RISK MANAGEMENT SYSTEM

Overall Risk Management Philosophy

The Company's philosophy of risk management has its foundation in the concept that taking risks is required in order to seek rewards and to fulfill the company's multi-faceted mission. However, these risks should be assessed in order to insure that effective mitigation strategies are employed to the greatest extent possible. Mitigation strategies should consider transferring or insuring risk, reducing the likelihood of the risk occurring, reducing the severity of the risk should it occur, avoiding the risk altogether, or accepting the risk, while continuing to monitor it to ensure it stays within the company's risk appetite. Risk management will effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

Key Players

a.) Board of Directors through Audit and Risk Committee
b.) External Auditor and Internal Auditor
c.) Risk Management Officer
d.) Department Heads

Key Responsibilities:

The Risk Committee shall have the authority of the Board to:

1. Oversee the company's risk management function.
2. Develop a formal risk management policy that guides the company's risk management and compliance processes and procedures
3. Design and undertake its enterprise-wide risk management activities in accordance with internationally recognized frameworks
4. Discuss and review policies with respect to risk assessment and risk management including the company's major financial and business risk exposures and the actions the management has undertaken to control them
5. Set the tone and influence the culture of risk management which includes determining the appropriate risk appetite (risk-taker or risk-averse) or level of exposure as a whole or on any relevant individual issue; determining what types of risk are acceptable and which are not
6. Monitor the management of significant risk to reduce the likelihood of unwelcome surprises
7. Satisfy itself that less significant risks are being actively managed with the appropriate controls in place and working effectively
8. Annually review the company's approaches to risk management and recommends to the Board changes or improvements to key elements of its processes and procedures.
9. Perform other activities consistent with this charter, the company's by-laws and governing law as the Committee or the Board deems necessary or appropriate

The Audit Committee represents and assists the Board in its general oversight of the Company's accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions.

At the operation level, the risk management function is handled by all the heads of the department across the company on every risk exposures that each department will face. The internal auditor conducts internal control and risk assessment and reports directly to the audit committee and discusses findings with management.

The external auditor shall enable an environment of sound corporate governance as reflected in the financial records and reports of the company. The external auditor shall undertake an independent audit and provide an objective assurance on the matter by which the Company's financial statements have been prepared and presented.

The risk management officer shall implement policies on risk management and coordinate with the internal auditor in the maintenance of effective and efficient internal control system. The risk management officer shall identify and evaluate the significant risks faced by the company for consideration by the Board of Directors *through the Risk Committee by: (a) identifying and describing the potential risks; (b) ranking each risks according to probability and impact; (c) determining the type of control measures required; (d) assessing the residual risk after implementation of control measures; (e) allocating an owner to the residual risk; (f) communicating the results and (g) monitoring, reviewing and communicating at regular defined intervals. He shall provide adequate information on timely manner to the Risk Management Committee on the status of risks and control especially when key risk indicators are emerging and be closely monitored on a regular basis. He shall report to the Risk Committee and the CEO.*

Review and Assessment of the Effectiveness of Risk Management System

The risk management system is reviewed by the Directors on a per annual basis every end of the year. The Company may outsource experts to review, upgrade and update the risk management framework and processes based on the changes of business environment.

General Description of the Company's Risk Management Policy

The Company is exposed to a variety of financial risks, which resulted from its operating, investing and financing activities. The Company's principal financial instruments comprise of cash and cash equivalents, receivables, investment in equity securities, and bank loans. The main purpose of investing these financial instruments (assets) is to maximize interest yield and for capital appreciation. The main purpose of bank loans is to finance the Company's operations. The Company has various other financial assets and liabilities such as trade receivables, trade payables and accrued liabilities, which arise directly from operations. The Company's policies and guidelines cover credit risk, liquidity risk and interest rate risk. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Company's results and financial position. The Company actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principle.

The main risks arising from the use of financial instruments that have material effect on the company's position and performance are credit risk, liquidity risk, interest rate risk and equity price risk. The Company's Board of Directors reviews and agrees with policies for managing each of these risks.

