

# St. Peter Life Plan, Inc. Enterprise Risk Management Policy

Version 2.1

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## 1. Objectives

The purpose of this St. Peter Life Plan, Inc. Enterprise Risk Management (ERM) Policy ("Policy") is to establish a risk management framework for identifying, assessing and managing risks across the entire organization of St. Peter Life Plan, Inc. ("SPLPI") and ensuring that risks are addressed consistently and effectively in order to minimize negative impact, achieve strategic planning objectives and preserve organizational value.

This Policy establishes the Risk Management Framework in compliance with regulatory requirements and corporate governance related to risk management.

## 2. Scope

This Policy is applicable to SPLPI, their businesses and functional units, its senior management and all employees.

Whenever "Company" is mentioned in this Policy, it shall refer to SPLPI.

Any deviation from or exception to this Policy shall require approval of the Board of Directors ("Board").

This Policy abides by and is consistent with applicable rules and regulations of the Insurance Commission<sup>1</sup> for the Company.

## 3. Risk Management Framework

### 3.1 Risk Management Principles

#### 3.1.1 Definition of RISK

SPLPI defines RISK as a *potential event that may result to a negative<sup>2</sup> impact on the Company's financial position or reputation.*<sup>3</sup> RISK includes "emerging risk" which is defined as a condition, situation or trend that develop in a way that could significantly impact the Company's strategies, financial strength, competitive position or reputation in the next five (5) to 10 years.

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<sup>1</sup> Includes but is not limited to the regulatory agencies such as the Insurance Commission

<sup>2</sup> Potential events that may result to POSITIVE impact on the company's financial results or reputation are considered as "Opportunities"

<sup>3</sup> Based on Committee of Sponsoring Organizations' (COSO) definition of Risk ""the possibility that events will occur and affect the achievement of strategy and business objectives." Risk can also be defined as the combination of the probability of an event and its consequences (ISO/IEC Guide 73).



### 3.1.2 Risk Management Principles<sup>4</sup>

Risk management is the responsibility of its Board, its Management and all SPLPI's employees.<sup>5</sup>

Risk management strategies are aligned with and supports the Company's strategic, financial and operational goals. Risk management is a part of the Company's strategic planning and decision making.

Risk Management is an integral component of the Company's processes which include strategic and business planning, investment and capital management and operational processes and management. Risk management creates value.

Risk Management is structured, systematic and timely. It is based on the best available information.

Risk Management is dynamic, iterative and responsive to change.

Through Risk Management, the Company is able to reduce surprises, minimize negative impact and associated unexpected costs and losses, as well as to identify and proactively seize opportunities.

Risk Management facilitates continual improvement and enhancement of the Company.

## 3.2 Risk Categories

SPLPI follows a hierarchical risk language that allows for the common understanding of risk and its categories across the Company and in its processes:

The main risk categories of the Company are as follows:

**Operational Risk** - Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

**Financial Risk** - Risk events that lead to a financial (monetary) loss. This is the probability that an outcome or investment's actual gains will differ from an expected outcome or return.

**Compliance Risk** - risk of legal sanctions or financial loss as a result of the company's failure to comply with laws, regulations, company's policies or code of conduct

Other Risks:

1. **Strategic Risk**- Risk arising from future activities or events that may drastically modify the Business Plan of the organization (such as significant changes to policies, products, targeted market segments, acquisitions or any other business building activities) which may incur investment costs, but below expected returns.
2. **Reputational Risk** - Risk of immediate financial loss and/or future value loss as a result of changing perceptions towards the organization by its clients and/or other stakeholders

SPLPI's Risk Taxonomy is found in *Appendix A*.

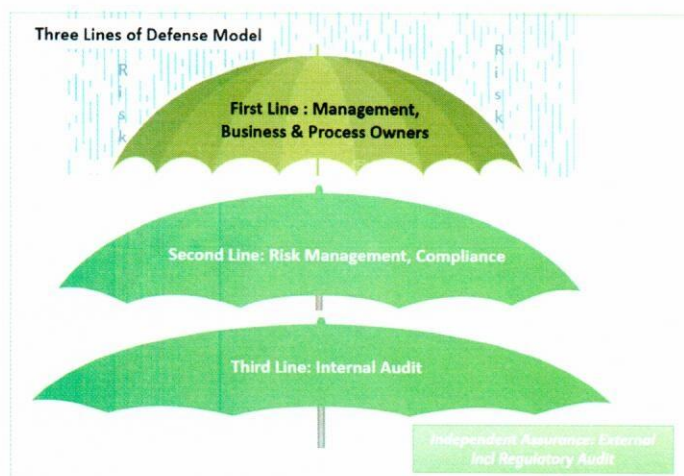
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<sup>4</sup> Based on ISO 31000 Risk Management

<sup>5</sup> Management: refers to the SPLPI's Executive Committee

### 3.3 Three Lines of Defense Model

SPLPI follows the Three Lines of Defense<sup>6</sup> model to promote clear accountability, structured communication, objective analysis and efficient resource allocation when implementing risk management in the Company. The model promotes a comprehensive and wholistic perspective of the risks to the Company.



