



**HI**

HOUSE OF INVESTMENTS, INC.  
A YGC Member

# **HOUSE OF INVESTMENTS, INC.**

## **RISK MANAGEMENT PROGRAM**

### **MANUAL of POLICIES & PROCEDURES**

September 1, 2011

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## **I. BACKGROUND**

**RISK** is defined as the probability of an action or event and its corresponding consequences. **RISK MANAGEMENT** is the systematic process where companies identify and effectively address the risks of their business operations on an *enterprise-wide* level in order to achieve corporate objectives. With the series of local and international business failures over the past decade, leading corporations now consider enterprise-wide risk management as a key driver of business success, growth, and increased shareholder value.

House of Investments, Inc. (“**HI**”) is a management and holding company with investments in various businesses through several subsidiaries, associates, divisions, joint ventures, and managed companies, collectively referred to in this document as the **Covered Companies**. Because of its involvement in various business sectors, HI is constantly exposed to diverse risks that are particular to the operations and business environments of the Covered Companies.

To properly identify and address these risks, the **HI Risk Management Program** will be implemented across HI and all Covered Companies. The Risk Management Program is embodied in the **HI Risk Management Framework**, which was approved by the HI Board of Directors (“**HI BOD**”) upon the endorsement of the HI Risk Management Committee (“**HI RMC**”).

The HI Chief Risk Officer (“**HI CRO**”) is responsible for the enterprise-wide implementation, supervision, and monitoring of the Risk Management Program.

## **II. SCOPE**

The HI Risk Management Program addresses risks with adverse effects on HI and the Covered Companies, in accordance with the HI RMC Charter.

## **III. RISK MANAGEMENT OBJECTIVES**

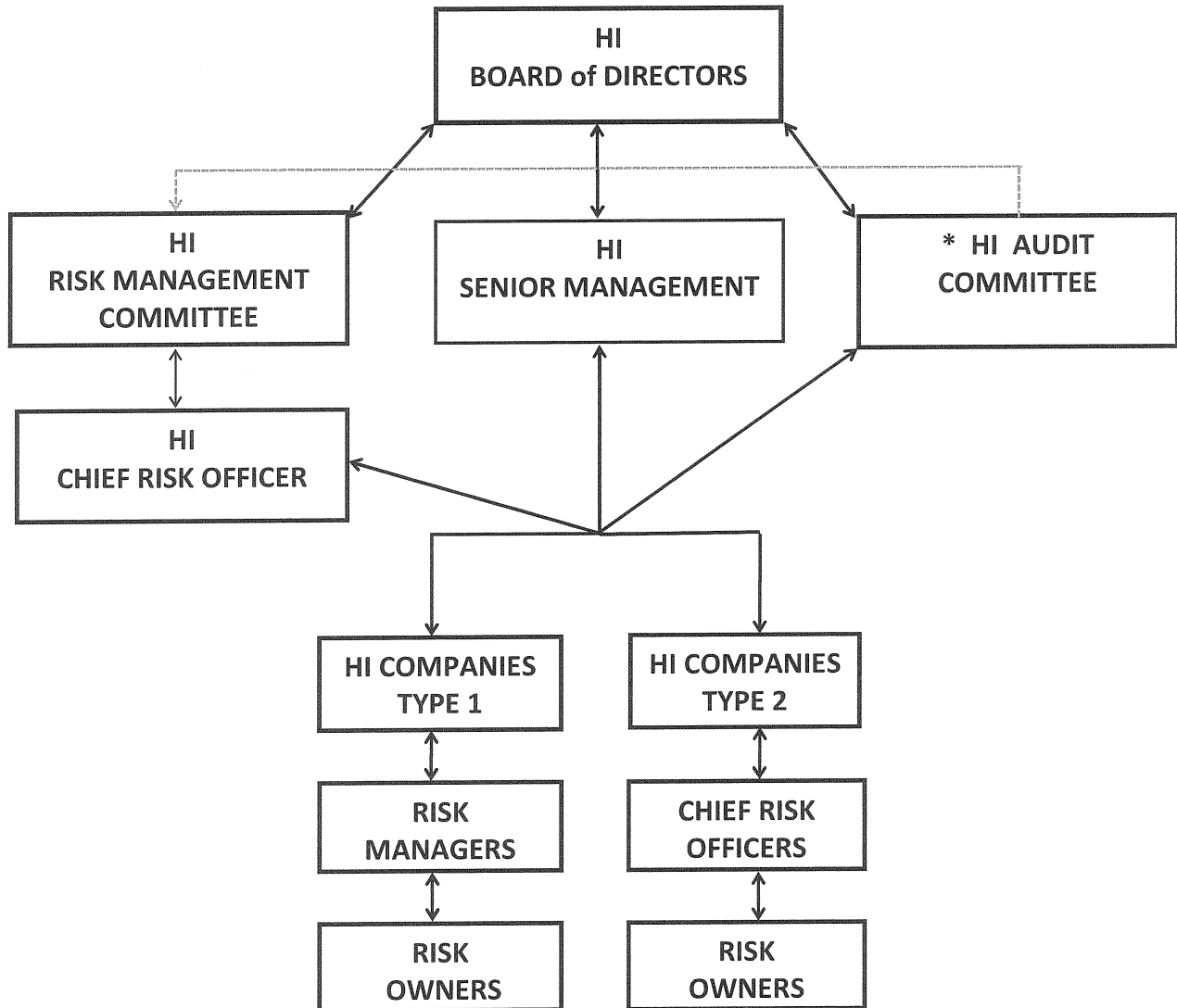
- 1) To identify and properly address risk exposures of HI and the Covered Companies.
- 2) To develop strategies that address risk exposures by preventing occurrences or by minimizing the adverse effects of occurrences; strategies must be within the HI risk tolerance levels, which are quantitative and qualitative benchmarks set by the HI BOD.
- 3) To promote operational efficiency by assigning risk management **accountabilities** at all levels of HI and the Covered Companies and by incorporating these in employee performance evaluations and reward schemes.
- 4) To gradually integrate into the corporate culture of HI and the Covered Companies a proactive risk management philosophy.



