

## **CHARTER OF THE RISK AND AUDIT COMMITTEE**

### **I. Purpose**

The purpose of the Risk and Audit Committee (the "Committee") of the Board of the Company is two-fold:

a. To oversee the Company's practices and processes relating to risk assessment and risk management; maintaining an appropriate risk culture, reporting of financial and business risks and associated internal controls.

The Committee will assist the board in providing framework to identify, assess, monitor and manage the risks associated with the Company's business. It helps the Board to adopt practices designed to identify significant areas of business and financial risks and to effectively manage those risks in accordance with Company's risk profile; and

b. To represent and assist the Board in its general oversight of the Company's accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions. Management is responsible for preparing the Company's financial statements, and the independent auditors are responsible for auditing those financial statements.

The Committee members are not necessarily professional accountants or auditors and their functions are not intended to duplicate or to certify the activities of Management and the independent auditor under applicable rules. The Committee serves a Board level oversight role where it oversees the relationship with the independent auditor, as set forth in this Charter, and provides advice, counsel, and general direction, as it deems appropriate, to Management and the auditors on the basis of the information it receives, discussions with the auditor, and the experience of the Committee's members in business, financial, and accounting matters.

### **II. Membership**

The Committee shall be appointed by the Board and shall comprise of at least three directors who meet the experience and independence standards of the SEC and the PSE and other applicable laws and regulations.

The Committee shall be composed of at least three (3) appropriately qualified Non-Executive members of the Board, majority of whom shall be Independent Directors.

The Chairman of the Committee should be an Independent Director, and should not

serve as Chairman of the Board or of any of the other board committees.

All of the members of the Committee shall have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing, and finance. At least one (1) member must have relevant thorough knowledge and experience on risk and risk Management.

In case of any vacancy in the Committee, the Board shall appoint a replacement who will fill the vacancy at any meeting of the Board subject to the provision of this Charter.

Committee members may receive no compensation from the Company other than reasonable *per diem*.

### **III. Meeting**

The Committee will meet as often as may be deemed necessary or appropriate in its judgment, at least quarterly each year, and at such times and places as the Committee shall determine. The majority of the members of the Committee shall constitute a quorum. The Committee will meet separately, at least quarterly, with the independent auditors, Internal Auditor, Risk Management Officer, and Management to discuss any matters that they wish to bring to the Committee's attention.

The Committee shall report to the Board with respect to its meetings, including any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, and/or the performance and independence of the Company's independent auditors.

### **IV. Audit Functions**

#### **a. Committee Authority and Responsibilities**

The primary responsibility of the Committee is to oversee the Company's financial controls and reporting processes on behalf of the Board and report the results of its activities to the Board. The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee should take the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior.

The following shall be the principal recurring processes of the Committee in carrying out its oversight responsibilities. The Committee may perform such other duties and responsibilities as are consistent with its purpose and as the Board or the Committee deems appropriate.

#### *Appointment and Oversight of Internal Auditors*

With respect to Internal Audit, the Committee shall:

- i. Recommend the approval of the Company's Internal Audit Charter, which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the Internal Audit Charter.
- ii. To help the senior management in setting-up and monitor the effectiveness of the Company's internal control system, the Committee shall organize an Internal Audit Department (in-house or outsourced) and consider the appointment of an independent Internal Auditor and the terms and conditions of its engagement and removal.
- iii. Through the Company's Internal Audit Department, monitor and evaluate the adequacy and effectiveness of the Company's internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances should be in place in order to (a) safeguard the Company's resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the Company's financial data, and (d) ensure compliance with applicable laws and regulations.
- iv. Oversee the Internal Audit Department.
- v. Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. The Internal Auditor shall functionally report to the Committee. The Committee shall ensure that in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.
- vi. Review and monitor Management's responsiveness to the Internal Auditor's findings and recommendations.

*Appointment, Compensation, Retention, Rotation,  
and Oversight of Independent External Auditors*

i. Independent External Auditors

The Committee shall be directly responsible for the appointment, compensation, retention, and oversight of the work of any registered public accounting firm engaged (including resolution of disagreements between Management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit review or attest services for the Company. The Company shall provide the appropriate funding, as determined by the Committee, for payment of compensation to the public accounting firm so engaged.

The Independent External Auditor shall be selected and appointed by the stockholders upon the recommendation of the Committee from the pool of duly

accredited independent auditor by the regulatory authorities, e.g. SEC. The Independent External Auditor, or the lead partner thereof primarily responsible for the audit of the Company or the review thereof, shall be rotated or changed at least once every five (5) years or as determined by the regulatory authorities.