The Three Lines are described below:

Lines of Defense	Refers to:	Description of role
<b>First Line</b>	Process owners including Management	<ul style="list-style-type: none"> <li>Primarily responsible for owning and managing risks associated with day-to-day operational activities</li> <li>Accountable for the design, operation and implementation of controls in the day-to-day processes</li> </ul>
<b>Second Line</b>	Risk Management and Compliance functions	<ul style="list-style-type: none"> <li>Enable the identification of risks in the day-to-day operations of the process</li> <li>Provides frameworks, policies, tools and techniques to support risk management and compliance management</li> </ul>
<b>Third Line</b>	Internal Audit	<ul style="list-style-type: none"> <li>Provides independent assessment, assurance and confirmation to the Board</li> <li>Assesses whether the first-line and second-line functions are operating effectively.</li> </ul>

The second and third line of defense are independent from the 1<sup>st</sup> line of defense, in order to provide objective and credible assessments and opinions. The Head of the Risk Management Function, Compliance Function and Internal Audit function have a direct reporting line to the Board (through the Board Risk Oversight Committee), and are independent of management.

### 3.4 Risk Management Roles

#### 3.4.1 Role of the Board of Directors

<sup>6</sup>Institute of Internal Auditors' (IIA) 3 Lines Model, (<https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf>)



The SPLPI Board of Directors has a risk oversight role. The Board, through the SPLPI Board Risk Oversight Committee (BROC), is responsible for deciding SPLPI's risk strategy and Risk Appetite. It ensures that the CEO and the Executive Committee prioritize risk management.

The Board should ensure that the risk management policies and procedures designed and implemented by Management and by the Risk Management team are consistent with SPLPI's strategy and Risk Appetite and that these policies and procedures are functioning as directed.

The Board should ensure that necessary steps are taken to foster an enterprise-wide risk culture that supports appropriate risk awareness, behaviors and judgments about risk, and that recognizes and appropriately addresses and manages risk-taking that goes beyond the Company's determined risk appetite.

This necessitates that the Board itself is kept aware of the Company's key risks, and is periodically apprised of the Company's approaches for mitigating such risks, instances of material risk management failures and action plans for mitigation and response<sup>7</sup>

### 3.4.2 Role of Management

The Company's Executive Committee is responsible for the effective implementation of risk management in the Company. The Executive Committee defines and recommends to the Board Risk Oversight Committee - the Company's ERM Policy and Framework, Risk Appetite Statements and Limits, and other related Risk Management policies.

It reviews the Company's key risks and results of risk management, and provides updates of these to the Board, through the BROC. It provides full support to the Risk Management team, by ensuring that the team can report directly to it, raise concerns and warn Management, where specific developments surrounding the risks affect or may affect the company. The Executive Committee also ensures that risk awareness is promoted and that risk management is prioritized.

### 3.4.3 The Risk Management Team

The Risk Management Team supports the Management and the Board by facilitating the risk management processes in the Company. The RM Team is responsible for facilitating the periodic and systematic identification, assessment, monitoring and mitigation of risks in the Company. The RM Team supports management in drafting the Company's risk management policies and procedures. It also supports management in defining the Company's Risk Appetite. The RM Team prepares and provides periodic reports to the Board and Management - on the Company's key risks and mitigation plans, key risk indicators, other risk management reports such as risk profiles and analysis, and on the assessment on the implementation of the risk management process. It promotes activities that raise risk awareness across all levels in the Company.

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<sup>7</sup> "Risk Management and the Board of Directors", (<https://corpgov.law.harvard.edu/wp-content/uploads/2019/11/Risk-Management-and-the-Board-of-Directors.pdf>), November 2019

