LIBERTY SHOES LIMITED

RISK MANAGEMENT POLICY

REGULATORY FRAMEWORK

Pursuant to the provisions of Section 134(3) (n) of the Comapnies Act, 2013 and Clause 49 of the Listing Agreement, the Board of Directors of the Company during the financial year ended March 31, 2015 has approved a Risk Management Policy to build and establish the process and procedure for Identifying, assessing, quantifying, minimized, mitigating and managing the associated risk at early stage. Policy is aimed to develop an approach to make assessment and management of the risks in financial, operational and project based areas in timely manner.

Section 149(8) and Schedule IV of the Companies Act, 2013, the Code of conduct of the Company for Independent Directors shall state roles & functions and duties of the Independent directors to help them in bringing judgment to bear on the Board's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct and to satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible.

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

OBJECTIVE

The main objectives of the Risk Management Policy is inter-alia, to ensure that all the current and future material risk exposures of the Company are identified, assessed, quantified, appropriately mitigated, minimized and managed, to protect the brand value through strategic control and operational policies and to enable compliance with appropriate regulations wherever applicable, through the adoption of best practices.

In order to achieve this key objective, the policy establishes a structural and disciplined approach to risk management, which helps in arriving at correct solutions for various risk related issues.

The specific objectives of the Risk Management Policy are as under:

1.To identify and assess various business risks arising out of internal and external factors that affect the business of the Company.

2.To work out methodology for managing and mitigating the risks.

3.To establish a framework for company's risk management process and implement the same.

4.To follow best industry practices to ensure total compliance of all the regulatory matters.

5.To take adequate steps for smooth running of business, arrange for cover against currency fluctuation for imports and exports and assure sustainable and profitable growth for the Company.

DEFINITIONS

"Committe" Audit Committee of Board of Directors of the Company constituted under the provisions of the Companies Act, 2013 and Listing Agreement(s).

"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.

Risk Assessment

Risk assessment is the overall process of Risk identification, Risk analysis and Risk evaluation. The Process shall mainly cover the following in details :

a) Risk Identification and Categorization – the process of identifying the company's exposure to uncertainty classified as Business Environment / Strategic Business / Operational

b) Risk Description – the method of systematically capturing and recording the company's identified risks in a structured template covering a range of information about a particular risk

c) Risk Estimation – the process for estimating the cost of likely impact either by quantitative, semi-quantitative or qualitative approach in terms of the probability or occurrence and the possible consequence

A) Identification and categorization of risks

As defined earlier, Risks are often described by an event, a change in circumstances or a consequence 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 organization should identify sources of risk, areas of impacts, events and their causes with potential consequences. The aim is to generate a comprehensive list of risks based on those events that might create, enhance, prevent, degrade, accelerate or delay the achievement of objectives. Comprehensive identification is critical, because a risk that is not identified here will be missed from further analysis. This should include examination of the knock-on effects of particular consequences, including cascade and cumulative effects.

The organization should apply risk identification tools and techniques that are suitable to its objectives and capabilities and to the risks faced. Relevant and up-to-date information including background information is important.

Key characteristics by which risks can be identified are:

- Risks are adverse consequences of events or changed circumstances
- Their occurrence may be identified by the happening of trigger events
- Their occurrence is uncertain and may have different extents of likelihood Recognizing the kind of risks that Liberty Shoes Limited is/may be exposed to, risks will be classified broadly into the following categories :

1. **Business Environment Risk:** include the range of external events and trends (like Government policy, competition, court rulings or a change in stakeholders' requirements) that can adversely impact the organization's strategic growth trajectory and destroy shareholders' value.

2. **Strategic Business Risk:** include the risks associated specifically with the organization and having an adverse impact on the organization's capability to execute activities critical for business growth, thereby affecting its near-term performance e.g. occurrence of a risk event delaying the timely completion of manufacturing of footwear leading to the deferment of revenues expected from the same.

3. **Operational Risk:** are those risks which are associated with operational uncertainties like unpredictable changes in raw material Supply, power supply affecting operations, Labour unrest internal risks like attrition etc.

