



Ideal Spinning Mills Ltd.



RISK MANAGEMENT POLICY

PURPOSE

- The purpose of this policy is to define and identify strategic, operational, financial or compliance risks which may compromise the achievement of business objectives and implementing appropriate controls against such risks;
- Code of Corporate Governance, 2019 issued by Securities and Exchange Commission of Pakistan (SECP) recommends the Board of Directors to ensure that a risk management policy is in place and that risks are considered by the Board of Directors. Further, the Board is required to address risk analysis, risk management and risk communication including any uncertainties surrounding the listed company in its annual report; and
- Currently Senior Management, Business Unit Managers and departmental heads frequently meet to identify the key risks affecting the business with an objective to mitigate the risks and to ensure that the targets are achieved.

SCOPE

- The Policy forms part of the internal controls and corporate governance structure of the company and outlines a set of minimum requirements / standards, which shall be adopted across the organization. The Policy addresses the areas of key risks which comprises of strategic, operational, compliance and financial in nature and applies to all facets of the company. This policy will ensure the formal documentation of risks and mitigation strategy to reduce the risk to an acceptable level;
- Department Heads will designate risk managers from their respective department who would be responsible to identify the risks within their divisions and report them on an ongoing basis. Department heads would review them and then report it onwards to Chief Risk Officer for consolidation to have a common view on the top risks faced by the company and design risk mitigation strategy; and
- To focus on the achievement of critical business objectives, the management will ensure that key risks are continuously monitored through periodic meetings.

POLICY STATEMENT

The management will ensure that:

- existing and potential material risks that could impact the achievement of strategic objectives are identified, managed or mitigated;
- risk management methods (i.e. avoidance, reduction, transforming, sharing, and retention) are applied appropriately;
- appropriate resources & controls are allocated to risk areas; and
- non-controllable risks are identified, monitored, understood and mitigated where possible.

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KEY DEFINITIONS

- **Risk:** The chance of something happening that will have an impact on objectives measured in terms of severity and probability.
- **Risk Management:** The culture, process and structures that are directed towards realizing potential opportunities while managing adverse effects.
- **Risk Register:** A tool commonly used in organizational risk assessments for identification, analyzing and managing risks.
- **Risk Heat Map:** A risk heat map is a tool used to present the results of a risk assessment process visually and in a meaningful and concise way.

RESPONSIBILITIES OF RISK MANAGERS

For effective ongoing implementation of this policy, Risk Managers would be nominated from each department who would be responsible for:

- identification and assessment of risks with heat maps within the department and controls in place to mitigate identified risks in consultation with process owners;
- agreeing strategy on further actions required to mitigate the identified key risks under consultation with department heads;
- reporting management strategies on risk responses for review and approval of Chief Risk Officer;
- monitoring implementation status of action plan on mitigating key risks; and
- any other issue related to effective implementation of risk management process.

IDENTIFICATION AND CLASSIFICATION OF RISKS

- In order to protect the company's position with respect to the quality of its products and services, its financial and legal position as well as goodwill/ market reputation, a Risk Register would be developed for all type of risks. Risk register would include inherent risk assessment, mitigating controls, residual risk assessment and risk response with responsibility and timelines;
- In the event that a new service, process or initiative is introduced or new risk exposures are identified, the concerned Risk Manager (in consultation with process owners) shall be responsible for communicating the potential risk(s) associated with new environment;
- The major categories for which significant risks would be identified include:

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- ❖ **Strategic:** risks which may impact the ability of the company to achieve its business objectives. These are risks associated with future business plans and strategies, including plans for entering new services, expanding existing services through mergers and acquisition, enhancing infrastructure, etc.;
- ❖ **Operational:** risks resulting from inadequate or weak internal processes, people and systems. It is the risk arising out from inefficient and ineffective use of resources;
- ❖ **Financial:** risks, where cash flows are not effectively managed. This also includes the risks relevant to financial reporting; and
- ❖ **Compliance:** risks arise due to lack of adequate application and conformance to regulatory or internal requirements.

IMPLEMENTATION

- The following principles shall guide the approach towards implementation of risk management policy:
 - ❖ the Board of Directors (BOD) shall have an oversight role for the implementation of risk management policy. Chief Financial Officer shall be designated as Chief Risk Officer who would be responsible for managing risks at company level under this policy;
 - ❖ the risk management process shall be aligned with the strategic objectives and shall be integrated to the planning and decision-making processes;
 - ❖ there shall be active management of risks and regular reviews of the risk assessment by the management;
 - ❖ risk Managers from each department shall be nominated by Chief Risk Officer, who shall document the risks in Risk Register in consultation with department heads;
 - ❖ a key risk, once identified, shall be assigned to a risk owner being the responsible person with resources and authority. Respective Risk Manager shall be accountable for proactively managing that risk and reporting the same to Chief Risk Officer;
 - ❖ regular monitoring of identified key risk should be done. In the event the risk is materialized, the company shall have in place contingency plans to ensure the continuity of the business;
 - ❖ risks shall be managed optimally so that the level of exposure relating to a particular event shall be proportionate to the significance of that event to the company;
 - ❖ the level of risk exposure or risk appetite shall be recommended by Chief Risk Officer for Chief Executive Officer and BOD approval; and
 - ❖ the risk management process shall be applied consistently across the company with integration of risk management practices into annual planning and budgeting process.

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- Through the implementation of this policy following templates would be developed:
 - ❖ identification of risks and documentation in Risk Register;
 - ❖ inherent Risk Heat Map;
 - ❖ assessment of mitigating controls in place for identified risks;
 - ❖ residual Risk Heat Map; and
 - ❖ remediation plan with risk response, responsibilities and timelines against each risk assessed.

AMENDMENTS:

- This policy may be amended subject to the approval of Board of Directors, from time to time in line with the business requirement of the Company or any statutory enactment or amendment thereto.

DISCLAIMER CLAUSE:

- The Management cautions that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.

For Ideal Spinning Mills LTD


Director

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