

# **Risk Management Policy**

**DB Realty Limited**

**January 2012**

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**Privileged & Confidential**

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# 1. INTRODUCTION

## 1.1 Overview

In recent years all the sectors of economy have focused on management of risk as the key to organisation successful in delivering their objectives while protecting the interest of the stakeholder.

Risk may be defined as event, action or the inaction outcome of which is uncertain and may have been bearing on the achievement of desired goals or objectives.

Risk management is a holistic, integrated, forward looking and process oriented approach to managing all key risks and opportunities with the objective of maximizing shareholder's value. It aligns strategy, processes, people & culture, technology and governance with the purpose of evaluating and managing the uncertainties faced by the organization while creating value.

*As per COSO Enterprise Risk Management - Integrated Framework. 2004. COSO Risk management is a "... a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."*

DB's senior management recognizes that taking an appropriate approach to risk management is necessary to address many of the current issues being faced by the organization. In the current scenario, wherein Company's revenue and profit is under pressure due to adverse market condition, ever rising land price and material cost and falling sales, a structured risk management process that provides confidence that the Company's risks are known and well managed and thus allow more time to focus on company's growth, strategy and value creation.

Never before effective management of business risk been so critical to achieve positive results and enhance corporate reputation as it is today. It has been seen although significant risks are often known in some part of the company, those risks may not have been come to the attention of right people at right time.

Effective risk management allows an organization to:

- Have increased confidence achieving desired goals and objectives:
- Effectively constrain threats to acceptable levels
- Take informed decision about exploiting opportunities

To this end, DB has already undertaken an extensive risk management effort that includes building a pool of the key risks to DB, identifying key gaps in managing those risks and in the process of developing preliminary action plans to address those risks.

This effort accomplishes the following goals:

- Allows you to have clear and concise view on risks
- Provides the ability to prioritize, manage and monitor the increasingly complex risks in the business;
- Responds to the Board's and Executive Management's need for enhanced risk information and improved governance;
- Provides a comprehensive process to satisfy the regulators, and other stakeholders, that significant risks are being effectively managed.

Risk management is expected to be reviewed and amended on regular basis to ensure its ongoing relevance and viability. Risk management is everyone's responsibility and needs to be part of every decision making and monitoring process at DB Realty. The risk Management policy thus aims at outlining the frame adopted by the DB Realty to assess and mitigate the impact of risk and report to top management and Board of Director on the risk assessment and minimization procedures.

#### **1.2 Regulatory Requirement - Clause 49**

The amendment made to Clause 49 of the listing agreement by Securities and Exchange Board of India ('SEBI') via circular no. SEBI/CFD/DIL/CG/1/2004/12/10 dated October 29, 2004 lists out certain requirements for risk management. The key sub-clauses are listed below:

##### **Annexure 1(IV) (C) (Mandatory)**

The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risks through means of properly defined framework

##### **Annexure 1(IV) (F) (Mandatory)**

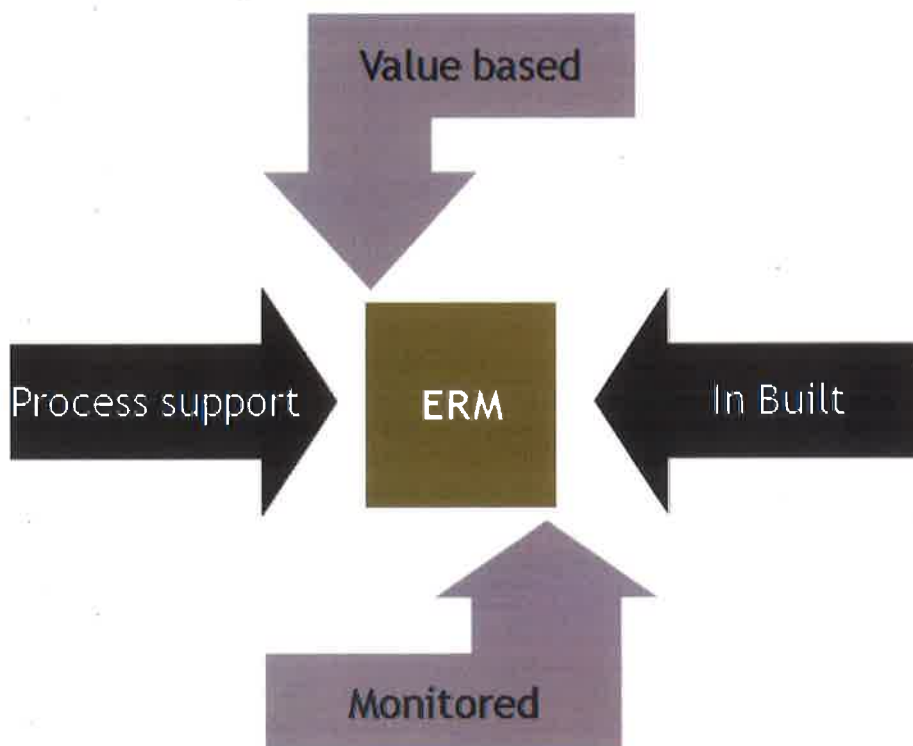
As part of director's report or as an addition thereto, a management discussion and analysis report should form part of the Annual report to the shareholders. This management discussion and analysis report should include discussion, inter-alia, on the Risk and Concerns within the limits set by the company's competitive position

