

**VARDHMAN POLYTEX LTD.**  
*Secretarial Dept.*

**RISK MANAGEMENT POLICY**

**Risk**-----Risk is a combination of the probability of an event and its consequences which are likely to be negative. A business risk is like a threat which leads to non-fulfillment of objectives/goals of the organization on the occurrence of certain event. In the safety field, it is generally recognized that consequences are only negative and therefore, the management of safety risk is focused on prevention and mitigation of harm.

**Risk Management**

Risk Management is the process of controlling various risks in the organization by identifying or assessing those risks well in advance and taking steps to minimize those risks. The focus of good risk management is the identification and treatment of business risks.

Risk Management is a continuous and developing process which runs throughout the organization's strategy and implementation of that strategy.

**Types of Risks in Business:**

Risks can be categorized into four major categories:

1. Strategic Risks

- Competition
- Change of Tax Structures & Government Policy
- Customers Demand

2. Operational Risks

- Obsolescence of Technology Risk
- Quality
- Intellectual Property Rights Risk

3. Financial Risks

- Foreign Exchange Risk
- Interest Rate Risks
- Customers Outstanding Risks

#### 4. Compliance & Legal Risks

- Contractual Risks
- Legal & regulatory Risks

#### **Risk Management procedure:**

- Risk Identification & Assessment
- Risk Reporting & Communication
- Steps for Minimization of risks

***Risk Identification & Assessment:*** Risk Identification sets out to identify an organisation's exposure to uncertainty. The basic idea is to understand the organization as a whole and to know the areas in which the probability of achieving the target is getting minimized. In this process, the management tries to identify those events which may lead to create a negative effect on the activities of the organization. After identification of potential risks, the process of risk assessment starts.

Risk Assessment involves the quantification of risk to determine the impact of risk on the potential activity in which such risk is involved. The impact of the risk is to be assessed on the five point scale. There can be many measurements on the risk scale. E.g. the impact of risk can be high which denotes No. 5 and it can be low which denotes no. 1.

***Risk Reporting & Communication:*** After the Risk has been assessed, it should be reported to the Board of Directors, Business Units and concerned employees of the Organisation.

The Board of Directors should know:

- About the most significant risks facing the Organisation.
- The effects of such risks on the shareholder value
- Frequency of the occurrence of a particular risk.
- Appropriate level of awareness about the risks in the Organisation.

The Business Units should know:

- About the risks which fall into their area of responsibility, the possible impacts these may have on other areas and consequences other areas may have on them.
- The systems which communicate variances in budgets and forecasts at appropriate frequency to allow action to be taken.

The Concerned employees should:

- Understand their accountability for the individual risks.

- Report systematically and promptly to senior management any perceived new risks or failures of existing control measures.

**Minimization of risks:** There are two ways to minimize the risks in the organization which are as under:

1. Accepting the Risk--- to accept the risk and insuring the risks or making contingency plans to deal with the risk.
2. Transfer of Risk---- to transfer the risk to other party e.g. in case of import of machinery, the risk of damage of machinery in the course of transit shall in the account of the seller.

### **Risk Management Committee-**

The Company shall have a Risk Management Committee who will review and assess the risks in the organization at frequent intervals and report the same to the management in the Board Meeting of the Company. Further, the Committee shall also suggest the means to minimize those risks.

**Constitution**—The Committee shall consist of such numbers of members but not less than two, as may be decided by the Board of Directors of the Company. The members of the Committee shall be the officers of the Company from various departments so as to assess the risks in different areas.

**Quorum & meeting** —The Quorum of the Committee shall be one third of the total number of the members subject to minimum two members. The Committee shall meet once in every quarter.

This Risk Management policy is subject to be updated from time to time