
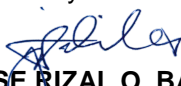

	<b>POLICIES and STANDARDS</b>  <b>RISK MANAGEMENT POLICY</b>	No. PS-OPS-004-R12018
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		Revision No/ Supersedes PS-OPS-004-2018 Issue dated 1 October 2018
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## I. PURPOSE AND SCOPE

All activities undertaken by Maynilad carry an element of risk. It is inherent to the Company's business environment; therefore, risk management should be a central part of business' strategic management. Embedding risk management principles into strategy development and day-to-day operational processes is critical to achieving robust and proactive business outcomes - a balance between mitigating threats and exploiting opportunities.

This policy aims to (i) express Maynilad's commitment to a comprehensive approach to Risk Management; (ii) clarify organizational roles and responsibilities; and (iii) outline the structure, framework and guidelines in managing its vulnerabilities.

## II. DEFINITION OF TERMS

- Business Environment** – the sum or collection of all internal and external factors and forces that influence a business. Internal and external factors include among others employees, customers, supply and demand, management, clients, suppliers, activities by government, technological innovations, social trends, market trends, and economic changes.
- Business Units (BUs)** – refers to Maynilad divisions
- Company** – refers to Maynilad Water Services, Inc.
- Enterprise Risk Management (ERM)** – strategic business discipline that supports the achievement of an organization's objectives by addressing the full spectrum of its risks and managing the combined impact of these risks as an interrelated risk portfolio.
- ERM Framework** – the set of components that provide the foundations and organizational arrangements in the design, implementation, monitoring review and continual improvement of Risk Management throughout the organization.
- Risk** – an event or activity that may have an impact on a Company's ability to effectively execute its strategies and achieve its objectives or which may cause a significant opportunity to be missed.
- Risk Appetite** – is the level of risk that Maynilad is prepared to accept in pursuit of its objectives, before action is deemed necessary to reduce the risk. It represents a balance between the potential benefits of action to be taken vs. the vulnerabilities that such may result into.



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8. **Risk Management** – the identification, evaluation, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of adverse event or to maximize the realization of opportunities.
9. **Risk Owner** - An individual at the department level, a department head or a representative, with the responsibility, authority and accountability to manage the Risk.
10. **Risk Treatment Action Plan (RTAP)** – refers to developing additional or new controls, redesigning of existing controls or monitoring of existing controls.
11. **Operational Risk Register** is the list of risks arising from day-to-day activities such as inadequate or failed internal processes, people and systems or some external events or factors that impact the daily routinary activities.
12. **Strategic Risk Register** is the list containing the risks that arise from the business environment such as demographic, economic, political, natural, technological and other factors that could significantly impact the Company's business operations.

### III. GENERAL POLICY STATEMENT

As a water utility Company serving the west concession area of Metro Manila and nearby provinces, Maynilad understands that there are inherent risks to its business environment. These risks, if not properly managed, could threaten its ability to provide quality service and meet its business objectives and obligations to its various stakeholders.

Maynilad shall identify and manage these risks at the appropriate levels. It shall address the opportunities and threats by adopting an Enterprise Risk Management System (ERMS). This ERMS includes the ERM Framework and the specific processes in the management of risks in order to help the Company achieve its objectives and desired performance results.

### IV. DISTRIBUTION

This policy applies to all Business Units ("BUs") to enable them to comply with the risk management requirements set out in this policy.