Aside from liquidity risk, credit risk and market risk (interest rate risk and equity price risk), the Company is also exposed to operational risks.

Risk Exposure	Risk Management policy	Objective
Interest rate risk	*In a trade-off between risk and return, the exposure to changes in interest rate need not necessarily be the completely eliminated but rather it should be to manage the impact of interest rate changes within self-imposed reasonable limits set after careful consideration of a range of possible interest rate environments with a balanced mix of fixed and variable rate.*	*The objective of interest rate risk management is to mitigate the risk of incurring losses arising from market interest rate changes to an acceptable level by shaping the structure of balance and off-balance sheet items.*
Credit risk	*Sound credit risk management involves prudently managing the risk/reward relationship and controlling and minimizing credit risks across a variety of dimensions, such as quality, concentration, maturity, security and type of credit facility.*	*The objective of credit risk management is to mitigate the risk of incurring losses arising from counterparty defaults and/or failure to honor its financial or contractual obligations through credit analysis and review.*

	Credit risk management includes identifying existing or potential credit risks to which the company is exposed in conducting its business activities and developing and implementing sound and prudent credit policies to effectively manage and control these risks; *• developing and implementing effective credit granting, documentation and collection processes; and* *• developing and implementing comprehensive procedures to effectively monitor and control the nature, characteristics, and quality of the credit portfolio.*	*While managing for the reduction of credit risk, other objective is customer retention to keep customers loyal to insure current and future sales.* *By researching and investigating an applicant's financial background, credit risk management is able to gauge the risk involved in doing business with prospective customer. For established customers, a credit review process should be employed to stay familiar with the credit situation of clients thereby allowing for credit limit adjustments and restructuring to reduce the company's credit risk.*
Liquidity risk	*The company's policy concerning liquidity is based on keeping a portfolio of liquid securities (e.g. money market instruments) and increasing stable sources of financing from deposits of customers.*	*The objective of liquidity risk management is to pay present and future debts (also potential) on time (or meeting financial obligations as they fall due), taking into account the nature of performed activities and requirements which may occur due to changes in market environment, by shaping the structure of statement of financial position and contingent liabilities and commitments.*
Equity price risk	*The company should plan and strategize to reduce equity price risk in a two-pronged approach: protect stock value from high volatility and enhance returns.*	*The objective of equity price risk management is to reduce portfolio volatility and limit portfolio's equity exposure from market decline by providing downside protection and controlling volatility without curtailing the upside.*
Operational risk – *1.) People risk –* **internal fraud,* *external fraud,* *incompetency,* *work force interruption,* *wrongful termination* *2.)Process risk-* **valuation/model risk,* *failure of internal process,* *exceeding limits,* *project overruns,* *inadequate project plan,* *failure to adhere internal & external compliance procedure,* *security risk* *3.) systems and technology risk –*	*Management should evaluate the adequacy of tools and techniques both in terms of its efficiency and effectiveness. Steps should be taken to design and implement cost- effective solutions to reduce the operational risk to an acceptable level.*	*The objectives of operational risk management is to monitor assessment of the exposure to all types of operational risk faced by the company by assessing the quality and appropriateness of mitigating actions, including the extent to which identifiable risks can be transferred outside the company; and ensuring that adequate controls and systems are in place to identify and address problems before they become major concerns.*

network failure, *external security breaches,* *failure to integrate or migrate with/from existing systems,* *4.)external risk –* *legal risk,* *regulatory risk,* *political risk*		