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#### IV. RISK MANAGEMENT ORGANIZATIONAL STRUCTURE



\* Under the HI Corporate Governance Manual, the HI Audit Committee shall have oversight and monitoring responsibilities over HI'S risk management system.

## **V. HI COVERED COMPANIES**

As defined in the RMC Charter, there are **TWO** classifications of HI Covered Companies:

- 1) **TYPE 1 COVERED COMPANIES:** HI has *direct control* of the risk management of these Companies:
  - 1.1) Landev Corporation
  - 1.2) Greyhounds Security and Investigation Agency
  - 1.3) Blackhounds Security and Investigation Agency
  - 1.4) Investment Managers Inc.
  - 1.5) Honda Cars Quezon City Group
  - 1.6) Honda Cars Caloocan
  - 1.7) Isuzu Manila
  - 1.8) Zamboanga Industrial and Finance Corporation
  - 1.9) Zambowood Realty and Development Corporation
  - 1.10) Zamboanga Carriers, Inc.
  - 1.11) Hi-Eisai Pharmaceutical Inc.
  - 1.12) La Funeraria Paz Sucat, Inc.
  - 1.13) Manila Memorial Park Cemetery, Inc.
  - 1.14) Motorcycle Division
  - 1.15) Xamdu Motors, Inc.
  
- 2) **TYPE 2 COVERED COMPANIES:** HI *delegates and supervises* (i.e. to oversee and monitor) the risk management activities of these Companies, since they have their own Risk Management Committees, Charters, Programs, and Chief Risk Officers:
  - 2.1) iPeople, Inc.
  - 2.2) EEI Corporation
  - 2.3) First Malayan Leasing and Finance Corporation



## **VI. RISK MANAGEMENT PROGRAM**

### **1) PROGRAM PRE-REQUISITES**

#### **1.1) APPOINTMENT OF RISK MANAGERS:**

1.1.1) TYPE 1 COVERED COMPANIES: The President (or equivalent) of the TYPE 1 Covered Company must appoint a Company officer who will act as **RISK MANAGER** for the Covered Company, in a concurrent capacity with his position. The Risk Manager must have a thorough knowledge of the Company's operations and business industry since he will be the head of all risk management-related activities within the Covered Company. The Risk Manager shall have the following primary duties/responsibilities:

- 1.1.1.1) Communicate clearly the objectives, policies, and procedures of the Program at all levels of the Company
- 1.1.1.2) Cooperate and collaborate with the HI CRO on all risk management activities of the Covered Company.
- 1.1.1.3) Implement the HI Risk Management Program within the Covered Company, as discussed and agreed with the HI CRO.
- 1.1.1.4) Monitor the status of the Risk Management Program and submit monthly progress reports to the HI CRO, simultaneous with the submission of Management Committee ("**Mancom**") reports.