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## **V. POLICIES AND STANDARDS**

### **A. Roles and Responsibilities**

<b>Roles</b>	<b>Responsibilities</b>
Board of Directors	<ul style="list-style-type: none"> <li>Ascertain that management has developed and implemented an effective risk management framework including the setting of Risk Appetite. The Risk Management Committee shall assist the Board in this process.</li> </ul>
Risk Management Committee	<ul style="list-style-type: none"> <li>Oversee the implementation and effectiveness of the Company's risk management framework.</li> <li>Assist the Board in fulfilling its corporate governance and responsibilities over risk management. This includes setting the risk appetite, implementation of risk policies, systems, processes and controls.</li> <li>Review and provide recommendations and guidance to Maynilad Management on key risk strategies.</li> </ul>
President and CEO	<ul style="list-style-type: none"> <li>Overall owner of the ERM priorities, policies, strategies and plans.</li> <li>Approve Maynilad Risk Management Policy and changes therein</li> <li>Lead the overall management of Maynilad's Top Strategic Risks.</li> <li>Report to the Board the effectiveness of the Risk Management Framework and the management of its material risks.</li> <li>Set the overall tone that will help drive the risk culture of the Company.</li> </ul>
Division Heads	<ul style="list-style-type: none"> <li>Overall owners of the strategic and operational risks within their respective BUs.</li> <li>Lead in the identification, monitoring and overall management of risks within their divisions that may have material impact to the Company. This may include emerging risks and other vulnerabilities.</li> <li>Provide inputs to the key risks that will be presented to Maynilad Risk Management Committee.</li> </ul>
Department Heads and /or Representatives	<ul style="list-style-type: none"> <li>Primary owners of risks within their departments.</li> <li>Lead in the identification, monitoring and overall management of risks within their departments that may have material impact to their divisional operations.</li> <li>Responsible in updating, communicating and reporting the status of the risks and monitoring the implementation of RTAP.</li> </ul>



# POLICIES and STANDARDS

## RISK MANAGEMENT POLICY

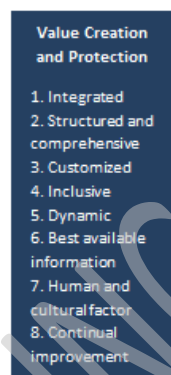
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Strategic Risk Core Team (Composed of Divisional/ Department Representatives)	<ul style="list-style-type: none"> <li>Coordinate with the various departments in their respective divisions to ensure that risks are identified, assessed and the mitigating measures are implemented, monitored and reported.</li> <li>Provide inputs, findings, analysis and evaluation to Maynilad top risks.</li> </ul>
ERM Manager	<ul style="list-style-type: none"> <li>Overall responsible in the planning, implementation and maintenance of the effectiveness of the Risk Management System.</li> <li>Report and communicate the top key risks of the Company to the Board/Risk Management Committee, President/CEO, Top Management Team and other key stakeholders.</li> <li>Initiate annual risk controls validation and audits.</li> </ul>

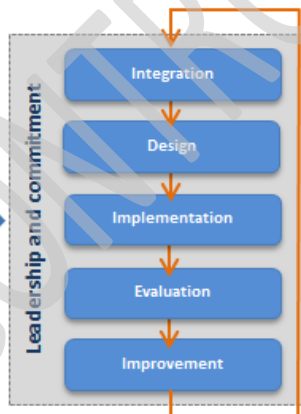
### B. Risk Management System

Maynilad shall adopt a Risk Management System ("RMS") that is consistent with the ISO 31000 Risk Management principles and guidelines as shown below.

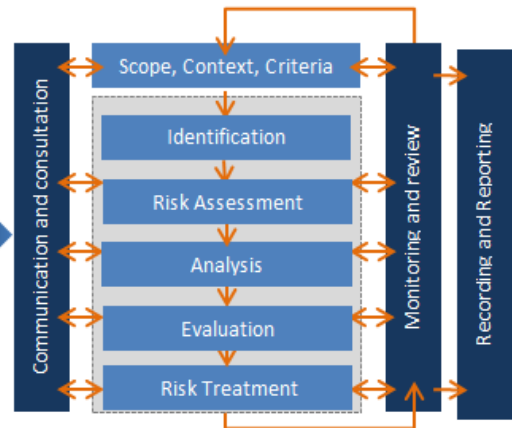
#### 1. Principles



#### 2. Framework



#### 3. Process



#### 1. Principles

- Maynilad's Risk Management System (RMS) shall adhere to the principles of protecting and creating value for the business. It aims to:
  - establish and sustain value;
  - be integrated in the organizational processes and decision-making;
  - deliberately address uncertainty;



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- (iv) be structured, systemic, and timely;
- (v) be based on best available information;
- (vi) take human and cultural factors into account;
- (vii) be transparent and inclusive;
- (viii) be dynamic, iterative, and responsive to change; and
- (ix) facilitate continual improvement of the Company.