Control System Set Up

Risk Exposure	**Risk Assessment** **(Monitoring and Measurement Process)**	**Risk Management and Control** **(Structures, Procedures, Actions Taken)**
Credit risk	*Credit risk refers to the risk that a counter-party will default and/or fail to honor its financial or contractual obligations, resulting in financial loss to the company. The credit risk exposure of the financial assets includes: cash & cash equivalents, accounts receivable, notes receivable and refundable deposits.* *The credit risk measurement methods make it possible to reflect the credit risk in the price of products, determine the optimum cut-off levels and determine impairment allowances.* *Impairment allowances are based on the classification of credit quality as past due but not impaired and those impaired.* *Credit risk is measured using the five "Cs" of credit expert system; and internal rating system.*	*The company assesses the credit risk of clients on two levels: the client's borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves scoring and evaluating the client's credit history obtained from external sources during credit investigation.* *The company reviews the methods used credit risk assessment, recognizing provisions and allowances, controlling and monitoring credit risk during the lending process and determining the quality and efficiency of restructuring and enforcement of the amounts receivable from clients.* *The company only transacts with recognized and creditworthy counterparties, follows strict credit policies and procedures in granting of credit to customers which are regularly reviewed and updated to reflect changing risk conditions, which includes credit evaluation, administration, monitoring and collection guidelines. The Company likewise monitors exposures through continuing assessment of creditworthiness of customers and monitoring of the aged schedules of receivables. Real*

		estate buyers are subjected to standard credit check procedures which are calibrated based on payment scheme offered prior to sale. Transfer of ownership or title of real estate sold can only be done upon full payment of the agreed total contract price. The credit risk arising from counterparty defaults are monitored by classifying the quality per class as neither past due nor impaired, past due but not impaired and impaired.
Interest rate risk	*Interest rate risk is the significant movements in interest rates that expose the firm to high borrowing costs, lower investment yields or decreased asset values. Cash in bank and cash equivalents, contract receivables for the financial assets and short-term and long-term debt for the financial liabilities are exposed to interest rate fluctuations.* *The impact of changing interest rates on a portfolio consisting of various assets and liabilities can be measured by gap analysis and duration analysis.*	*The Company established limits and thresholds for interest rate risk comprising the following: price sensitivity, interest income sensitivity, limits and threshold for losses and limits on instruments sensitive to interest rate fluctuations.* *To manage the interest rate risks on its interest income, the Company places the cash balances reputable banks and financial institutions on varying maturities and interest rate terms.*
Liquidity risk	*Liquidity risk refers to the risk that the company will not be able to meet its financial obligations as they fall due. Liquidity risk can be measured by using liquidity gap analysis by comparing the company's liquid assets from its volatile liabilities.*	*The Company ensures that investments have ample liquidity to finance operations and capital requirements and yield good returns. The Company manages liquidity by maintaining adequate reserve and invests in short- term money market instruments. Moreover, banking facilities and reserve bank lines and facilities are secured to fill in temporary mismatch of funds for new investments or projects. Furthermore, long-term debts are used for financing when the business requirement calls for it to ensure adequate liquidity for its operations. Additional funding requirements may be obtained from related parties.*
Equity price risk	*Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The change in equity indices will likely change the fair value of the Available-for-sale equity instruments.*	*Price risk associated with equities could be systematic or unsystematic. The former refers to sensitivity of portfolio's value to changes in overall level of equity prices, while the latter is associated with price volatility that is*