##### **Annexure 1D (5) (Non-Mandatory)**

A Company may train its board members in the business model of the company as well as the risk profile of the business parameters of the company, their responsibilities as directors, and the best ways to discharge them.

### 1.3 Guiding Principles for the Risk Management Framework

The Company's approach towards Risk management is driven by four key *principles*:



- **Value based:** Risk management will be focused on sustaining the creation of shareholder value and protecting the same against erosion.
- **In Built:** Risk management will be explicitly in built in existing processes to facilitate management of risks across process on ongoing basis. This requires a suitable business structure, policies and, technology and appropriate staff training in risk management. This will enable risk to be managed at all levels of the business.
- **Process Support:** Risk management will provide support in establishing appropriate processes and technology to ensure that current risks are being managed appropriately and assurance is provided to stake holder over the effectiveness of these processes

and providing early warning on all future risks to address them appropriately.

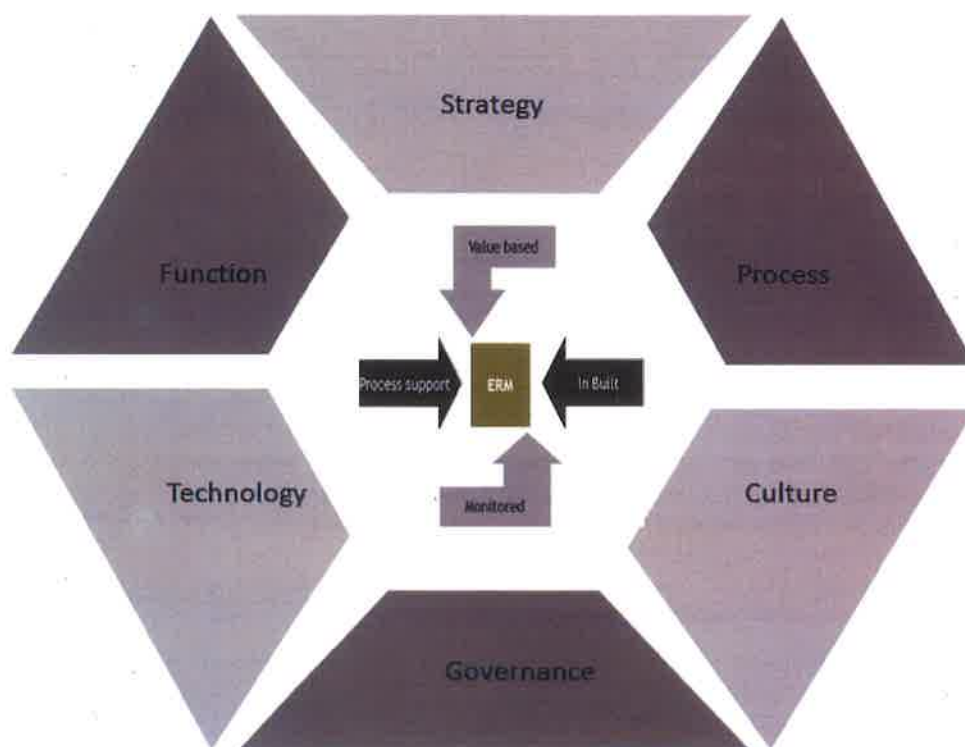
- **Monitored:** The Board and Senior Management will monitor and review the effectiveness of the risk management program on a regular basis to assess its ongoing contribution to the effective and efficient operation of the business in light of changing business conditions.

