

Kirloskar Oil Engines Limited (KOEL)

Risk Management Policy

Purpose/Objective:

The main objective of this Risk Management Policy ("Policy") is to ensure sustainable business growth with stability and to promote a proactive approach in reporting, evaluating, and resolving risks associated with the business by establishing a framework for the company's risk management process and ensuring its companywide implementation while complying with the appropriate regulations. It also ensures that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated and managed.

Scope and extent of application:

The Policy guidelines are devised in the context of the future growth objectives, business profile envisaged and new business endeavors including new products and services that may be necessary to achieve these goals. This policy is meant to ensure continuity of business and protection of interests of the investors and thus covers all the activities within the company and events outside the company which have a bearing on the company's business. The policy shall operate in conjunction with other business and operating/administrative policies.

Structure:

The Internal Audit function will facilitate the implementation of the Risk Management Policy. There will be one Risk owner for each identified risk and the same will be either from Senior Leadership Team or a Head of the business or function and having one or more as their team members for implementation of the mitigation plan. The overall monitoring of the implementation and adherence to the mitigation plan will be done by Head - Internal Audit.

Roles and Responsibilities:

Our Risk management framework encompasses the following key components:

Level	Key Roles & Responsibilities
Risk Management Committee on behalf of the Board	<p>Corporate governance oversight of risk management is performed by the Senior Leadership Team.</p> <p>Following are broad responsibilities of the Risk Management Committee:</p> <ol style="list-style-type: none"> 1) To formulate a detailed risk management Policy which shall include: <ul style="list-style-type: none"> • A framework for identification of risks with a special focus to financial, operational, sectoral, sustainability (including ESG related risks), information, cyber security risks. • Measures for risk mitigation including systems and processes for internal control of identified risks. • Business continuity plan.

Level	Key Roles & Responsibilities
	2) To ensure that appropriate methodology, processes, and systems are in place to monitor and evaluate risks. 3) To monitor and oversee implementation of the Risk Management Policy, including evaluating the adequacy of risk management systems. 4) To periodically review the Risk Management Policy, at least once in two years, considering the changing industry dynamics and evolving complexity. 5) To keep the board of directors informed about the nature and content of its discussions, recommendations, and actions to be taken.
Senior Leaders (Risk Owners)	1) Reviewing enterprise and business risks from time to time, initiating mitigation actions, identifying owners, and reviewing progress. 2) Formulating and deploying risk management policies 3) Providing updates to the Risk Management Committee and Board from time to time on the enterprise and business risks and actions taken.
Internal Audit & Risk Management Department	1) The department facilitates the execution of risk management practices in the enterprise, in the areas of risk identification, assessment, monitoring, mitigation and reporting. 2) Deploying mechanisms to monitor compliance with policies. 3) Providing periodic updates to Risk Management Committee and Senior Leadership Team on top risks and their mitigation plans. 4) Working closely with owners of risk in deploying mitigation measures.
Business & Functional teams (Risk Mitigators)	1) Implementing action plans to mitigate risks at the unit level.
All Employees	1) Adhering to risk management policies and procedures. 2) Implementing prescribed risk mitigation actions. 3) Reporting risk events and incidents in a timely manner

Process:

We follow a detailed procedure to identify and mitigate the risks. The overview of the process is provided below. For detailed process please refer to our Risk Management Policy framework.

1) Risk Assessment

- Risk Identification and Categorization:** The risks are identified and categorized using a COSO* risk model by following a top-down approach. The COSO risk model views entity objectives and risks in four categories - Strategic, Operational, Financial, and Compliance. The economic risk covers the exchange rate risk. The model considers activities at all the levels of the organization – the Enterprise and the Business Unit level. Risk is categorized into strategic risk, operational risk, business risk, compliance risk, people risk, economic risk, sustainability risk, cybersecurity risk, business continuity risk.

* COSO framework is a system used to establish internal controls. These controls provide reasonable assurance that the Organisation is operating transparently & in accordance with established industry standards.

- **Risk Description:** It helps in understanding the nature and quantum of risk and its likely impact and possible mitigation measures. Risk descriptions for each of the risks identified in the Risk Matrix may be documented and recorded in a structured format in each area where the risk is identified. Parameters like Scope of Risk, Nature of Risk, Stakeholders, etc. are part of risk description.
- **Risk Estimation:** Consequences of the risk occurrences are quantified to the maximum extent possible, using quantitative, semi-quantitative or qualitative techniques. The probability value from very high to very low is assigned to the adverse consequences and cost impact is calculated. Basis this analysis the risks are categorized into High, Medium, or Low.

2) Risk Strategy

The Risk Management Strategy will broadly entail choosing among the various options for risk mitigation.

- **Risk Avoidance:** By not performing an activity that could carry risk.
- **Risk Transfer:** Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging.
- **Risk Reduction:** Employing methods/solutions that reduce the severity of the loss
- **Risk Retention:** Accepting the loss when it occurs.

3) Risk Register

An enterprise-wide integrated Risk Register is implemented by the company. The risk register will be maintained by Internal Audit Department for comprehensively capturing all risks. Once in every three months, the Risk Management Committee will also be informed of the status of the mitigation plan of enterprise risks and of any new enterprise risk identified during the intervening period.

4) Maintenance

Head - Internal Audit will closely liaison with all risk owners and their team members for assessing the status on the entire mitigation plan.

- **Effective Maintenance:** Identification of risks and later prioritizing on key risks and focusing on their mitigation plan.
- **Evaluation and Control:** Based on the cost impact analysis of the identified risks and its likelihood of impact, overall risk rating shall be ranked and actions to eliminate, reduce or manage material risks is determined. Risk controls is established by assigning appropriate responsibilities to the managers.
- **Monitoring:** Updating the risk matrix on regular basis and giving emphasis to risks with higher ratings.

Training & Development:

All employees of the company shall be made aware of risks in their respective domains and their mitigation measures with training & discussion on emerging risks. Everyone in the company is responsible for identifying potential risks and effective management of risk.

Approval of the Policy:

The Risk Management Committee will recommend to the Audit Committee and Board.
The Board will approve the Risk Management Policy.

Policy Review:

This Policy will be reviewed by the Board of Directors and updated as necessary once in two Financial Years.

For Kirloskar Oil Engines Limited

Sd/-
Gauri Kirloskar
Managing Director

Date: 19th May 2023
Place: Pune