# K-Electric Limited
# Enterprise Risk Management Policy

# Contents

## 1. Objective and Scope

The main objective of this document is to define and implement ERM policy to proactively and efficiently identify, assess, measure (as far as possible), monitor, and control risks to its strategic advantage. ERM policy provides broader guidelines to rationally deal with uncertainties and associated risks thus enhancing the brand image and profitability.

This ERM Policy is applicable to all functions, departments, units of K-Electric Limited ( “the Company”). The employees and staff of the Company are responsible for ensuring compliance with this policy.

This document shall be read in conjunction with the ERM Governance Framework Risk Appetite Framework and related procedural documents which constitute the overall ERM Framework of the Company.

## 2. Ownership and Approval

Enterprise Risk Management (ERM) function is the owner of this Policy. This policy will become effective once approved by the Board of Directors (BoD). Any subsequent amendment/ update will also be approved by the BoD upon recommendation by CRO/ ERMC through the Board Audit Committee (BAC). BAC is authorized by the BoD of K-Electric to oversee the implementation of this Policy.

## 3. Maintenance and Update

The basic responsibility for maintenance and updating of this Policy resides with the Head ERM. The review and updating of this Policy shall be an on-going process to ensure continuous alignment with the entity-wide strategy, and the internal and external dynamics in which the Company operates. Such factors may include the internal or external organizational changes and developments, changes and trends in ERM whether required by local regulations, or by other generally accepted ERM practices within the industry.

ERM Policy, in its entirety, shall be reviewed on a periodic basis (at least once in two years) and updated, only if required.

## 4. Enterprise Risk Management Culture

A strong ERM culture reflects high ethical standards and integrity starting at the top of the Company and cascading down the line in a manner that ensures seamless and effective implementation of applicable standards, best practices and regulatory requirements in letter and spirit.

The responsibility for establishing an independent, effective and strong ERM culture capable of identifying and managing risks at enterprise level remains with Board and leadership of K-Electric. Departmental Heads and all employees working across the jurisdictions where the Company operates are equally responsible for ERM.

ERM culture goes beyond simply ‘tone-at-the-top’ and requires that the ERM programme of the Company must be built on a solid foundation of ethics that are fully practiced and openly endorsed by BoD and the leadership. Additionally, a clear, visible and active commitment to identify and manage enterprise risks rests with CRO who is provided with the authority and appropriate resources to manage the ERM programme.

The ERM function, under the stewardship of CRO with continuing guidance and support of ERM Committee and BAC, shall lead the ERM activities by working in collaboration with all departments and respective stakeholders.

## 5. Enterprise Risk Management Objectives

Objective of ERM involves setting the most appropriate course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk issues to all relevant stakeholders on timely basis. Integrated ERM activities enables the Company to move away from the “silo” approach of managing risks and move towards the “holistic” view of enterprise wide risks. ERM helps in eliminating the duplications and redundancies in risks & related mitigants/ controls that exist mainly because different functions and departments define same risk differently. To summarize, ERM will help the Company get to where it wants to go and avoid pitfalls and surprises along the way.

The following are the key objectives of ERM at K-Electric:

- All functional and departmental heads being the process and risk owners clearly understand their departmental and process level risks in order to protect the Company from avoidable risks;
- Overall risk exposure at enterprise level is maintained within the acceptable risk appetite level (both in financial and non-financial terms) as defined by the BoD and Leadership;
- All risk related decisions to be taken by Company are explicit, clear and in line with the corporate goals, mission and the strategy of the Company set by the BoD;
- All risk related decisions to be taken by functions/departments are explicit, clear and in line with goals and objective of functions/departments, based on appropriate analysis keeping in view underlying risks, applicable regulatory, legal and other standards’ requirements, better practices, financial position, contingencies and commitments; and
- Enhancing and protecting the shareholders’ value.

## 6. Enterprise Risk Management Principles

Strong ERM culture is based on certain principles, which serve as the foundation of ERM overall programme, designed and implemented from top to bottom. The Company’s ERM activities will be guided by the following principles:

**Philosophy:** Identify and manage enterprise risks appropriately, in an informed manner and on timely basis, rather than putting available resources and executing unnecessary efforts towards elimination of risks. Such a philosophy keeps the level of risk in line with the acceptable risk limits by adopting a proactive and systematic approach towards ERM, resulting in performance enhancement and building reputation.

**Governance & Culture:** Foster a suitable ERM governance structure and culture enabling leadership and departmental heads taking informed risk decisions as a fundamental to business and operations activities, and the Board of Directors in providing guidance to the leadership.

**Strategy & Objective Setting:** ERM strategy is not a separate document from business strategy. The business strategy shall be co-related with the Company’s ERM strategy/ risk appetite and vice versa.

**Risk Identification & Assessment:** Functional and departmental heads own and take responsibility to identify, manage, monitor and report risks. Risk assessments, risk mitigations in place and management action plans for effectively reducing the risk exposures.

**Risk Performance:** ERM function shall continually pursue improvement in enterprise risk performance by assisting the relevant functions and departments in effectively identifying, assessing, managing and monitoring the risks applicable to their departments and processes.

**Information, Communication & Reporting:** The Company shall leverage the information and technology for ERM activities, communicate risk information and reports to the relevant stakeholders on a periodic basis.

