RISKS, OPPORTUNITIES AND INTERNAL CONTROLS

RISKS, OPPORTUNITIES AND INTERNAL CONTROLS

The Group's comprehensive enterprise-wide risk management process ensures a structured approach to risk identification and mitigation, while adopting the same under the overall corporate governance and sustainability frameworks.

ENTERPRISE RISK MANAGEMENT

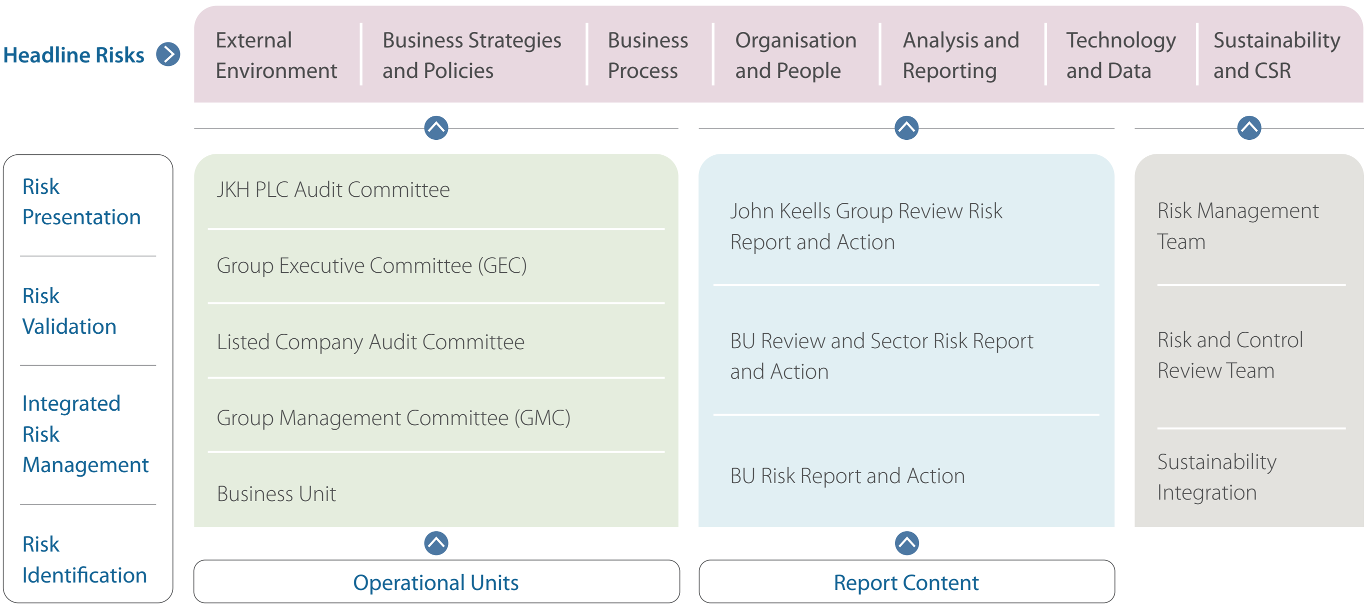
The period under review was a crucial one for the country amidst its economic, social and political challenges and recovery from the Covid-19 pandemic. Despite these challenges faced, the Group was successful in managing its risks and delivering value to its stakeholders equipped with its strong and robust risk management process in place.

The Group's comprehensive enterprise-wide risk management process ensures a structured approach to risk identification and mitigation, while adopting the same under the overall corporate governance and sustainability frameworks.

Risk Management Process

The Group's Enterprise Risk Management (ERM) process is designed to ensure businesses are proactively identifying, assessing, and mitigating risk events. The risk management framework ensures consistency in methodology across diverse businesses and functions and follows both a top-down and bottom-up integrated approach, alongside strategic planning and decision making. The annual cycle involves business-level risk identification and review on a quarterly basis, which is consolidated upwards at sector and industry group management committees, while Group risks are reviewed on a biannual basis. Risk appetite thresholds are set at Group level and captured in the annual Group Risk Report, which also details Group-wide risk ratings, risk profile and analysis and is presented to the JKH Audit Committee where the salient aspects of this is reviewed by the Board, there by concluding the annual risk management process. Policy level changes emerging from the discussion at the JKH Audit Committee are then incorporated in the following cycle to ensure alignment with the changing risk environment.