### 3.4.4 Summary of Roles & Responsibilities

Roles and Responsibilities	
<b>SPLPI Board of Directors</b>	<ol style="list-style-type: none"> <li>Overall risk oversight role - Ensures that:               <ol style="list-style-type: none"> <li>The CEO and Executive Committee prioritize risk management</li> <li>Risk Management Policies and procedures implemented are consistent with the Company's Risk Strategy and Risk Appetite</li> <li>Risk Management Policies and procedures are functioning as directed</li> <li>Necessary steps are taken to foster an enterprise-wide risk culture</li> </ol> </li> <li>Decides on the Company's Risk Strategy and Risk Appetite.</li> </ol>
<b>Executive Committee (Management)</b>	<ol style="list-style-type: none"> <li>Responsible for the effective Implementation of Risk Management in the Company.</li> <li>Defines and recommends to the Board:               <ol style="list-style-type: none"> <li>SPLPI's ERM Policy and framework</li> <li>Risk Appetite Statements and limits</li> <li>Other related risk management policies</li> </ol> </li> <li>Reviews and provides updates to the Board on the following:               <ol style="list-style-type: none"> <li>The Company's Key Risks</li> <li>Results of risk management</li> </ol> </li> <li>Supports the Risk Management team.</li> <li>Ensures Risk Awareness is promoted and risk management is prioritized across the Company.</li> </ol>
<b>Risk Management Team</b>	<ol style="list-style-type: none"> <li>Facilitates risk management process, specifically the periodic and systematic identification, assessment, monitoring and mitigation of risks in the Company.</li> <li>Drafts and updates the Company's risk management policies and procedures</li> <li>Sets the preliminary Risk Appetite Statements and limits for the Company.</li> <li>Prepares and provides the periodic reports to the Board and Management - on the Company's key risks and mitigation plans, key risk indicators, other risk management reports such as risk profiles and analysis.</li> <li>Prepares the assessment on the implementation of the risk management process, and provides the report to the Board and to Management.</li> <li>Supports Management (Executive Committee) in risk management.</li> <li>Promotes activities that raise risk awareness across all levels in the Company.</li> </ol>

### 3.5 Risk Appetite

RISK APPETITE is defined as the *amount and type of risk that a company is willing to take in order to meet its strategic objectives*. The Board is responsible for setting and monitoring the Company's Risk Appetite.



### 3.5.1 Risk Appetite Statements

In determining the Risk Appetite of SPLPI, the Board: (1) strikes a balance between business development and growth in areas of potentially higher risk, and maintaining customer satisfaction and SPLPI's reputation; (2) recognizes that a prudent and robust approach to risk mitigation is aligned with its mission of improving the quality of life of St. Peterians, its stakeholders and the Filipinos.

### 3.5.2 Application and update

The Risk Appetite is applied in the Company's Risk Management Process and risk-based decision-making processes. The Company's key risk decision-making processes include investments & capital management, procurement & supply chain management, liquidity or cash-flow management.

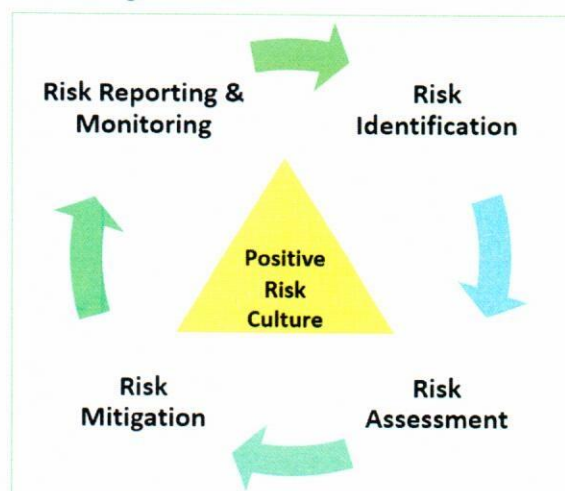
The Risk Appetite is reviewed, updated or affirmed at least annually by the Board.

## 4 Risk Management Process

SPLPI follows a Risk Management Process that is a structured approach to the management of risks. When the process is consistently implemented, it allows risks to be identified, analyzed, evaluated and managed in a uniform and focused manner. The Risk Management Process is described below.

The Risk Management team facilitates the implementation of the Risk Management Process across the Company.

Risk Management Process



### 4.1 Risk Identification

The first step of the Risk Management process is to identify and determine the potential risks that the Company faces. Risk identification considers the objectives and strategies of the Company and the various resources that enable and threaten the achievement of such objectives.

Risk Identification is performed at least annually.

To ensure that all risks are considered, the Risk Identification shall be guided by the Company's Risk Taxonomy.



## 4.2 Risk Assessment

The risks are then analyzed, then ranked and prioritized according to their impact and importance to the Company. Risk assessment aims to highlight the risks that are the most likely and most impactful. The results of the risk assessment shall be plotted out against the SPLPI's risk heat map or risk assessment matrix in order to provide better visualization of the relative importance of the risks. Risks are ranked both prior to existing controls (*Inherent Risk Rating*), and after existing controls (*Residual Risk Rating*). Controls are likewise evaluated according to a Control Assessment rating.

Refer to *Appendix B* for SPLPI's Risk Heat Map and Control Assessment ratings.