## 2. Framework

- a. Maynilad shall follow a Risk Management Framework that fosters key leadership commitment from top management to integrate, design, implement, evaluate and continually improve its approach in addressing its vulnerabilities. This RMF shall be anchored on strong ownership, responsibility, authority and accountability over the risks inherent to the Business Unit operations.
- b. The Division Heads as the overall owners of the strategic and operational risks within their respective Bus shall provide the leadership and commitment in driving the appropriate risk management initiatives. These initiatives shall balance the cost of managing the risks and the anticipated benefits. These shall also include contingency plans to ensure business continuity and recovery from disaster should this occur.

## 3. Process

The Risk Management Process shall clearly spell out the following:

- a. Establishment of Scope, Context and Criteria – Each BU shall ensure that the appropriate scope, context and criteria are clearly defined as an integral part of the risk management process.

	Strategic Risk	Operational Risk
Scope	Maynilad wide business operations	Department level operations
Context	Business environment, operations, geographic, demographic, economic, political, natural and technological factors, and others	Purpose, roles, responsibilities and processes in achieving department level KRA
Criteria	Financial, Regulatory, Business objectives/growth	Risk Severity (levels of the organization)

- b. Risk Assessment – Risk assessment is the overall process of Risk Identification, Risk Analysis and Risk Evaluation.
  - i. Risk Identification – Each BU shall identify events, vulnerabilities or changes in circumstances that might help or prevent the achievement of its objectives. Risk shall be of two types:



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1. Strategic Risks are the risks pertaining to the business environment such as demographic, economic, political, natural, technological and other factors
2. Operational Risks are the risks pertaining to day-to-day operational activities such as inadequate or failed internal processes, people and systems or some external events or factors that impact the daily routinary activities.
- ii. *Risk Analysis* – This involves the understanding of the nature of the risk and its characteristics including its potential impact to the Company or BUs. (See Annexes A and B). Risk Rating shall be computed as follows:
  1. Strategic Risk Rating (Risk Score) = Financial Impact scores x Regulatory Impact scores x Business Objectives or Growth Impact scores
  2. Operational Risk Rating = Severity x Likelihood
- iii. *Risk Evaluation* – This involves comparing the results of the risk analysis against the established risk criteria so that appropriate required action may be taken.
  1. Low Priority Risk (Acceptable Risk) - Risk that the Company is comfortable to operate with, where risks are acceptable and do not have adverse impact in the pursuit of the organizational objectives.
  2. Medium Priority Risk (Manageable Risk) - Risk that the Company can withstand in pursuing its objectives. These risks have potential adverse impact if not managed.
  3. High Priority Risk (Material Risk) - Risk that is critical to the Company. These risks have significant impact to the strategic objectives of the Company.
- c. *Risk Treatment* – Each of the identified risks that have been recorded in the appropriate risk registers shall be provided with the corresponding Risk Treatment Action Plans (RTAP). These RTAPs should have clear articulation of who will be responsible for the action to be taken, the specific deliverables, and the timelines for each action to be taken. (See Annex D for details of RTAP)
- d. *Communication and Consultation* – In the course of defining the scope, context, criteria ;conducting the risk assessments and developing RTAPs, the respective BUs may communicate and consult with other BUs. Inputs from these consultations will allow better understanding of the risks at hand.
- e. *Monitoring and Review* – Risk owners shall regularly monitor the identified risks. The implementation of RTAP shall be constantly monitored and regularly reviewed to ensure that controls are effective and efficient.



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- Risk audit and control validation - Annual
- Strategic risk review - Semi-Annual
- Operational risk review - Quarterly
- Arising matters - As needed/Real Time

New risks which have emerged since the last review shall be analyzed to provide new lessons and opportunities for continual improvement.

