

**MERALCO EMPLOYEES MUTUAL AID AND BENEFITS ASSOCIATION, INC.
(MEMABA, INC.)**

Enterprise Wide Risk Management Policy

MEMABA is committed to its vision, which is to be an independent mutual benefit association aimed at providing the best benefits and assistance to its members and beneficiaries/dependents. In achieving this vision, MEMABA will face risks to its business strategy, operational risks and risks associated with the protection of its members, employees, property and reputation. This document describes the policies by which the entire spectrum of these risks are to be effectively managed.

MEMABA defines risk as any potential event which could prevent the achievement of an objective. It is measured in terms of impact and likelihood. Risks arise as much from the likelihood that an opportunity will not happen, as it does from the threat or uncertainty that something bad will happen.

MEMABA's policy is to identify, analyze and respond appropriately to all risks. The risk responses selected are determined by the appetites and tolerances for risks. These will vary over time according to the specific business objectives, for example strategic, operational or asset protection. The effectiveness of risk management and control measures will be regularly reported to and acted upon by the Board of Trustees. In addition, periodic review on the effectiveness will be conducted.

Responsibilities

The Board of Trustees, through its Audit Committee, is responsible for the Enterprise Risk Management Framework and for implementing the strategy, culture, people, processes, technology and structures which constitute the Enterprise Risk Management Framework.

Key Principles on Managing Risk

- In order to achieve MEMABA's business objectives, risks must be considered and managed enterprise-wide;
- Risk management is integral to the strategic planning process, business decision making and day-to-day operations;
- Risks are identified, analyzed, responded to, monitored and reported on, in accordance with MEMABA's policies and procedures;
- Risk responses must be tailored to each particular business circumstance;
- Management must regularly assess the status of risks and risk responses; and
- Compliance with the Enterprise Risk Management Framework must be monitored and reported.

MEMABA has adopted the ORCA Approach to ensure consistent application of risk management by all staff, in the:

- execution of strategy,
- achievement of business objectives, and
- day-to-day operations.

ORCA represents:

O – OBJECTIVES: Goals and results that MEMABA aims to achieve

R – RISKS: Any potential event which could prevent the achievement of an objective

C – CONTROL: Management's response to risks

A – ALIGNMENT: Alignment of MEMABA's objectives, risks and controls across the enterprise determined by its appetites and tolerances for risks

The MEMABA Enterprise Risk Management process comprises the following steps:

1. IDENTIFY key risks
2. ANALYSE the potential impact and likelihood of risks
3. RESPOND to risks by considering existing controls as well as selecting, prioritizing and implementing appropriate actions
4. MONITOR the internal and external environment for potential changes to risks and ensure that risk responses continue to operate effectively
5. REPORT on risks and the status of risk responses adopted

Risks are uncertain future events which could influence the achievement of MEMABA business objectives and can be viewed from three perspectives:

- *Opportunity Risk of lost opportunity or something good not happening*
By viewing risks from the perspective of opportunity, MEMABA recognizes the inherent relationship between risk and return, i.e. the greater the risk, the greater the potential return or loss. In this context, MEMABA must adopt suitable responses to maximize the upside opportunity within the constraints of its operating environment. Typically, strategic questions will involve consideration of this type of risks.
- *Uncertainty Risk of not meeting expectations*
When considering risks from the perspective of uncertainty, MEMABA must determine how it can proactively prevent an uncertainty from having a negative impact. This will mainly be achieved through management of risks relating to operational performance.
- *Hazard Risk of loss or something bad happening*
While managing risk from the perspective of hazard, MEMABA must mitigate the degree of damage to critical business assets (people, property, earning capacity and reputation) that would be caused if the hazard occurs.

Risk Appetite and Risk Tolerance

MEMABA business objectives are integral to its appetites for, and tolerances of, risk. The risk appetites and tolerances dictate the nature and level of risks that are acceptable to MEMABA. Risk appetite is defined as ‘the risks that MEMABA is in business to take, based on its corporate goals and its strategic imperatives.’

Risk tolerance represents ‘the threshold of risk that MEMABA considers acceptable, based on its capabilities to manage the identified risks’. Risk appetites and tolerances will vary according to the balance of opportunity, uncertainty or hazard which differing risks represent.

Review of policy

This policy and underlying principles will be reviewed every two (2) years by the Board, to ensure its continued application and relevance.