



**ALLIEDBANKERS INSURANCE CORPORATION
AUDIT AND RISK COMMITTEE CHARTER**

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I. Purpose

The Board shall establish an Audit and Risk Committee (ARC) to enhance its oversight responsibility by reviewing the following:

1. Company's compliance, auditing, accounting and financial reporting processes (both internal and external);
2. Internal control system and procedures;
3. Management of financial and systematic risks;
4. Financial reports and other financial information provided by the Company to regulatory bodies or to the public;
5. Internal and external audit processes;
6. Risk management policies; and
7. Compliance with applicable laws and regulations.

II. Membership

1. **Composition** – The ARC shall be composed of at least three (3) members, majority whom shall be independent directors including the Chairman. The Committee shall elect a Chairman among the members, who shall ensure the effective interaction among Committee members and, as necessary, with relevant members of Management.

All Members of the committee have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance.

The Chairman shall not be the Chairman of the Board or of any other committee.

2. **Term** – The Board shall appoint the members of the Committee at its annual organizational meeting and each member shall serve upon his election until the next organization meeting of the Board, unless removed or replaced by the Board.
3. **Vacancy** – any vacancy in the Committee caused by death, resignation, or disqualification of any member, or by any other cause, may be filled by the Board. The member elected to fill the vacancy shall hold office for the remainder of the term, or until his successor shall have been duly elected and disqualified.

III. Schedule and Conduct of Meetings

1. **Frequency** – The ARC shall meet at least four (4) times a year, or more frequently, as needed. The Chairman of the Committee shall determine the agenda for meetings of the Committee. The agenda shall be sent to members of the Committee at least two (2) business days prior to each meeting, along with supporting materials for each agenda item.

Members may participate in meetings through video/teleconference or any other similar means. Members may give their consent or approval to an item in the agenda in writing or by any electronic means.

A quorum shall be achieved when there are at least two-thirds (2/3) of the Committee is present during the meeting.

If in case, the Committee Chairman is unavailable, he will delegate his replacement, and may ask another member of the committee to preside over the meeting.

2. **Minutes of Meeting** – Minutes of the Committee meetings shall be kept and members shall be furnished copies thereof and any action taken or resolution decided. The Committee shall also make regular reports of its proceedings to the BOD.

Attendance of members at Committee meetings shall be recorded and properly disclosed for the information of shareholders and other stakeholders through relevant annual reports and the company website.

3. The designated Corporate Secretary of the Board will be responsible for recording and documenting the minutes of the meeting.
4. The designated Secretariat of the Audit and Risk Committee will be responsible preparing the materials for the meeting and keeping all relevant records of the ARC.
5. The Committee may invite such other officers, employees and external parties to its meetings, as it deems necessary.
6. The Committee shall provide sufficient opportunity to internal auditors, external auditors and compliance officers to make presentations to the Committee without members of management present to foster open communication. The Committee shall meet separately with the independent auditors, with the internal audit and compliance officers and with management.
7. Meeting agenda, supporting materials, summary of findings from internal audits and compliance unit and other related materials shall be provided in advance whenever

possible to allow members of Committee to adequately prepare for the Committee meetings.

IV. Roles and Responsibilities

1. General

- a. All major irregularities meeting a penalty of more than 30 days suspension shall be brought to the ARC before its elevation to the Board;
- b. Report regularly to the Board about committee activities, issues and related recommendations.
- c. Provide an open avenue of communication between internal audit, the External Auditors, the compliance officer and the Board.
- d. Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by applicable law or regulation.
- e. Review any other reports the company issues that relate to committee responsibilities.
- f. Institute and oversee special investigations as needed.
- g. Confirm annually that all responsibilities outlined in this charter have been carried out.
- h. Evaluate the committee's and individual members' performance on a regular basis.
- i. Review Management's competence regarding financial reporting responsibilities including aggressiveness and reasonableness of decisions.
- j. Review and approval of management representation letter before submission to external auditor.
- k. Ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls and risk management is conducted at least annually;
- l. Performs oversight functions over the Corporation's Internal and External Auditors. It ensures the independence of Internal and External Auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions; and

- m. Perform other activities related to this charter as requested by the Board.

