FAR EASTERN UNIVERSITY

Risk Management Policy

I. INTRODUCTION

The ***Code of Corporate Governance for Publicly-Listed Companies*** issued by the Securities and Exchange Commission, which took effect on 01 January 2017, gives strong emphasis on risk management and recommends that: (a) the board of trustee oversee a sound enterprise risk management (ERM) framework in order to effectively identify, monitor, assess, and manage key business risks and (b) the company establish an adequate and effective internal control system and an enterprise risk management framework in the conduct of its business, taking into account its size, risk profile, and complexity of operations.

Far Eastern University, Inc., (FEU) considers risk management fundamental to good management practice and an important aspect of corporate governance. It recognizes that the effective management of risk contributes significantly to the achievement of the university's strategic and operational goals and objectives.

II. DEFINITION OF TERMS

1. Risk – effect of uncertainty on the university objectives
2. Likelihood – the frequency or probability of the risk occurring.
3. Risk Level Impact – the potential severity of the risk considering its likelihood and impact.
4. Risk appetite – amount of risk that the university is prepared to accept in pursuit of its objectives

III. POLICY PRINCIPLES

1. Risk management shall be an integral part of the decision-making process and routine management practice of the university as well as of strategic and operational planning activities at all levels throughout the university.
2. Risk management shall be conducted on new ventures and activities, including projects, processes, systems, and commercial activities to ensure that these are aligned with the objectives and goals of the university.
3. The university shall specify and assume a degree of risk commensurate with the potential reward within defined tolerances for risk appetite agreed by management for key areas.
4. A Risk Management Program shall be adopted, and its effective implementation university-wide shall be overseen by the Chief Risk Officer (CRO).
5. The Risk Management Program shall be user friendly and add value to business processes, and conscious effort shall be taken to keep processes as simple as possible. Top-down and bottom-up assessments shall be carried out to produce a comprehensive picture of risks across all university activities.
6. The Risk Management Program shall ensure that all personnel, particularly institute deans and (academic and non-academic) department heads, are provided with adequate guidance and training on the principles of risk management and their risk-management responsibilities.

7. The university shall regularly review and monitor the implementation and effectiveness of the risk management process, including the development of an appropriate risk management culture across the university.

8. All types of risks shall be considered and classified into broad categories. A risk register shall be formulated for the corporate level as well as for institutes and academic and non-academic departments. The risk registers shall be maintained by the unit managing the risk.

9. A formal risk review following the risk management framework shall be undertaken annually or as often as is deemed necessary. For high risk-score events, reviews shall be done on a more frequent basis and track control improvements. In the case of projects, a risk review shall be carried out at each project team meeting; each risk shall be considered to determine its relevance and applicability to the project and to ensure that the risk register is complete and exhaustive. Institute and department management groups are also minded to allocate time during regular meetings for considering new and emerging risks.