## 7. Integrated Enterprise Risk Management

Effective implementation of integrated ERM approach leads to inter-linking of various identified risks with other functions, departments and units. For implementation of integrated ERM, various types of risks faced (mainly strategic, financial, reputational, operational and other risks as defined in Annexure-1 of the Policy) by functions and departments are identified and assessed by stakeholders keeping in view the functions and operations of different other departments of the Company.

Integrated enterprise risk management activities revolve around the following:

- ERM function mainly collaborates with all risk owners and ERM champions from different functions and departments to ensure that risks are identified and linked with the functions, departments and processes to which these relate;
- Heads of all the concerned functions and departments identify and assess their risks and report them to the ERM function in the form of risk registers; and
- ERM function is responsible for ensuring that integration of risks is considered by departmental heads, while assessing the risks impact and likelihood.

## 8. Three Lines of Defense (3LoD) Model

The Company shall implement an entity wide ‘3LoD model’ of risk management to identify and manage its entity-wide risks. The 3LoD model is briefly described below:

- The business and enabling functions serve as 1st line of defense and are primarily responsible for identifying and managing enterprise risks which are inherent in day-to-day processes, activities and systems for which they are accountable;
- The ERM function, being the 2nd line of defense, is responsible for assisting the risk owners in designing and implementing adequate controls to manage entity and departmental level risks;
- The ERM function is also responsible for assessing the level of entity-wide risks faced by the Company and reports its risk profile to ERMC and BAC on periodic basis. The other responsibilities of ERM function include timely escalation of risk issues and following up with relevant functions to strengthen the implemented mitigants/ controls; and
- The Internal Audit function, working on behalf of the BoD / BAC of the Company as 3rd line of defense, is responsible for providing independent assurance to the Board or BAC on the quality, effectiveness and adequacy of enterprise risk governance, management and control environment including the working of 1st and 2nd lines of defense to achieve ERM objectives.

For detailed roles and responsibilities of all the critical stakeholders in ERM process, please refer to the ERM Governance Framework.

## 9. Risk Review and Reporting

Effective implementation of ERM requires designing and implementing an adequate review process and mechanism in relation to ERM activities. Appropriate risk and mitigants/ controls review process is developed and implemented by Head ERM under guidance of CRO, which works in collaboration with the ERM champions and risk owners from all departments and functions of the Company.

ERM team shall review the risk registers developed by the risk owners and ERM Champions and compile the same to identify Company-level top risks (Critical Risks) and Company-level and Business unit level risk profile for reporting to the ERMC and BAC. High risks shall be reported to the BU heads (CxO level) along with the BU risk profiles and departmental risk profiles. Other risks (medium and low risks) shall be reported to the departmental heads for their review.

Risk reporting to ERMC and BAC shall be performed on periodic basis. BAC shall review and provide overall guidance to ERMC, CRO and ERM function, to ensure that management action plans to address the Company-level top risks, other extreme and significant risks are adequately designed and implemented by relevant functional and departmental heads.

# Annexure 1 – Definition

**Enterprise Risk Management** is a process, affected by an entity's board of directors, management and other personnel which is applied in strategy setting and across the enterprise to identify potential events that may affect the entity. It manages risks within risk appetite levels and provides reasonable assurance regarding the achievement of the entity's objectives. In addition to that what makes ERM so compelling is that it expresses risk not just as a threat, but also as an opportunity.

**Strategic Risk:** Possible source of loss that might arise from the pursuit of an unsuccessful business plan. For example, strategic risk may emanate from making poor business decisions, substandard execution of decisions, inadequate resource allocation, or failure to respond well to changes in the business environment.

**Financial Risk**: Risk of an event occurring that hampers a company's financial growth and profitability.

**Operational Risk:** Risk of direct or indirect loss resulting from inadequate or failed internal processes, people, systems or external events.

**Reputational Risk:** Risk that the Company's reputation is damaged by one or more than one reputation event(s), as reflected from negative publicity about the Company's business practices, conduct or financial condition. Such negative publicity, whether true or not, may impair public confidence in the Company, result in costly litigation, or lead to a decline in its customer base, business or revenue.

**Credit risk:** Possibility of loss due to unexpected default or a deterioration of credit worthiness of the counterparty.

**Market Risk:** Risk of losses from on and off-balance-sheet positions arising from movements in market prices. The main risk factors are interest rate, equity, foreign exchange, and commodity risk.

**Regulatory Risk:** Risk that a change in the laws and regulations will materially impact business, sector, or market in which the company operates.

**Compliance Risk:** Risk of potential exposure to legal/ regulatory penalties and/or financial loss, resulting from a failure to act in accordance with industry laws and regulations and internal policies.

**Liquidity Risk:** Risk to an institution's earnings, capital & reputation arising from its inability to meet its contractual and constructive obligations, in a timely manner without incurring unacceptable losses, when they become due.

**Interest Rate Risk** is the potential for incurring losses due to adverse changes in interest rates.

**Foreign Exchange Risk:** Risk of incurring potential losses due to adverse changes in currency rates. The Company has foreign exchange exposure whenever assets and liabilities, both on-balance sheet and off-balance sheet, are denominated in currencies other than its domestic currency (PKR).

**Legal Risk:** Risk of loss resulting from non-enforceability of the Company's rights or non-performance of its obligations. This includes rights and obligations under contracts entered into with counterparties.

**Environmental Risk**: Risk of potential adverse impact of changes in the environment on economic activity and human well-being.

**Health & Safety Risk:** Risk of harm (including injury, death, illness, loss, damage) to a worker and/ or customer resulting from a hazard or accident