B) Risk Description

Risk Description provides an input to Risk Estimation and to decisions on whether risks need to be treated and on the most appropriate risk treatment strategies and methods.

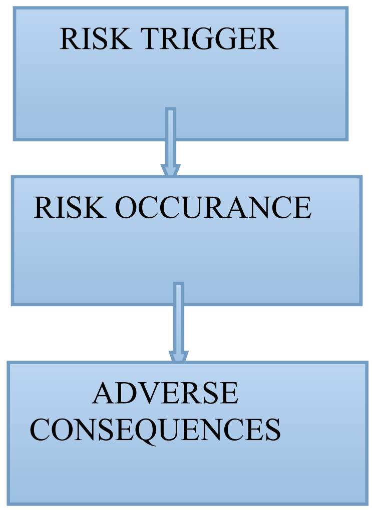
It involves consideration of the causes and sources of risk, their likelihood consequences and identification of the factors that affect them.
Consequences and their likelihood can be determined by modeling the outcomes of an event or set of events, or by extrapolation from experimental studies or from available data. Consequences can be expressed in terms of tangible and intangible impacts. In some cases more than one numerical value or descriptor is required to specify consequences and their likelihood for different times, places, groups or situations.
A risk description helps in understanding the nature and quantum of risk and its likely impact and possible mitigation measures. The suggested coverage is provided below :

1.	**Name or Title of Risk**	Unique identifier or Risk Index -short description by which the risk may be referred to
2.	**Scope of Risk**	Qualitative description of the events by which the occurrence of the risk may be identified, any measurement indicating the size, type, number of the events and their related dependencies
3.	**Nature of Risk**	Classification of Risk – Business Environment/ Strategic Business /Operational.Also timescale of potential impact and description as Hazard, Opportunity or Uncertainty
4.	**Stakeholders**	List of stakeholders affected, both internal and external, and impact on their expectations
5.	**Risk Evaluation**	Quantification of Risk i.e., likelihood and magnitude of event and possible cost of impact or consequences,should the risk materializes at current level

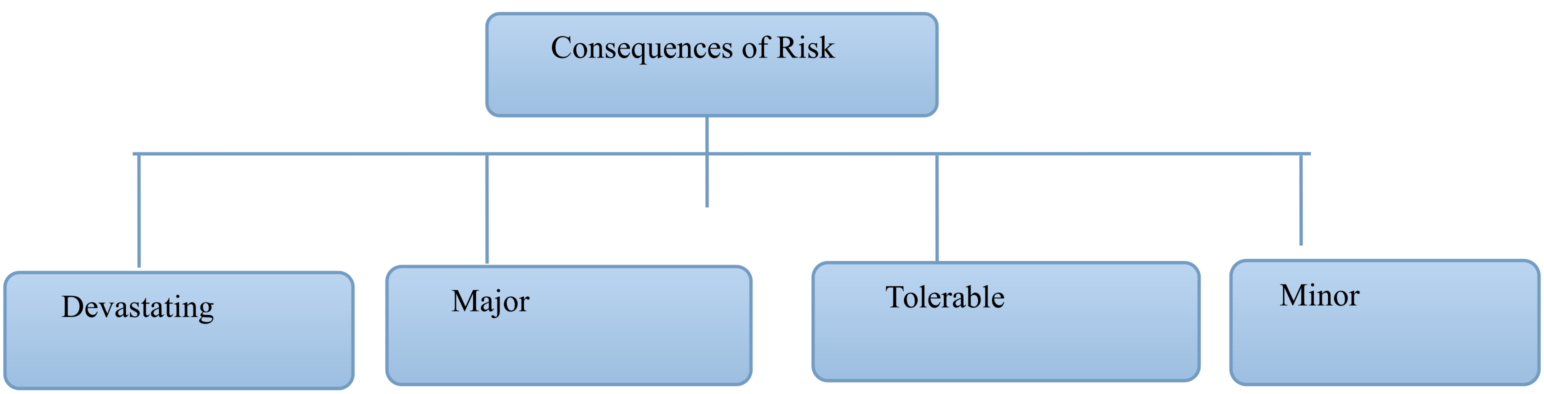
6.	**Loss Experience**	Previous incidents and prior loss experience of events related to the risk
7.	**Risk Tolerance, Appetite or Attitude**	Loss potential and Anticipated financial impact of the risk, Target for control of risk and desired level of performance,Risk attitude,appetite,tolerane or limit of the risk
8.	**Risk Response, Treatment and Control Mechanism**	Existing control mechanism and activities,Levels of confidence in existing control system, Identification of protocols for monitoring and review of the process of treatment and control
9.	**Potential Action for Improvement**	Potential for cost effective risk improvement or Modification,Recommendations and deadlines for implementation, Responsibility for implementing any improvement
10.	**Strategy and Policy Development**	Identification of function responsible for developing the strategy and policy for monitoring, control and mitigation of the risk. Responsibility for auditing compliance with control