The risk management process and information flow is portrayed below:



Risk Management System

The Group ERM review process is facilitated through the online Enterprise Risk Management System deployed in 2017. The system is firmly embedded across the Group, hosted internally, and is integrated with the Group's Active Directory.

Quarterly risk reviews are carried out via the system, with all BU risk registers hosted online. Its functionality allows for a dynamic risk management environment, enabling analysis of ratings and movement of risks over time, access to historical data and risk reporting. The system also aggregates and records risk under the Group's framework and provides an integrated approach to risk and risk mitigation across Group businesses.

Key Impacts, Risks and Opportunities

The Group takes a holistic approach to risk management, covering risks that are both financial and non-financial in nature, including its own operations as well as risks that may emanate from its supply chain partners. The 'Precautionary Principle' influences the Group's approach to risk management of environmental impacts while, management of human and social capital risks is also highlighted and prioritised.

Its ERM framework operates in concurrence with the Group's corporate governance structure and is linked to sustainability, corporate social responsibility and internal audit functions and processes, ensuring that regulatory compliance, ethical guidelines and sustainability concerns are integrated seamlessly across businesses when identifying risks and opportunities.

Further discussions on risks, at a Group Level, are contained in the Outlook section, the Capital Management section and Notes to the Financial Statements of the Annual Report 2022/23.

Group Key Risks

Risk Rating

● Ultra-High ● High ● Medium ● Low

Macro-Economic and Political Environment

Capitals Impacted

Financial and Manufactured Capital

Related Material Sustainability Topic

- Economic Performance

Overview and Implications: The risk was rated "Ultra high" in 2020/21, due to the Covid-19 pandemic and was continued with the same rating taking into consideration the ongoing impacts from the Covid-19 pandemic, coupled with the economic crisis and resultant socio-political tensions. The risk was reviewed and remained rated at an ultra-high during the financial year under consideration largely due to the ongoing economic crisis and uncertainty surrounding the socio-political environment.

Mitigation Strategy: Global and local economic and political trends are identified and analysed on an ongoing basis to understand potential impacts on the Group and implement necessary measures to adapt to any changes. The Group's senior management actively participate in, and play significant roles in key decision and policy making bodies and consultative committees in support of the country's economic and development policies.

	2022/23	2021/22	2020/21
Risk rating	●	●	●

Risk Management Framework

- Financial, strategic, operational, information technology, governance and sustainability-related risks are considered
- All risks are categorized within a common Risk Universe
- Headline and Related Risk classification of all Group risks to allow consistency across Group businesses
- 5x5 risk matrix for rating of risks with respect to likelihood and anticipated impact
- Risk owners assigned to ensure accountability and sustained focus on mitigation activities

MACRO ENVIRONMENT CHALLENGES AND POST PANDEMIC RECOVERY

The year under review experienced the recovery from the pandemic to a greater extent following a successful global and local vaccination drive. While the businesses continued to proactively monitor and revisit the 'pandemic' risk item on their respective risk registers, the rating was reduced in line with the global and local outlook.

Following the recovery from the pandemic, the year under review experience a gradual easing of restrictions. The easing of or complete removal of restrictions created a positive sentiment towards travel and movement of goods and services. However, whilst the risk was downgraded, given the unprecedented nature of the pandemic, equipped with learnings from the previous years, all businesses continued to proactively monitor and revisit the 'pandemic' risk item.

