

**RISK MANAGEMENT POLICY  
OF  
MIDEAST INTEGRATED STEELS LIMITED**

## **Preamble**

Risk management Policy helps organisations to put in place effective frameworks for taking informed decisions about risk. The guidance provides a route map for risk management, bringing together policy and guidance from Board of Directors, Company's, Insurers etc. It outlines a recommended approach that will help to achieve more robust risk management.

## **Importance of Risk Management**

A certain amount of risk taking is inevitable if the organization is to achieve its objectives. Effective management of risk helps to manage innovation and improve performance by contributing to:

- increased certainty and fewer surprises
- better service delivery
- more effective management of change
- more efficient use of resources
- better management at all levels through improved decision making
- reduced waste and fraud, and better value for money
- innovation
- management of contingent and maintenance activities.

The key areas to be addressed are:

- the requirements of corporate governance – these include more focused and open ways of managing risk.
- the need for a 'risk owner' at senior level, role, for an activity (strategy, programme or project) and the need for risk owners at everyday working levels as appropriate for the activity and risk exposure.

- consideration of the organisational capability to successfully achieve the required outcome.
- the need for improved reporting and upward referral of major problems.
- the need for shared understanding of risk and its management at all levels in the organisation with partners and key stakeholders, combined with consistent treatment of risk across the organization.
- managing project risk in the wider context of programmes of change and the business.

## **Critical factors for management of risk**

The key elements that need to be in place include:

- nominated senior management individuals to support, own the risk management process and lead on risk management.
- risk management policies, and the benefits of following them, clearly communicated to all concerned.
- existence and adoption of a framework for management of risk that is transparent and repeatable.
- existence of an organisational culture that supports well thought-through risk taking and innovation.
- management of risk fully embedded in management processes and consistently applied.
- management of risk closely linked to achievement of objectives.
- risks associated with working with other organizations explicitly assessed and managed.
- risks actively monitored and regularly reviewed on a constructive ‘no-blame’ basis.

Appropriate use of business continuity plans and contingency plans is an important element of the management of risk. So there are likely to be success criteria identified with regard to:

- building in a risk allowance based on the risk assessment. These funds to be included in the financial provision. Unused funds for risk allowance to be redeployed when the activity completes or if the exposure to the related risk disappears.

- existence of continuity plans which consider how the business will survive should the outcome not be achieved (this would include looking at if a service should fail to come on stream at the required time, or if the users refuse to make use of the service).

## **Essential elements of risk management**

Risk includes the probability of both good and bad outcomes; the consideration of risk has to be set in the context of opportunity. The task of risk management is to limit the organisation's exposure to an acceptable level of risk by taking action on the probability of the risk occurring, its impact or both. The principles of risk management can be directed both to limiting adverse outcomes and achieving desirable ones.

The Company to have a set of key objectives. Risks (ideally not more than 10-15) to be identified against these objectives, at the highest level. These high-level risks should then be considered and managed by senior management.

Management of risk involves having processes in place to monitor risks; access to reliable, up-to-date information about risks; an appropriate level of control in place to deal with those risks; and decision making processes supported by a framework of risk analysis and evaluation. Risks to be managed in an integrated way at four key levels in order to manage interdependencies – these levels are strategic, programme, project and operational.

At a high level, risks to be categorized as follows:

- business risk – whatever affects ability to meet business objectives . These risks to be managed by the business and cannot be transferred.
- service/operational risk – includes design/build/finance/operate; project risk; these risks to be managed by the service/operational person best placed to do so.
- external risk – outside Company's control, such as legislation, changes in marketplace.

The table below shows the levels of risk and examples of typical risks occurring at each level.

Level	Examples of typical risks considered at this level
Strategic/corporate	Commercial, financial, political, environmental, strategic, cultural, acquisition, political and quality risks
	Programme, project and operational risks to be escalated to this level against set escalation criteria - e.g. not acceptable, outside agreed limits, may affect strategic objectives
Programme	Procurement/acquisition, funding, organisational, projects, security, safety, quality and business continuity risks
	Project and operational risks to be escalated to this level against set escalation criteria - e.g. not acceptable, outside agreed limits, could affect programme objectives
Project	Personal, technical, cost, schedule, resource, operational support, quality and provider failure
	Strategic and programme related risks to be communicated to this level where they could affect project objectives.
	Project managers should communicate information about project risks to other projects and operations as appropriate
Operations	Personal, technical, cost, schedule, resource, operational support, quality, provider failure, environmental and infrastructure failure.

Senior management levels will agree criteria under which an activity is managed. When risks exceed these set criteria – e.g. not acceptable, outside agreed limits, information is to be escalated so that decisions can be taken.

