

F. RISK MANAGEMENT SYSTEM

1) Disclose the following:

(a) Overall risk management philosophy of the company;

- A successful risk management initiative should be proportionate to the level of risk in the University as related to the size, nature and complexity. This approach will enable a risk management initiative to deliver outputs, including compliance with applicable governance requirements, assurance top stakeholders regarding the management of risk and improved decision making.
- It is the company's policy to avoid exposure to risks, almost all purchases of books are done locally while subscriptions for imported journals and magazines are monitored to ensure delivery.
- Provision for doubtful accounts, collectability receivables has been established for many years now and is considered adequate.
- Assets of the company such as buildings, equipment, furniture, fixtures and inventory are insured against fire, earthquake, flood, etc.
- The company upholds an advocacy of fair dealings with suppliers and high standards of education for students.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

The Board of Directors of Centro Escolar University understands the importance of risk management. In like manner, the board had reviewed the risks that may challenge the company and is certain that risk management system is effective and adequate.

(c) Period covered by the review;

Fiscal year 2014-2015.

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness;

The Board regularly conducts review of risks on the basis of the report of management at least once a year or as maybe necessary,. Whenever there is a prescribed risk management immediately reports to the executive directors and to the Board.

To assess the effectiveness of risk management system the directors must:

1. Ensure that an overall risk management structure, policies and procedures are being observed by the Company.
2. Review the adequacy of the company's risk management process.
3. Review the results of the annual risk assessment done by the designated Chief Risk Officer (CRO) designated by the executive committee. The report should include the material financial and non-financial risks that may have an impact on the Company and the corresponding measures in addressing the said risks.

4. Evaluate the risk management report submitted by the CRO on a quarterly basis.
5. Monitor the risk management activities of the company and evaluate the effectiveness of the risk mitigation and action plans, with the assistance of the internal auditors.

(e) Where no review was conducted during the year, an explanation why not.

Not applicable.

2) Risk Policy

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

| Risk Exposure | Risk Management Policy | Objective |
|----------------------|---|--|
| Credit Risk | The Company has an established policy that a student should pay his tuition fee balance before he can be issued a clearance for enrollment. | To ensure collection of tuition fee of currently enrolled students. |
| Liquidity Risk | The company ensures that it has sufficient cash to meet expected operational expenses and to cover scheduled approved capital expenditures. | To ensure continuous, uninterrupted operation of the company and to meet financial obligations as they became due. |
| Market Risk | Ensures that the Company's exposure to market risk for changes in interest rates will not significantly affect its interest income from deposits. | To maximize interest income from time deposits. |

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

| Risk Exposure | Risk Management Policy | Objective |
|--|-------------------------------|------------------|
| Not applicable. The company does not belong to a group | Not applicable. | Not applicable. |

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

| Risk to Minority Shareholders |
|---|
| The Company Board of Directors has adopted the principle of "one share, one vote" policy to ensure that all shareholders are treated equally with respect to voting rights, subscription rights and transfer rights. By having 2 independent directors elected during the annual stockholders' meeting the Board of Directors has established effective shareholder voting mechanisms such as "majority of minority" to protect minority shareholders against actions of controlling shareholders. The Company provides all shareholders with the notice and agenda |

of the annual general meeting (AGM) at least 15 working days prior to the meeting so as to allow shareholders to call a special shareholders' meeting and submit a proposal for consideration at the AGM or the special meeting. During the annual shareholders' meeting, the Board ensures the attendance of the external auditor and other relevant individuals to answer shareholder questions in such meetings.

3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

| Risk Exposure | Risk Assessment (Monitoring and Measurement Process) | Risk Management and Control (Structures, Procedures, Actions Taken) |
|----------------------|--|--|
| Credit Risk | Submission of semester end report of tuition fee balances of students. | Students with balance will not be given clearance for enrollment. |
| Liquidity Risk | Preparation of daily cash position | Maximize placements on time deposits. |
| Market Risk | Regular monitoring of interest rates | Maximize interest income on time deposits. |

(b) Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

| Risk Exposure | Risk Assessment (Monitoring and Measurement Process) | Risk Management and Control (Structures, Procedures, Actions Taken) |
|--|---|--|
| There is no control system setup because there is no group risk exposure | Not applicable. | Not applicable. |

(b) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

| Committee/Unit | Control Mechanism | Details of its Functions |
|-----------------------|---|---------------------------------|
| Executive Committee | Compliance with established controls, check and balance | Ensures Compliance. |
| Audit Committee | Submits reports on compliance or deviations. | Ensures Compliance. |