The first half of the year under review proved to be yet another challenging one for the country with increased socio-political unrest triggered by the economic crisis. Addressing the challenges on the macroeconomic front, the Group continued with the various measures rolled-out last year to ensure a sustainable and agile operating model, with a focused view on cash management and liquidity. While the Group had a strong cash position and availability of banking facilities, continued focus was placed on ensuring balance sheet strength to support the investment pipeline of the Group. Continuing from the latter part of the previous year, the year under review was also characterised by significant challenges on the foreign exchange front, coupled with depreciation of the currency towards the first two quarters of the year under review. However, with the country successfully securing the first tranche of the New Extended Fund Facility (EFF) approved by the International Monetary Fund (IMF) executive board, along with the measures taken by the Central Bank of Sri Lanka(CBSL) in the form of monetary policy and improved economic stability towards the latter part of the year, created a positive sentiment. The increased tourist arrivals particularly toward the last quarter of the year created a further positive outlook to this end.

Regulatory Environment

Capitals Impacted

- Financial and manufactured Capital
- Natural Capital
- Human Capital
- Social and relationship Capital
- Intellectual Capital

Related Material Sustainability Topic

- Economic Performance
- Compliance

Risk Overview: The period under review was that of uncertainty surrounding regulatory, legal and tax structures and policies stemming from the steps put in place to stabilize the economy of the country. This led to the risk rating remaining at a 'high' rating.

Mitigation Strategy: The Group's senior executives actively participate in key industry chambers and associations which assist in building clarity and consistency in policies and regulations. The Group monitors regulatory and compliance requirements on an ongoing basis and has in place the necessary internal processes and structures to ensure seamless adapt to new or revised legislation.

	2022/23	2021/22	2020/21
Risk rating			

Financial Exposure

Capitals Impacted

- Financial and Manufactured Capital

Related Material Sustainability Topic

- Economic Performance

Risk Overview: Group Treasury, guided by the GEC and supported by the Finance functions of the businesses, is responsible for the management of certain financial risks through continuous monitoring. Hedging mechanisms, liquidity management strategies, capital structuring, asset allocation limits, institutional limits and other Board approved strategies for interest rate, currency, counterparty and liquidity management are applied across the Group. Given the volatility and uncertainty in the global and domestic environment witnessed in the recent years, the ensuing section details material sources of financial risk and the state of the Group's readiness to navigate such risks.

	2022/23	2021/22	2020/21
Risk rating			

Currency / Exchange Rate

Risk rating	

The Sri Lankan Rupee recorded a marked depreciation in the first quarter of the financial year, followed by significant volatility during certain periods of the financial year. The foreign exchange markets were largely inactive and illiquid during the first half of the financial year given foreign exchange shortages and macroeconomic uncertainty. However, the foreign exchange liquidity noted an improvement from the second half of the financial year on the back of an improvement in the trade surplus given the sharp contraction of imports due to the fiscal and monetary policy measures adopted in the country and the continuation of import restrictions at the time. The gradual improvement in the external financing position continued towards the latter end, with the Rupee appreciating during the final quarter, on the back of the improving foreign exchange liquidity situation in the country and the clarity on Extended Fund Facility from the International Monetary Fund (IMF), at the time.

Mitigation Strategy: The Group adopted prudent measures as and when required, to manage the financial impacts arising from liquidity constraints and currency fluctuations, by matching liabilities with corresponding inflows. At a Group level, the translation risk on foreign currency debt is largely hedged "naturally" as a result of the conscious strategy of maintaining US Dollar cash balances at the Holding Company, whilst also ensuring obligations are managed through US Dollar denominated revenue streams. The Group was able to navigate the liquidity challenges by matching its obligations against foreign currency inflows, as far as possible and permissible, while also using the strength of the Group balance sheet to manage the situation.

Interest Rate

Risk rating	

The CBSL continued the tightening monetary policy stance during current financial year, resulting in a sharp upward trend in the first half of the financial year, particularly with the uncertainty of a domestic debt restructuring being factored into secondary market yields on Government Securities. To this end, in April 2022, the CBSL increased the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 700 basis points to 13.5% and 14.5%. Following this, the SDFR and SLFR were further increased by 100 basis points each in July 2022 and March 2023, to 15.5% and 16.5%, respectively to align the policy rates with the pre-requisites of the EFF arrangement with the IMF.

