

RISK MANAGEMENT POLICIES AND PROCEDURES

INTRODUCTION

1.1 **RFM Corporation** ("RFM" or "the Company") recognizes that risk management is an integral part of sound management practice and good corporate governance as it guides decision-making, improves results and strengthens accountability.

1.2 The Company acknowledges that risk is dynamic and is inherent in all external and internal operations, and engages itself to managing all risks effectively.

1.3 To pro-actively respond to this need of managing risks, the Company established a sound risk management practice, which provides a systematic and structured framework within which material risks may be identified and addressed in a way that it

- Gives reasonable assurance that the use of the valuable organizational Inc is being effectively prioritized; and,

- Results to practical, effective, and accountable actions and decisions, reasonable in relation to the conditions within which the Company operates.

1.4 By implementing an effective risk management process, the Company shall have a means for achieving competitive advantage, essentially minimizing the impact of undesirable events and ultimately ensuring the attainment of the Company's corporate vision and mission.

1.5 This Risk Management Policies and Procedures Manual is part of the effort by the Company to ensure that sound risk management practices are documented.

PURPOSE OF THE POLICIES and PROCEDURES

1.6 To articulate the Company's **philosophy** regarding risk management

1.7 To provide a **framework** for the application of this risk management philosophy relevant to all of the Company's decisions and operations.

1.8 To set out the **policies** that govern the Company's risk management activities applied and implemented throughout the entire organization.

1.9 To outline the **procedures, processes and practices** that flow out of this framework, in order to identify, analyze, evaluate, communicate, and cost effectively manage material risks across the organization.

1.10 To ensure that **roles and responsibilities** have been appropriately delegated for the implementation of risk management encompassing all of the Company's businesses.

FRAMEWORK

1.11 The Company's risk management process adopts the Committee of Sponsoring Organizations of the Treadway Commission (COSO) ERM framework as a reference and accepts compatible processes and terminologies.

SCOPE

1.12 ERM encompasses all of the Company's businesses. It considers all types of risks in terms of their likelihood and impact.

RISK MANAGEMENT POLICY STATEMENT

2.1 The Board of Directors, Management, officers and staff of RFM Corporation are committed to the effective management of risks by integrating risk management practices into all its business processes and operations.

2.2 It shall be the policy of the Company to adopt best practices in the identification, analysis, evaluation, communication, and cost effective management of material risks to ensure the attainment of the Company's corporate vision and mission.

2.3 It shall be the policy of the Company to regularly re-assess the Company's risk profile and the effectiveness of risk mitigation measures in the context of the various plans and to anticipate and respond to changing social, environmental and legislative requirements.

POLICY OBJECTIVES

2.4 To emphasize the importance of risk management by integrating it with organizational governance objectives, strategic management, business planning, review of internal controls, and other management practices.

2.5 To demonstrate a discipline of risk management as an organizational strength that is established in order to protect and promote the interest of stakeholders.

2.6 To promote horizontal collaboration and pro-active management of all key inherent risks and facilitate a unified organization to achieve corporate objectives by:

