

Internal Control Responsibilities of the Board

The control environment of the Corporation consists of (a) the Board which ensures that the Corporation is properly and effectively managed and supervised; (b) a Management that actively manages and operates the Corporation in a sound and prudent manner; (c) the organizational and procedural controls supported by effective management information and risk management reporting systems; and (d) an independent audit mechanism to monitor the adequacy and effectiveness of the Corporation's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.

(i) The minimum internal control mechanisms for the performance of the Board's oversight responsibility may include:

- a) Definition of the duties and responsibilities of the CEO who is ultimately accountable for the Corporation's organizational and operational controls;
- b) Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO;
- c) Evaluation of proposed senior management appointments;
- d) Selection and appointment of qualified and competent management officers; and
- e) Review of the Corporation's human resource policies, conflict of interest situations, compensation program for employees, and management succession plan.

(ii) The scope and particulars of the systems of effective organizational and operational controls may differ among corporations depending on, among others, the following factors: nature and complexity of the business and the business culture; volume, size and complexity of transactions; degree of risks involved; degree of centralization and delegation of authority; extent and effectiveness of information technology; and extent of regulatory compliance.

(iii) The Corporation may establish an internal audit system that can reasonably assure the Board, Management and stockholders that its key organizational and operational controls are faithfully complied with. The Board may appoint an Internal Auditor to perform the audit function, and may require him to report to a level in the organization that allows the internal audit activity to fulfill its mandate. The Internal Auditor shall be guided by the International Standards on Professional Practice of Internal Auditing.

Risk Management System

The Corporation is exposed to certain risks which result from both its operating and investing activities. The Corporation's risk management is coordinated with the Board of Directors (BOD), and focuses on actively securing the Corporation's short to medium-term cash flows by minimizing the exposure to financial markets. The BOD reviews the effectiveness of the system annually.

The Corporation does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant risks to which the Group is exposed to are described below.

Foreign Currency Risk

Most of the Corporation's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates mainly arise from United States (U.S.) dollar-denominated bank deposits and short-term investments.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Interest Rate Risk

The Corporation monitors interest rate movements and makes adjustments on its financial assets and financial liabilities as may be deemed necessary. The Company is exposed to changes in market interest rates of its bank placements, which are subject to variable interest rates.

Liquidity Risk

The Corporation sets limit on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover unexpected liabilities falling due.

Credit risk is the risk that counterparty may fail to discharge an obligation to the Corporation. The Corporation is exposed to this risk for various financial instruments from granting receivables to customers including related parties and placing deposits with banks.

The Corporation continuously monitors defaults of customers and other counterparty, and incorporates this information into its credit risk controls. The Corporation's policy is to deal only with creditworthy counterparties.

Based on the relatively simple nature of its business as a holding company and the small volume and size of its transactions and the minimal degree of risks involved in its business, the Company has determined that it does not need to establish an Enterprise Risk Management framework at this time.