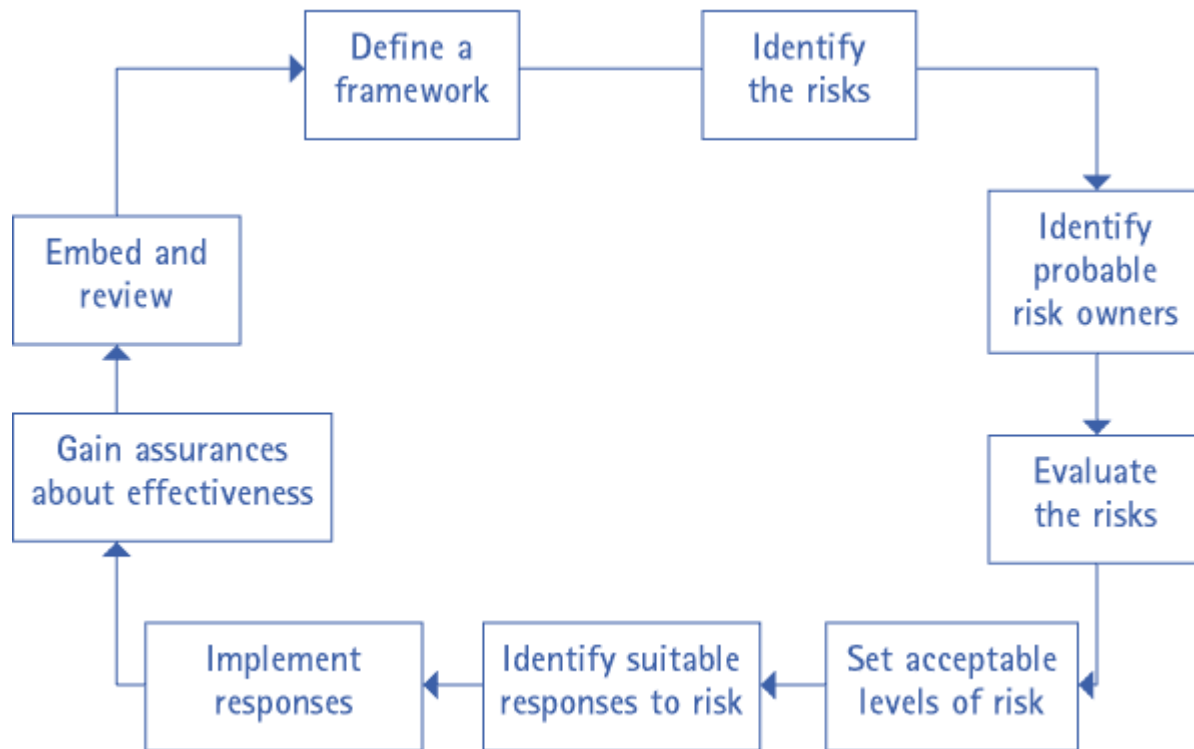
## **Risk management framework**

The minimum requirements for a risk management framework are:

- existence of the organisation’s risk policy.
- clear identification of main stakeholders.
- clarification of the main approaches to be used to identify; assess and report on risks; as well as look at actions to deal with risks.

- clear assignment of responsibilities for managing risk and reporting to senior management, especially risks which cut across core business activities and organisational boundaries.
- clear audit trail of decisions to ensure that risk management reflects current good practice, with quality assurance of key decisions as input to audit.

Following figure shows a strategic framework for the management of risk



A framework for management of risk sets the context, in which risks will be identified, analysed, controlled, monitored and reviewed. It will be consistent with processes that are embedded in everyday management and operational practices. It will address:

- Identification of Risks
- Information about their probability and potential impact
- Quantification of risk
- Options to deal with them
- Decisions on risk management , such as further risk reduction

- Implementation of Decision
- Subsequent tracking and managing risks
- Evaluation of actions for their effectiveness
- Setting up and support of appropriate communication mechanisms
- To engage stakeholders throughout the process.

## **KEY STEPS INVOLVED IN THE RISK MANAGEMENT PROCESS**

### **Risk ownership**

- Allocation of responsibility at a senior level for managing key risks.
- To ensure that every risk has an owner; there may be separate owners for the actions to mitigate the risks.
- To ensure anyone allocated ownership has the authority to take on the responsibility and that they are aware that they are the designated owner.
- To adopt a mechanism for reporting issues – ultimately to the individual who has to retain overall responsibility.

### **Embedding the risk management policy**

- To ensure that risk management is an intrinsic part of the way the Company works and that this is reflected in the policy.
- To keep the policy up to date through review by senior management.

### **Risk identification**

- To look at what is at risk and why.
- To consider the opportunities opened up by the current activity (e.g. programme or project) as that may also clarify where risk lies.
- To aim to identify the 20% of risks that would have 80% of the potential impact.
- To ensure that everyone involved has a sound understanding of the mission, aims and objectives and plans for delivery.
- To check that there are realistic plans for how providers could deliver the outcomes sought from the activity; check that there is shared understanding of the risks, whilst recognising that customers' and providers' perspectives on risk will not be the same.