	The measure of risk used in the equity markets is typically the standard deviation of a security's price over a number of periods. The standard deviation will delineate the normal fluctuations one can expect in that particular security above and below the mean, or average.	*determined by firm specific characteristics. The general market risk of equity cannot be eliminated through portfolio diversification but the specific risk/unsystematic can be diversified away.*
Operational risk – *1.) People risk –* **internal fraud,* *external fraud,* *incompetency,* *work force interruption,* *wrongful termination* *2.)Process risk-* **valuation/model risk,* *failure of internal process,* *exceeding limits,* *project overruns,* *inadequate project plan,* *failure to adhere internal & external compliance procedure,* *security risk* *3.) systems and technology risk –* *network failure,* *external security breaches,* *failure to integrate or migrate with/from existing systems,* *4.)external risk –* *legal risk,* *regulatory risk,* *political risk*	*Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.* *Measurement of operational risk could be done by systematically tracking and recording frequency, severity and other information on individual loss events.* *Assessment of the feasibility of alternative risk limitation and control strategies as well as adjustment to operational risk profile using appropriate strategies, in light of the company's overall risk appetite and profile.*	*The extent and nature of the controls adopted by the company encompasses such measures like orientation about Code of Conduct, proper delegation of authority, segregation of duties, audit coverage, compliance, succession planning, mandatory leave, staff compensation, recruitment and training, dealing with customers, complaint handling, record keeping, MIS, physical controls, others.* *Appropriate controls should be in place to avoid misappropriation of assets:* *Defalcation can be avoided through cash counts and bank reconciliation of accounts. Past due accounts receivable can be reviewed through aging of accounts, Conduct periodic inventory counts and use computerized system. Independent checking should be done to check accurateness of the computation and use of passwords and firewalls as well as anti-virus and anti-malwares for any unauthorized access of data and the threat of loss of data due to viruses and malwares. Likewise, the company is enjoined to comply to employment or labor laws, regular monitoring of changes or updates to relevant laws and regulations and close coordination with regulatory agencies. The company prepares disaster recovery and business continuity plans to ensure its ability to operate as a going concern and minimize losses in the event of severe business disruption.*

Committee/Unit Supervising the Control Mechanisms

Committee/Unit	Control Mechanism	Details of its Functions
Internal Audit	*Provide objective assurance that major business risks are being managed appropriately and that risk management and internal control framework is operating effectively.*	*The internal audit functions include examination and evaluation of the adequacy and effectiveness of internal control; provide assurances that the risk management processes both their design and how well they are working; management of those risks classified as "key" and reliable and appropriate assessment of risks and reporting of risk and control status. Internal audit function is expected to provide value to the organization through improved operational effectiveness in addition to traditional responsibilities such as reviewing the reliability and integrity of information, ensuring compliance with policies and regulations and safeguarding assets.*
Audit and Risk Committee	*The Audit Committee has general oversight of the company's accounting and financial reporting processes, audits of the financial statements and internal and audit functions. The Committee takes the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices and ethical behaviour. The Risk Committee is in-charge of overseeing the company's practices and processes relating to enterprise-wide risk assessment and risk management; maintaining an appropriate risk culture, reporting of financial and business risks and associated internal controls. The Risk Committee will assist in providing framework to identify, assess, monitor and manage the risks associated with the company's business.*	*The Audit Committee shall review with management and the independent directors (a) major issues regarding the adequacy of internal controls and steps taken in light of material deficiencies and (c) the effects of alternative accounting methods and regulatory and accounting initiatives on the financial statements. The Audit Committee will review and discuss with management the Company's major financial risk exposures and the steps taken management has taken to monitor and control such exposures. The Risk Committee are tasked to develop formal risk management policy that guides the company's risk management and compliance processes and procedures; design and undertake its enterprise-wide risk management activities in accordance with internationally recognized frameworks; discuss and review policies with respect to enterprise-wide risk assessment and risk management including the company's major*

		financial and business risk exposures and actions that management has undertaken to control them; set the tone and influence the culture of risk management which includes determining the appropriate risk appetite or level of exposure as a whole or on any relevant individual issue and determining that type of risk are acceptable and which are not; monitor the management of significant risk to reduce the likelihood of unwelcome surprises.

INTERNAL AUDIT AND CONTROL

1) Internal Control System

Internal control is defined as a process, effected by an entity's board of directors, management, and other personnel, designated to provide reasonable assurance regarding the achievement of objectives in the following categories: a) Effectiveness and efficiency of operations; b) Reliability of financial reporting; and c) Compliance with laws and regulations.

The Company's internal control system is defined and communicated through its policies and procedures manual and inter-office memoranda. These are also tackled during exit conference meetings with the internal auditors and in-house seminars.

<u>Review and Assessment of the Effectiveness of the Internal Control System</u>

The directors through the audit committee have reviewed the effectiveness of the internal control. The issues discussed during the audit committee meetings are being addressed and corrective action plans are formulated. The period covered by the review covered is on a quarter and annual basis.