- f. Recording and Reporting – All BUs shall ensure that all the identified risks are recorded in the appropriate risk registers and reported quarterly to the risk owners and ERM Manager.

## VI. MONITORING AND REVIEW

ERMIA shall regularly review the implementation of this policy, and initiate its revisions/updating, as may be necessary under the circumstances.

## VII. STANDARD OPERATING PROCEDURES

ERMIA shall prepare the Risk Management Procedure for all BUs for guidelines and uniformity of applications.

## VIII. ANNEX

- Annex A** – Strategic Risk Criteria
- Annex B** – Maynilad Strategic Risk Universe
- Annex C** – Operational Risk Criteria and Heat Map
- Annex D** – Risk Treatment Action Plan





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**Annex A**

**STRATEGIC RISK CRITERIA**

Impact Score	1 (Minor)	2 (Moderate)	3 (Major)
<b>Financial</b>	5 to 10 million	10 to 20 Million	20 Million and above
<b>Regulatory</b>	Violation of Laws and Regulations resulting to compliance issues that can be quickly resolved	Violation of Laws and Regulations compliance issues that are difficult to resolve	Violation of Laws and Regulations that could result to adverse impact to concession contract
<b>Business Objectives/ Growth</b>	Inconvenience in achieving business objectives/growth	Minor disruption/ interference to the business objectives/growth	Major disruption/ interference to the business objectives/ growth

**Strategic Risk Rating** = Financial Impact x Regulatory Impact x Business Objectives or Growth Impact Score

Level of Risk	Strategic Risk Rating (Risk Score)
<b>Low Priority Risk</b>	1 – 6
<b>Medium Priority Risk</b>	7 – 12
<b>High Priority Risk</b>	> 12





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**Annex B**

**MAYNILAD STRATEGIC RISK UNIVERSE**

<b>Risk</b>	<b>Description</b>
Political and Regulatory Risk	Business losses and/or operational disruption from adverse political and/or regulatory actions and decision making due to uncertainty or instability within water industry.
Water Supply Risk	Limited/failure in producing the water supply requirement of the concession area.
Health and Safety Risk	Possibility that harm (death, injury or illness) and regulatory violation/non-compliance to, might occur when people are exposed to imminent danger and unsafe working environment.
Project Delivery Risk	Failure or delay of delivering committed projects that are related to service obligation and business plans.
Cyber security, Information Security, Data Privacy Risk	Potential loss or failure of the business operations arising from unwanted release of data/information.
Asset/Equipment Risk	Operational downtime of treatment, production and conveyance processes due to asset/ equipment failure/break down.
Third Party Risk	Inefficiencies of contractors/ TPSP/ consultants that could potentially affect the Company's business operations and its objectives.
Procurement and Inventory Risk	Risk that threatens the productivity of the business operations caused by sourcing, delivery, cost and quality issues.
IT Infrastructure Risk	The risk that the Company does not have the information technology infrastructure (e.g. hardware, network, software, people, processes) it needs to effectively support the current and future information requirement of the business in an efficient and cost-effective means.
Reputational Risk	Risk that the Company may incur losses due to damage to our credibility, or the media reports on various adverse events, including actual materialization of risks or false rumors and lack of preparedness to manage any crisis.
Natural Calamity Risk	The risk of natural disasters that may incapacitate the Company's operations.
Human Capital/People Risk	Organizational losses from workforce inefficiencies and insufficiencies.
Climate Change Risk	Risk resulting from extreme weather events and conditions including unexpected, unusual, unpredictable, severe or unseasonal weather, that may trigger increase in operating costs, particularly insurance, revenue losses and costly



