|  |  |
| --- | --- |
| **POLICIES AND PROCEDURES IN RELATION TO RISK MANAGEMENT** | Version No: |
| Initial Issue Date: |
| Revision Date: |
| Revision No: |

**Section 1. Scope.**

Jackstones, Inc. (“Corporation”) acknowledges that a risk, or an activity that has a likelihood of producing adverse consequences, exists in every business activity. Thus, it has created this risk management policy (“Policy”) that shall apply to the Corporation’s business activities. These business activities are those purposes stated in the Articles of Incorporation of the Corporation.

This Policy shall form part of the Corporation’s governance framework, and it applies to all members of the Board of Directors, Management officials, and employees.

**Section 2. Purpose.**

1. The Corporation adopts this Policy to establish a culture of disclosing, evaluating, and managing risks in order to protect and preserve the safety and welfare of its employees, clients, and partners, the value and condition of its properties and assets, and its local and global reputation.
2. The Corporation aligns its risk appetite with its long-term strategic objectives. Thus, the creation and implementation of this Policy seek to:
3. Identify, measure, analyze, monitor and control all forms of risk that would or could affect the Corporation;
4. Manage risks to protect and support corporate objectives;
5. Secure the soundness of operations;
6. Enhance profitability;
7. Deal with losses incurred or expected to be incurred;
8. Discern what risks are appropriate to take with the present economic capital;
9. Mitigate or eliminate exposure to financial losses; and
10. Boost shareholder’s confidence in the conduct of the business.

**Section 3. Risk Governance.**

1. The Risk Management Governance Structure of the Corporation shall involve the Audit Committee, the Compliance Officer, and the Employees of the Corporation.
2. Duties of Persons Involved in Risk Management Governance:
3. The Board of Directors shall:
   1. Provide policy and oversight;
   2. Review risk management activities; and
   3. Develop policies that would set the parameters of risks to be taken and enhance the risk management and control systems.
4. The Audit Committee shall:
   1. Develop a formal Enterprise Risk Management (“ERM”) plan which contains the following elements:

Common language or register of risks;

Well-defined risk management goals, objectives and oversight;

Uniform processes of assessing risks and developing strategies to manage prioritized risks;

Designing and implementing risk management strategies; and

Continuing assessments to improve risk strategies, processes and measures.

* 1. Oversee the implementation of the enterprise risk management plan. The Audit Committee conducts regular discussions on the company’s prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;
  2. Evaluates the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The Audit Committee shall revisit defined risk management strategies, looks for emerging or changing material exposures, and stays abreast of significant developments that seriously impact the likelihood of harm or loss;
  3. Advises the Board on its risk appetite levels and risk tolerance limits;
  4. Reviews, at least annually, the company’s risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the company;
  5. Assesses the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the corporation and its stakeholders;
  6. Provides oversight over Management’s activities in managing credit, market, liquidity, operational, legal and other risk exposures of the corporation. This function includes regularly receiving information on risk exposures and risk management activities from Management; and
  7. Reports to the Board on a regular basis, or as deemed necessary, the company’s material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

1. The Chairman of the Audit Committee shall:
   1. Supervise the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;
   2. Communicate the top risks and status of implementation of risk management strategies and action plans to the Audit Committee;
   3. Collaborate with the CEO in updating and making recommendations to the Audit Committee;
   4. Suggest ERM policies and related guidance, as may be needed; and
   5. Provide insights on the following:

Risk management processes are performing as intended;

Risk measures reported are continuously reviewed by risk owners for effectiveness; and

Established risk policies and procedures are being complied with.

1. The Compliance Officer shall:
   1. Continuously improve risk management policy, strategy, and supporting framework;
   2. Recommend risk policies, strategies, principles, framework, and limits to the Audit Committee;
   3. Manage fundamental risk issues;
   4. Monitor relevant risk decisions;
   5. Provide support to the Management in implementing the risk policies and strategies;
   6. Develop a risk awareness program;
   7. Ensure the staff in their business units comply with the risk management policy;
   8. Foster a culture where risks can be identified and elevated;
   9. Assist the Board of Directors in complying with the principles of good corporate governance;
   10. Monitor actual compliance with the provisions and requirements of the Corporate Governance Manual;
   11. Identify and monitor control compliance risks;
   12. Determine violations thereof; and
   13. Recommend penalties on violations for further review and approval of the Board of Directors.
2. The Employees shall:
   1. Comply with risk management policies and procedures.