The shortage of liquidity in the first half of the financial year exerted additional pressure on market interest rates. The CBSL also implemented regulatory measures to tighten monetary conditions, such as removing maximum interest rates on certain lending products and foreign currency deposits. These measures enabled the effective implementation of policy interest rate changes, which contributed to the containment of inflationary pressures. Reduced Government debt financing requirements and improved liquidity within the country, contributed to a decrease in interest rates in the last three months of the financial year.

Mitigation Strategy: The Group mitigated the risk of increasing interest rates by balancing its portfolio of borrowings and moving a sizeable portion of its Sri Lankan Rupee borrowings on a long-term basis prior to the sharp upward movement in interest rates. Similarly, where relevant and possible, a majority of the Rupee long-term facilities were contracted on a fixed rate basis over the tenor of the loan. In respect of the Group's foreign currency borrowing portfolio, interest rate swap agreements are in place for a sizeable portion of the facilities.

The Group monitors regulatory and compliance requirements on an ongoing basis and has in place the necessary internal processes and structures to ensure seamless adapt to new or revised legislation.

Credit and Counterparty

Risk rating	●

Mitigation Strategy: The Group continued to liaise with only reputed creditworthy counterparties. All clients are subjected to credit verification procedures and are required to submit bank guarantees, performance bonds or counter guarantees, as applicable. These clients are regularly monitored, and subject arrangements are frequently reviewed. Concentration risk stemming from any single counterparty or asset class is mitigated due to internally set exposure limits, which are reviewed on a routine basis and amended as necessary.

Liquidity

Risk rating	●

Mitigation Strategy: The Group continued to place emphasis on ensuring that cash and undrawn committed facilities are sufficient to meet the short, medium and long-term funding requirements, unforeseen obligations as well as unanticipated opportunities. Constant dialogue between Group companies and banks regarding financing requirements, ensures that availability within each single borrower limit is optimised by efficiently reallocating underutilised facilities within the Group.

The daily cash management processes at the Holding Company include active cash flow forecasts and matching the duration and profiles of assets and liabilities, thereby ensuring a prudent balance between liquidity and earnings.

The GEC frequently reviews the ability of the Holding Company to fund the forecasted pipeline of projects for the ensuing five years, which is further stress tested to include scenarios of extreme distress in the operating environment and the resulting adverse impacts on business profitability. Although the recent macroeconomic challenges have placed some pressure on cash flows and financial indicators, active liquidity management and cost management strategies across the Group helped insulate this impact. The Group continues to maintain adequate banking facilities and will continue to proactively manage its liquidity position.

Information Technology

Capitals Impacted

Financial and manufactured Capital

Social and relationship Capital

Related Material Sustainability Topic

- Privacy & Data Security

Risk Overview: As the employees of the Group settled to an agile work arrangement, where a certain potion of staff was attending to work remotely, cybersecurity has remained a priority to ensure no negative impacts on business operations and on Group reputation. The stakeholder and consumer demand for availability and quality of online and digital tools for service and product offerings, have continued in a post-pandemic environment as expected. With the highly sensitive and continually evolving nature of IT related risks within the context of the current environment, the Group continues to rate this risk as a 'medium' risk.

Mitigation Strategy: JKH has embraced the NIST Cybersecurity Framework and ZERO Trust model to give the Group the required governance, resilience as well as assurance as deemed necessary to accelerate the digital adoption across the Group as well as enable any user, any device from any location to be part of the Group's digital eco-systems.

Critical Group services have been migrated to the cloud and servers consolidated into central data servers, with a Group-wide policy to ensure user-generated data is backed up and secure. The cybersecurity framework enables agile working for a large segment of employees.

The Group continues to monitor and address all elements of Zero Trust Cybersecurity Control gaps including the evolving cyber threat landscape. Resources will be aligned to diminish the identified gaps that result in compliance with the Zero Trust Cybersecurity Policy Framework based on global best practices and continuous user education across the group that meets enterprise strategic guidance, protects the interest of the JKH, and reduces malicious actors.

The path to achieving impactful cybersecurity will be through an iterative process that will be continuously refined as the strategic context evolves while the group executes the action plans, with guidance from Group IT.