The primary guidelines in effective risk management are as follows:

- **Risk management is everyone's responsibility:** The Board of Directors, all levels of management and employees shall be made responsible for understanding the principal risks in their areas of responsibility and for making effective risk management decisions.
- **Significant risks are identified and managed through an integrated approach:** Methods considering risk and returns will be developed to promote a balanced approach to risk management.
- **Integration into major business processes:** Risk management will become an explicit and routine part of strategic and business planning, operational and financial management and performance measurement and management.
- **A comprehensive, disciplined, consistent approach:** A comprehensive, disciplined and consistent approach to risk management will be an on-going part of the company's management system.
- **Continuous evolution:** The Risk management process will be continuously improved to ensure that it reflects leading practices, adds value to the business and is adapting to changes in strategic and business objectives.

## 1.4 Key elements

Risk management is comprised of six *key elements*:



- **Risk Management Strategy:**

An organization's risk strategy is the mechanism to ensure that the risk management framework is defined and implemented with stakeholder value considerations at its core. Risk Strategy has an important role to play in risk management as it sets the floor for all activities undertaken to manage risk.

- **Risk Management Processes:**



A key element of Risk management is that there are Risk management processes in place to continually manage the risks that matter to the organization. Risk management process broadly comprises of:

- Risk Identification
- Risk Measurement / Prioritization
- Risk Mitigation Plan
- Risk Monitoring & Reporting

- **Risk Management Functions:**

The implementation and upkeep of an efficient infrastructure of risk functions is key for an organization if it is to obtain the most effective level of action over risks at the minimum cost and add value to ongoing business operations.

- **Governance:**

Effective corporate governance ultimately comes down to one question: How does the board of directors of a company ensure the managers of that company act in the best interest of the owners of that company? Although the Board has ultimate responsibility for risk management within an organization, it will almost certainly delegate day-to-day governance through a risk management oversight structure. This structure has two main components:

- Setting up Risk Committee - Composition, mandate, Reporting processes, timelines and Support team for risk management
- Reporting - Reports to board of directors & audit committee;

- **Culture and Capability:**

It is imperative to ensure the right capability exists to manage the risks being accepted by the organization and to have an organizational culture that enables the relevant individuals to make informed decisions that reflect the risk appetite of the board. This includes risk management competencies, policies and procedures, job profiles, appraisal process, communication strategy, and education/ awareness process.

- **Technology:**

Companies can leverage technology to achieve the most from their risk management efforts. Early warning systems can continuously alert risk manager, a common database can contain risk management information accessible to all, and intranets can facilitate company-wide risk communications, leading practices and training.



## 2. RISK MANAGEMENT FRAMEWORK

The components of risk management are different for different companies and are defined by the company's business model and strategies, organisational structure, culture, risk appetite and dedicated resources.

Risk management is a continuous and evolving process, which has to integrate with the culture of the organization over time. Effective risk management process requires consistent identification, prioritisation, mitigation, monitoring and communication of risk issues across the full breadth of the organisation. Essential to this process is its alignment with corporate direction and objectives, specifically strategic planning and annual budgeting processes.

