

# THE MERCANTILE INSURANCE CO., INC.

2/F MERCANTILE INSURANCE BUILDING, BEATERIO CORNER GEN. LUNA STS., INTRAMUROS, MANILA

## MANUAL (FOR AUDIT AND RISK MANAGEMENT COMMITTEE)

This Manual sets out the composition, role, responsibilities and operations of the **Audit and Risk Management Committee ("Committee")** of the **Board of Directors ("Board")** of The Mercantile Insurance Co., Inc. ("**MIC**").

### I. COMPOSITION

The Committee shall be composed of the following:

1	Two Independent Directors
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3	President as Executive Director
4	Chief Operating Officer
5	Head of Accounting and Collection
6	Head of Claims Division
7	Head of Internal Audit

### II. ROLE

The Committee shall assist and advise the Board in its oversight responsibilities to maintain:

- the quality and integrity of the MIC'S accounting, financial reporting, internal control systems, internal and external audit practices, and adherence to over-all corporate governance best practices.
- the functionality and effectiveness of MIC'S Enterprise Risk Management system; and
- compliance with applicable and existing laws, rules and regulations.

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### III. DUTIES AND RESPONSIBILITIES

#### 3.1. AUDIT:

The Committee shall perform the following duties and responsibilities:

##### 3.1.1. Financial statements and reporting

- a. Review the impact of accounting and reporting issues, including but not limited to complex or unusual transactions, and recent professional and regulatory pronouncements on the financial statements.
- b. Review the results of the audit, including the difficulties experienced.
- c. Review and approve quarterly, mid-year, and annual financial statements.
- d. Review the accuracy of other sections of the annual report and related regulatory filings before release to the regulatory authorities.
- e. Understand how the management develops interim financial information, and the extent of internal and external auditor involvement.

##### 3.1.2. Internal Control

- a. Maintain the adequacy and effectiveness of MIC'S internal control system. Must ensure quality and compliance in reporting, monitoring compliance with the laws, regulations, and internal policies, efficiency of operations, and safeguarding of assets.
- b. Understand and review the internal and external auditors' review of internal controls over financial reporting, and obtain regular reports on significant findings and recommendations, together with the Management's responses.

##### 3.1.3. Internal Audit

- c. Provide oversight over the performance of the Chief Audit Executive and Internal Audit Group.
- d. Review the effectiveness and efficacy of the internal audit, making sure that it conforms with the international standards.
- e. Review the annual internal audit plan, including but not limited to scope, activities, staffing, organizational structure, and the necessary budget to perform the internal audit.

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- f. Meet with the Chief Audit Executive regularly, or whenever necessary, to discuss urgent and important issues.
- g. Establish the reporting line of the Internal Audit Group to ensure independence in the performance of its duties. The Chief Audit Executive shall report directly to the Committee.

**3.1.4. External Audit**

- h. Review the external auditor’s proposed audit scope and approach.
- i. Mediation and resolve any or all issues between the management and the external auditors with respect to financial reporting.
- j. On a regular basis, meet separately with the external auditors to thresh out issues arising out of audit.
- k. Review and confirm the independence of the external auditors by obtaining certifications from the latter, including non-audit services.

**3.2. RISK MANAGEMENT:**

The Committee is tasked to ensure and perform the following:

- l. Oversee the Chief Risk Officer, who is in charge with the Enterprise Risk Management system and shall have the authority, stature, resources, and support to perform his/her respective tasks.
- m. Maintain oversight financial statement functions, more importantly on managing credit, market liquidity, operations, crisis management, legal and other kind of risks.
- n. Review the effectiveness of MIC policies and procedure relative to identification, analysis, management, Monitoring, and reporting of both financial and non-financial risks.
- o. Ensure that the management is able to promptly determine MIC’S risks, and sufficiently manage the same especially those high level risks with a high probability of occurrence.
- p. Advise the Board, in consultation with Management, on the overall risk management program of the Company as it relates to its risk appetite and strategic direction.

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### 3.3. Additional Responsibilities:

- a. Review and evaluate non-audit services provided by external auditors to ensure independence, and that any such non-audit services shall not be in conflict with its duties as an external auditor.
- b. Review MIC reports that are submitted to government regulators and/or public.
- c. Facilitate good relations and constant communications between and among the Internal Audit Group, external auditors, Chief Risk Officer, Chief Compliance Officer, the Management, and the Board.
- d. Evaluate the committee's and individual member's performance on a regular basis.
- e. Perform all other functions related to this charter.

### IV. MEETINGS

Committee Meetings shall be held at least four (4) times a year, or as often as it may deem necessary, upon call by any bona fide member.

The presence of four (4) members are sufficient to constitute a quorum, to exercise all or any of the authorities, powers or discretions vested in the Committee. The Committee may invite members of the management, auditors, consultants/advisors and/or others to attend the committee meetings.

Meetings will be held as follows:

- January – 3<sup>rd</sup> Thursday
- April – 3<sup>rd</sup> Thursday
- July – 3<sup>rd</sup> Thursday
- October – 3<sup>rd</sup> Thursday

### V. AUTHORITY

The Committee, in the performance of its functions, may:

- a. Appoint and evaluate the performance of the External Auditor and Chief Audit Executive.
- b. Review the scope of work of the auditors after considering their own assessment based on internal controls.

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- c. Procure the services of consultants, as may be deemed necessary, for a more independent assessment of MIC'S risk management infrastructure.
- d. Acquire the advice of professional or experts, whenever required.
- e. Gain access to all records, documents, properties, assets and personnel of MIC, and
- f. Investigate or cause to investigate any activities within its scope of authority, or as may be required by the Board.

**VI. REPORTS**

The Committee, through its Chairman, shall report to the Board regarding all Committee actions, activities, deliberations, decisions and recommendations, in relation to its duties and responsibilities covering Audit and Risk Management.

The Committee shall likewise submit a year-end report to the Board and shareholders, providing the following information:

- a. Committee's composition.
- b. Duties and responsibilities, and how they are discharged.
- c. Any other information required by various government regulators, including but not limited to, any approval of non-audit services.

**VII. ANNUAL REVIEW OF CHARTER**

The Committee shall conduct an annual review and assessment of the adequacy of the Committee Charter, and propose any changes as may be deemed necessary for the Board's approval.

**VIII. EFFECTIVITY**

This Charter shall take effect immediately upon approval by the Board of Directors.

**THE MERCANTILE INSURANCE CO., INC.**  
**BOARD OF DIRECTORS**

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