C) Risk Estimation

In this process, the consequences of the risk occurrences have to be quantified to the maximum extent possible, using quantitative, semi-quantitative or qualitative techniques. Process of risk quantification for the organization has to be qualitative, supported by quantitative impact analysis.



According to the adverse impact analysis for identified risks, an appropriate risk category shall be determined for each risk identified as per the criteria below :



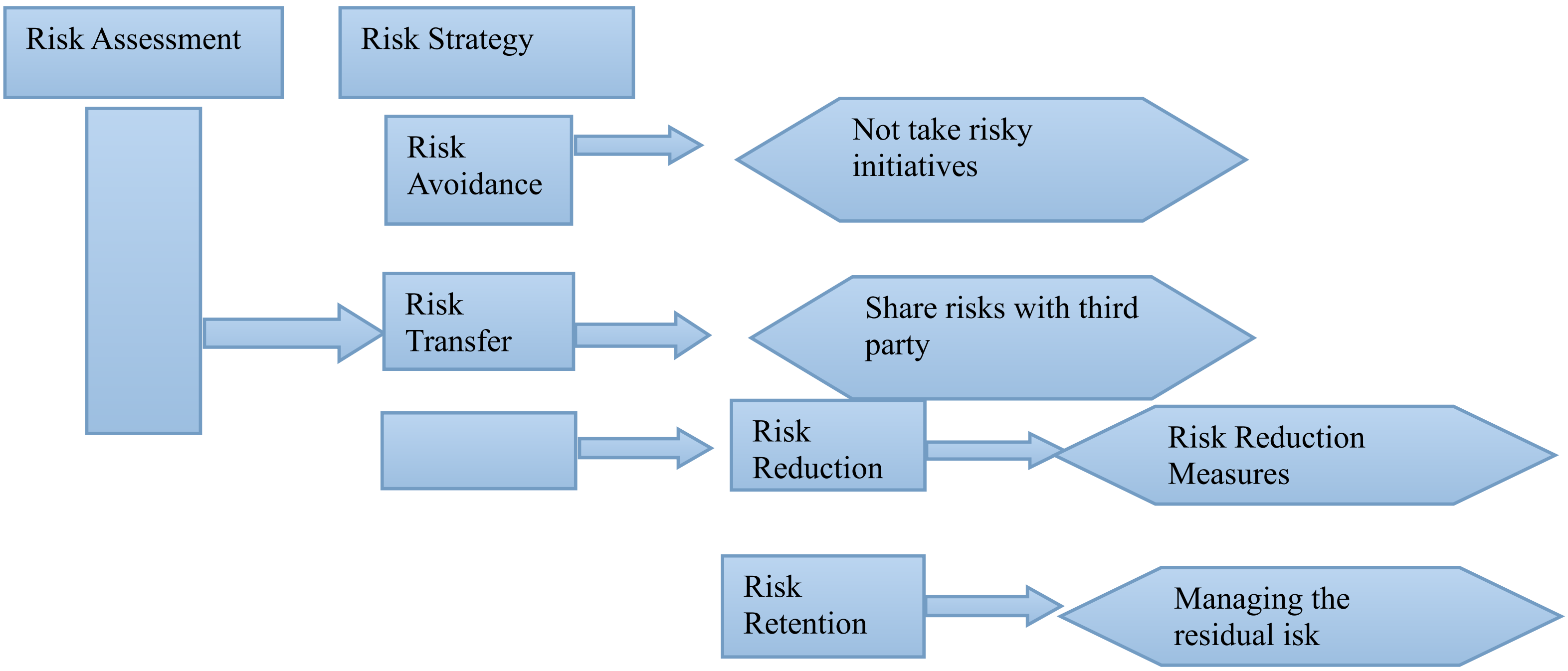
D) Risk Assessment Techniques

Risk assessment is a fundamentally important part of the risk management process. In order to achieve a comprehensive risk management approach, organization needs to undertake suitable and sufficient risk assessments. A range of the most common risk assessment techniques is set out in the Table below for guidance :

TECHNIQUE	BRIEF DESCRIPTION
Questionnaires and checklists	Use of structured questionnaires and checklists to collect information to assist with the recognition of the significant risks
Workshops and Brainstorming	Collection and sharing of ideas and discussion of the events that could impact the objectives, stakeholder expectations or key dependencies
Inspections and audits	Physical inspections of premises and activities and audit of compliance with established systems and procedures
Flowcharts and dependency analysis	Analysis of processes and operations within the organization to identify critical components that are key to success
HAZOP and FMEA approaches	Hazard and Operability studies and Failure Modes Effects Analysis are quantitative technical failure analysis techniques
SWOT and PESTLE analyses	Strengths, Weaknesses, Opportunities and Threats (SWOT) and Political, Economic, Social, Technological, Legal and Environmental (PESTLE) analysis offer structured approaches to risk recognition

Risk Management Strategy

Following is a framework to be used for the implementation of the Risk Management Strategy :

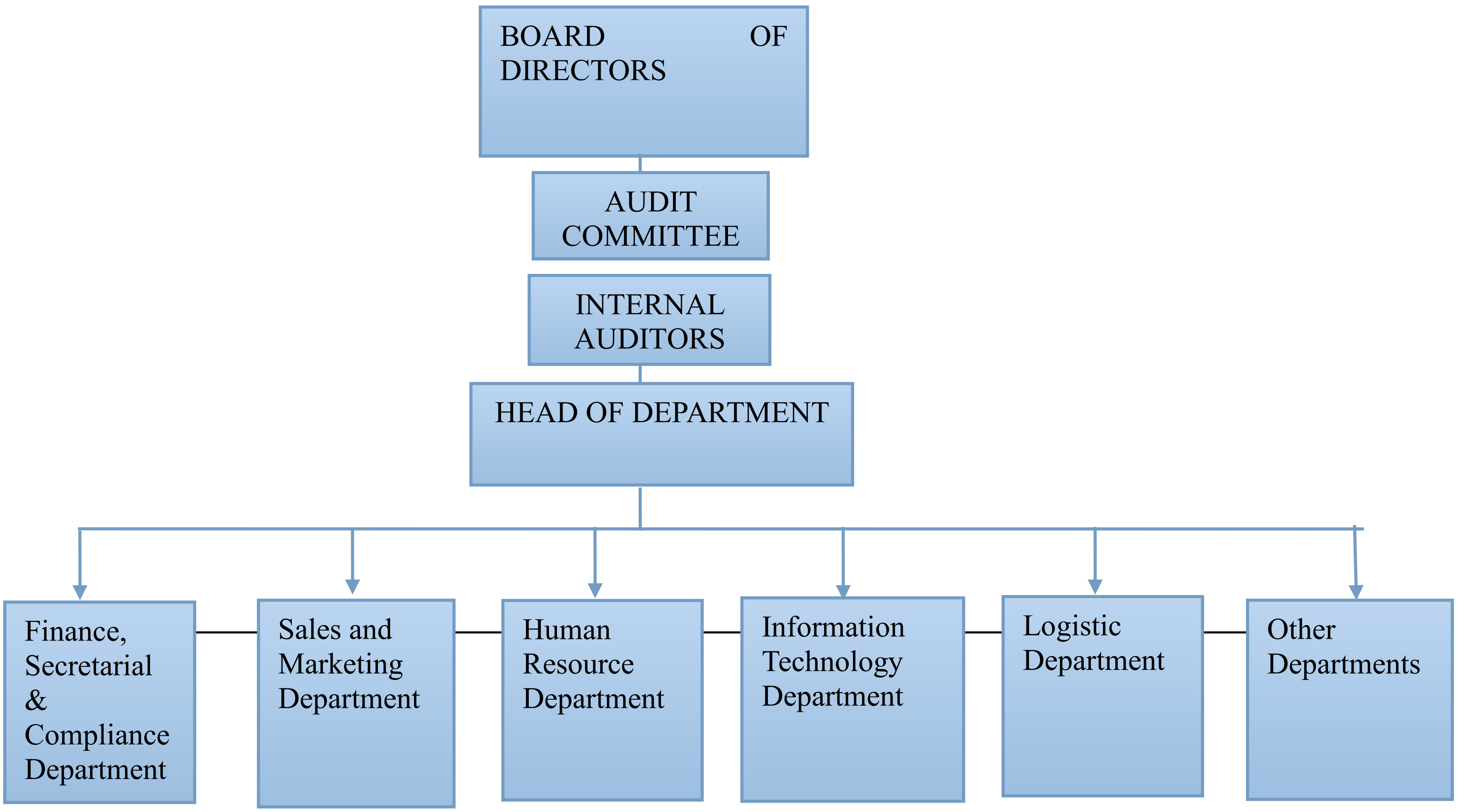


Following is a framework to be used for the implementation of the Risk Management Strategy :

Best management of risk is to examine each risk and decide as to how to prepare for the risk of event, if it occurs.
Itinvolves defining enhancement steps for opportunities and responses to threats (see chart below). Depending upon the Risk Priority (Devastating, Major, Tolerable, or minor); strategy of action on imperative measures, considered measures or let risk happen, needs to be decided. Threats falling in the categories of devastating or major need special attention and those in the categories of tolerable or minor
need careful attention. Response to threats generally falls into one of four categories:

(i) Avoidance, whether to avoid the risk carrying activity
(ii) Transference, whether to transfer the risk to another participant
(iii) Reduction, whether to reduce the risk (risk abetment) or
(iv) Retention, whether to accept the risk (risk retention)

Risk Organization Structure



The Board of Directors of the Company assesses several types of risks.The Board of Directors periodically reviews and evaluates the risk management system of the Company so that the management controls the risks through properly defined networks. Head of the Departments shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and report to the Board and Audit Committee.

Risk Audit

Internal Audit Dept. will be the part of Risk Management organization structure. Management will ensure the arrangements in place to audit the efficiency and effectiveness of the controls in place for significant risks. Role of Internal Audit may include some or all of the following :

i)Develop a risk based Internal Audit Programme

ii)Focusing the internal audit work on the significant risks, as identified by management and auditing the risk management process across an organization
iii)Receiving and providing assurance on the management of risk
iv) Providing active support and involvement in the risk management process
v)Facilitating risk identification / assessment and educating line staff in risk management and internal control
vi) Report on the efficiency and effectiveness of internal controls
vii) Coordinating risk reporting to the Audit Committee / Board

In determining the most appropriate role for the organization, Internal Audit should ensure that the professional requirements for independence and objectivity are not breached.
Our Company will ensure that those who are accountable are equipped to fulfill that role by providing them with the authority, time, training, resources and skills sufficient to assume their responsibilities.

REVIEW

The Company's risk management system is always evolving. It is an ongoing process and it is recognized that the level and extent of the risk management system will evolve commensurate with the development and growth of the Company's activities. The risk management system is a "living" system and the documentation that supports it will be regularly reviewed and updated in order to keep current with Company circumstances.