RISKS, OPPORTUNITIES AND INTERNAL CONTROLS

Risks, Opportunities and Internal Controls

Enterprise Risk Management within the Group is based on a holistic approach, with integrated processes incorporating good governance and sustainable development alongside effective risk management practices.

Enterprise Risk Management

During the reporting period there were numerous economic, social and political challenges globally and nationally. In spite of such challenges, the John Keells Group was able to deliver its values to all stakeholders as assured, while integrating a robust Enterprise Risk Management (ERM) strategy across its businesses. Group's comprehensive enterprise-wide risk management framework ensures a structured process of risk identification and mitigation, while adopting the risk management process to its corporate governance and sustainability frameworks.

Risk Management Process

The Group's ERM process is designed to ensure businesses are proactively identifying, assessing, and mitigating the risk events. The risk management framework ensures consistency 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 a 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 are also taken up at a Board level, concluding the risk management annual process. Policy level changes emerging from the discussion at the JKH Audit Committee are then incorporated in the next cycle to ensure alignment with changing risk environment dynamics.

The risk management process and information flow is portrayed below:

Headline Risks

External Environment	Business Strategies and Policies	Business Process	Organisation and People	Analysis and Reporting	Technology and Data	Sustainability and CSR

Risk Presentation	JKH PLC Audit Committee	John Keells Group Review Risk Report and Action	Risk Management Team
Risk Validation	Group Executive Committee (GEC)	BU Review and Sector Risk Report and Action	Risk and Control Review Team
Integrated Risk Management	Listed Company Audit Committee	BU Risk Report and Action	Sustainability Integration
Risk Identification	Group Management Committee (GMC)		
	Business Unit		
	Operational Units	Report Content	

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 2021/22. Details on risks, opportunities and internal controls specific to business units, sectors and industry groups are discussed in the Industry Group Review section of the Annual Report

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 reviewed and originally made "Ultra high" in 2020/21, due to the COVID 19 pandemic. The ongoing impacts from the COVID 19 pandemic coupled with the economic crisis and socio-political tensions resulted in an "Ultra - high" risk rating during the financial year, which is envisaged to remain in the short-term. The impacts were more pronounced towards the latter portion of the reporting period.

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

	2021/22	2020/21	2019/20
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 expected impact
- Risk owners assigned to ensure accountability and sustained focus on mitigation activities

COVID-19 & Macro Environment Challenges

The first half of the year under review also entailed the impacts of pandemic related impacts, with intermittent lockdowns to control the spread of the virus. However, the easing of restrictions in tandem with the encouraging vaccination drive, contributed a strong recovery in business and consumer sentiment.

Given the unprecedented nature of pandemic, despite the learnings from the previous year, all businesses continued to proactively monitor and revisit the 'pandemic' risk item on their respective risk registers to ensure that risk responses and mitigation actions were systematically assessed and updated to tackle volatile on-ground situations. The Group further facilitated the Government's initiative of vaccination by encouraging staff, families and community.

Given the continued impacts of the pandemic and the challenges on the macroeconomic front, particularly towards the latter end of the year under review, 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, in particular. 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. To this end, as morefully disclosed in Share Information section of the report, the Company raised USD 50 million through the first phase of a private placement of ordinary shares to the Asian Development Bank.

The challenges on the economic, social and political fronts in the country, particularly towards the latter end of the year under review also created a challenging landscape for the Group to operate in. Hence, the year under review was also characterised by significant challenges on the foreign exchange front, where in addition to the depreciation of the currency towards the latter end of the year under review, there were significant challenges in the foreign currency market on the back of a marked reduction in liquidity amidst declining confidence and a depletion of foreign currency reserves in the country. The Group adopted prudent measures, as and when required, to manage the financial impacts arising from the liquidity constraints and currency fluctuations through strategies such as matching liabilities with corresponding inflows.

With the Group facilitating remote working and increased digitisation of processes, measures were taken to further strengthen the information technology governance and cyber security framework.

Shortages of food and fuel, record inflation and regular power outages, coupled with prolonged calls for accountability that went unheeded, have increased the prominence of democratic expressions and protests across the country, with increased calls for the representatives of the people to act with highest standards of governance and integrity. This has been further exacerbated by political uncertainty.

Risks, Opportunities and Internal Controls

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: As a result of ongoing external uncertainty, the year under review remained a period where regulatory, legal and tax structures and policies were yet to fully stabilize. As such, the risk rating has remained static 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 adaptation to any new or revised legislation.

	2021/22	2020/21	2019/20
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.

	2021/22	2020/21	2019/20
Risk rating	◆	◆	◆

Currency / Exchange Rate

Risk rating	◆

The currency witnessed significant volatility during 2021/22, particularly during the latter part of the year. Whilst the exchange rate was maintained at a 'pegged' level during most of the year, as per the guidelines issued to the banks by the Central Bank of Sri Lanka, the currency depreciated sharply in March 2022 with the adoption of a flexible exchange rate regime. In addition to the steep depreciation of the currency, there were other significant challenges in the foreign exchange market, on the back of a marked reduction in liquidity on account of a reduction in worker remittances which were diverted through alternate channels, together with declining confidence and a depletion of foreign currency reserves in the country. This resulted in a series of measures such as the continuation of certain import controls and stipulations on foreign currency conversions and remittances. The resultant sharp reduction in foreign currency employment remittances further exacerbated the liquidity situation.

