# RISK MANAGEMENT FRAMEWORK AND POLICY

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# 1. INTRODUCTION

With the business environment becoming increasingly complex and fast moving, proactive management of business risks has become a necessity in ensuring that an organisation achieves its strategic objectives and preserves its shareholder value. Best practices now require organisations to establish formal processes for the management of risks.

In line with these developments, YLI is committed to the development of a risk management framework with the aim of effective management of business risks in fulfilling its business objectives. This policy is the starting point in the risk management framework and has been prepared to ensure risk management practices are consistent across the whole organisation.

# 2. RISK MANAGEMENT POLICY

This Policy addresses key elements of the risk management framework to be implemented and maintained by YLI. It also serves to inform and provide guidance to senior management, line management and staff in managing risk in YLI. As such, it provides framework for effective process for identifying, assessing, responding, monitoring and reporting of risks and controls of YLI's risks.

The objective of the policy is to define an ongoing and consistent process for identifying, assessing, monitoring and reporting of significant risk faced by the Company. YLI adopts a broad definition of risk, which is as follows:

> ***The chance of an event occurring that will have an impact (threat or opportunity) upon the achievement of YLI's business objectives.***

This definition is not meant to limit risk management thinking only to ensure avoidance of possible losses.

> ***Business risk arises as much from the possibility that threats will materialise or that errors will be made as it does from the possibility that opportunities will not be realised.***

YLI will manage its obligations and pursue opportunities that involve an acceptable degree of risk so as to achieve its operating objectives and meet the expectations of its stakeholders. An appropriate balance will be maintained between risk and reward, as far as practicable, in order to optimise the rewards gained from the business and operational activities and from the taking of informed risks.

YLI's Risk Management Policy is premised on the following key principles:

- Effective risk management contributes to effective governance and is integral to the achievement of business objectives
- It is the responsibility of every employee of the organisation to manage risks within their areas of responsibility
- Risk management should be embedded into the day-to-day management processes and is explicitly applied in decision-making and strategic planning
- The risk management processes applied should aim to take advantage of opportunities, manage uncertainties and minimise threats
- Regular reporting and monitoring activities emphasise the accountability and responsibility for managing risks.

# 3. RISK MANAGEMENT PROCESS

The risk management process includes the systematic application of management policies, procedures and practices to the activities of risk identification, assessment, treatment, monitoring and reporting as depicted by the diagram below:

The risk management process is an ongoing process and should be applied at the beginning of any major new project, venture or change in operational environment. Additionally a periodical review of risks is recommended to ensure that the risk profile is kept up to date. The risk management process should be applied to all levels of activity at YLI with the objective of establishing accountability for both risks and mitigation at the source of the risk.

### 3.1 Risk Identification

Identifying risk requires identifying all possible hazards, threats or opportunities that may impact the achievement of YLI's business objectives.

It is the responsibility of all level of staff in YLI to identify risks in their individual departments in relation to existing and proposed activities, systems and procedures. A systematic approach should be used to ensure comprehensiveness of the risk identification process. All risks identified will be evaluated and documented in YLI's risk database.

New risks identified should be discussed, reviewed and agreed with the risk owner before they are updated onto the risk database. A risk owner is a named individual accountable for all aspects of the risk within a department.

### 3.2 Risk Evaluation

Risk evaluation is the process of ranking risks based on a set of prescribed measures. Risk assessment involves consideration of:

- the likelihood that these risks may occur (refer to Appendix I)
- the potential impact or consequence of the risks, should it occur. (refer Appendix II)

Risk is assessed by combining estimates of impact and likelihood within the context of existing control measures in place. When examining existing controls, consideration should be given to their adequacy, method of implementation and level of effectiveness. (refer to Appendix III)

It must be recognised that the risk assessment scale is only a guide to assessing risks and where applicable, management must use their experience and judgement in assessing risks.