	2022/23	2021/22	2020/21
Risk rating	●	●	●

Global Competition

Capitals Impacted

Financial and manufactured Capital

Human Capital

Intellectual Capital

Related Material Sustainability Topic

- Economic Performance

Risk Overview: Whilst the Group continues be a leading player in industries in which it operates, it recognises that continuous improvement and adherence to global best practice and standards is required to maintain competitiveness, given increasing globalisation and investments into Sri Lanka by international companies and brands.

Mitigation Strategy: All Group businesses are required to develop a global outlook to ensure that their operations, employees and quality standards are benchmarked against international levels, and leadership teams are constantly scanning external environments for new opportunities and potential for improvements. The Group also has a Digitisation Steering Committee in place and continues to explore disruptive and innovative technologies, aiming to keep abreast of emerging technologies that will assist the Group to enhance stakeholder satisfaction and internal productivity and efficiencies. This culture pervades through the Group, with a Chairperson's Award for Disruption Innovation awarded annually for businesses which best exemplify this ethos. Given the strategies in place, this risk remains at a 'low' rating for this financial year.

	2022/23	2021/22	2020/21
Risk rating	●	●	●

RISKS, OPPORTUNITIES AND INTERNAL CONTROLS

Human Resources and Talent Management

Capitals Impacted

Human Capital

Related Material Sustainability Topic

- Employment
- Diversity & Equal Opportunity
- Training
- Freedom of Association & Collective Bargaining

Risk Overview: The "High" risk rating continues for the period under review as the challenge of attracting and retaining talent remains, due to persons of employable potential moving to other countries in the face of socio-political uncertainty.

The Group continued its efforts in skill building and offering additional support to its employees in the form of financial care packages and temporary crisis allowances in order to sustainably manage its human capital and meet the businesses long term objectives.

Mitigation Strategy: The Group's human capital strategy is to acquire, cultivate and retain talent, as a critical component in ensuring its businesses continue to grow, innovate and create long-term value for its stakeholders. It has in place robust policies and internal systems to ensure it is a preferred employer, ensuring its employees have ample opportunities for skill enhancement and career development, with a performance driven culture and strong performance management and reward and recognition schemes. Employee engagement is considered a key component of its retention strategy, with internal surveys and platforms for interaction with senior leadership in place, alongside close monitoring of talent attrition. The Group also has well-established grievance mechanisms, healthy relations with unions and has in place policies on sexual harassment and non-discrimination.

	2022/23	2021/22	2020/21
Risk rating	●	●	●

Environment and Health and Safety

Capitals Impacted

Natural Capital

Human Capital

Social and relationship Capital

Related Material Sustainability Topic

- Energy & Emissions
- Water, Waste & Effluents
- Biodiversity
- Compliance
- Occupational & Customer Health & Safety

Risk Overview: The Group continues to prioritise its environmental performance and the provision of a safe and healthy working environment for its workforce. The Group maintains and reports on standards required of, local and global corporates by its key stakeholders. Such risks can be physical, regulatory or reputational, and stakeholder expectations and requirements continue to grow in this area of focus.

Mitigation Strategy: The Group has in place Environmental and Health and Safety Policies, bolstered by a well-established sustainability management framework which ensures that environmental and safety concerns are embedded into the core of all business operations. Quarterly tracking of indicators such as energy, emissions, water, waste and effluents, injuries and lost days ensure that companies at a minimum, meet all applicable laws and regulations, while striving to meet international benchmarks and aligning with global best practice through international certifications such as ISO 45001 Environmental Management standards and OHSAS 18001 Occupational Health and Safety standards among others. Further, during the year under review, selected Business Units of the Group also implemented Asian Development Bank Safeguards enhancing business focus on Environment, Indigenous Peoples Rights and Involuntary Resettlement. All businesses have environmental and social objectives built into their performance expectations and a culture of excellence is encouraged through recognition schemes such as the Chairperson's Award for Sustainability.