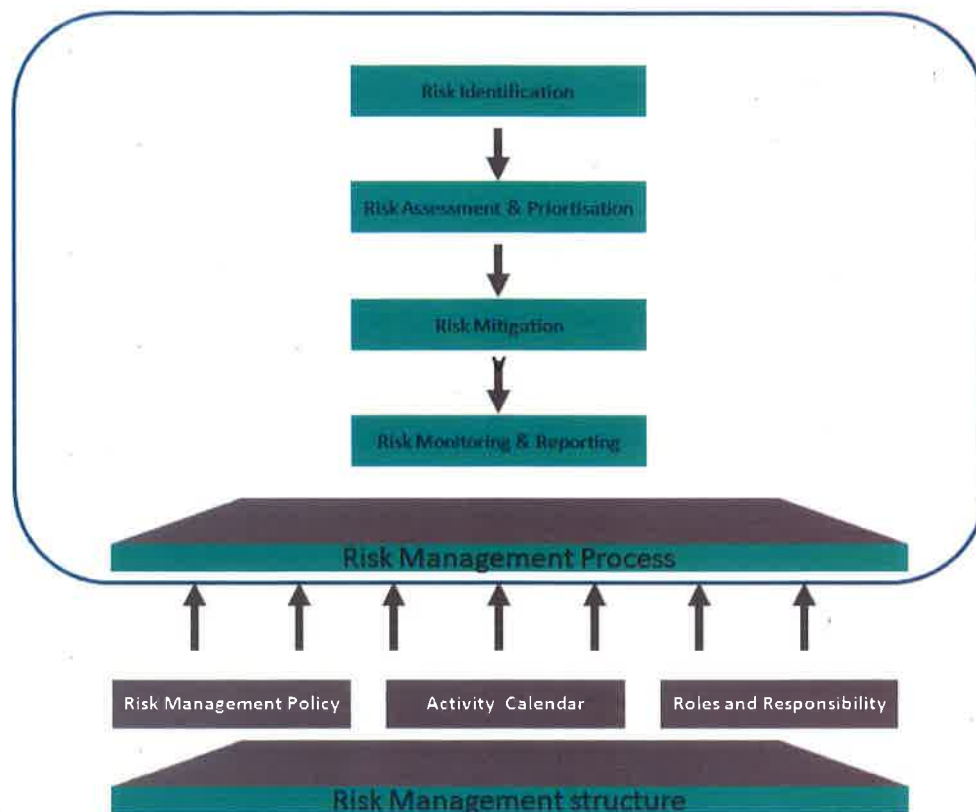
The risk management frame work will help in creating environment in which risk management is practiced across the departments, process and company where management can take informed decisions to avoid/reduce any surprises.

An effective risk management framework comprises of:

- Risk management process; and
- Risk management structure.

▼ Following is the diagrammatic representation of Risk management frame work

***DB's Risk Management Framework***



### 3. RISK MANAGEMENT STRUCTURE

Risk Management structure shall be integrated within DB's current governance structure. It will comprise of:



They all will play their roles in monitoring risk exposures and the effectiveness of processes to manage significant risks.

### 3.1 Roles and Responsibility

- **Audit Committee**

The Audit committee should include members from the Board of Directors (BoD). The main roles and responsibilities shall include:

- Sponsor and regulator of Risk Management;
- Awareness about the major business risks facing the company on a quarterly basis;
- Monitor risk exposure and to receive assurances that the processes in place to manage risk are operating effectively; and
- Facilitate communication of relevant risk information throughout the organization as appropriate.

- **Risk Champions' Team**

The Risk Champions' Team will comprise 7-8 individuals nominated from among the top executives during the workshops. This team will be coordinated by the Chief Risk Officer (CRO). The main roles and responsibilities of the Risk Champions' Team shall include:

- Prioritize the risks at the corporate level and provide guidance to the corporate audit and risk assurance team and process owners on the management of those risk;
- Assign ownership to and monitor the critical operational & corporate level risks;
- Align the risk mitigation/control strategies with the organizational strategies;
- Awareness about the critical risks identified at the functional unit level;
- Ensure cross business unit alignment of risk management activities.

- **Chief Risk Officer (CRO)**

The main roles and responsibilities of the CRO shall include:

- Providing the overall leadership, vision, and direction for risk management;
- Establishing an integrated risk management framework for all aspects of risks across the organization;
- Ensure development of all policies, procedures and processes for risk management;
- Optimizing the company's risk portfolio through business activities and risk transfer strategies;

- Seek periodic assessment of effectiveness of risk management efforts in the company;
- Developing a process for establishing and updating risk tolerances;
- Monitor consolidated risk levels and implementation of mitigation strategy/controls and report to the audit committee;
- Communicate the status of significant risk management issues to the audit committee;
- Coordinate the Internal Audit of all the councils and functional units to provide assurance evaluation and management of risks.