### 3.3 Risk Treatment

This involves:

- identifying the range of options for mitigating the risk;
- determining whether the company is prepared to accept the type of risk and if so, how much risk is it prepared to tolerate;
- evaluating those options; and
- implementing the preferred option.

Risks can be dealt with in the following ways:

| Treatment Option | Description |
|---|---|
| ***Transfer*** | Pass on responsibility or burden of loss |
| ***Avoid*** | Informed decision not to be involved |
| ***Reduce*** | Appropriate standard, policies & procedures and other physical changes to reduce either likelihood or impact of an occurrence or both |
| ***Exploit*** | Informed decision to increase risks to achieve additional benefits |
| ***Accept*** | Informed decision to accept the consequences or the likelihood of a particular risk |

### 3.4 Risk Monitoring and Review

Monitoring and reviewing is an essential and integral stage in the process for managing risks as few risks remain static.

The objectives of monitoring and review of risks in YLI are:

- To provide assurance that risks in YLI are being managed as expected
- To ensure that the risk profile of YLI is reviewed and reflects changing circumstances and new exposures.

This is achieved through a combination of the following:

- assurance obtained from the individual risk owners and the Representative of Subsidiary a periodic review of YLI risk profile
- review of the status of action plans
- review of Key Performance Indicators, where applicable
- periodic review by Internal Audit on compliance of the risk management process.

### 3.5 Risk Reporting

A risk officer shall be nominated for each department. All new risks and material changes to existing risks shall be reported to the Department Head as and when they are identified. Upon approval of the Department Head changes/update shall be made to the department's risk profile.

Every half yearly the Department Head will submit a Report of Compliance, highlighting any exceptions, to the Risk Management Committee. The Risk Management Committee will review the reports submitted by the Subsidiary Representatives note the exceptions and consider if the exceptions are complete and if the action plans are appropriate to mitigate the risks. Upon review of the reports by the Risk Management Committee, the Report of Compliance will be sent to the Chief Executive Officer for review and comments prior presentation to the Board.

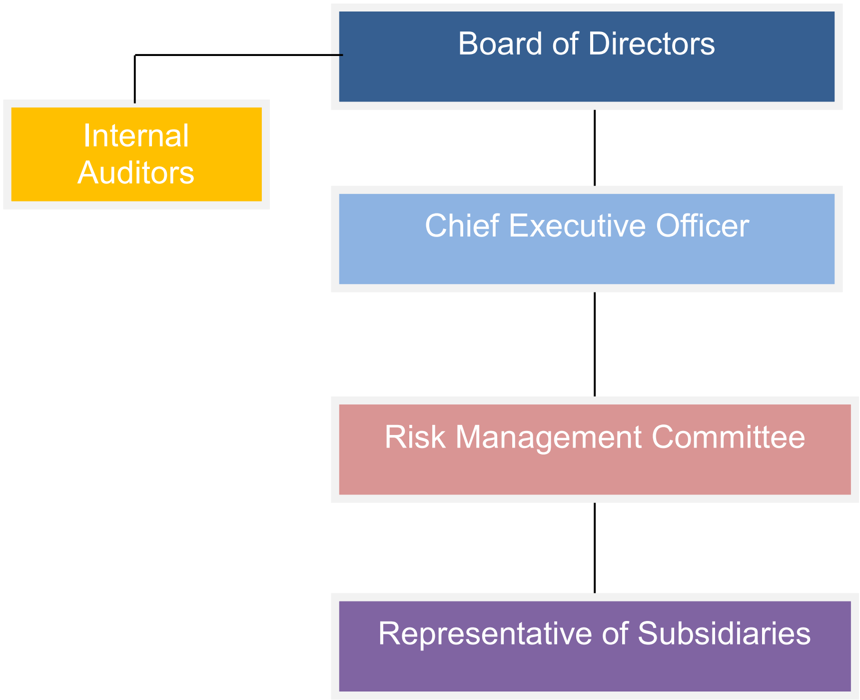
New risks that are rated High shall be:

- Immediately reported to the Subsidiary Representative, who shall make a decision on the appropriate risk treatment strategy;
- Updated into the Department's risk database;
- Promptly report to the Risk Management Committee, for monitoring of the risk;
- Monitored through the risk management framework; and
- Notified to the Board of Directors.

A summary of the Risk Escalation Process is set out in Appendix IV.

## 4. RISK MANAGEMENT ORGANISATIONAL STRUCTURE

The risk management structure adopted by YLI to assign responsibility for risk management and facilitate the process for assessing and communicating risk issues from transactional levels to the Board of Directors is summarised as follows:




### 4.1 Board of Directors

The Board is ultimately accountable for the risk management system of the Company. It is responsible for:

- Setting the overall tone and policy for risk management, including the risk appetite and tolerance levels
- Approving the Risk Management Framework and Policy
- Monitoring the risk profile of the Group and ensuring that appropriate measures are in place to manage risks, within the risk appetite and tolerance levels
- Evaluating the effectiveness of the risk management framework annually.

Additionally, the Board has the following responsibility in respect of risk management within the Company:

- Overseeing management's activities in managing key risks including implementation of the Enterprise Risk Management Framework
- Ensuring that the risk management process is functioning effectively
- Reviewing risk management strategies, policies, risk appetite and risk tolerance for Board of Directors' approval
- Reviewing the risk analysis for new projects and ensuring that mitigating actions are in place before management embarks on these projects
- Seek assurance on the proper functioning of the internal control system through risk management reports and reports from Internal and External Auditors.

## 4.2 Chief Executive Officer

The Chief Executive Officer ("CEO") is responsible for achieving the strategies set out to meet the objectives of the group. He is accountable for the implementation of the Enterprise Risk Management Framework and Policy and its continued application in YLI and for ensuring the alignment between business and risk strategies and policies.

Key responsibilities of the CEO, amongst others, include:

- Ensuring the continued application of the Enterprise Risk Management Framework and Policy, including refining the risk management priorities
- Establishing guidelines and methodologies for the approval of the Board including appropriate policies to ensure that the key business risks are effectively addressed and that business and risk strategies are aligned
- Coordinating the risk management activity throughout YLI including allocation of resources
- Monitoring YLI's risk profile by reviewing the:
  - Half Yearly Reports prepared by the Heads of Divisions
  - Internal and External Audit Reports and other assurance reports, for example, Internal Quality Audit Reports
- Reporting to the Board, on a yearly basis, the risk profile of YLI

- Setting and monitoring Key Performance Indicators for Heads of Divisions, where applicable, to measure the effectiveness of risk management activities within their respective areas of responsibilities

- Conducting an annual review of YLI's risk profile.

The CEO will be assisted by the Risk Management Committee to coordinate and drive the risk management process at YLI.

## 4.3 Risk Management Committee ("RMC")

The RMC will comprise the Senior Management Personnel of YLI. Its role will be to co-ordinate decision-making on risks, drive the risk management process at the various business units and ensure accurate and timely reporting of risks.

Key responsibilities of the RMC include:

- Establishing guidelines and methodologies for the identification and management of risks
- Recommending risk exposures and tolerance to the CEO and the Board
- Aligning risk management processes with the reward system
- Evaluating the risk management infrastructure
- Aligning group and division priorities, tolerances and strategies
- Communicating and enforcing policy and limits
- Reviewing and monitoring Company strategic risks
- Reviewing and monitoring effectiveness of risk treatment measures
- Coordinating and facilitating the risk management process
- Providing the means and resources for the education and training of risks and internal controls
- Aggregating and reporting risk exposures and outcomes
- Assisting the CEO conduct an annual review of YLI's risk profile.
- Reviewing the reports of risk management activities of the business units/ departments
- Reviewing the residual risk exposures of the business units/ departments and the sufficiency of action plans to mitigate risks
- Reviewing the application and adherence to policies and limits
- Making the appropriate recommendation to the Board on risk management matters, where necessary

## 4.4 Representatives of Subsidiaries

The Representatives of Subsidiaries are responsible for the management of risks within their areas of supervision. Their responsibilities include:

- Aligning the business departments priorities and tolerances with the Company priorities and tolerances;
- Identifying, assessing, managing and reporting the risks in their departments
- Assessing the effectiveness of existing controls within their departments
- Formulating action plans to mitigate significant risks
- Ensuring that action plans are implemented within the timeframe provided
- Preparing and submitting the Half Yearly Compliance Report to the RMC
- Communicating and enforcing risk mitigation policies and limits for the department
- Setting and monitoring Key Performance Indicators for managers and executives in the departments, where applicable, to measure the effectiveness of risk management activities within their areas of responsibility.

### 4.5 Internal Audit

The Internal Audit Function will provide independent assurance on the adequacy and integrity of the Risk Management Framework by monitoring key controls identified in the risk management system as part of the annual audit plan approved by the Audit Committee.

## 5. RISK ESCALATION PROCESS

Where new risks are discovered, either as a result of changes in the business environment, internal re-organisation or the decision to embark into new business ventures, the risks would have to be documented, assessed and if significant, escalated upwards for senior management's attention.

The escalation process will follow the reporting structure of YLI, which is summarised in Appendix IV.

## 6. CONFIDENTIALITY

The information contained within any document dealing with YLI's business risks is to be treated as highly confidential and should not be released to any outside parties without the prior written consent of the Board of Directors.

## 7. REVIEW OF FRAMEWORK

This framework will be reviewed periodically by the CEO and approved by the Board to ensure its continued application and relevance.

A periodic and independent review of the adoption and effectiveness of this framework will be undertaken to provide objective feedback to the Board as to its effectiveness.

This framework is authorised, issued and controlled by the Board. It is a controlled document subject to automatic update and if copied must be marked "uncontrolled copy".

Changes may only be authorised by the Risk Management Committee. Any changes to this framework will result in a change to the revision status and complete reissue of the framework.

## APPENDIX I: RISK ASSESSMENT GUIDE

***Table 1: Assessing Likelihood of Risks***

| Rating | | Description |
|---|---|---|
| 5 | Very Significant | ≥ 1.00% of Net Assets |
| 4 | Major | ≥ 0.68% - ≤ 1.00% of Net Assets |
| 3 | Moderate | ≥ 0.34% - ≤ 0.67% of Net Assets |
| 2 | Minor | ≥ 0.11% - ≤ 0.33% of Net Assets |
| 1 | Insignificant | ≤ 0.10% of Net Assets |

## APPENDIX II: RISK ASSESSMENT GUIDE

*Table 2: Assessing Impact of Risks*

| Rating | | Description |
|---|---|---|
| 5 | Almost Certain | Risk could occur at > 80% probability within the next 24 months. |
| 4 | Likely | Risk could occur at > 60% - 80% probability within the next 24 months |
| 3 | Possible | Risk could occur at > 40% - 60% probability within the next 24 months |
| 2 | Unlikely | Risk could occur at > 20% - 40% probability within the next 24 months |
| 1 | Rare | Risk could occur at < 20% probability within the next 24 months |

**Appendix III: Risk Parameters – *Assessing Control Effectiveness***

| Rating | | Description |
|---|---|---|
| 1 | Adequate | Control addresses risk, is officially documented and in operation and applied consistently |
| 2 | Some Weaknesses | Control addresses risk, at least partially, but documentation and/ or operation of control could be improved |
| 3 | Poor | At best, control addresses risk, but is not documented or in operation; at worst, control does not address risk and is neither documented nor in operation |

**APPENDIX IV – Risk Management Escalation Process**