basis.

2) Risk management and other control functions being the second line of defense are responsible for assisting business lines for designing and implementing adequate controls to manage risks.

3) The Internal Audit function is responsible for providing independent assurance on adequacy of FUDLM risk management environment.

3) Risk Management Framework Procedures

FUDLM has detail internal operating procedures for organization structure, risk identification, risk assessment, risk control & mitigation and risk reporting. Key risk includes:

Credit risk

Credit risk is defined as the risk of loss resulting from the failure of the borrowers and other counterparties to fulfill their contractual obligations and that collateral/security provided does not cover the claims.

Market risk

Market risk represents the risk of valuation loss or reduction in expected earnings stemming from adverse fluctuations in exchange rates, certificate/share price fluctuation, profit rates and interest rates.

Samir M. Hani

Liquidity risk

Liquidity risk is the risk of incurring losses due to an inability to meet payment obligations in a timely manner when they become due. The FUDLM categorises liquidity risk into funding liquidity risk, which occurs when payment obligations cannot be fulfilled because of an inability to obtain new funding, and market liquidity risk, which occurs when the FUDLM is unable to sell or transform assets in the liquidity buffer into cash without significant losses.

Operational risk

Operational risk is the risk of direct or indirect losses or damaged reputation due to failure attributable to technology, employees, processes, procedures or physical arrangements, including external events and legal risks.

Compliance risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation due to failure to comply with laws, rules and standards.

4) Related and Supporting Documents

This Risk Management Policy is supported by other policies and procedures as issued from time to time. These documents include, but are not limited to:

- Risk Management Procedure
- Business Continuity Plan
- Health , Safety & Environment (HSE) Policy
- Organization Structure
- Credit Policy
- Privacy Policy

Access to Company Information and Policy

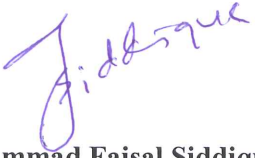



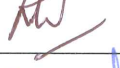

The information which is required to be disclosed under the Policy including the Policy itself is available on the Company's website (www.udl.com.pk)

Review of Policy

Next review – As required.





| Prepared by | | Reviewed by | | Approved by | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
|  Muhammad Faisal Siddiqui Head of Credit, Risk Management & Chief Compliance Officer | |  Syed Aamir Hussain Chief Financial Officer | | Board of Directors | | |
| | | | | Shuja Malik | CEO |  |
| | | | | Non Executive Director | | |
| Distribution to: | | | | Majid Hasan |  | |
| Compliance officer | | Internal Audit | | Abdul Rahim Suriya |  | |
| Credit Manager | | E-mail circulation... | Related employees | Farah Qureshi |  | |