

PSALM BOARD REVIEW AND COMMENT ON THE ADEQUACY OF PSALM'S MATERIAL CONTROLS (INCLUDING OPERATIONAL, FINANCIAL & COMPLIANCE CONTROLS) AND RISK MANAGEMENT SYSTEMS

The PSALM Board has the primary responsibility for ensuring the establishment, implementation and continuous improvement of the ERM System, as well as the allocation of necessary resources to manage risks. This function of the Board is performed through the Board Review Committee, (BRC) acting as Risk Management Committee, responsible for the following:

- Performing oversight risk management functions specifically in the areas of managing credit, market, liquidity, operational, legal, reputational and other risks of PSALM, and crisis management, which shall include receiving from Management periodic information on risk exposures and risk management activities;
- Developing the Risk Management Policy of PSALM, ensuring compliance with the same and ensure that the risk management process and compliance are embedded throughout the operations of PSALM, especially at the Board and Management levels;
- Providing quarterly reporting and updating the Board on key risk management issues; and
- Ensuring that appropriate ERM principles and standards are applied in all decisions of the PSALM Board.

PSALM recognizes the potential impact of risks on its financial and operational performance and corporate integrity, as well as its contribution to the attainment of societal goals and objectives. Guided by its Board (through the BRC) in the implementation of the ERM System, the Corporation endeavors to accomplish its mandate under the environment of uncertainty, increase the likelihood of achieving strategic objectives, improve the identification of opportunities and threats, and effectively allocate and use resources for risk mitigation/treatment and realization of foreseen opportunities.

In assessing the adequacy and effectiveness of the PSALM's material controls and risk management systems, a structured process of monitoring and reporting has been

established by Management and the Board which provides for a documented and identifiable auditing accountability, particularly in the areas of financial management, asset management and privatization, regulatory and legal aspects and general administration. This process of identification, evaluation and monitoring is clearly defined under PSALM's ERM Manual.

The PSALM Board certifies that the above systems are regularly reviewed every year, taking into consideration the changes in the financial, regulatory and business environment to ensure the adequacy and integrity of the systems of internal controls and risk management.