RISK MANAGEMENT POLICY

1. INTRODUCTION & PURPOSE

1.1 Introduction

Berger (Company) is currently engaged in manufacturing and marketing of a range of Paints, Varnishes and other allied products. These business activities of the Company carry various internal and external risks.

'Risk' can be defined as the effect of uncertainty on the goals. Risk is measured in terms of outcomes and likelihood. Risks can be internal and external and are inherent in all administrative and business activities. All members of an organization manage various types of risks in their daily routine. Systematic approaches in managing risks have evolved with research in this area and are now regarded as good management practice, also called as Risk Management.

'Risk Management' is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of uncertain events or to maximize the realization of opportunities. Effective risk management is fundamental to the success of the Company and is recognized as one of its key strategic priorities. The Company has a strong, disciplined risk management culture where risk management is a responsibility shared by all of the Company's employees.

1.2 Purpose

The objective of the Risk Management Policy (Policy) is to ensure implementation of Risk Management Framework under which the outcomes of risk-taking activities are consistent with the Company's strategies and risk appetite, and that there is an appropriate balance between risk and reward in order to maximize shareholder returns.

This policy is applicable to all business and support areas of the Company and will cater to all kind of risks that the Company may face in pursuit of its strategic objectives.

1.3 Approval and Review

Ownership of the Risk Management Policy remains with BOD. The Policy becomes applicable after approval by the BOD. It will be reviewed periodically and revised in light of changing circumstances at least once every 3 years or more frequently, if situation warrants.

1.4 Regulatory Instruction

In case of contradiction between the Risk Management Guidelines and other directives of the Government of Pakistan, the provisions of the regulations/laws will supersede the terms and conditions of the Risk Management Policy.

1.5 Exception to the Policy

Any deviations / exceptions from this policy, other than the routine matters, will require approval from BOD.

1.6 Implementation and Dissemination

Chief Executive Officer / Chief Operating Officer (CEO/COO) has the responsibility of implementation of Risk Management policy in the Company and keeping the BOD updated. He would also be required to appoint a Risk Management Committee (RMC), comprising of senior management members of the Company. This committee will be responsible to ensure effective communication of this policy to all stakeholders in the Company.

1.7 Primary Guidelines

The Risk Management Policy is aligned with the regulation and guidelines of the following bodies:

- Code of Corporate Governance of Pakistan
- ISO 13001-2018
- Laws and Regulations of Pakistan

2. RISK MANAGEMENT FRAMEWORK

2.1 Key Elements

Company's risk management framework provides the foundation for achieving objectives of risk management policy. This framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the markets in which the Company operates, including regulatory standards and industry best practices.

The Company's risk management framework is applied on an enterprise-wide basis and consists of three key elements:

- Risk Governance,
- Risk Appetite, and
- Risk Management Techniques

2.2 Key Risks

Risks for the Company can derive from a number of factors including but not limited to uncertainties in financial markets, project failures, legal liabilities, credit risk, accidents and disasters as well as deliberate aggressive actions from an adversary, or uncertain or unpredictable events.

Company's activities expose it to a variety of risks which are subject to different levels of uncertainty against which Company has implemented effective mitigating strategies.

The risks include:

- Strategic risks
- Commercial risks
- Operational risks
- Financial risks
- Fidelity risks
- Reputation risks
- Compliance risks

- Political / Economic risks

2.3 Primary Component

The primary component of Risk Management Framework includes the following:

- Risk Management Policy

  Risk Management Policy summarizes the overall risk management philosophy by delineating the risk management principles, risk management processes and responsibilities among the respective roles. It serves as the rulebook from the Body and a primary source of corporate governance.
- Risk Management Strategy

  Risk Management Strategy aligns risk management actions with the Company's values. The Risk Management Strategy includes plans to implement Risk Management Framework.

Each component in the Risk Management Framework is essential for effective risk management in the Company as required by senior management.

3. RISK PHILOSOPHY

3.1 Key Risk Elements:

Key elements of the Company's risk management philosophy are as follows:

- Company considers sound risk management to be the foundation of a professional organization.
- Risk management is governed by well-defined policies that are clearly communicated across the Company.
- Company's risk management governance structure is clearly defined.
- Risk-related issues are taken into consideration in all business decisions. The Company shall continue to strive to maintain a conservative balance between risk and revenue considerations.
- Risks are reported openly and fully to the appropriate levels once they are identified.

3.2 Defining Responsibilities

The duties related to risk management are distributed across multiple functions as under.

- <u>First Line</u>

  All head of departments are primarily responsible for risks associated with the scope of their respective functions.
- <u>Second Line</u>

  Accounts and Finance department will vouch for any lapse or weakness on risk management
- <u>Third Line</u>

  The Risk Management Committee will oversee the entire risk portfolio of the Company.

4. RISK MANAGEMENT PRINCIPLES

Risk Management Principles highlight the standards and values to be achieved through Risk Management Framework. These principles act as a guide for the Company in developing the relevant process and procedures.

4.1 Alignment under a risk management framework
Berger uses a defined framework in terms of various policies and SOPs for managing risks across the Company facilitating formulation of an integrated approach and coordinating risk management activities.

4.2 Protection of shareholder's value
Risk Management Framework contributes to the achievements of the Company's strategic objectives through reducing uncertainties in business decisions.

4.3 Contribution at enterprise and strategic level
Risk Management effectively contributes to the strategic decision making of the Company. Risk Management reviews the Policies to ensure that operations remain aligned with Company's strategic direction. Risk Management reviews the new processes and systems proposed by management on time to time basis.

4.4 Facilitation of continuous improvement
Risk Management facilitates operations in identification of weaknesses and continuous improvement in processes.

4.5 Informed and inclusive decision making
Risk Management engages stakeholders at all appropriate levels to manage primary risks through strenuous coordination. All stakeholders managing risks are connected for timely and accurate information sharing for transparent and informed decision making.

5. ROLES AND RESPONSIBILITIES

Risk management related roles and responsibilities are as below:

5.1 Board of Directors (BOD)
The major responsibilities of the BOD are as follows:
- Ensure through delegated authority that the Company's overall risk exposures are maintained at prudent levels and are consistent with the strategic objectives of the Company
- Approval and review of risk management policy to effectively cover the entire risk management of the Company.

5.2 Risk Management Committee (RMC)
The RMC acts as catalyst for the development and maintenance of sound risk management policies and procedures. The Committee also provides functional support to the Management in managing risk. The roles and responsibilities of RMC are listed below:

- Keeping the CEO/COO aware of risk profile of the organization's new and proposed Risk Management challenges.
- Establishing and communicating an integrated risk management framework consisting of policies and procedures.
- Quantification of risks based on qualitative and quantitative factors.

- Collating, aggregating, interpreting and analyzing the results of risk assessments including losses and incidents
- Review of existing and new policies and procedures.

5.3 Risk Coordinators

RMC may appoint Risk Coordinators on regional level. Their responsibilities include:

- Assist RMC in development of region specific risk profile and ensure that this is kept updated for any changes in business environment including new processes and systems.
- Collect data for monitoring of risks and performance within their respective region and report them to RMC
- To highlight issues due to which the business objectives may be at risk and could be better managed in respective regions.
- Review and submit operational loss events, if any, reported by the employees and ensure that sufficient operational loss details are accurately reported to RMC.
- Liaise with the departmental heads on a quarterly basis to evaluate the defined risks and identify the new ones, if any.

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Effective Date:			**January 01, 2019**
PP No.:	**HR-EBP- 045**	**Issue No.:**	**00**