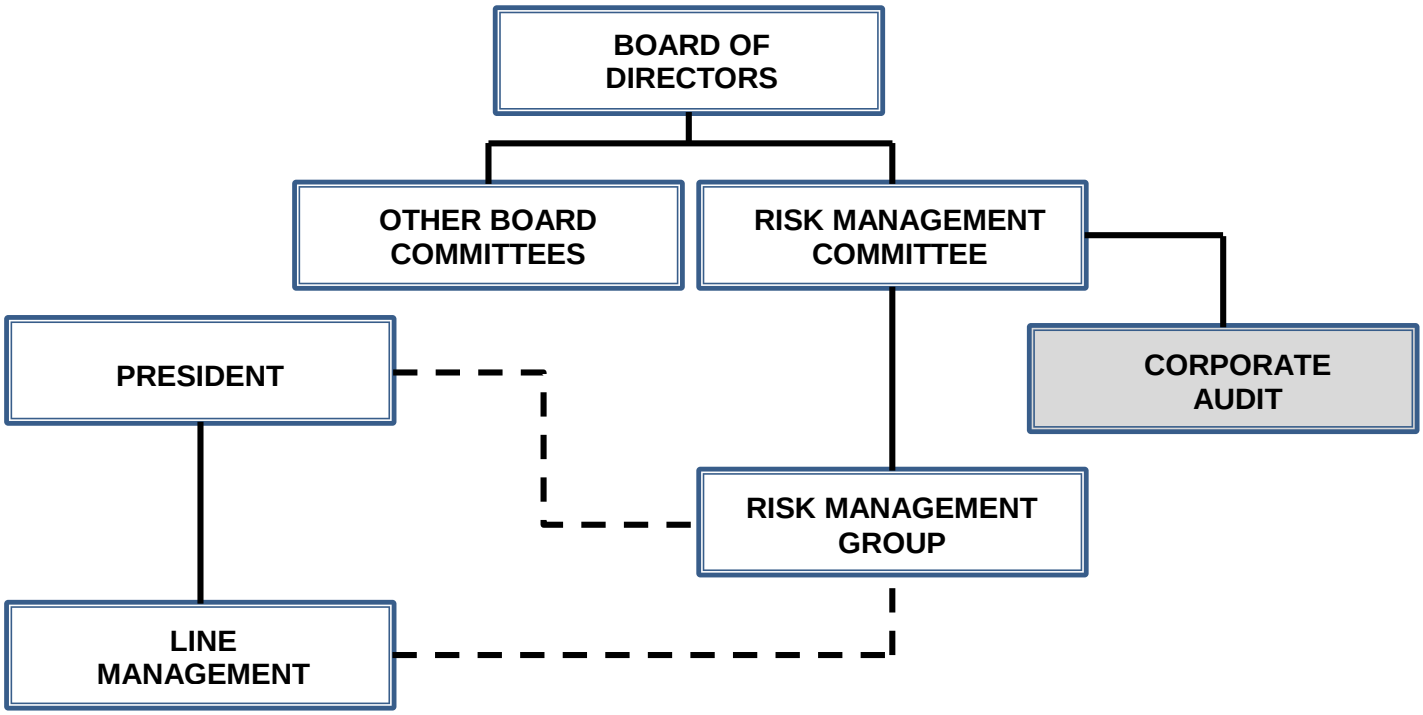
- Providing opportunities for strategic or business objectives to be discussed with Management and staff so that they understand how they can contribute to them; and,

- Providing a venue for Management and staff to actively participate in the identification of risks as well as the development of appropriate action plans to manage those risks.

2.7 To promote a clear message for all personnel on their respective roles in managing risks and create an environment where all personnel assume responsibility for managing risks.

2.8 To ensure that all key inherent risks are identified, managed and addressed in accordance with the policies set out in this policies and procedures.

ORGANIZATIONAL STRUCTURE FOR RISK MANAGEMENT



ROLES AND RESPONSIBILITIES

3.1 **The Board of Directors** - is responsible for providing oversight for RFM's fulfillment of management accountability and governance expectations in relation to management of risks, including adherence to the Risk Management Policy and other related policies through its Risk and Management Committee.

3.2 **Risk Management Committee (RMC)** – the Audit Committee shall act as the Risk Management Committee of RFM. The primary responsibility of the RMC is to ensure that sound policies, procedures and practices are in place for the enterprise-wide management of RFM's material risks and to report the results of the its activities to the Board of Directors.

3.3 **Risk Management Group (RMG)** - is responsible for coordinating and facilitating risk management activities including risk assessments workshops, summarizing the risk assessment results, ensuring Management Action Plans developed by program managers in response to audit and evaluation recommendations adequately address the risks identified in audit and evaluation reports, and for providing appropriate updates/reports to the Board through the RMC. The RMG is headed by the Chief Risk Officer or Risk Management Officer (RMO) and is composed of the identified heads of different divisions.

3.4 **Line Management** – or the risk owners are responsible for the implementation of the policy standard, management of risks through periodic assessments or as new initiatives and issues are undertaken, development of direct channels for communicating risks with their managers and with employees and monitoring and reporting of risks on a regular basis. The Company's Management is responsible for satisfactorily mitigating material business risks through maintenance of good internal controls, managing operational and escalating operational risks that cannot be immediately managed.