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Risk	Description
	preparation for uncertain events (e.g. black swan) with the end objective of building resilience of the Company.
Customer Satisfaction Risk	The risk of not meeting or exceeding customer expectations may result in complaints or damage in the Company's reputation.
Environmental Risk	Actual or potential threat of adverse effects on environment by effluents, emissions, wastes, resource depletion, etc., arising from the Company's activities.
Revenue Risk	Potential event or condition that could negatively impact planned/future revenue.
Liquidity Risk	Risk that could lead to the inability to meet cash flow obligations (including projected dividends to shareholders) in a timely and cost-effective manner.
Credit Risk	Risk that the Company will incur losses arising from customer; client or counterparties that fail to discharge their contracted obligation.
Interest Rate Risk	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rate.
Tax Risk	Changes in taxation laws and non-compliance to these may result in charges/penalties and reputational damage.
Fraud Risk	Failure of the Company to recognize potential unethical acts committed by the employees/management and stake holders may result to theft, misappropriation of assets and reputational damage.



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### Annex C

#### OPERATIONAL RISK CRITERIA

##### 1. Severity

Perspective	1 (Negligible)	2 (Low)	3 (Moderate)	4 (High)	5 (Extreme)
<b>Organizational Levels</b>	<b>Process level Risk</b>  The risk only affects a single process and has no impact to the department operation and objectives	<b>Department level Risk</b>  Risk affecting the operations and objectives of the department	<b>Division level Risk</b>  Risk that affects the operation and objectives of the division	<b>Maynilad wide level Risk</b>  The severity of the risk is affecting Maynilad major Business operations	<b>Shareholder level Risk</b>  The severity of the risk is affecting the overall profitability, strategy and direction of the business
<b>Decision Making</b>	Department Staff	Department Head	Division Head	Top Management	Maynilad Board

##### 2. Likelihood

Perspective	Rare	Unlikely	Possible	Frequent	Almost Certain
<b>Periodicity</b>	More than annual	Annually	Semi-annually /Quarterly	Monthly	Weekly
<b>Ratio</b>	Special case in the activities/ events/ projects  Risk is occurring in 1 out of 10 activities	Few of the activities/ events/ projects  Risk is occurring in 2-3 out of 10 activities	Some of the activities/ events/ projects  Risk is occurring in 4-5 out of 10 activities	Most of the activities/ events/ projects  Risk is occurring in 6-7 out of 10 activities	Every activities/ events/project  Risk is occurring in 8-10 out of 10 activities
<b>Probability</b>	<20% chance to happen	20% chance to happen	40% chance to happen	60% chance to happen	80% chance to happen



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**Operational Risk Rating = Severity x Likelihood**

**RISK HEAT MAP**

Severity	Extreme	5	10	15	20	25
	High	4	8	12	16	20
	Moderate	3	6	9	12	15
	Low	2	4	6	8	10
	Negligible	1	2	3	4	5
		Rare	Unlikely	Possible	Likely	Almost certain
		Likelihood				



**Low Priority Risk** (*Acceptable Risk – Risk Rating up to 6*) - Risk that the Company is comfortable to operate with, where risks are acceptable and do not have adverse impact in the pursuit of the organizational objectives.



**Medium Priority Risk** (*Manageable Risk – Risk Rating 8-12*) - Risk that can the Company can withstand or tolerate in pursuing organizational objectives. These risks have potential adverse impact if not managed.



**High Priority Risk** (*Material Risk – Risk Rating >15*) - Risk that is critical to the Company. These risks have significant impact to the strategic objectives of the Company.



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#### Annex D

#### RISK TREATMENT ACTION PLAN

Level of Risk	Risk Treatment Action Plan Requirement
Low Priority Risk	<ul style="list-style-type: none"><li>- Existing controls shall be maintained.</li><li>- No additional control or action is required.</li></ul>
Medium Priority Risk	<ul style="list-style-type: none"><li>- Existing controls shall be maintained.</li><li>- Additional control or action is optional. Risk in this area can be accepted depending on the justification of the risk owner.</li><li>- Monitoring activities and minimum efforts to control the risk are highly recommended.</li></ul>
High Priority Risk	<ul style="list-style-type: none"><li>- Existing controls shall be maintained.</li><li>- Additional control or action is required.</li></ul>