

Internal Control and Compliance

This report summarizes the state of Paxys' Internal Audit, Control and Compliance systems for the year 2017.

Internal control Systems

Basic control mechanisms such as organizational, structural and financial controls are existent. The company's control structure consists of the Board having oversight responsibility over the internal control systems with this oversight function being exercised through the Audit and Risk Management Committee. Management is accountable to the Board for developing, operating and monitoring the system of internal control. Internal control improvements are being identified at the management level and through both the internal and external audits. Depending on the required intervention, these improvements are either immediately carried out, or made into projects if the implementation will take longer time, or in major issues, may be elevated to the Board for decision.

Below are the implemented controls and areas for improvement/weaknesses based on the components of Internal Control.

INTERNAL CONTROL COMPONENTS	ASSESSMENT
Control Environment Pertains to the overall culture of internal controls at the organization, including governance and compliance.	There is an established "tone at the top" including explicit moral guidance about what is right and wrong within the organization. Management demonstrates a commitment to integrity and ethical behavior by example in its day-to-day activities. Company policies regarding acceptable business practices, conflicts of interest, and expected ethical standards of ethical and moral behavior are established and communicated across the organization.
Risk Assessment An activity whereby all of the activities, and associated risks, in an organization are identified and analyzed. The business risks are	Management has an effective processes in place to identify, measure and monitor key business risks. Formal Enterprise Risk Management Program is in place and a risk register has

<p>assessed as to its likelihood of occurrence and the probable impact to the Company. Risk treatment or action plans are devised to ensure that major and critical risks are managed or treated to ensure achievement of business objectives.</p>	<p>been devised to document all associated risks.</p> <p>The risk management process is embedded in the culture and day-to-day activities from Board, Executive management and down to the employee level.</p>
<p>Control Activities</p> <p>This include procedures and controls put into place to mitigate identified risks. This include establishment of policies and procedures across the organization.</p>	<p>Policies and procedures are in place for all critical business processes.</p> <p>Based on the risk assessment done, high and critical risks are treated depending on the risk appetite of the Group. Responsibility for risk is shared across the organization through functional risk owners.</p> <p>The Board is updated on the results of the risk assessment activities and continuous audits are done to ensure monitoring of high risk areas.</p>
<p>Communication and Information</p> <p>Right information are provided to the right people at the right time for them to effectively carry out their activities. Useful information has relevant content and is timely, current, accurate, and accessible.</p>	<p>There are effective communication processes for the use, distribution and sharing of information throughout the organization.</p>
<p>Monitoring</p> <p>This validates that controls are working as intended and identifies anomalies. Monitoring is done at various organizational levels to include: check points by personnel performing daily tasks; reviews of transactions or events by supervisors; spot checks by objective individuals; and various reviews by peers, management advisory services, consultants, and auditors.</p>	<p>Continuous monitoring is embedded in the culture through internal controls designed by Management to detect errors and anomalies.</p> <p>Internal Audit is in charge for the review of the effectiveness of the design and soundness of the company's internal controls.</p>

Internal Audit

The Internal Audit activity supports the Board and management's assessment of the soundness of internal control and compliance systems by doing an independent, objective review. The Internal Audit reports functionally to the Audit, Risk and Related Party Transactions Committee and administratively to the Chairman and President, thus providing full independence to the internal audit activity.

Internal Audit conducts an annual risk assessment to determine its scope of review which is approved by Committee. The Internal Audit meets quarterly to discuss audit results and other control and compliance matters. A copy of the minutes of the committee meetings is provided to the board.

Compliance Systems

The Compliance Officer is responsible in developing, overseeing and monitoring implementation of compliance program. He ensures the company's adherence to regulatory and fiduciary requirements. The compliance officer is tasked to regularly provide compliance reports to the Audit Risk and Related Party Transactions Committee. Internal Audit likewise conducts an annual review of the Company's compliance systems and processes.

Tarcisio M. Medalla
Chairman & President

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Chief Audit Executive