- **Corporate Audit and Risk Assurance Team**

The main roles and responsibilities of the CARA shall include:

- Providing assurance on Risk Management processes;
- Providing assurance that risks are correctly evaluated;
- Evaluating the Risk Management process;
- Evaluating the reporting of key risks and; and
- Reviewing the management of key risks.

- **Risk Owners**

The Risk Owners shall be individual business process owners taking ownership for the control effectiveness/mitigation plan and will be responsible for the actual management of risk. Their main roles and responsibilities shall include:

- Identify risk by participating in survey and workshops;
- Develop initial level of control and implement the controls/mitigation plan for both corporate and functional risks;
- Take ownerships for the controls;
- Take responsibility for the adequacy and effectiveness of the control;
- Track risk indicators and the reporting, completeness and accuracy of any operational information.

## **4. RISK MANAGEMENT PROCESS**

Effective risk management processes require consistent assessment, mitigation, monitoring and reporting of risk issues across the full breadth of the enterprise.

The risk management process consists of 4 steps:

### **4.1 Risk Assessment**

Risk assessment is defined as the process of identification, prioritization and analysis of risks. An effective risk assessment requires a common risk language and a continuous process for identifying and measuring risks. These elements need to be applied consistently across all key functions within the organization to understand the nature of the prioritized risks and their impact on business objectives, strategies and performance.

Risk assessment is an on-going systematic process to be carried out at periodic intervals. It consists of two broad level activities:

#### **4.1.1 Risk Identification**

Once strategic and operational objectives and assumptions are established, significant risks that may have an adverse effect on the objectives will be identified on a consistent basis. The risks are to be identified across the Company in geography, SBU, product or within a respective area of functional responsibility.

##### **Approach**

Risk identification at DB will be done by adopting a top-down and bottom-up approach involving people at the middle and senior management level of all key business and support functions, to achieve a holistic view of risks. Risk identification will be carried out separately at two levels:

- At the corporate level to identify the key risks faced by the organization;

- At the functional level to identify risks in each individual function.

#### **Periodicity**

- The Annual risk identification will be carried out on an annual basis by conducting risk surveys and interviews across the organization.
- During the year Continuous risk identification due to changes in the stated strategic and operational objective or in the business environment will be done through quarterly reviews, and submissions by personnel of risks experienced or perceived into a dedicated Email id.

#### **Source**

- Interview discussions, surveys and workshops;
- Results of financial and operational audits, compliance assessments etc.;
- External reviews, including benchmarking, discussions with peers, external environmental monitoring and input from external parties;

#### **Ownership**

The identification of the risk will be done by the Corporate Audit & Risk Assurance team for both the corporate level risks and the functional level risks. Chief Risk Officer will coordinate this exercise. External agencies may also be engaged in the risk identification process.

#### **4.1.2 Risk Measurement and Prioritization**

Risk prioritization is the process of ranking the risks to focus on those risks that have the most significant impact on the achievement of the stated goals and objectives of the organization.

#### **Approach**

Identified risks will be scored on a matrix including consequence and probability to create a prioritized list of risk exposures. The risk measurement process determines an amount of exposure by accessing consequence and assigning probability to a given event.



- **Consequence:** Consequence is the level of impact that the potential risk can have on the achievement of business/functional objectives.
- **Probability:** Probability is the likelihood of occurrence of the potential risk which may lead to the assessed consequences.
- **Inherent Risk:** Inherent risk signifies the exposure arising from a specific risk before any action has been taken to manage it. It is measured by using the formula given below.

### **Inherent Risk = Consequence x Probability**

The entire process of risk prioritization will be conducted through risk survey and workshops. The prioritization process will be as follows:

- For the annual risk prioritization the risk survey will be rolled out based on the risk identified at the corporate level and each function level.
- The participants will be decided by the risk management committee
- For the continuous risk prioritization, the risk log will be collated by the corporate audit and risk assurance team on a quarterly basis and shared with the relevant function (s) heads for their inputs and to identify the ones for which mitigation plans need to be developed.

#### **Ownership**

The prioritization of the risk and collation of the results of workshop will be done by the Corporate Audit & Risk Assurance team. CRO will coordinate and supervise the exercise.

#### **4.2 Risk Mitigation**

Risk mitigation is the process of initiating responsive action for managing the critical risks and restricts them at a tolerable level. The entire process is broken down into the following activities:

- Identify Risk owners
- Identify root causes for the "extreme" risks
- Identify risk indicators and information sources for the "extreme" risks
- Develop mitigation plans and action steps for the "extreme" risks based on root causes

- Assign ownership for the mitigation plans & action steps and fix timelines for implementation

Please refer **Anx. 1** to view the explanation for the key terms used above.

### **Approach**

Risk mitigation will be done for the corporate risks and functional level separately. For the corporate risks, the Risk Champions Team/CRO will identify the function heads to work on the mitigation plans in discussion with CEO. For the functional risks, respective function heads will nominate personnel to work on the mitigation plans. The Risk Champions Team/CRO will discuss the developed mitigation plans with the CEO for getting the approval on the corporate risk mitigation. For the functional risk mitigation corporate audit & risk assurance team will discuss the same with the function heads for getting the approvals. They will then report the final set of root causes, risk indicators and the mitigation plans to the Risk Champions Team/CRO.

The effectiveness and implementation of the mitigation plan will be reviewed by the corporate audit & assurance team as per defined timelines, atleast on a quarterly basis.

- Please refer **Anx. 2** to view the formats/templates and illustrations for risk management plan.

## **4.3 Risk Monitoring and Assurance**

### **Approach**

Corporate audit & risk assurance team to review and collate a quarterly report to be submitted to the Risk Champions Team/CRO and Audit committee delineating the following information:

- Mitigation plan(s);
- Effectiveness (what is result);
- Status on the implementation;
- Reason(s) for non-implementation (if applicable).

Corporate audit & risk assurance team's report to include the following necessary information:

- Assurance rating;
- Test conducted;
- Sample covered; and
- Detailed assurance comments.

### **Ownership**

The corporate audit and risk assurance team will be responsible for monitoring the performance of mitigation plans. CRO will coordinate and supervise the exercise.

## **4.4 Risk Communication**

### **Approach**

The status of risk management plans in place to mitigate risks and the status of specific risks being monitored must be communicated to ensure that Company's business activities are conducted in accordance with overall strategic and business objectives.

The communication channel shall be integrated with the present structure of the Company. All business areas shall have the responsibility of communicating directly the changes to the status of key risks. Risk owners shall communicate the corporate risk related items to the corporate audit and risk assurance team and the functional level risk related items to the respective functional units along with the corporate audit and risk assurance team. The corporate audit & risk assurance team shall maintain communication with the Risk Champions Team and the Audit Committee.

### **Ownership**

The corporate audit and risk assurance team will be primarily responsible for communicating the status of risk to the Chief Risk Officer, Risk Champions Team and Audit Committee.

### **Periodicity**

The corporate audit and risk assurance team will share the results of the annual and continuous risk assessment with the following:

1. Audit Committee - On quarterly basis
2. Risk Champions Team / Chief Risk Officer - on completion of the annual risk assessment process for corporate and functional level assessment and quarterly basis for the continuous risk assessment;
3. Risk owners - on completion of the annual risk assessment process for their respective functions and quarterly basis for the continuous risk assessment;

## 5. ROAD MAP FOR FUTURE

### Ownership

The Risk Management process will be the joint responsibility of all the groups involved in the Risk Management structure viz. Audit Committee, Risk Champions' Team, Chief Risk Officer, Corporate Audit & Risk Assurance Team and Risk Owners. In future, CARA & Risk owners to carry out the Risk Management exercise, Chief Risk Officer to co-ordinate the exercise and results collated to be reported to Risk Champions' Team and Audit Committee.

### Risk Management Activity and Reporting Calendar

Please refer Anx. 3 to see the activity and reporting calendar.

## 6. AMENDMENT TO THE MANUAL

### Objective

The objective of the amendment procedure is to ensure that all the amendments relating to the Manual are properly documented and authorized prior to implementation.

### Sources of amendments

The need for amendments can arise for various reasons, some of which are mentioned below

- Changes in management policies
- Change in organisation structure or interfacing functions that may involve changes in systems and procedures to ensure control
- Ambiguity and error in existing procedures

### Procedure for amendment

- Amendment to the manual shall be initiated by any of the constituents of the corporate audit and risk assurance team through a **Manual Amendment Form (MAF)** stating the Section/ Sub section to be amended, the reason for amendment and the proposed amendment.
- The MAF shall then be forwarded to CRO for obtaining approval.
- On approval, the MAF shall be filed and the amendment shall be communicated to all locations. The Amendment shall also be circulated to all the members of the Risk Champions' Team and Audit Committee.

- The relevant Section/Sub section of the manual shall be replaced with the approved amendment by the Risk Manager which shall supersede all the earlier documentation on the matter.

Please refer Anx. 4 to see the Manual Amendment Form (MAF).

## Appendix

### Annexure - 1

#### Key Terms

a.

#### Who are risk owners?

<b>Meaning</b>	Owners are personnel responsible for timely and effective implementation of and reporting on the assigned mitigation plans and action steps
<b>Types</b>	<p>Primary owners – Person assigned the overall responsibility for the implementation of the mitigation plan, reporting to the function head/corporate</p> <p>Secondary owners – Personnel assigned the responsibility for the implementation of the action steps, reporting to the primary owner</p>

b.

#### What are root causes?

<b>Meaning</b>	The reasons/causes/drivers which directly contribute towards the existence or possible occurrence of risks/risk events
<b>Types</b>	Root causes can be classified as controllable and uncontrollable
<b>Sources</b>	Root causes can arise within the organisation (internal) or from the outside environment (external)



c.

**What are risk indicators?**

<b>Meaning</b>	Risk indicators are tangible information sources that highlight the existence or possible occurrence of risk
<b>Types</b>	The indicators can be information in the form of analysis of business data, industry and market intelligence reports etc.
<b>Sources</b>	The indicators are drawn from various information systems (formal/informal)

d.

**What are mitigation plans?**

<b>Meaning</b>	Mitigation Plans are broad level measures or procedures, driven by root causes, to manage risk
<b>Consists of</b>	Mitigation plans consist of a set of action steps
<b>Implemented by</b>	Mitigation plans are assigned to specific personnel (Owners) with overall responsibility for the implementation of the assigned mitigation plan by the agreed timelines.

**Annexure - 2**  
**Formats & Templates Used for Risk Management Plan**

**a. Root Cause Template**

Sr. No.	Risk Event	Root Causes	Controllable/ Uncontrollable	External/ Internal

**b. Risk indicator Template**

Sr. No.	Risk Event	Risk Indicator	Information Captured - Yes/No	Information Source

**c. Mitigation plan template**

Sr. No.	Risk Event	Root Causes	Mitigation Plan	Primary Owner	Timelines

**d. Action step template**

Sr. No.	Risk Event	Mitigation Plan	Action Steps	Primary Owner/Secondary Owner	Timelines

### Annexure - 3

#### Risk Management Activity Calendar

DB Realty															
Risk Management Activity Calendar - Planning & Monitoring															
Sr. No.	Activity	Periodicity	Responsibility	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
1	Once a Year Risk Assessment	Yearly	RO/CARA/CRO												
2	Continuous Risk Assessment	Ongoing	RO/CARA												
3	Risk Mitigation plan	Yearly	RO/CARA/CRO												
4	Self Assessment Update	Quarterly	RO/CARA/CRO												
5	Monitoring & Reporting	Quarterly	AC/CRO/CA9												
						</									

## Annexure - 4

### Manual Amendment Form

Manual amendment form	
<b>I. Nature of amendment</b> (Addition / modification / deletion)	
Section/Sub-section to be amended	
Proposed amendment	
Reason for amendment	
<b>II. Proposer's signature</b>	
Date	
<b>III. Approver's signature</b>	
Date	
Remarks (if any)	
<b>IV. Circular no.</b>	
<b>V. Effective date</b>	