1.1.2) TYPE 2 COVERED COMPANIES: Due to regulatory requirements and/or the complexity of their operations, these Companies have existing Risk Officers, Risk Management Committees, Charters, and Programs.

**1.2) BRIEFINGS**: The HI CRO shall schedule and conduct briefings and workshops on Risk Management with all Risk Managers of TYPE 1 Covered Companies as often as necessary to emphasize the importance of Risk Management to the organization, and to ensure a full understanding of the Program objectives and procedures.

1.2.1) CASCADING RISK MANAGEMENT AWARENESS: Risk Managers of TYPE 1 Covered Companies shall conduct briefings within their Companies as often as necessary to ensure that ALL employees:

- 1.2.1.1) Understand the importance and objectives of the Risk Management Program;
- 1.2.1.2) Acknowledge their specific duties and accountabilities under the Risk Management Program.

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## 2) PROGRAM PHASES

**2.1) PHASE 1 - RISK IDENTIFICATION:** Risk Identification is the process of identifying all events that may potentially occur and cause adverse effects on a Covered Company.

2.1.1) All Risk Managers of TYPE 1 Covered Companies will be required to accomplish RISK IDENTIFICATION TEMPLATES ("Templates", attached as **EXHIBIT A**), to be submitted to the HI CRO. The Templates shall be the guide for Risk Managers in identifying risk exposures of their businesses; variations in the Templates of the Covered Companies are expected given HI's diverse business involvements.

2.1.2) There are FOUR (4) Templates that identify risk exposures according to:

2.1.2.1) Risk Categories

2.1.2.1.1) STRATEGIC: risks arising primarily from external factors such as macroeconomic /business industry trends, shifts in demographic preferences, economic, political, and competitive conditions, reputational image, etc.

2.1.2.1.2) FINANCIAL: risks arising from the use of Company finances, such as liquidity, credit, and financial market conditions

2.1.2.1.3) OPERATIONAL: risks arising from a Company's business operations, such as poor quality of product/service, employee inefficiencies or errors, equipment breakdown, information technology system failures, etc.

2.1.2.1.4) COMPLIANCE: risks arising from failure to comply with regulatory requirements or legal obligations, illegal acts of Company Directors, officers, employees, etc.

2.1.2.2) Each Risk Category shall have Subcategories; under the Subcategories, specific risk events must be identified with the following information:

2.1.2.2.1) Risk Description and relevant details

2.1.2.2.2) Existing Control Measures of the risk event

2.1.2.2.3) Proposed Control Measures and Implementation Date

2.1.2.2.4) Risk Owner: unit / employee accountable for risk event

2.1.3) Risk Managers shall be responsible for properly informing the Risk Owners of their roles and responsibilities in managing the risk events. To ensure that Risk Owners acknowledge and accept their accountabilities for risk events, the Templates submitted to the HI CRO must be signed by all Risk Owners/Managers.

2.1.4) The performance of risk management-related tasks of all employees shall be integrated with the Performance Planning and Evaluation Form ("PPEF") of the Yuchengco Group of Companies.



**2.2) PHASE 2 - RISK ANALYSIS:** Risk Analysis is the process of understanding and evaluating risk events in order to establish risk priorities and recommend the appropriate risk response strategies.

2.2.1) The HI CRO will individually discuss with each Risk Manager of the TYPE 1 Covered Companies their Risk Identification Templates to validate the accuracy and comprehensiveness of risk events identified.

2.2.2) The HI CRO and Risk Managers shall jointly assess the impact of each risk event using a RISK ANALYSIS MATRIX ("**Matrix**", attached as **EXHIBIT B**).

2.2.3) The Matrix is a scoring grid that measures quantitative and qualitative risk consequences by assigning numerical values to the estimated impact of risk events. The numerical values correspond to the severity of the risk impact, using a scale of **1 to 4**, where 1 = LOW, 2 = MEDIUM, 3 = HIGH, 4 = VERY HIGH.