3.5 **Corporate Audit** - is responsible for maintaining and regularly reviewing the risk register, providing assistance to the Risk Management Officer, and performing regular review of key controls to ensure that they remain relevant, robust and effective. Among the core roles for Internal Audit in ERM implementation are as follows:

- Giving assurance on the risk management process
- Giving assurance that risks are correctly evaluated
- Evaluating risk management processes
- Evaluating the reporting of key risks
- Reviewing the management of key risks

3.6 All employees are responsible for the proactive assessment and documentation of significant risks in every business decision, and taking prompt action to manage and communicate business challenges in accordance with Management directions.

MEMBERS OF THE RISK MANAGEMENT GROUP

3.7 The following are the initial members of the Risk Management Group:

Name:	**Position:**
Ramon M. Lopez	Chief Risk Officer
Line Department Heads	Members

OVERALL RISK MANAGEMENT PROCESS APPROACH

4.1 Enterprise risk management is a structured process and requires a disciplined approach for the identification, assessment, prioritization and treatment of material risks. These risks represent uncertain events that can threaten the Company's success; it incorporates both internal and external factors. The ERM process also cycles back through its inception on a continuous basis to provide improvements in the strategies and treatments employed.

OVERSIGHT

4.2 A Risk Management Group (RMG) or the "Group" shall be formed to assist Management in its risk management roles.

4.3 The Group shall take charge in ensuring that policies, procedures and practices are in place and those roles and responsibilities have been clearly defined and communicated.

4.4 The Group shall identify business goals and objectives that reflect the interest of the stakeholders.

The following are guidelines for setting the objectives for risk management purposes:

- Objectives should be aligned with and support the Company's vision or mission;
- Key Results Areas (KRAs) – in terms of Areas, Process, Locations, Markets, Accounts, Structures, Assets, etc.;
- Key Performance Indicators (KPIs) – in terms of % or increase/decrease or specific timetable (e.g. 20% increase in sales, number of locations, number of products, quarterly, annually, etc.); and,
- Naming of objectives.

4.5 The Group shall ensure that risk assessments are performed periodically and completely.

4.6 The Group and Management shall meet on a monthly basis to update the Group on the status of action plans initially identified and to review other significant events.

4.7 The Group shall implement appropriate risk reporting to the Risk Committee and Management.

IDENTIFYING RISK

4.8 The Group shall review and update the risk register on a regular basis or as emerging risks dictate. The identification process requires the Group to meet with line management or staff to give them the opportunity to participate and take ownership of the results.

4.9 The process involves the identification of risks that have an impact on the achievement of established objectives. The Group shall take into account the factors that influence risks for each objective.

4.10 Creating the risk universe can be achieved through brainstorming sessions with members of Management. Consensus should be made regarding which risks affect specific objectives.

4.11 The Group should consider the following criteria when defining the risks:

- Clear and concise – those that are easily understood and articulated in a way which the Group and Management appreciates.

- Simple and organized – those that avoid highfaluting words and uncommon technical terms. Construction of the risks should flow through a structured format where the objective targeted is selected first; risks are drafted with the nature of the risk coming first, its impact or effect, and finally the naming of the risk.

- Naming of risks – ensure that the Group and Management can easily recall the nature of the risk by simply referring to its name. This also helps with the assimilation by the Group and Management of the Company's common risk language.

ASSESSING RISK

4.12 The Group shall assess risk on both an inherent and a residual basis, with the assessment considering both its likelihood and impact. This determines the gravity or materiality of the risk identified.

4.13 In performing risk assessments, the Group shall first identify the objectives and list the corresponding risks to be evaluated. Listed risks are analyzed in order to form a basis for determining how they should be managed.

4.14 The Group shall determine the likelihood or probability that the risk will actually occur, and, its impact or significance in relation to the Company's risk appetite.

4.15 To help Management assess the risks, the risk tolerance matrix may be used, where the materiality or significance of the risks may be weighed against their consequences using thresholds that represent each level of assessment (High, Medium and Low.)

4.16 This risk tolerance matrix should be used in conjunction with the nine-box matrix for prioritization and ranking purposes.

4.17 Risk assessment needs to be done continuously and throughout the Company.

PRIORITIZING RISK

4.18 There may be a tendency for an organization to pursue the elimination or mitigation of all the risks identified in their risk register. However, experience suggests that a typical company can only manage and address approximately five to ten (at most) risks in a year. Thus, sound risk management dictates prioritization of risks as a necessary element to allocate the Company's much valued resources to only those material risks that need to be managed and addressed.