**Section 4. Risk Management Categories, Risk Management Integration and Procedure.**

* + 1. Risk Management Categories. The following categories are considered risk management categories of the Corporation:
       1. *Strategic risk management* is the process of identifying, quantifying, and mitigating any risk that affects or is inherent in the Corporation’s business strategy. In particular, it pertains to the risks involved in deciding what assets to acquire, hold, own, use, dispose or otherwise in order to maximize profit and viability of the Corporation’s business.
       2. *Financial risk management* is the process of identifying, quantifying, and mitigating any risk relating to the financing, such as liquidity and loss, that can be experienced in the ordinary course of business due to the market movement and volatility.
       3. *Legal risk management* is the process of identifying, quantifying, and mitigating any risk relating to contracts, conduct of parties, regulations, compliance, litigation, and structural changes, among other issues.
       4. *People risk management* is the process of identifying, quantifying, and mitigating any risk relating to the persons or entities with which the Corporation engages in the conduct of its ordinary business.
       5. *Reputation risk management* is the process of identifying, quantifying, and mitigating any risk relating to the overall image of the Corporation, and the goodwill it has with its shareholders and the different sectors of the community in general.
    2. Risk Management Integration with Other Systems and Processes.
       1. Risk management is factored into:
          1. Performance management,
          2. Audit and assurance,
          3. Business continuity management, and
          4. Project management in order to provide reasonable assurance against material misstatement or loss.
    3. Risk Management Procedure.
       1. The Audit Committee shall initiate the Corporation’s risk management, which involves the following steps:
          1. *Establishment of the context of risk*, particularly the profiling of:

The business activity itself,

The environment in which the business activity will occur,

The purpose of the business activity in relation to the Corporation’s purposes,

The parameters and boundaries of the business activity,

The possible time frame of the business activity,

The resources required for the business activity,

The roles and responsibilities of the parties to be involved in the business activity, and

Other factors that may be relevant to the determination whether or not to engage in the business activity.

* + - * 1. *Identification of the risk*, particularly finding the sources of risks, recognizing the potential and actual risks, and the recording of the said risks in a “risk register.” The risk register shall contain:

A list of risks,

The likelihood of risks (e.g. simple scale, combination, scale, etc.),

The consequence of risks (e.g. simple scale, combination scale, etc.),

The risk rating (e.g. simple scale, combination scale, etc.),

How the risk is managed, and

What actions or corrective initiatives are taken to improve the management of the said risks.

* + - * 1. *Analysis of the risk*, particularly identifying and managing potential issues or problems that could undermine key business initiatives and estimating the likelihood of these risks materializing.
        2. *Prioritization of the risk,* particularly giving preference depending on the probability of the risk occurring.
        3. *Evaluation of the risk*, particularly comparing the estimated risk against the given risk so as to determine the significance of the risk and to decide whether or not to accept a specific risk or take action to prevent or minimize it.
        4. *Treatment of the risk,* particularly developing a range of options for mitigating the risk, assessing the same, which effectively lead to the preparation and implementation of an action plan.
        5. *Monitor and review of the risk,* particularly regularly checking the status of the risks, the controls implemented to mitigate or eliminate the same, and the possibility of other risks emerging from the original risk.
        6. *Report the risk*, particularly the submission of the report containing the results of each of the steps mentioned above to the Audit Committee.
      1. The Board of Directors, with the assistance of the Audit Committee, shall review the adequacy, application, and effectiveness of risk management and internal controls targeted on key risks in risk assessment meetings to be held annually. The standard agenda shall include the discussion of risk and control issues, and the review and updating of risk profiles.
      2. Each operating unit of the Corporation shall conduct risk and control self-evaluation exercises at least once a year. Thereafter, each operating unit shall report its findings to the Audit Committee in order to create awareness of key risks, improve accountability for the management of risk, and the timely completion of risk treatment plans.

**Section 5. Review and Approval.**

The Audit Committee shall review and evaluate the adequacy of the risk management system annually.

This Policy shall take effect upon approval of the Board of Directors.