2.2.4) The Matrix measures the following parameters:

2.2.4.1) Probability of Risk Occurrence and Time Frame

2.2.4.2) Financial Impact

2.2.4.3) Operational Impact

2.2.4.4) Strategic Impact

2.2.4.5) Compliance Impact

2.2.5) For each risk event identified, the Risk Analysis Matrix will calculate an OVERALL RISK SCORE, ranging from **1 to 16** (i.e. **1** = LOW probability and LOW impact; **16** = VERY HIGH probability and VERY HIGH impact).

2.2.6) The Overall Risk Scores for each risk event of TYPE 1 Covered Companies will be tabulated in the RISK EVENT ANALYSIS FORM (attached as **EXHIBIT C**), and will be the basis for prioritizing risk event exposures and selecting the appropriate Risk Response Strategy, as described in the next section.



### 2.3) PHASE 3 - RISK RESPONSE STRATEGIES

There are four (4) RISK RESPONSE STRATEGIES (“Risk Responses”) to be adopted and recommended for risk events, based on their Overall Risk Scores. The Risk Response Strategies are not necessarily exclusive to the risk events. Exceptions, combinations, or deviations from the prescribed Risk Responses may be adopted for certain risk events, if deemed necessary by the Risk Manager and with the necessary approvals from the HI CRO and HI RMC.

2.3.1) AVOID RISK: Risk events with Overall Risk Scores ranging from **2 to 16** shall be avoided, as much as practicable.

- 2.3.1.1) Identify all possible action plans that can prevent or eliminate the risk.
- 2.3.1.2) Evaluate the viability of each action plan according to its effectiveness in avoiding the risk, any financial costs associated with the action plan, and any potential residual risks;
- 2.3.1.3) Select and implement the most viable action plan;
- 2.3.1.4) Establish contingency plans for the risk event occurrence.

2.3.2) TRANSFER RISK: Risk events with Overall Risk Scores ranging from **2 to 6** shall be shall be transferred or shared, as much as practicable.

- 2.3.2.1) Identify all possible action plans that can transfer the risk to a third party (e.g. insurance for the risk, sub-contracting the risk event, etc.);
- 2.3.2.2) Evaluate the viability of each action plan according to effectiveness in transferring the risk, any financial costs associated with the action plan, and any potential residual risks;
- 2.3.2.3) Select and implement the most viable action plan;
- 2.3.2.4) Establish contingency plans for the risk event occurrence.

2.3.3) MITIGATE RISK: Risk events with Overall Risk Scores ranging from **6 to 16** shall be mitigated or reduced, as much as practicable.

- 2.3.3.1) Identify all possible action plans that can decrease the probability of occurrence and/or minimize the financial loss impact;
- 2.3.3.2) Evaluate the viability of each action plan according to effectiveness in reducing the risk, any financial costs associated with the action plan, and any potential residual risks;
- 2.3.3.3) Select and implement the most viable action plan;
- 2.3.3.4) Establish contingency plans for the risk event occurrence.

2.3.4) ACCEPT RISK: Risk events with Overall Risk Scores of **1** shall be accepted.

- 2.3.4.1) Establish contingency plans for the risk event occurrence.