Mitigation Strategy: The Group adopted prudent measures, as and when required, to manage the financial impacts arising from such currency fluctuations, by primarily matching liabilities with corresponding inflows and entering into forward exchange rate agreements, when it was permitted. At a Group level, the translation risk on foreign currency debt is partially hedged 'naturally' using Dollar cash and cash equivalents and Dollar denominated revenue streams. To this end, during the year, the Dollar debt obligations at the Transportation industry group were naturally hedged by matching such obligations against its Dollar revenue streams. The conscious strategy of maintaining US Dollar cash balances at the Holding Company also aided the Group in managing the depreciation impact on the overall Group. However, it is noted that the foreign currency cash holdings include the funds earmarked for the equity infusions of the 'Cinnamon Life' project and the funds raised for the Group's investment pipeline via the debt drawdown from the IFC long term loan facility and the private placement of ordinary shares to ADB. The Group was able to navigate the liquidity challenges through matching its obligations with foreign currency inflows as far as possible while also using the strength of the Group balance sheet.

Interest Rate

Risk rating	◆

The Central Bank of Sri Lanka, which deployed unprecedented monetary stimulus measures since 2020, commenced gradually monetary tightening measures in mid-August 2021. Accordingly, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) were raised twice by a total of 200 basis points each with the rates at 6.5 per cent and 7.5 per cent as at March 2022, respectively. The Statutory Reserve Ratio (SRR) was also raised by 200 basis points to 4 per cent in September 2021.

In early April 2022, CBSL raised SDFR and SLFR significantly by 700 basis points each to 13.50 per cent and 14.50 per cent, on the back of severe inflationary pressures on account of domestic supply disruptions and global increases in commodity prices and to support the exchange rate.

Mitigation Strategy: The Group invested in short-term Rupee instruments taking into consideration the projected liquidity requirements during the year. The US Dollar investment portfolio was primarily invested in bank deposits of medium tenure considering the rate outlook, particularly in light of the COVID-19 pandemic and domestic demand for foreign currency deposits. The Group also proactively managed the risk of increasing interest rates by rebalancing its portfolio of borrowings and actively re-profiled part of its short-term debt portfolio to longer term financing facilities on fixed rate terms to ensure greater certainty of its future funding cost.

A sizable portion of the interest rate exposure stemming from the Group's foreign currency borrowing portfolio continued to be hedged through interest rate swap agreements and financing facilities which are negotiated on fixed rate terms.

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 ongoing COVID-19 pandemic placed some pressure on cash flows and financial indicators in the first half of the year, active liquidity management and cost management strategies across the Group helped insulate this impact. The Group continues to maintain adequate banking facilities and will look to manage its liquidity position despite the volatile environment.

Information Technology

Capitals Impacted

- Financial and Manufactured Capital
- Social and Relationship Capital

Risk Overview: Given the necessity for higher levels of remote working as a result of the COVID-19 pandemic, cybersecurity has become an increasing priority to ensure no negative impacts on business operations and on Group reputation. There was an emerging trend of increased stakeholder and consumer demand for enhancements in the availability and quality of online and digital tools for service and product offerings, which is likely to continue in a post-pandemic environment. 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: The Group undertakes continuous monitoring of the threat landscape and its cyber exposure, with investments in IT security awareness, prevention and security best practices, reinforced through business continuity plans, disaster recovery sites and central processes in place to ensure a coordinated and consistent Group response. Critical Group services have been migrated to the cloud and servers consolidated into central data servers, with a Group-wide policy to ensure employee data is backed up and secure. This IT framework facilitated the successful shift to remote working for a large proportion of its employees, now formalised through its Agile Working Policy. Constant evaluation of the IT landscape is in place to ensure the continued protection of Group data and IT systems.

	2021/22	2020/21	2019/20
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 Chairman'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.

	2021/22	2020/21	2019/20
Risk rating	◆	◆	◆

The Group continued to liaise with only reputed creditworthy counterparties. All clients are subject to credit verification procedures and are required to submit bank guarantees, performance bonds or counter guarantees, as applicable.

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 Group recognises that a lack of coherent strategy towards human capital enhancement can negatively impact the sustainability of its businesses and result in the inability to meet its long-term objectives.

With the prevailing socio - political tensions in the country, most of the young talents are leaving the country looking for better career opportunities. This has created a challenge of attraction and retention of talent for the group and hence the risk was rated "High".

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, good relations with unions and has in place policies on sexual harassment and non-discrimination. This year, notable enhancements to the Group's human capital management strategy included formalisation of remote working opportunities through the Agile Working Policy and data provisions for such employees, improved maternity and paternity leave allowances and enhancing the gender diversity and inclusion focus within Group companies. Despite these improvements, alongside a COVID-19 impacted labour market, contributed to a 'high' rating this year.

	2021/22	2020/21	2019/20
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, as increasingly, local and global corporates are required to assess the risks posed by these factors. Such risks can be physical, regulatory or reputational, and stakeholder expectations and requirements continue to grow in this area of focus. This has been particularly emphasised with the onset of the COVID-19 pandemic, with potentially serious impacts to business activities as a result of any employee exposure to infection.

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 14000 Environmental Management standards and OHSAS 18001/45001 Occupational Health and Safety standards among others. Further during the year 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 Chairman'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.

	2021/22	2020/21	2019/20
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.

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 with 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 'Chairman 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 the environment. This risk was rated at a 'low' level.

	2021/22	2020/21	2019/20
Risk rating	◆	◆	◆

Supply Chain Risk

Capitals Impacted

Social and Relationship Capital

Related Material Sustainability Topic

- Child Labour
- Forced Labour
- Supplier ASsessments

Risk Overview: The Group takes a holistic approach to its risk management framework and recognises the inherent risk stemming from the performance of supply chain partners. 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.

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 or 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. However, due to the unprecedent pressures on all supply chain partners with respect to the lack of foreign exchange in the market as well as the resultant lack of basic commodities such as fuel and gas, which began escalating exponentially during the latter part of the year under review and continues to be impactful, the risk has been increased to an 'ultra-high'.

	2021/22	2020/21	2019/20
Risk rating	◆	◆	◆

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