Safe and healthy working conditions, whilst always a priority for the Group, has been of utmost importance over the year under review, as Group businesses strived to ensure their workplaces operated in line with all guidelines and measures stipulated by Government and health authorities. Specific protocols were developed for the Group and stringent health and safety measures taken across all functions and businesses. Review and assessment of such procedures was undertaken on a continuing basis over the year to ensure new developments were adequately addressed. While this risk was rated a 'low' based on the Group's robust approach to safeguarding the health and safety of its internal and external stakeholders, it remains an area that will be closely monitored.

	2022/23	2021/22	2020/21
Risk rating	●	●	●

Climate Risk

The Group sees environmental risks, including those impacts related to climate change risk, as increasingly important risk management areas, and emphasis is placed on minimising the Group's environmental footprint. The Group's carbon footprint is closely monitored, and emissions reported quarterly, both internally and externally, as part of its sustainability performance tracking mechanisms. Key businesses have benchmarked themselves against sectoral best practice emissions levels and relatedly, energy and renewable energy goals have been set for 2024/25 amongst relevant business units. The Group will continue to address climate impacts through investments in green technology and energy efficient equipment, and by undertaking ongoing engagement to understand stakeholders' needs and concerns with respect to climate risk, and working with its supply chain to educate and create awareness amongst supply chain partners.

The Group also has well-established grievance mechanisms, healthy relations with unions and has in place policies on sexual harassment and non-discrimination.

Reputation and Brand Image

Capitals Impacted

Social and relationship Capital

Intellectual Capital

Related Material Sustainability Topic

- Anti-corruption
- Compliance

Risk Overview: The Group recognises that reputation and brand image have a direct bearing on an organisation's ability to operate and create value over a long-term horizon. As a result, it highly values its longstanding reputation as an ethical corporate, with zero tolerance for breaches in regulatory compliance or governance.

Mitigation Strategy: The Group has a stringent Code of Conduct that all businesses and employees are required to adhere to. This is strengthened through a robust governance framework that includes an Anti-Corruption policy, Whistleblower process, an independent Ombudsperson and a 'Chairperson Direct' communication line. All marketing and public communications are vetted in line with Group Marketing and Communications policies and product quality standards are maintained through stringent quality assurance processes. The Group uses a variety of means of communications and aims to ensure its brand presence is well established and its reputation is maintained on new social media platforms. The John Keells Foundation further reinforces the Group's reputation through its long running and numerous strategic corporate social responsibility activities, ranging from areas such as community infrastructure and education to environmental protection. This risk was rated at a 'low' level.

	2022/23	2021/22	2020/21
Risk rating			

Supply Chain Risk

Capitals Impacted

Social and relationship Capital

Related Material Sustainability Topic

- Child Labour
- Forced Labour
- Supplier Assessments

Risk Overview: Managing and retaining a mutually beneficial partnership with its supply chain is a priority to the Group and to this end significant efforts are made to sustainably enhance this partnership. Stakeholders now expect businesses to extend their sphere of influence beyond company boundaries and value chain sustainability continues to increase in significance as a means of showing maturity and completeness in sustainability performance reporting. The year under review remained a challenging one to all supply chain partners, mainly due to the energy and fuel crisis followed by increased prices on both fronts and on account of the significant depreciation of the Rupee which lead to increased operational costs and disruptions to operations. While the situation improved greatly towards the last quarter of the year, the risk has revised to a "high" being mindful of the situation.

Mitigation Strategy: The Group has in place a supplier management framework as a means of managing its supply chain risk. All suppliers are apprised of and expected to align with the Group's Supplier Code of Conduct which sets out expectations of supplier performance with respect to key sustainability aspects, including environmental and ethical labour practices and regulatory and legal compliances. Supplier assessments and audits help to identify those suppliers in need of development and annual engagement is carried out with suppliers through supplier fora and trainings to aid in knowledge transfer and sharing of best practices. Given the hardships faced by all businesses during the year under review, particularly with smaller scale suppliers, the Group made efforts to support its suppliers wherever possible and imparted health and safety knowledge and practices.

	2022/23	2021/22	2020/21
Risk rating			

John
Keells
Group

www.keells.com