The initial prioritization of risks shall be based on the risk heat map and on the Residual Risk Rating, but the final ranking may be modified in accordance with what Management and the Board consider as important to achieving Company's objectives. An identified risk shall have a corresponding Risk Owner, who shall be accountable for its mitigation. The Risk Owner shall ensure that controls are strengthened and further mitigating actions are implemented in a timely manner.

Risk Assessment is performed at least annually.

Refer to *Appendix C* for the Risk Assessment Template.

## 4.3 Risk Mitigation

Once risks have been ranked, the response to the risks shall be determined. Risk response can involve one or a combination of: accept, avoid, mitigate, transfer.

1. Accept – If the risk is within the Company's risk appetite, the risk may be retained at the current level;
2. Avoid – If the risk far exceeds the Company's risk appetite, the Company does not believe it can manage it, and the risk is not core to the Company's strategy, then consider avoiding
3. Mitigate – If the risk exceeds the Company's risk appetite but management is confident that the risk can be reduced to a lower, more acceptable level, risk reduction is an appropriate management strategy
4. Transfer -If the risk impact is high relative to risk appetite, or the Company cannot believe it cannot manage it on its own but the risk is close to its core strategy or cannot be avoided, then consider sharing or transferring the risk to third parties who have the ability to accept or manage the risk.

The risk response shall be documented in terms of an action plan to address the risk. The action plan shall be assigned to the risk Action Owner. The Action Owners shall be responsible for the completion of their action plans.

#### 4.4 Reporting and Monitoring

The Key risks, their mitigation plans and updates thereof shall be monitored regularly. Action Plans shall be evaluated according to an Action Plan rating that considers the degree and timeliness of completion of each action plan. Any material internal or external change or event shall be monitored in terms of how these affect the key risks' ratings or how these affect the mitigation plans, or if these give rise to new risks that were not previously identified. Results of monitoring shall be reported by the Risk Management Team to the Executive Committee, which endorses the report to the Board.

Refer to *Appendix B* for the Action Plan Ratings.

The monitoring process shall also determine whether the procedures adopted and information gathered to identify and assess risks were appropriate, or improved knowledge would have enabled better decision making. The monitoring process shall also identify the lessons that could be learned for future assessments and management of risks.

The results of the risk management process shall be documented on a timely basis by the Risk Management team.

### 5 Document Control

This Policy is owned by the SPLPI's Executive Committee. The Risk Management team shall review and update the ERM Policy at least annually. Any updates to this Policy and its appendices shall be approved by the BROC and finally by the Board, as endorsed by the Executive Committee.

Approved by:



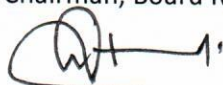
**VICTOR JOSE R. TANCINCO**

Chairman of the Board



**ARNEL M. ARAGON**

Chairman, Board Risk Oversight Committee



**JONATHAN B. VITANGCOL**

President & CEO



## 6 Definition of Terms

Term	Definition
<b>Risk</b>	A potential event that may result to negative impact on the Group or any of its companies' financial position or reputation.
<b>Risk Management</b>	Coordinated activities to identify, assess and manage risks and to direct and control an organization with regard to risks, in order to minimize negative impact, achieve strategic planning objectives and preserve organizational value.
<b>Emerging Risk</b>	A condition, situation or trend that develop in a way that could significantly impact the Group's strategies, financial strength, competitive position or reputation in the next five (5) to 10 years.
<b>Operational Risk</b>	Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.
<b>Financial Risk</b>	Risk events that lead to a financial (monetary) loss. This is the probability that an outcome or investment's actual gains will differ from an expected outcome or return.
<b>Compliance Risk</b>	Risk of legal sanctions or financial loss as a result of the company's failure to comply with laws, regulations, company's policies or code of conduct
<b>Strategic Risk</b>	Risk arising from future activities or events that may drastically modify the Business Plan of the organization (such as significant changes to policies, products, targeted market segments, acquisitions or any other business building activities) which may incur investment costs, but below expected returns
<b>Reputational Risk</b>	Risk of immediate financial loss and/or future value loss as a result of changing perceptions towards the organization by its clients and/or other stakeholders
<b>Risk Appetite</b>	The amount and type of risk that a company is willing to take or assume in order to meet its strategic objectives
<b>Risk Taxonomy</b>	System of categorization of risks
<b>Inherent Risk Rating</b>	Rating of the risk in terms of potential impact and likelihood, before any existing controls or mitigation.
<b>Residual Risk Rating</b>	Rating of the risk in terms of potential impact and likelihood, after any existing controls or mitigation.
<b>Risk Heat Map</b>	Visual tool that plots identified risks according to their potential impact and likelihood
<b>Company</b>	Refers to St. Peter Life Plan Inc. (SPLPI)
<b>Board</b>	Refers to SPLPI Board of Directors
<b>BROC</b>	Refers to "Board Risk Oversight Committee"