



Audit Committee Charter

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Audit Committee Charter

A. PREAMBLE

This Audit Committee Charter (the “Charter”) has been adopted by the Board of Directors (the “Board”) of National Reinsurance Corporation of the Philippines (the “Company”) on August 22, 2008, to guide them in the execution of their duties and responsibilities.

This was based on the framework and model charters provided by the Institute of Internal Auditors (www.global.theiia.org) and the Audit Committee Institute (www.auditcommitteeinstitute.ie) in its respective website.

The Audit Committee of the Board (the “Committee”) shall review and reassess this charter at least annually, request Board approval for proposed changes, and ensure appropriate disclosure as may be required by applicable laws or regulations.

B. PURPOSE

The Committee has been established to assist the Board in fulfilling its oversight responsibilities on the following:

1. Financial reporting process;
2. System of internal control;
3. External and Internal Auditors’ independence, qualifications and performance; and
4. Company’s process for monitoring compliance with laws and regulations and the code of conduct.

C. AUTHORITY

The Committee has the authority to:

1. 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.
2. Approve the Head of Internal Audit’s (HIA) appointment, replacement, compensation, and salary adjustment relative to annual performance evaluations and ensure that there are no unjustified restrictions or limitations thereto.
3. Establish and identify the reporting line of the Internal Audit function to properly fulfill its duties and responsibilities.
4. Recommend the appointment, replacement and compensation of the External Auditor and oversee their work performance.
5. Resolve any disagreements between Management and the auditors regarding financial reporting.
6. Recommend the approval of all auditing and audit-related services including the approval of the terms and conditions for outsourcing internal audit services.
7. Conduct or authorize investigations into any matters within its scope of responsibility.

8. Retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation.
9. Seek any information it requires from Company Officers and Employees---all of whom are directed to cooperate with the Committee's requests---or external parties.
10. Meet with Company Officers, Internal Auditors, External Auditors, or outside counsel, as necessary.

D. COMPOSITION

The Committee shall be composed of at least three (3) appropriately qualified non-executive directors, the majority of whom, including the Audit Committee Chairperson, should be independent. All the members of the Committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance, and such other qualifications as may be required under the applicable rules and regulations promulgated by the Insurance Commission (IC), Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE). The Chairperson of the Committee should not be the Chairperson of the Board or of any other committees. The Board will appoint the Committee chair and its members.

E. MEETINGS

The Committee will meet at least four (4) times a year, with authority to convene additional meetings as circumstances require. All members of the Committee are expected to attend each meeting --- in person or via teleconference or videoconference. The quorum for the meeting shall be majority of the Committee members. The Chairperson of the Committee shall preside over all meetings. In the absence of the Chairperson, the remaining Committee members present shall designate a presiding officer. The Committee may invite members of Management, auditors or others to attend meetings and provide pertinent information, as necessary. The Committee will hold private meetings with auditors and executive sessions.

The agenda of the meetings along with appropriate briefing materials will be prepared by the HIA and provided in advance to the Committee members based on the agreed calendar of activities and other matters from the Committee members and Management, subject to the approval of the Committee Chairperson. The minutes will be prepared and approved after every meeting. The CAE shall facilitate and coordinate meetings as well as provide ancillary support to the Committee, as necessary.

F. RESPONSIBILITIES

The Committee relies on the expertise and knowledge of Management, the Internal Auditors and External Auditors to carry out its oversight responsibilities.

Management is mainly responsible for the day-to-day operations of the Company. This includes but not limited to the following:

1. Ensuring the completeness and accuracy of the Company's financial statements and related disclosures in accordance with the applicable accounting standards, laws, and regulations;
2. Establishing and maintaining an effective system of internal controls;

3. Operating an effective risk management and corporate governance processes; and
4. Monitoring compliance with laws, regulations and internal policies.

The Internal Auditor function helps the Committee in monitoring the corporate governance, risk management, internal controls and compliance with laws, regulations, and internal policies through the continuous review on the effectiveness of the Company's processes.

The External Auditors are mainly responsible to the Shareholders in ensuring the integrity of the Company's financial statements and its disclosures in accordance with the applicable accounting and auditing standards, and relevant laws and regulations.