4.19 Using the nine-box matrix

- List each risk using a risk ranking worksheet

- With the results of the assessment using the risk tolerance matrix for both the significance and probability; plot the value that intersects the nine-box matrix (High, Medium, and Low.)

- Points are tallied, averaged and ranked.

DEVELOPING ACTION PLANS AND STRATEGIES

4.20 The Group shall control and manage risk by identifying appropriate action plans and strategies. The Group shall start by considering performing self-assessments of the design and operating effectiveness of existing management process or critical internal controls currently in place.

4.21 Initial actions plans identified by the Group may either be to:

- Start performing a new process – to begin addressing a known condition, such as a risk occurring that current processes were not designed to manage.
- Stop performing a current process – that is no longer necessary and is resulting in unnecessary use of resources, or is now causing another risk to occur.
- Change existing processes – to more effectively manage emerging or changing risks

4.22 Risk management action plans may be specific actions that are determined to be necessary to manage a risk to the tolerable level. It may be necessary to perform further analysis and assessment at a more specific risk level to determine the specific risk management action plan (i.e. a process risk assessment may be required.)

4.23 If risks are not easily addressed, develop appropriate management strategies such as:

- Avoiding the risk – If the risk exposure far exceeds the Company's risk appetite, the Company does not believe it can manage the risk, and the risk is not core to the Company's strategy, then the Company should consider avoiding or eliminating the risk;
- Transferring the risk - If the risk impact is high relative to the Company's tolerance or the Company cannot believe it can manage the risk on its own but the risk is close to its core or cannot be avoided, then Company should consider sharing or transferring the risk to third parties who have the ability or capacity to accept or manage the risk better than the Company;
- Reducing the risk - If the risk impact exceeds the Company's appetite but Management is confident that the risk can be reduce to a lower, more acceptable level, risk reduction is an appropriate management strategy;
- Accepting the risk - If the risk impact is consistent with the Company's appetite, the risk may be retained at the current level; or,
- Exploiting the risk - If the risk impact relates to opportunities where the Company has a competitive advantage or some other capability to create value, the Company may look to take on more of the risk to exploit this advantage.

As a guide, ensure that the action plans and management strategies are SMART:

- S – Specific (i.e., clearly identified or defined)
- M – Measurable (i.e., results can be measured)
- A – Actionable (i.e., plans/strategies can be done or implemented)
- R – Responsibility (i.e., has an identified person responsible for the plan/strategy)
- T – Timely (i.e., has a set timetable for implementation)

4.24 Classify action plans as potential management or audit projects.

- For management projects, the focus areas are the key risk areas for which the specific management actions may require significant time and resource.

- For audit projects, the focus areas are the key risk areas for which specific management actions are in place to address the risks. The audits are carried out to ensure that the actions are designed and operating as intended and/or to improve the management of the key inherent risks.

IMPLEMENTING ACTION PLANS AND STRATEGIES

4.25 Based on the steps, develop a recommendation to pursue the action plans as it stands, pursue with modifications or more evaluation, or conclude whether the risks outweigh potential benefits.

4.26 Recommendations should be developed, timeliness estimated, responsibilities explicitly assigned, and results submitted to those accountable for ensuring that the action plans and strategies are implemented.

4.27 The RMG shall be responsible in ensuring that committed risk responses are implemented and are operating effectively and continuously. Implementation of action plans shall not be dependent on the decision of the Risk Management Committee. The RMG shall present the committed action plan to management and shall lead the implementation of the risk responses.

EVALUATION and MONITORING

4.28 The Group shall educate and train its personnel on risk management.

4.29 The Group shall develop and communicate risk management guidelines to provide direction to appropriate staff in order to operationalize principles and practices.

4.30 Risks of recording and reporting shall be incorporated into existing performance monitoring and reporting systems to ensure key risk information is available.

4.31 Experience and best practices shall be shared internally and across the Company.

4.32 Good risk management practices shall be recognized and shared across the Company.

IMPROVING THE PROCESS

4.33 The ERM process is not a one-time or static process. It is a continuous, real-time process that must remain alive in the Company.

4.34 It is important to cycle back through the steps on a continuous basis to comprehensively manage additional or emerging risks.

- If Management believes that the original risk assessment is still valid, the next few key risks can be selected to take through the steps.

- If Management believes there have been major changes to the inputs or external influences, the risk assessment may need to be updated.