Internal controls are reviewed regularly through the Company's internal auditor, reported to the Audit Committee and discussed with management for explanation. Risk areas are being identified at the beginning of the year where an audit plan is formulated and approved by the Audit Committee. The audit timetable is based on the approved audit plan and the findings/issues are brought up to the Audit Committee's attention for corrective actions. Internal audit activities are conducted regularly. In assessing the effectiveness of the internal control system, the following factors/criteria are considered: level of risk involved, materiality, compliance with existing policies and procedures, industry best practices, Company strategic plans and objectives, and other factors that may affect the Company's control environment.

2) Internal Audit

<u>Role, Scope and Internal Audit Function</u>

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
Internal auditors	*Conducts audit on a regular basis and performs risk assessments and internal control reviews.*	*Outsourced*	*Ms. Lindy C. Patriana/ Baconga, Patriana & Company, Certified Public Accountant*	*Audit findings are discussed with the concerned department heads and staff. The final audit reports with the actions taken by the department are forwarded to the Audit Committee, Chief Executive Officer, Chief Finance Officer and Controller. Meeting with the audit committee are done on a quarterly basis.*

Appointment and/or Removal of the Internal Auditor

The appointment and/or removal of the accounting firm to which the internal audit function is outsourced require the approval of the audit committee.

Internal Auditor's Reporting Relationship

The internal auditors are reporting to the audit committee on a quarterly basis or as frequent as the circumstances requires. Moreover, they have unfettered access to all the records, properties and personnel.

Progress against Plans, Significant Issues, Significant Findings and Examination Trends

Progress Against Plans	*The areas under audit are based on the plan and as requested. All areas in the audit plan were covered during the plan period. In some areas, however, audit work was extended to the following period when an item requires further analysis and examination.*
Issues	*Issues and findings are summarized at the end of the year together with the appropriate action plans. Outstanding issues and findings are subject to follow-up in the next audit year.*
Findings	*Issues and findings are summarized at the end of the year together with the appropriate action plans. Outstanding issues and findings are subject to follow-up in the next audit year.*
Examination Trends	*Audit findings are grouped based on the areas under audit. Past examinations are used as reference for the current year examinations.*

"Issues" are compliance matters that arise from adopting different interpretations.
"Findings" are those with concrete basis under the company's policies and rules.

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

1) Preparation of an audit plan inclusive of a timeline and milestones;
2) Conduct of examination based on the plan;
3) Evaluation of the progress in the implementation of the plan;
4) Documentation of issues and findings as a result of the examination;
5) Determination of the pervasive issues and findings ("examination trends") based on single year result and/or year-to-year results;
6) Conduct of the foregoing procedures on a regular basis.]

Audit Control Policies and Procedures

Internal audit controls, policies and procedures that have been established by the company include, among others:

Policies & Procedures
Procurement of materials, supplies, etc.
Bidding process
Warehousing of materials, supplies, etc.
Capital Assets
Property control
Vehicle control
Safekeeping of Transfers of Certificate of Titles
Petty cash fund transactions
Cash handling

Check requests and disbursements
Cash advances and other receivables
Sales documentations
Broker's commission
Credit and collections
Payroll transactions
HR related transactions

<u>Mechanism and Safeguards</u>

The mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies includes: recruitment of external parties to conduct internal audit function; restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company.

<table>
<tr><th>Auditors
(Internal and External)</th><th>Financial Analysts</th><th>Investment Banks</th><th>Rating Agencies</th></tr>
<tr><td>Internal audit function is outsourced. The internal audit team institutes controls and policies which includes the following:

Review of related parties (auditor and auditee relationships)

Direct reporting of circumstances where based on the internal auditor's judgment might impair his/her independence.

Rotation of internal audit staffs.</td><td colspan="3">The Company will not engage any activities that would put pressure on financial analysts, investment banks and rating agencies or anything that would impair their independence.</td></tr>
<tr><td>The independence of the external audit function is safeguarded by limiting the non-audit services that an external auditor may provide to the company.</td><td colspan="3"></td></tr>
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