2. Financial Reporting

- a. Review significant accounting and financial reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- b. Review with management and the auditors the results of the audit, including any difficulties encountered.
- c. Review the annual financial statements and consider whether they are complete, consistent with information known to committee members and reflect appropriate accounting principles.
- d. Determine with the internal and external auditors any fraud and/or illegal act/deficiency in internal control of other similar issues and seek measures on how to mitigate or avoid them;
- e. Review annual financial reports with management and the auditors before their submission to the Board and filing with regulators, and consider whether they are complete and consistent with the information known to committee members. The Committee shall focus on the following matters:
 - i. Any change/s in accounting policies and practices
 - ii. Areas where a significant amount of judgment has been exercised
 - iii. Significant adjustments resulting from the audit
 - iv. Going concern assumptions
 - v. Compliance with accounting standards
 - vi. Compliance with tax, legal and regulatory requirements
- f. Review pending and anticipated legal issues which could have significant impact on the financial condition of the Company.

3. Internal Control

- a. Ensure that a review of the internal auditor's evaluation of the effectiveness of the internal controls, including financial, operational, information technology, and compliance controls, and risk management, is at least conducted annually;

- b. Understand the scope of Internal and External Auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- c. Monitor, oversee and evaluate the duties and responsibilities of management, the internal audit activity and the External Auditors as these duties and responsibilities relate to the company's processes for controlling its operations.
- d. Through the Internal Audit Department, evaluate the adequacy and effectiveness of the corporation's integrity of financial reporting, and security of physical and information assets.
- e. Review internal control recommendations made by internal and external auditors and regulatory agencies and ensure that appropriate corrective actions are made/taken in a timely manner;
- f. Deliberate the findings noted in control and reporting process.
- g. Ensure that ABIC has a framework for fraud prevention and detection including whistleblower policy/program by which officers and staff shall, in confidence, raises concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

4. Internal Audit

- a. Review and confirm the independence of the Chief Audit Executive (CAE) and its Staff by obtaining statements from the auditors and other sources, annually.
- b. Review the scope of internal audit work for the ensuing year in light of risk assessment of the operations of the company. Have final authority to approve the annual audit plan and all major changes to the plan.
- c. Review with Senior Management and the CAE the charter, plans, activities, budget, staffing and organizational structure of the internal audit function.
- d. Evaluate the performance of the CAE and its staff.
- e. Review and approve the CAE's appointment, dismissal, compensation, and salary adjustment relative to annual performance evaluations and ensure that there are no unjustified restrictions or limitations thereto.

- f. Ensure that Internal Audit complies with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and Code of Ethics;
- g. Ensure that internal auditors have free and full access to all of the Corporation's records, properties and personnel relevant to and required by its function and that the Internal Audit shall be free from interference in determining its scope, performing its work and communicating its results;
- h. Review the final audit reports prepared by the Internal Audit for matters deemed significant by the Chief Audit Executive and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors;
- i. On a regular basis, meet separately with the CAE to discuss any matters that the committee or internal audit believes should be discussed privately.
- j. Review and recommend for approval the 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.
- k. Through the Internal Audit (IA) Department, monitors and evaluates the adequacy and effectiveness of the corporation'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:
 - i. safeguard the company's resources and ensure their effective utilization,
 - ii. prevent occurrence of fraud and other irregularities,
 - iii. protect the accuracy and reliability of the company's financial data, and
 - iv. ensure compliance with applicable laws and regulations;
- l. Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities.
- m. Review and monitor management's responsiveness to the Internal Auditor's findings and recommendations.
- n. Review and approve the terms and conditions for outsourcing internal audit services.
- o. All related party transactions are subject to audit by the Internal Audit Group. The board of directors shall have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and

in compliance with applicable laws and regulations to protect the interest of policyholders, members, claimants, creditors and other stakeholders.