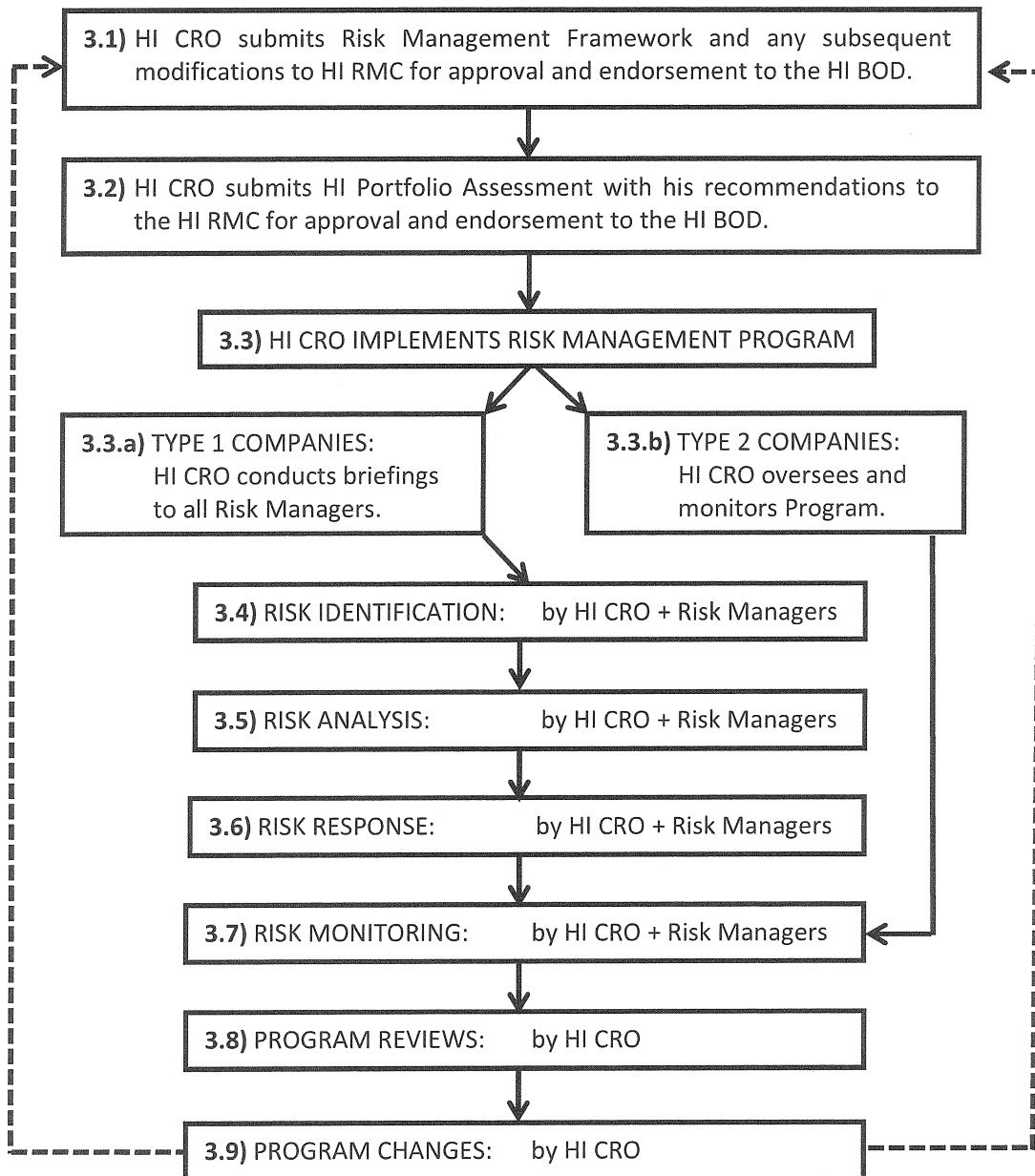
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**2.4) PHASE 4 - RISK MONITORING:**

- 2.4.1) The HI CRO shall have the overall responsibility of properly monitoring the implementation of the HI Risk Management Program on the Covered Companies.
- 2.4.2) Risk Managers of the Covered Companies shall be directly responsible for monitoring their respective risk management programs:
  - 2.4.2.1) Risk Managers must submit RISK MANAGEMENT STATUS REPORTS (**"Status Reports"**, attached as **EXHIBIT D**) to the HI CRO on a monthly basis, simultaneous with the submission of Management Committee (**"Mancom"**) Reports.
  - 2.4.2.2) The Status Reports shall be an evaluation of the Risk Identification Templates previously submitted by Risk Managers, with the following information:
    - 2.4.2.2.1) Status of existing risk control measures;
    - 2.4.2.2.2) Status of proposed risk control measures and risk response action plans;
    - 2.4.2.2.3) Changes in Overall Risk Scores of risk events;
    - 2.4.2.2.4) New risk events identified, if any, and their corresponding risk scores, existing control measures, and risk owners;
    - 2.4.2.2.5) Risk event occurrences, using the RISK EVENT INCIDENT REPORT FORM (**"Incident Report"**, attached as **EXHIBIT E**).
- 2.4.3) The HI CRO shall review and summarize all Status Reports quarterly, for submission to the HI RMC. The Status Reports shall include:
  - 2.4.3.1) Deviations or non-compliance with the Program;
  - 2.4.3.2) Recommendations for amendments on the Program, for approval of the HI RMC and HI BOD. All approved changes in the Program shall be communicated in writing to the Presidents (or their equivalent) and Risk Managers of the Covered Companies. If necessary, the HI CRO shall schedule and conduct briefings regarding the changes.

### 3) PROGRAM PROCESS FLOW





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# EXHIBITS