IV. ROLES AND RESPONSIBILITIES

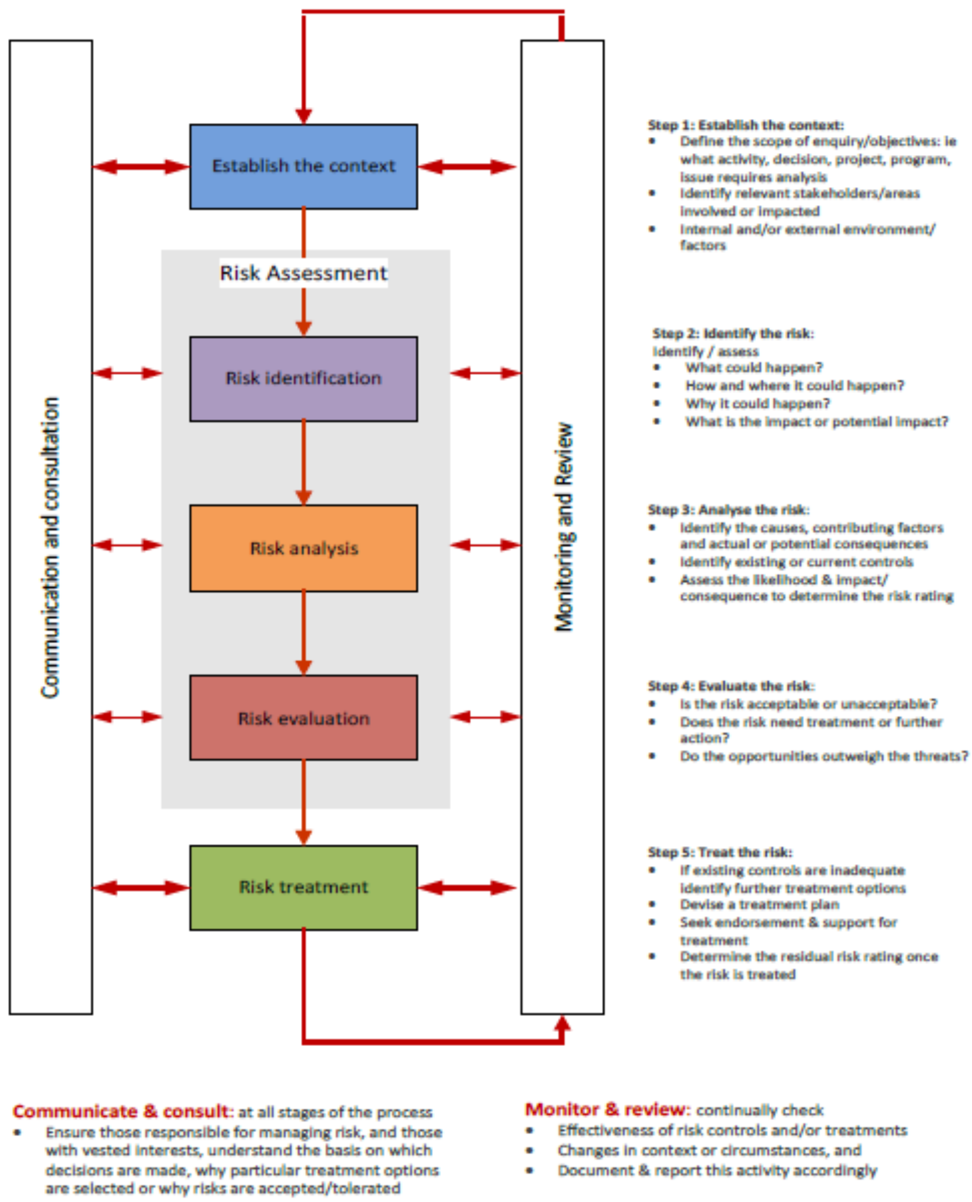
1. Board of Trustees – The board of trustees, through its Risk Management Committee, shall be responsible for overseeing, evaluating, and recommending the company-wide risk-management framework, policies, and procedures.

2. Institutes and Departments – The heads of all institutes and departments (both academic and non-academic) as well as the project managers shall be responsible for: (a) the implementation of the Risk Management Policy and other related guidelines within their respective areas of responsibility; (b) the identification, assessment, management, and ownership of risks within their areas of responsibility; (c) the preparation, regular review, and monitoring of a risk register in their area; and (d) reporting to higher levels of management and the Risk Management Committee, when necessary, risks with high likelihood and high impact to University-wide objectives.

3. Chief Risk Officer (CRO) – The CRO, with the support of all institutes and departments, shall coordinate the risk management activities of the university, compile the risk information, and prepare reports for the Risk Management Committee and the board of trustees.

V. FEU Risk Management Framework

The risk management steps are illustrated below:



<u>Step-by-step risk management process</u>

STEP 1 – Establish the Context

The purpose of establishing the context for risk management is to set the stage for risk identification. Since *risk* is defined as "any issue (positive or negative) that may impact an organization's ability to achieve its objectives," defining the objectives of the organization/institute/department is a prerequisite to identifying risk.

Steps:

1. Identify goals or objectives that your area supports in relation to the university's overall strategy;
2. Identify the critical activities, functions, or services that others rely on your area to provide.
3. Document the results of above steps.

STEP 2 – Risk Identification

The purpose of this step is to generate a comprehensive list of risks, based on those events that might create, enhance, prevent, degrade, accelerate, or delay the achievement of objectives that you identified in Step 1.

Factors to consider:

1. What could affect the organization/institute/department or your area's ability to achieve or fulfill your goals, initiatives, or key functions, either positively or negatively? What uncertainties do you face?
2. What do you see as the strengths, weaknesses, opportunities, and threats facing your area?
3. Have there been any recent major changes to your area of responsibility or control (new regulations, new programs/activities, organizational changes, etc.) that pose new risks or opportunities?
4. Are there particular programs, activities, internal controls, or legal/regulatory issues in your area that you are worried about or that you think may pose a significant risk to your unit, department, institute, or the university?

Steps:

1. Use the Risk Management Template to document this risk-identification exercise.
2. Identify all the risks and opportunities that might affect your objectives.
3. For each one, write under the column "Risk Statement" a brief "risk statement" that describes each risk or opportunity and provide a little more detail about its causes and impact. Aim for a risk statement that is not too short, not too long, not too vague, and is meaningful.
4. Write the possible causes and impact of each risk under the columns "Causes" and "Consequence."
5. Consider whether each issue is a risk or opportunity.
6. Consider which University strategy or institute/department goals or objectives each risk or opportunity affects or is most closely related to.

STEP 3 – Risk Analysis

Here is where you will assess the potential impact and likelihood of the risks and opportunities.

Steps:

1. Inherent risks – Assess the likelihood of the risk occurring (See Appendix 1 – Likelihood Scale) and the impact/consequence if the risk were to occur (See Appendix 2 and 3 – Impact Scale), assuming no action were being taken by the unit. Write your assessment under the columns "Likelihood Rate" and "Impact Rate."
2. Determine what controls are already in place to mitigate the impact of the risk and whether these controls are strong or weak. Write them under the column "Mitigation/controls in place (if any)."
3. Residual risks – Once the controls have been identified and their effectiveness analyzed, make a re-assessment of the likelihood of the risk occurring (See Appendix 1 – Likelihood Scale) and the impact/consequence if the risk were to occur (See Appendix 2 and 3 – Impact Scale). Write your assessment under the columns "Likelihood Rate" and "Impact Rate."
4. The likelihood and impact scores will be multiplied to produce an initial "Risk Score" which you will write under the corresponding column.

STEPS 4 and 5 – Risk Evaluation and Response

The purpose of these steps is to decide, based on the results of your risk analysis, which risks and opportunities require a response and what your recommended responses are.

Steps:

1. Consider the overall results of your risk analysis, especially your rating of the risk's or opportunity's impact and likelihood and the resulting risk score.
2. Consider the heat map shown in Appendix 4 – Risk Rating Scale to see where your risks and opportunities will fall and write the "Risk Rating" under the corresponding column.
3. Consider Appendix 5 – Guidance on evaluating the acceptability of risk.
4. Consider which risk or opportunity response options you will use to manage the risk. See Appendix 6 – Guidance on Possible Responses to Risks and Opportunities.
5. Consider what steps you will take to respond to each risk and opportunity. Write your decisions under the column "Response to Risk/Opportunity."
6. Identify who will be responsible for addressing the risk/opportunity and related target dates of completion. Write them under the corresponding columns.
7. Consider any costs or special needs associated with your response.
8. Consider how long it will take to fully implement your response.

STEP 6 - Monitoring and Review

The purposes of this step are to: (a) ensure that action plans to address risks are being monitored; (b) determine and report any change in the assessment of likelihood and impact of the risks; and (c) ensure that the risks are still relevant within the context of a constantly changing environment.

The regular review of the risks must be built into the system of the university as well as of each institute, department, and organizational unit, and risks are discussed at executive or team meetings at each of these levels throughout the year.

To ensure that risk management is effective and to provide evidence of a demonstrable risk management system, a formal record of the risk management process and outcomes must be kept. Risk management is a continuous process in which opportunities and threats are regularly assessed for any changes as the priorities and directions of the university and its institutes and departments shift. The Risk Register (or Risk Management Template) is the tool for recording risks as they are recognized and for documenting their management and outcomes. The Risk Register is therefore not a static record, but a live (or living) document as well as a management tool that is used to help attain the aims and objectives of an institute or department. Risks may be identified at any time throughout the year and must be added to the register as they are identified. Conversely, the environment in which a department operates may change, making certain risks irrelevant.

STEP 7 – Communication and Consultation

Effective communication and consultation ensure that those responsible for implementing risk management understand the bases upon which decisions are made and the reasons why particular treatment options are selected. It is therefore important to communicate and consult with internal and external stakeholders at each phase and all stages of the risk management process, but particularly when plans are being formulated and significant decisions need to be made. Risk management is enhanced through effective communication and consultation when all parties understand each other's perspectives and, where appropriate, are actively involved in decision-making.