5. External Audit

- a. Recommends to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Commission, who undertakes an independent audit of the corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders.
- b. Review and confirm the independence of the External Auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors.
- c. Review the External Auditors' proposed scope, expenses of the audit and their approach in the annual audit and special engagements, including coordination of audit effort with internal audit, the terms of their engagements, and ensures the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.
- d. Review the performance of the External Auditors and exercise final approval on the appointment or discharge of the auditors.
- e. On a regular basis, meet separately with the External Auditors to discuss any matters that the committee or auditors believe should be discussed privately.
- f. Evaluate and determine the non-audit work, if any, of the External Auditor, and periodically review the non-audit fees paid to the External Auditor in relation to the total fees paid to them and to the corporation's overall consultancy expenses. The committee should disallow any non-audit work that will conflict with his duties as an External Auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the corporation's Annual Report and Annual Corporate Governance Report;
- g. Ensure that external auditors have free and full access to all the Corporation's records, properties, and personnel to the extent of the scope of the engagement as to enable them to perform their functions effectively.
- h. Review the disposition of the External Auditor's recommendations as indicated in the management letter.
- i. Review the engagement and rotation process of external auditor or firm.

- j. Ensure completeness and timeliness of communication with external auditor as to critical policies, alternative treatment, observation on internal control, audit adjustments, independence, limitation on the audit work set by the management, and other material issues that affect the audit and financial reporting.

6. Risk Oversight

Through the Internal Audit Department, the ARC shall perform the following:

- a. Reviews the compliance and performance of Risk Management and Risk Control and Compliance functions.
- b. Reviews and ensures compliance of Risk-Taking Personnel with trading policy and procedures - periodically through spot checks.
- c. Scan for internal control deficiencies or ineffectively controlled risks and report these in a timely manner to the Audit Committee or to the Board of Directors.
- d. Conducts follow-up reviews and immediately reports to the Board for identified deficiencies that remain unconnected.
- e. Reviews and ensures that existing policies and procedures remain relevant and adequate for the company's activities.
- f. Reviews the Risk Management Compliance Function periodically to assess its effectiveness.

7. Compliance Oversight

- a. Review and approve the annual compliance plan and all major changes in the plan.
- b. Review and approve the Compliance Officer's appointment, dismissal, compensation, and salary adjustment relative to annual performance evaluations and ensure that there are no unjustified restrictions or limitations thereto.
- c. Evaluate the performance of the Compliance Officer and its staff.
- d. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- e. Ensure that all regulatory compliance matters have been considered in the preparation of the financial statements.

- f. Review the findings of any examinations by regulatory agencies and any auditor observations.
- g. Review the process for communicating the code of conduct to company personnel and for monitoring compliance therewith.
- h. Obtain regular updates from management thru the Compliance Officer's reports regarding compliance matters.
- i. Perform other oversight functions consistent with this Charter, the Company's By-Laws, and as the Committee or the Board of Directors may require.
- j. Conduct special investigations and as appropriate engage technical services of external parties e.g. legal, information security.

V. Performance Evaluation and Continuous Improvement

The Committee shall conduct an annual self-assessment of its performance that is included in the annual Board self-assessment questionnaire, wherein members of the Board are given a venue to rate and comment on the performance of the Committee and its members. The self-assessment questionnaire shall benchmark the Committee's and its individual members' performance against the expectations set out in this Charter, the records of activities and operation of the Committee.

As necessary, the ARC may also subject itself to an independent assessment by the Board relative to its performance in accordance with expectations set out in this Charter and its responsibilities.

Based on the results of the self-assessment, the Committee shall formulate and implement plans to improve its performance. All members shall be given the opportunity to attend professional and technical development courses and training programs, as necessary.

All documents and records pertinent to the assessment process shall be kept intact by the Compliance Department, which may be examined by the Board and/or relevant regulatory agencies upon request.

VI. Miscellaneous

The *Audit and Risk Committee Charter* (the "ARC") shall have direct access to, and complete and open communications with senior management, and may obtain advice and assistance from internal legal, accounting, and other advisors to assist it.

The ARC may retain independent legal, accounting and other advisors to assist it, and may determine the compensation of such advisors, and the Corporation shall be responsible for any costs or expenses so incurred.

The ARC shall be provided with sufficient resources to perform its duties.

This document will be reviewed every two years or more frequently in the event that substantive changes are appropriate.