



INTERNAL AUDIT GROUP CHARTER FIRST PHILIPPINE HOLDINGS CORPORATION

1. MISSION STATEMENT

The mission of the Internal Audit Group (“**IAG**”) of First Philippine Holdings Corporation (the “**Corporation**”) is to provide an independent, objective assurance and consulting activity guided by a philosophy of adding value to improve the operations of the Corporation.

IAG aims to assist the Corporation achieve its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

2. ROLE AND AUTHORITY

IAG is established by the Audit Committee of the Corporation. IAG’s responsibilities are defined by the Audit Committee as part of its oversight role.

IAG, with strict accountability for confidentiality and safeguarding of records and information, is authorized to have full, free, and unrestricted access to any and all of the Corporation’s records, physical properties, and personnel pertinent to carrying out any engagement.

All employees of the Corporation are requested to assist IAG in fulfilling its roles and responsibilities. IAG will also have free and unrestricted access to the Board of Directors and Audit Committee.

IAG shall have the authority to allocate resources, set audit engagement frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.

3. PROFESSIONALISM

IAG shall adhere to The Institute of Internal Auditors’ mandatory guidance including the Definition of Internal Auditing¹, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (the “**Standards**”). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of IAG’s performance.

IAG shall also adhere to the Corporation’s relevant policies and procedures, and IAG’s standard operating guidelines and procedures.

IAG shall ensure that internal auditing functions are performed with proficiency and due professional care by knowledgeable, skilled, and competent internal auditors. IAG shall maintain a professional audit team with sufficient knowledge, skills, and experience to meet the requirements of this Charter.

¹ Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.



4. ORGANIZATION

The Head of Internal Audit will report functionally to the Audit Committee and administratively to senior management.

The Audit Committee will:

- Approve the Internal Audit Charter,
- Approve the risk-based internal audit plan,
- Receive communications from the Head of Internal Audit on the IAG's performance relative to its plan and other matters,
- Approve decisions regarding the appointment and removal of the Head of Internal Audit, and
- On a regular basis, determine the appropriateness of the internal audit scope and sufficiency of internal audit resources.

The Head of Internal Audit will communicate and interact directly with the Audit Committee, as appropriate.

5. INDEPENDENCE AND OBJECTIVITY

The independence of IAG is essential for the effective and efficient performance of its functions. Such independence is ensured by making IAG personnel report to the Head of Internal Audit who reports functionally to the Audit Committee and administratively to senior management.

To ensure that it will maintain an independent and objective mental attitude, IAG will remain free from interference on matters including, but not limited to, audit selection, scope, procedures, frequency, timing, and contents of reports.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any activity that may impair their judgment.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced.

Internal Auditors shall maintain their individual objectivity in performing their assigned tasks at all times. Potential and actual conflicts of interest and/or any impairment in independence should be appropriately disclosed to the Head of Internal Audit. The Head of Internal Audit will confirm to the Audit Committee at least annually, the organizational independence of IAG.

6. RESPONSIBILITY

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Corporation's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the Corporation's stated goals and objectives. These include:

- Evaluating risk exposure relating to the achievement of the Corporation's strategic objectives;



- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the Corporation;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of the Corporation's risk management processes;
- Performing consulting and advisory services related to governance, risk management and control, as appropriate for the Corporation;
- Reporting periodically on IAG's purpose, authority, responsibility and performance relative to its plans;
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee or the Board of Directors;
- Evaluating specific operations at the request of the Audit Committee or senior management, as appropriate; and
- Communicating to the appropriate authority within the Corporation any fraudulent activities which would warrant investigation.

7. INTERNAL AUDIT PLAN

At least annually, the Head of Internal Audit will submit to senior management and the Audit Committee an Internal Audit Plan (the "**Plan**") for review and approval. The Plan will consist of a work schedule as well as budget and resource requirements for the next year.

The Head of Internal Audit will implement the Plan as approved, including any special tasks or projects requested by senior management and the Audit Committee, as appropriate. The Head of Internal Audit will also communicate the impact of resource limitations to senior management and the Audit Committee.

The Plan will be developed based on a prioritization of auditable activities within the audit universe using a risk-based assessment methodology, including input of senior management and the Audit Committee. The Plan may be adjusted, as necessary, in response to changes in the Corporation's business, risks, operations, programs, systems, and controls. Any significant deviation for the approved Plan will be communicated to senior management and the Audit Committee through periodic activity reports.

8. REPORTING AND MONITORING

A written report will be prepared and issued by the Head of Internal Audit following the conclusion of each internal audit engagement and be distributed as appropriate. Internal audit results will also be communicated to the Audit Committee.

The internal audit report may include management's response and any corrective action taken or to be taken with regard to the specific findings and recommendations. Management's response,



whether included within the original audit report or provided thereafter, should include a timetable for anticipated completion of actions to be taken and an explanation for any corrective actions that will not be implemented.

IAG will be responsible for the appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The Head of Internal Audit will periodically report to senior management and the Audit Committee on IAG's purpose, authority and responsibility, as well as performance relative to its Plan. Reporting will also include any significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Audit Committee.

9. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

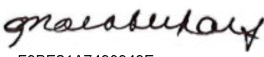
In accordance with the Standards, the Head of Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of IAG's conformance with the Definition of Internal Auditing and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of IAG and identifies opportunities for improvement.

The Head of Internal Audit will communicate to senior management and the Audit Committee on IAG's quality assurance and improvement program, including results of ongoing internal assessments and external assessments to be conducted at least once every five (5) years.

10. AMENDMENTS


Any additions, deletions or revisions to this Charter shall be subject to the approval of the Audit Committee and senior management.

Prepared by:

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Head of Internal Audit
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Vice President and Assistant Corporate Secretary
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Approved by:

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FRANCIS GILES B. PUNO
President and Chief Operating Officer
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JUAN B. SANTOS
Chairman, Audit Committee of the Board of Directors
Date: