

**ANNEXURE-III**

**RISK MANAGEMENT POLICY  
OF  
ONGC TRIPURA POWER COMPANY LIMITED**

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## 1. SHORT TITLE AND COMMENCEMENT

This policy may be called ONGC Tripura Power Company Limited's Risk Management Policy.

## 2. BACKGROUND

### Company Background:

ONGC Tripura Power Company Limited ('the Company') is engaged in the Power Generation business.

ONGC Tripura Power Company Ltd is sponsored by Oil and Natural Gas Corporation (ONGC), Infrastructure Leasing and Financial Services Energy Development Company Limited (IEDCL), IDFC and Government of Tripura (GoT) for implementation of 726.6 MW CCGT thermal power project at Palatana in Tripura to supply power to the power deficit areas of North Eastern states of the country. The Generation Project is being domiciled in ONGC Tripura Power Company Ltd. ("OTPC" or "the Company"), a Special Purpose Vehicle promoted by ONGC, IL&FS Limited, IDFC and Government of Tripura (GoT).

The First Block (363.3 MW) of Palatana Combined Cycle Gas Turbine (CCGT) Power Project was declared under Commercial Operation w.e.f. 04.01.2014 & the Second Block (363.3 MW) of the Project was declared under Commercial Operation w.e.f. 24.03.2015. Hence, the project, 726.6 MW Combined Cycle Gas Turbine (CCGT) Power Project has been declared under Commercial Operation w.e.f. 24.03.15.

### Policy Background:

This document demonstrates Management's acceptance of a set of self-regulatory processes and procedures for ensuring the conduct of the business in risk conscious manner.

The Risk Management policy is intended to enable the Company to adopt a defined process for managing its risks on an ongoing basis. An important purpose of this document is to implement a structured and comprehensive risk management system, which establishes a common understanding, language and methodology for identifying, assessing, monitoring and reporting risks and which provides management and the Board with the assurance that key risks are being identified and managed. This is an integral part of RM framework adopted by the Company. The policy underlined herein define the mechanism by which OTPC will identify, measure and monitor its significant risks.

The Board is responsible for establishing and overseeing the establishment, implementation and review of the risk management system. The Board may delegate the responsibility to Audit committee of reviewing the effectiveness of the risk management system. The Policy may be reviewed periodically with the changes in business and market circumstances. All changes to the policy should be approved by the Board on the recommendation by Audit Committee.

### **3. OBJECTIVE OF POLICY**

The main objective of this policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. In order to achieve the key objective, the policy establishes a structured and disciplined approach to Risk Management, in order to guide decision on risk related issues.

This policy is intended to support and assist OTPC in achieving their business objectives by providing minimum standards for identifying, assessing and managing their business risks in an efficient and cost effective manner; at the same time ensuring the effective monitoring and accurate reporting of these risks to the key stakeholder.

#### 4. PURPOSE OF POLICY

This policy is a formal acknowledgement of the commitment of the Company to Risk Management. The aim of the policy is not to have risk eliminated completely from Company's activities, but rather to ensure that every effort is made by the Company to manage risk appropriately to maximize potential opportunities and minimize the adverse effects of risk.

The specific purposes of the Risk Management Policy are:-

1. To ensure that all the current and future material risk exposures of the Company are identified, assessed, quantified, appropriately mitigated, minimized and managed.
2. To establish framework for the Company's Risk Management process and to ensure its implementation.
3. To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
4. To facilitates business growth with financial stability
5. Define the organizational structure for effective risk management
6. Provide a sound basis for integrated enterprise-wide risk management as a component of good corporate governance
7. Identify, assess and manage existing and new risks in a planned and coordinated manner with minimum disruption and cost, to protect and preserve Company's human, physical and financial assets

This policy shall complement the other policies of the Company in place e.g. HR policy, Whistle Blower Policy etc. to ensure that the risk is effectively mitigated.

## 5. DEFINITIONS

1. Risk: Risk is a direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events. It also can be defined as an anticipated event or action that has a chance of occurring, which may result in a negative impact. Risk may also be defined as any threat that can potentially prevent the Company from meeting its objectives.
2. Risk Management: The systematic process of identifying, analyzing, and responding to anticipated future events that have the potential to generate unwanted effects. Risk management is a systematic approach for minimizing exposure to potential losses
3. Risk Analysis: The process of determining how often specified events may occur (likelihood) and the magnitude of their consequences (impact).
4. Risk Evaluation: The process used to determine Risk Management priorities by comparing the level of risk against predetermined standards, target risk levels or other criteria, to generate a prioritized list of risk for further monitoring and mitigation.
5. Risk assessment is the combined process of Risk Analysis and Risk Evaluation.
6. Risk Classification: Risk elements are classified into various risk classes/ categories.
7. Risk Management Framework : Set of information components that provide the foundations and organizational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management processes throughout the organization
8. '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. Risk management also provides a system for the setting of priorities when there are competing demands on limited resources.

### **Effective risk management requires:**

- a. A strategic focus,
- b. Forward thinking and active approaches to management,
- c. Balance between the cost of managing risk and the anticipated benefits, and

- d. Contingency planning in the event that critical threats are realized.

## 6. REGULATORY REQUIREMENTS

This policy is in compliance with the provisions of Companies Act, 2013 which requires the Company to identify the element of risk which may threaten the existence of the Company. It also requires that the Company shall lay down procedure for risk assessment including risk minimization. The relevant governing provisions of the Companies Act, 2013 in respect of Risk Management Policy are as under:

### Companies Act, 2013

1. Section **134(3)(n)** stipulates:

There shall be attached to financial statements laid before a Company in General Meeting, a report by its Board of Directors, which shall include a statement indicating development and implementation of a risk management policy for the Company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company.

2. Section **177(4)** stipulates:

Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include, evaluation of internal financial controls and risk management systems.

3. Section **149(8)** stipulates:

The Company and independent directors shall abide by the provisions specified in Schedule IV.

4. **SCHEDULE IV** of Companies Act, 2013 (**CODE FOR INDEPENDENT DIRECTORS**)

II. Role and functions:

The independent directors shall:

- (1) help in bringing an independent judgment to bear on the Board's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct;
- (2) satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible;

## 7. RISK MANAGEMENT ORGANISATION

The organization structure for risk management is depicted through the flow chart below. Detailed notes on roles and responsibilities of each level follow.



## **8. RISK MANAGEMNET ROLES AND RESPONSIBILITIES**

Roles and responsibilities for each member within the Risk Management Organization Structure are detailed below:

### **Board of Directors (BoD)**

BoD as the ultimate responsibility for managing the risk profile of the organization. The Board will be responsible for ensuring that the risk management framework is contributing to achieving business objectives, safeguarding assets and enhancing shareholder value. The BoD is also responsible for management of all key identified risks across the organization and ensuring that risk management functions are actively and effectively discharging their responsibilities. It is ultimate authority for framing Risk policies, Risk management framework & Risk assessment.

### **Audit Committee**

Audit Committee shall overlook the entire risk management process, review the risk profile of the organization on a periodic basis, review the organization's risk management with help of Risk Management Committee and provide its inputs to the Board.

### **Risk Management Committee (RMC)**

The Risk Management Committee of OTPC is comprised of MD, CFO and Functional heads. Risk Management Committee will be headed by MD. RMC is responsible to maintain a comprehensive oversight over all risks and their management. All policies which have implications on the organization's risks are to be endorsed by RMC for Board's approval thru Audit Committee. The RMC will provide guidance on the risk management activities, review the results of the risk assessment and mitigation plan development process, review and monitor the working of

the risk management structure and report to the Audit Committee / Board of Directors on the status of the risk management initiatives and their effectiveness.

**Chief Risk Officer**

At present, CFO will be acting as Chief Risk Officer. Review by Audit Committee will be done after one year for hiring of additional personnel for the post of CRO.

**Risk Owners**

Risk Owners are functional heads of a particular function.

Risk Owners drive the risk management process within the functions and ensure risk management procedures are complied with in accordance with the Risk Management Framework. They would be the point of coordinating and managing all the risk management activities approved by the Risk Management Committee.

Each Risk Owner must periodically review the risks within their risk basket. This review should include identification for all significant functional areas.

All identified risks should be updated in a risk register. Risk registers should be periodically reviewed by the respective risk owners to ensure pertinence of the risks listed. Risks that would have ceased should also be closed appropriately. The Chief Risk Officer should ensure that the risk register is reviewed and updated quarterly. Chief Risk Officer will ensure maintenance and updation of Risk register on timely basis.

<b>Board of Directors</b>	<ul style="list-style-type: none"><li>• Review and approve risk assessment and risk management certificate</li><li>• Framing, implementing and monitoring the risk management plan for the Company either by itself or through the Audit Committee.</li></ul>
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	<ul style="list-style-type: none"> <li>• Defining the roles and responsibilities of the Audit Committee and delegating monitoring and reviewing of the risk management plan to the Committee and such other functions as it may deem fit.</li> <li>• Ensuring that the appropriate systems, process and controls for risk management are in place.</li> <li>• Participating in major decisions affecting the organization's risk profile;</li> <li>• Having an awareness of and continually monitor the management of strategic risks;</li> <li>• Ensuring risk management is integrated into board reporting and annual reporting mechanisms as per applicable laws</li> </ul>
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>• Review adequacy and effectiveness of business risk management</li> <li>• Review and approve (internal and external) audit plans</li> <li>• Monitor business risk reporting</li> </ul>
<b>Risk Management Committee (RMC)</b>	<ul style="list-style-type: none"> <li>• Develop and maintain risk management and policies</li> <li>• Advise business units and corporate functions on risk initiatives</li> <li>• Spearhead risk management initiative within the Company</li> <li>• Monitor emerging issues and shares best practices</li> <li>• Commission and oversee projects to define and implement risk mitigation strategies</li> <li>• Improve risk management techniques and enhances awareness</li> <li>• Set standards for risk documentation and monitoring</li> <li>• Recommend training programs for staff with specific risk management responsibilities</li> <li>• Assess and manage risk for Corporate and the company as a whole.</li> <li>• Review and approve the Risk management certificate prepared at regular intervals</li> </ul>
<b>Chief Risk Officer</b>	<ul style="list-style-type: none"> <li>• Oversee the execution of risk management strategies and policies</li> <li>• Report to and update the RMC on the risk management program</li> </ul>
<b>Risk Owners</b>	<ul style="list-style-type: none"> <li>• Responsible for identifying risks</li> <li>• Responsible for reassessing risks on a periodic basis</li> <li>• Responsible for preparing risk register and risk profile</li> <li>• Suggest mitigation plans</li> <li>• Responsible for managing risk by implementing mitigation plans</li> </ul>

## **9. REVIEW**

This policy shall be reviewed annually to adapt to the changing business environment, the requirements of legislation, other related factors and the needs of organization.

## **10. AMENDMENT TO THE POLICY**

The Board of Directors can amend this Policy in whole or in part, as and when deemed fit on the recommendation of the Audit Committee. Any or all provisions of this Policy would be subject to revision/amendment in accordance with the Rules, Regulations, and Notifications etc. on the subject as may be issued by relevant statutory authorities, from time to time. Addition by Risk Management Committee and then Deletion by Audit Committee only.

In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant authorities, not being consistent with the provisions laid down under this Policy, then such amendment(s), clarification(s), circular(s) etc. shall prevail upon the provisions hereunder and this Policy shall stand amended accordingly from the effective date as laid down under such amendment(s), clarification(s), circular(s) etc.

Any addition to the risk policy and register will be done by Risk Committee. However any deletion in existing risk and policy will be made after review and approval by Audit Committee.

## **11. APPLICABILITY**

This policy applies to all areas of the Company's operations with effect from approval by the Board.

## **12. RISK MANAGEMENT PROCESS & MANAGEMENT'S ROLE**

Risk management process is a "systematic application of management policies, procedures and practices to the activities of communicating and consulting, establishing the context, identifying, analyzing, evaluating, treating, monitoring and reviewing risk". Risk Management

Process/Framework aimed at minimization of identified risks after evaluation is established so as to enable management to take informed decisions.

Principal elements of the framework for the Company shall be as follows:

1. Risk Identification: Comprehensive risk identification using a well-structured systematic process is critical, because a potential risk not identified is excluded from further analysis. Identification should include all risks whether or not they are under the control of the Company.

Risks can be identified in a number of ways, viz:

- Structured workshops;
- Brainstorming sessions;
- Occurrence of a loss event;
- Review of documents.

Each Risk Owner must periodically review the risks within their risk basket. This review should include identification for all significant functional areas. Workshops or brainstorming sessions may be conducted amongst the focus groups to identify new risks that may have emerged over a period of time. Any loss event may also trigger risk identification.

All identified risks should be updated in a risk register. Risk registers should be periodically reviewed by the respective risk owners to ensure pertinence of the risks listed. Risks that would have ceased should also be closed appropriately. The Chief Risk Officer should ensure that the risk register is reviewed and updated quarterly.

#### Risk Categories

For better risk identification, it is important to know various risk categories. Some sample categories are provided below:

Risk Category	Definitions
<b>Strategic</b>	Potential risks affecting high-level goals, aligned with and supporting the entity's mission/ vision. Risks that are associated with the strategic objectives of the department. These risks don't often change and are coupled with long term goals.
<b>Operational</b>	Potential risks affecting the effectiveness and efficiency of the entity's operations. Risks that are related to the ongoing procedures of the department. They are either long or short term risks, depending on the objective that it relates to. This type of risk can occur on a regular basis however, the impact on the organization as a whole is often minimal. The SWOT analysis is also useful in identifying these risks.
<b>Financial</b>	Potential risks affecting the performance and profitability goals of the company including Safeguarding resources against financial losses.
<b>Regulatory</b>	Risk relating to adherence to relevant laws and regulations. They are dependent on external factors and tend to be similar across all entities in some cases and across an industry in others.

2. Risk Assessment: The risks will be assessed on qualitative two-fold criteria. The two components of risk assessment are (a) the likelihood of occurrence of the risk event and (b) the magnitude of impact if the risk event occurs. The combination of likelihood of occurrence and the magnitude of impact provides the inherent risk level. The magnitude of impact of an event, should it occur, and the likelihood of the event and its associated consequences, are assessed in the context of the existing controls. Impact and likelihood may be determined using statistical analysis and calculations. Alternatively, where no past data are available, subjective estimates may be made which reflect an employee's or group's degree of belief that a particular event or outcome will occur. In determining what constitutes a given level of risk the following scale is to be used for likelihood:

Rating (with brief description)	Score	Description	Likelihood	Period
Rare Expected in rare circumstances	1	Not expected to occur during the life of the project; occurs rarely, but is possible	Less than 10%	Beyond 36 months

Unlikely <i>Expected to occur only in exceptional circumstances</i>	2	May occur in exceptional circumstances; no unusual recent cases on record	10% to 30%	24 - 36 months
Moderate <i>Could occur under some circumstances or has occurred in the industry previously</i>	3	Reasonable chances of occurrence; similar events have occurred (but few) in the last few years	30% to 50%	18 - 24 months
Likely <i>Might occur within a specific time period</i>	4	Expected to occur in most circumstances; usually associated with the concerned activity; may be expected to occur on a periodic basis/often	50% to 80%	12 - 18 months
Almost Certain <i>Expected to occur in most circumstances</i>	5	Expected to occur in most circumstances; always associated with the concerned activity; high/regular frequency of occurrence	Over 80%	Next 12 months

In determining what constitutes a given level of risk the following scale is to be used for impact:

Scale	Description	Financial			Reputation	Service / Operations
		Revenue	PAT	Asset		
5	Critical	Greater than Rs. 50 crs	Greater than Rs. 10	Greater than Rs. 50 crs	Prolonged international, regional & national condemnation	Catastrophic fall in service quality, failure of several major partnerships, complete failure in

			crores			service standards
4	Major	Rs. 30 crores – 50 crores	Rs. 5 crore – 10 crore	Rs. 30 crores – 50 crores	Serious negative national or regional criticism	Major fall in service quality, major partnerships deteriorating, ongoing serious disruption in service standards
3	Moderate	Rs. 15 crores – 30 crores	Rs. 3 crore – 5 crore	Rs. 15 crores – 30 crores	Adverse national media public attention	Significant fall in service quality, major partnership relationships strained, serious disruption in service standards
2	Minor	Rs. 5 crores – 15 crores	Rs. 1 crore – 3 crores	Rs. 5 crores – 15 crores	Minor adverse local/public/ media attention and complaints	Minor fall in service quality, interruption to partnerships, some minor service standards are not met
1	Insignificant	Less than Rs. 5 crores	Less than Rs. 1 crore	Less than Rs. 5 crores	Public concern restricted to local complaints	Insignificant fall in service quality, limited interruption to partnerships, insignificant effect on service standards

Over a period of time, endeavor should be made to assess the risks on quantitative basis. Standard set of assumptions should be used where financial impact in Rupee terms is calculated. Risk Management Committee (RMC) should review and revise the assumptions based on latest budgets, cost records and financials.

3. Risk Evaluation/ Risk Matrix: Impact and likelihood are combined to produce a level of risk. Risk should be classified into three zones based on the combined scores of the group.

- a. Risks that score within a red zone are considered "unacceptable" and require immediate action plans to close a significant control gap. (Average score of 12 and more)
- b. Risks that score within the yellow zone are considered "cautionary" where action steps to develop or enhance existing controls is also needed. (Average score in the range of 6 to 12)
- c. Risks that score within the green zone are considered "acceptable" or in control. (Average score less than 6)

5 Low	10 Medium	15 High	20 High	25 High
4 Low	8 Medium	12 High	16 High	20 High
3 Low	6 Medium	9 Medium	12 High	15 High
2 Low	4 Low	6 Medium	8 Medium	10 Medium
1 Low	2 Low	3 Low	4 Low	5 Low

Note: The boxes with value 5 have been included in the Yellow (Cautionary) zone due to very high likelihood / impact scores.

The objective is to define risk treatment and monitoring strategies for high, medium and low risks to ensure appropriate attention and effective utilization of Company's resources in managing these risks.

The output of a risk evaluation is a prioritized list of risks for further action. This should be documented in a 'Risk Register'

4. Risk Treatment / Action Plan: Risk treatment involves identifying the range of options for treating risk, assessing those options, preparing risk treatment plans and implementing them. Treatment options may include: -
- Accepting the risk level within established criteria;
  - Transferring the risk to other parties viz. insurance;
  - Avoiding the risk by hedging / adopting safer practices or policies; and
  - Reducing the likelihood of occurrence and/or consequence of a risk event.

The risk assessed as critical should be profiled in the 'Risk profile format'. The profile contains details of the risk, its contributing factors, risk scores, controls documentation and specific and practical action plans. Action plans need to be time bound and responsibility driven to facilitate future status monitoring. Mitigating practices and controls shall include determining policies, procedures, practices and processes in place that will ensure that existing level of risks are brought down to an acceptable level. In many cases significant risk may still exist after mitigation of the risk level through the risk treatment process. These residual risks will need to be considered appropriately.

5. Escalation of risks: It is critical to institute an effective system of escalation which ensures that specific issues are promptly communicated and followed up appropriately. Every employee of the Company has responsibility of identifying and escalating the risks to appropriate levels within the organization. The respective risk managers and the Chief Risk Officer will determine whether the risk needs immediate escalation to Audit Committee or it can wait till subsequent periodic review.
6. Risk Reviews

Risks and the effectiveness of control measures need to be monitored to ensure changing circumstances do not alter risk priorities. Few risks remain static. Ongoing review is essential to ensure that the management plans remain relevant. Factors, which may affect the likelihood and impact of an outcome, may change, as may the factors, which affect the suitability or cost of the various treatment options.

A risk review involves re-examination of all risks recorded in the risk register and risk profiles to ensure that the current assessments remain valid. Review also aims at assessing the progress of risk treatment action plans. Risk reviews should form part of agenda for every RMC meeting. The risk register should be reviewed, assessed and updated on a quarterly basis.

The Chief Risk Officer is responsible for ensuring that the Risk Register is reviewed and updated at least quarterly.

In addition, Review of Risk register and policy will be performed by Audit committee on quarterly basis.

7. Reporting (Suggested)

A 'Risk Management Certificate as per Annexure I' should be prepared by Chief Risk Officer and will be discussed with RMC. The certificate prepared by the RMC should be placed before the Audit Committee and on its recommendation to the Board. The frequency of review and reporting of the risk management is given below:

Review and Reporting Cycle

Function	Frequency	Date
Establishment of Risk Management Process	Once	As approved
Risk register	As and when risk are identified and assessed, at least once in a quarter	December, March, June, September
Risk assessment	As and when risk are identified, at least once in a quarter	December, March, June, September

Risk Management Certificate	Quarterly	December, March, June, September
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**Annexure I**

**Quarterly Risk Management Certificate (from RMC to the Board) format**

Quarterly Risk Management Certificate

[Date]

Certificate of Compliance

I, the Chief Risk Officer of the Company's 'Risk Management Steering Committee', certify that we have conducted a quarterly review of the Company risks in the month of **[Month, Year]** as laid out in the Company's Risk Management Charter. Risk identification, assessment and evaluation for the current risks have been completed. The RMC has reviewed the risks profiled and agreed with the actions planned for mitigation.

**Annexure II: Risk Register**

Risk ID No.	Risk Category	Risk Statement	Contributing Factor	Likelihood Score	Impact Score	Combined Score	Risk Owner	Remarks

Note: Combined Score is product of Likelihood Score and Impact score provided for respective risk statement

**Annexure III: Risk Assessment Template**

**Individual Scorecard**

Risk No.	Risk Statement	Likelihood					Impact					
		1	2	3	4	5	1	2	3	4	5	

Note: The person assessing the risk should give his perception of likelihood and impact in the above template as explained in Section 4.2. Group's average score should be used as risk assessment score.

**Risk IV: Aggregate Scorecard**

Risk Ref. No.	Risk Category	Risk Statement	Individual Ratings	Likelihood Rating					Impact Rating					
				1	2	3	4	5	1	2	3	4	5	
Risk X														
			Group's Average Rating											
			Combined Risk Rating											
Risk Y														
			Group's Average Rating											
			Combined Risk Rating											

*Note:- For completion of Risk treatment actions, the overall responsibility lies with respective Risk owners.*