Financial Risk Management

NEA was mandated to empower and strengthen to pursue the electrification program and bring electricity, through the electric cooperatives (ECs) as its implementing arm, to the countryside even in missionary or economically unviable areas. Along with this, NEA supports the electric cooperative in terms of financial by providing loans to sustain thier financial viability. Thus, NEA was involved in activities that exposed to financial risks particularly on liquidity and credit risks.

Liquidity Risk Management

Liquidity risk is a risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Finance Services Department (FSD) ensures NEA's financial viability and sound management of corporate funds/resources. The FSD submits to the Deputy Administrator for Corporate Resources and Financial Services (CRFS) and Board of Administrators the Daily Cash Investment Balances to assist Senior Management and Board in the formulation of policies and sound decision making.

Likewise, FSD monitors and assesses the short-term and long-term sources and uses of funds. This is done through simulations of cash flow projections using several scenarios under both normal (business as usual) and stressed conditions (worst-case scenarios) to formulate/mitigate the risk by developing strategies and taking appropriate actions or designed to ensure that necessary funds are available when needed.

Monitoring includes preparation of variance analysis of monthly budget performance for corporate operating budget and cash flow projections, re-alignment of funds if necessary and timely request for subsidy funds from the National Government to ensure availability of funds for Rural Electrification projects and for rehabilitation/restoration of power caused by calamities.

Credit Risk Management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss. Consistent with good corporate governance, NEA developed a Loan Policy Manual that governs the extension of loans to ECs. It defines the fundamental principles NEA must follow when extending credits to ECs.

Board Credit and Risk Management Commitee

In pursuit of good governance, the NEA Board of Administrators (BOA) constituted a Credit Risk and Management Committee (CRMC) composed of four (4) Board Members, which has the following primary reponsibilities:

a. To review the risk philosophy, strategy and policies recommended by management. The Committee will ensure compliance with such policies
b. To review and assess the adequacy of NEA's liquidity and funding
c. To oversee and asess credit risk inherent in NEA's lending activities. Specifically, the Commitee shall have the primary responsibility for all matters related to credit such as the following:
   - Advise on any matter of significance relating to credit including recommendation to changes in Board lending policy or direction of lending
   - Review the adequacy of the credit and risk controls implemented by management and the standard and quality of reporting to the Board
   - Conduct review of loan proposals by management prior to submission to the Board
   - Confirm loan approvals of the Administrator
   - Monitor and evaluate NEA's exposure, loan arreas and portfolio composition
d. To review and assess NEA's operational risk
e. To review key risk areas and key performance indicators and monitor these as part of a regular review

Collateral and Other Credit Enhancements

All term loans granted by NEA to ECs are secured loans and carry first mortgage contracts. The value of the mortgaged properties as a percentage of loan level is monitored throughout the life of the loan. The following are other securities required by NEA:

a. Issuance of Post-dated Checks (PDCs) equivalent to one year of amortization.
b. Continuing Deed of Assignment of Accounts Receivables

The loan contract provides for certain remedies in case of defaults in the payment of loan obligations. NEA is provided with the power to take over the management or, in appropriate cases, dismiss the members of the EC Board and the General Manager.