The Committee will carry out the following oversight responsibilities:

1. Financial Statements

- a. Review with Management 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 with Management and the Auditors the annual financial statements and consider whether they are complete, consistent with information known to the Committee members and reflect appropriate accounting principles.
- d. Review with Management and the Auditors other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- e. Review with Management and the Auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
- f. Understand strategies, assumptions and estimates that Management has made in preparing the financial statements, budgets, and plans.
- g. Understand how Management develops interim financial information and the nature and extent of Internal and External auditors' involvement.
- h. Through the Internal Audit Department, evaluate the interim financial reports before approval by the Board of Directors, and filing with regulators, and consider whether they are complete and consistent with the information known to the Committee members.
- i. Review and approve Management Representation Letter before submission to the external auditor.
- j. Review with Management the findings of any examinations related to the Financial Statements by regulatory agencies and any auditor observations.

2. Internal Control

- a. Consider the effectiveness of the Company's internal control framework and system.
- 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 Company's integrity of financial reporting, security of physical and information assets.
- e. Provide advice on the internal control of the Company as a whole and its individual units.
- f. Deliberate the findings noted in control and reporting process.

3. Internal Audit

- a. Review and confirm the independence of the HIA 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. Coordinate with Management to ensure that the Internal Auditors have free and full access to the Company's records, properties, and personnel as relevant and required by its function.
- d. Review with Management and the HIA the charter, plans, activities, budget, staffing and organizational structure of the internal audit function.
- e. Evaluate the performance of the HIA and its staff.
- f. Review the effectiveness of the internal audit function, which may include compliance with The Institute of Internal Auditors' International Professional Practices Framework.
- g. On a regular basis, meet separately with the HIA to discuss any matters that the Committee or internal audit believes should be discussed privately.
- h. Review and monitor Management's responsiveness to the Internal Auditor's findings and recommendations.
- i. Review and approve the terms and conditions for outsourcing internal audit services.

4. External Audit

- a. 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, annually.
- b. Review the External Auditors' proposed scope, fee and their approach in the annual audit and special engagements, including coordination of audit effort with internal audit and the terms of their engagements to ensure independence between each other.

The Committee's duty is confined to the oversight responsibilities on the planning or conducting of external or internal audits. It is Management's and the External Auditors' main responsibility to determine that the Company's financial statements and disclosures are complete, accurate and in accordance with Philippine Financial Reporting Standards, generally accepted accounting principles, and applicable rules and regulations.

- c. Coordinate with Management to ensure that the External Auditors have unrestricted access to the Company's records, properties, and personnel as relevant and required to the performance of the audit.
- d. Review the performance, qualifications and competence of the External Auditors on an annual basis and recommend the appointment or replacement 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 Company's overall consultancy expenses.
- g. Review the disposition of the External Auditor's recommendations as indicated in the Management letter.
- h. Review the engagement and rotation process of the External Auditor.
- i. Ensure completeness and timeliness of communication with the External Auditor as to critical policies, alternative treatment, observation on internal control, audit adjustments, independence, limitation on the audit work set by Management, and other material issues that affect the audit and financial reporting.

5. Compliance

- a. Review, in so far as they relate to the activities of the Internal Audit Department, 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.

- b. Review, in so far as they relate to the activities of the Internal Audit Department, the process for communicating Company's internal control policies, including the code of conduct and ethics, to personnel and for monitoring compliance therewith.
- c. Obtain regular updates from Management thru the Compliance Officer's and legal counsel's reports regarding compliance matters, as necessary.

6. Reporting Responsibilities

- a. Report regularly to the Board about the Committee activities, issues and related recommendations.
- b. Provide an open avenue of communication between the Internal Auditors, the External Auditors and the Board.
- c. 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.
- d. Review any other reports the Company issues that relate to the Committee responsibilities.

7. Other Responsibilities

- a. Perform other activities related to this charter as requested by the Board.
- b. Initiate and oversee special investigations (i.e., items coming from the whistleblowing program).
- c. Confirm annually that all responsibilities outlined in this charter have been carried out.
- d. Evaluate the committee's and individual members' performance on a regular basis.
- e. Review Management's competence regarding financial reporting responsibilities including aggressiveness and reasonableness of decisions.
- f. Obtain Management's assurance on the state of internal controls.

G. PERFORMANCE ASSESSMENT

The Chairperson of the Committee and its members will manage the quality assurance and improvement program to cover all aspects of its function and to monitor their effectiveness. Periodic quality assessments will be performed, internally and externally.

By the Audit Committee Members:

(Original Signed)

Medel T. Nera

Chairman

(Original Signed)

Rex Ma. A. Mendoza

(Original Signed)

Roberto G. Manabat

(Original Signed)