The Committee shall also be responsible for: (a) ensuring its receipt from the independent auditors of a formal written statement delineating all relationships between the auditor and the Company, consistent with Philippine Standards on Auditing and Philippine Financial Reporting Standards, (b) actively engaging in a dialogue with the auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor, and (c) taking, or recommending that the full Board take, appropriate action to oversee the independence of the outside auditor. In connection with these responsibilities, the Committee shall discuss the auditor's independence from Management and the Company, including whether the auditors' performance of permissible non-audit services is compatible with their independence. This process will include, at least annually, the Committee's review of the independent auditors' internal control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent directors and the Company. The Company shall review the use of auditors other than the independent auditor in cases such as Management's request for second opinions.

ii. Approval of Audit Engagement and the Related Audit Scope and Audit Plans

The Committee shall pre-approve all audit plans, scope and frequency before the conduct of the external and internal audit.

iii. Audit Services

The Committee shall discuss with the Independent External and Internal Auditors the overall scope and plans for their respective audits including their respective responsibilities and the adequacy of staffing and compensation. The Audit Committee shall approve in advance all audit engagement fees and the terms of all audit services to be provided by the independent auditors.

iv. Non-Audit Services

The Committee shall establish policies and procedures for the engagement of the independent external auditors to provide permissible non-audit services, which shall include pre-approval of permissible non-audit services to be provided by the Independent External Auditor.

The Committee shall likewise evaluate and determine the non-audit work, if any, of the Independent External Auditor, and periodically review the non-audit fees paid to the Independent External Auditor in relation to the total fees paid to him and to the Company's overall consultancy expenses. The Audit Committee should disallow any non-audit work that will conflict with his duties as an Independent External Auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Company's Annual Report and Annual Corporate Governance Report.

The Committee may, from time to time, delegate its authority to pre-approve non-audit services to one or more Committee members, provided that such delegate(s) present any such approvals to the full Committee at its next scheduled meeting.

### Review of Financial Reports

The Committee shall check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements. It shall review the reports submitted by the Internal and External Auditors. It shall review interim and annual financial statements before the submission to the Board with particular focus on the following matters: any change/s in accounting policies and practices; major judgmental areas; significant adjustments resulting from the audit; going concern assumptions; compliance with accounting standards, and compliance with tax, legal and regulatory requirements.

#### i. Review of Interim Financial Statements/Earnings Releases

The Committee shall review the interim financial statements, and the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations with Management prior to the filing of the Company's Quarterly Report on SEC Form 17-Q. The Committee will discuss the Company's policies and procedures with respect to earnings releases, financial information, and earnings guidance provided to analysts and rating agencies. The Committee will discuss the results of the quarterly review and any other matters required to be communicated to the Committee. The Chairman of the Committee may represent the entire Committee for the purposes of this review.

#### ii. Review of Annual Audited Financial Statements

The Committee shall review with Management and the Independent External Auditor the financial statements to be included in the Company's Annual Report on SEC Form 17-A (or the annual report to stockholders), including: (i) their judgment about quality, not just acceptability, of the Company's accounting principles, including significant financial reporting issues and judgments made in connection with the preparation of the financial statements; (ii) the clarity of the disclosures in the financial statements; and (iii) the Company's disclosures under Management's

Discussion and Analysis of Financial Condition and Results of Operations, including critical accounting policies.

The Committee will also review with Management and the Independent External Auditor: (i) major issues regarding accounting principles and financial statement presentations, including significant changes in the selection or application of accounting principles; (ii) major issues regarding the adequacy of internal controls and steps taken in light of material deficiencies; and (iii) the effects of alternative accounting methods and regulatory and accounting initiatives on the financial statements.

The Committee will discuss the results of the annual audit and any difficulties the Independent External Auditor encountered in the course of its audit work, including any restrictions on the scope of the auditors' activities or on access to requested information, and any significant disagreements with Management. The Committee will also discuss any other matters required to be communicated to the Committee by the Independent External Auditor under generally accepted auditing standards, and the annual report on internal controls by the Chief Executive Officer and Chief Financial Officer, as received by the Independent External Auditor.

Based on these reviews, the Committee will make a recommendation to the Board as to whether the audited financial statements should be included in the Company's Annual Report on SEC Form 17-A.

#### *Related-Party Transactions*

While the Company's current size, risk profile, and complexity of operations still do not necessitate the creation of a Related Party Transactions Committee by the Board, the Committee will be tasked to review and have prior-approving authority for related-party transactions, as defined in the applicable Philippine Stock Exchange listing standards ("**RPTs**"). Accordingly, the Committee shall exercise the following functions with respect to the Company's RPTs:

- i. Evaluate, on an ongoing basis, existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors.
- ii. Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances, and that no corporate or business resources of the Company are misappropriated or misapplied; and to determine any

potential reputational risk issues that may arise as a result of, or in connection with, the transactions. In evaluating RPTs, the Committee takes into account, among others, the following:

- (a) The related party's relationship to the Company and interest in the transaction;
  - (b) The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  - (c) The benefits to the Company of the proposed RPT;
  - (d) The availability of other sources of comparable products or services; and,
  - (e) An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Company should have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs.
- iii. Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Company's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Company's affiliation or transactions with other related parties.
- iv. Reports to the Board on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties.
- v. Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process.
- vi. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.