### **Risk analysis**

- To assess the probability of risks occurring and their potential impact.
- To set tolerances for individual risks, with reporting arrangements for escalating problems if risks exceed agreed tolerances. To use the Summary Risk Profile to inform the analysis, support risk referral and subsequently to monitor progress.

- To determine the degree of review required (internal or external) on major projects to identify the likely exposure to risk.

## Response to risk

Address each risk as appropriate:

- To transfer it to the person best placed to manage it (please note that business and reputational risk cannot be transferred).
- To tolerate it.
- To terminate it.
- To treat it by addressing the probability or impact and so contain it to an acceptable level.

To put in place processes that will actively encourage cooperation and open dialogue between customers and providers. To ensure that providers share information about problems at the earliest opportunity so that small issues do not escalate.

## Communication strategy

To ensure that appropriate communication mechanisms exist and are adopted. The strategy for communicating risk to cover all stakeholders and, where directly affected, the public:

- identify who is to establish channels of communication with, through which convey good and bad news.
- identify whose opinions, positions and interests you should be aware of so that you can tailor the management of issues accordingly and more readily take advantage of opportunities, e.g. identify if the outcome is likely to be adopted by those it is intended to help.

In the Company, Areas/Nature of Risk and Risk control actions are as under:

AREA OF RISK	NATURE OF RISK	EFFECT ON THE COMPANY	PROPOSED RISK MANAGEMENT POLICY
<b><u>FINANCIAL RISKS</u></b>			
CREDIT RISK	<ul style="list-style-type: none"> <li>- Default in payment by buyers</li> <li>- Delay in payment</li> </ul>	<ul style="list-style-type: none"> <li>- Company may incur loss due to bad debts.</li> <li>- Increased working capital cycle and thereby loss of interest.</li> </ul>	<ul style="list-style-type: none"> <li>- Proper authorisation and delegations to be in place.</li> <li>- Thorough analysis before sanctioning credit to buyers.</li> <li>- To avail "Without Recourse" Bills Discounting facility.</li> </ul>
FOREIGN EXCHANGE	<ul style="list-style-type: none"> <li>- Devaluation of Rs.</li> </ul>	<ul style="list-style-type: none"> <li>- Increase in the import payables</li> </ul>	<ul style="list-style-type: none"> <li>- To proactively protect itself from currency fluctuations by:-</li> <li>- Taking the forward covers/ options at appropriate</li> </ul>



RISK		and thereby increasing the material cost and higher cash outflow.	rates, depending upon the merits of the situation.
FISCAL CHANGES RISK	- Variation in Excise duty, Customs duty & Sales Tax Rates	- Adverse variation can affect the bottom line.	- All statutory levies to be evaluated for their impact and to be passed onto the customer, on case to case basis, keeping in view sales volumes.
BANK RATE VARIATION RISK	- Any change in bank rate may affect the interest income and expenses & vice versa	- Increase in interest cost (due to increase in bank rate) - Decrease in income from Mutual Fund/ Inter Corporate Deposits.	- Constantly watch the changes in bank rate and accordingly reshuffle the investment in ICD, Mutual Funds and tax free bonds etc. keeping in mind "safety of principal" as the primary criteria. - To explore avenues of low cost borrowings.
INSURANCE RISK	- Inadequacy of value - Comprehensive coverage of all risks	- Adverse effect on business/ bottom line.	- To review taking Fixed Assets Insurance Policy on "Reinstatement Value" basis. - To consider taking "Loss of Profit" due to fire/ machinery breakdown Policy.
<b><u>OTHER RISKS</u></b>			
PRICE REALISATION RISK	-Realisation may be affected due to long period contracts	-Lower profitability	- Price Escalation Clause to be incorporated in all contracts involving long term delivery schedule.
SOURCING RISK	- Single vendor sourcing risk may have impact on delivery, quality and production.	- Adverse effect on business/bottom line - Production held up. - Delay in execution of sales order due to non-availability of stock resulting in sales loss to the Company.	- To develop more sources for critical items .
COST RISK	- Uncontrolled production cost and overheads.	- Lower profitability	- Regular Review of the production cost and other overheads to keep them under control.
NATURAL DISASTER RISK	Flood, Earth Quake	-very high repair costs -business interruption losses -downtime	-To cover all financial risk, insurance of all assets -Guidelines in the event of any disruption -Risk Manual on Business Disruption due to natural disasters, Fire/Explosion etc.
EPIDEMIC RISK	Spread of Communicable Diseases	-availability of labor -high absenteeism	-Epidemic Risk Guidelines

IT RELATED RISK	Infrastructure, Network & Information	-security of information assets	-Guidelines for IT related risk to infrastructure, Network and information. -Security Policy in place.
LABOR RISK	Labor Unrest	-availability of labor	-Compliance with all labor related laws. -Labor risk guidelines -Communication with Employees