Attached as **Annex "B-1"** is the Company's Policy on Related Party Transactions.

#### Other Duties and Responsibilities

##### i. Complaint Procedures

The Committee will establish procedures for receipt, retention and treatment of complaints regarding accounting, internal accounting controls, and auditing matters, including procedures for confidential, anonymous submission of concerns by employees regarding accounting and auditing matters.

The Committee shall respond to any request from Management for evaluation of compliance with the Employee's Handbook, which includes the Code of Conduct,,

Manual on Corporate Governance, and Standard Operating Policies and Procedures. The task of ensuring that the Employee's Handbook has been understood and religiously complied with is collectively entrusted to both the Human Resource Division and the Department or Division where the employee is affiliated. The Compliance Officer shall be responsible for determining violations on the Manual on Corporate Governance through notice and hearing and shall recommend to the Chairman of the Board the penalty for such violation, for further review and approval of the Board.

Attached as **Annex "B-2"** is the Company's Whistle-Blowing Policy.

ii. Risk Assessment and Promotion of Risk Awareness

The Committee will review and discuss with Management the Company's major financial risk exposures and the steps Management has taken to monitor and control such exposures.

The Committee will provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company. This function shall include regular receipt from Management of information on risk exposures and risk management activities.

All directors, officers and employees shall be made aware of risks involved if actions taken are not in conformity with the existing government laws, rules and regulations; Employee's Handbook, Manual on Corporate Governance and Standard Operational Policies and Procedures.

Adequate number of printed copies of the Employee's Handbook, Manual on Corporate Governance and Standard Operational Policies and Procedures must be reproduced and distributed for reading and reference or must be readily available for easy access by all directors, officers, and employees to enjoy continuing compliance.

iii. Hiring of Auditor Personnel

The Committee shall set clear hiring policies with regard to employees and former employees of the independent auditors.

iv. Periodic Review of Committee Charter

The Committee shall periodically (but no less than annually) review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for approval.

iv. Annual Performance Evaluation

The Committee shall annually review its own performance.



vi. Investigative Authority

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company.

The Committee shall perform direct interface functions with the internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.

vi. Training and Education

As part of their continuing education, each member shall attend a seminar on corporate governance conducted by a duly recognized private or government institute and accredited by the SEC. Each member is also encouraged to attend seminars and trainings relevant to their performance as members of the Committee, e.g. financial reporting and audit, internal control, risk management and others.

## **V. Risk Oversight Functions**

### **a. Key Responsibilities**

The Committee shall have the authority of the Board to:

- i. Develop a formal enterprise risk management plan which contains the following elements:
  - (a) common language or register of risks;
  - (b) well-defined risk management goals, objectives and oversight;
  - (c) uniform processes of assessing risks and developing strategies to manage prioritized risks;
  - (d) designing and implementing risk management strategies; and,
  - (e) continuing assessments to improve risk strategies, processes, and measures.
- ii. Oversee the implementation of the enterprise risk management plan. The Committee shall conduct regular discussions on the Company's prioritized and residual risk exposures based on regular risk management reports, and assess how the concerned units or offices are addressing and managing these risks.
- iii. Evaluate the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. The Committee shall revisit defined risk management strategies, look for emerging or changing material exposures, and stay abreast of significant developments that seriously impact the likelihood of harm or loss.

- iv. Advise the Board on its risk appetite levels and risk tolerance limits.
- v. Review, at least annually, the Company's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Company.
- vi. Assess the probability of each identified risk becoming a reality and estimate its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Company and its stakeholders.
- vii. Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the Company. This function includes regularly receiving information on risk exposures and risk management activities from Management.
- viii. Report to the Board on a regular basis, or as deemed necessary, the Company's material risk exposures, the actions taken to reduce the risks, and recommend further action or plans, as necessary.
- ix. Perform other activities consistent with this charter, the Company's By-Laws and governing law as the Committee or the Board deems necessary or appropriate.

## **VI. Outside Advisors**

The Committee shall have the authority to retain such outside counsel, accountants, experts, and other advisors as it deems appropriate to assist the Committee in the performance of its functions. The Committee shall have sole authority to approve related fees and retention items. The Company will provide appropriate funding, as determined by the Committee, for Compensation to any such outside advisors engaged by the Committee.

## **VII. Miscellaneous**

Nothing contained in this Charter is intended to expand applicable standards of liability under statutory or regulatory requirements for the directors of the Company or members of the Committee. The purposes and responsibilities outlined in this Charter are meant to serve as guidelines rather than as inflexible rules and the Committee is encouraged to adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities.