

AUDIT COMMITTEE CHARTER

Committee Name	Audit Committee
Short Name	AuditCom
Nature	BSP and SEC-required Board-level Committee
Authority	<p>The AuditCom is authorized by the Board to</p> <ul style="list-style-type: none"> • Investigate any matter within its Term of Reference. • Have unrestricted access to the auditors, members of the management, and employees; and records, data, reports, and relevant information considered necessary to discharge its duties. • Have full discretion to invite any director or executive officer to attend its meetings. • Have adequate resources to enable it to effectively discharge its functions.
Responsibility Statement	<p>The AuditCom aims to enhance the Board's oversight capability over the Bank's financial reporting process, system of internal control and risk management, internal and external audit as well as fraud management functions, and monitoring of compliance with Bank policies, applicable laws, rules, regulations, and Code of Conduct. As such, it is responsible for overseeing the senior management in establishing and maintaining an adequate, effective, and efficient internal control framework, and for ensuring that systems and processes are designed to provide assurance in above areas including efficiency and effectiveness of operations, and safeguarding of assets.</p> <p>To fulfill this responsibility, the AuditCom shall maintain free and open communication with the Bank's external auditors, the internal auditors, fraud management personnel, and the management.</p> <p>Whereas the AuditCom has the responsibilities and powers set forth in this Charter, it is not the duty of the AuditCom to plan or conduct audits or to determine that the Bank's financial statements and disclosures are complete and accurate, and are in accordance with the Philippine Financial Reporting Standards (PFRS) and applicable rules and regulations. The management is responsible for the preparation and fair presentation of the Bank's financial statements, and adequacy of disclosures in accordance with PFRS. The external auditor is responsible for providing its opinion based on its audits, that the financial statements fairly present in all material respects, the financial position, results of operations, and cash flows of the Bank in accordance with PFRS.</p>
Duties and Responsibilities	<p>The AuditCom is tasked to</p> <p>A. Financial Reporting and Disclosures</p> <ol style="list-style-type: none"> 1. Oversee the financial reporting process, practices, and controls. It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports. 2. Have a fair and balance review including the clarity, completeness, consistency, and accuracy of disclosures and full discussion in a timely manner of the Bank's quarterly, bi-annual, and annual financial statements with the external auditor and management to decide appropriate action to be taken, before submission to the Board, focusing particularly on <ol style="list-style-type: none"> a. Appropriateness of accounting policies and practices adopted by management and any major issues regarding, or significant changes in, accounting principles or financial statements presentation; b. Reasonableness of estimates, assumptions and judgments used;

- c. Methods of accounting for significant unusual or complex transactions including all related party transactions;
- d. Significant adjustments, material errors and fraud;
- e. Going concern assumptions; and
- f. Compliance with accounting standards, tax, legal, and regulatory requirements.

Understand and duly assess the external auditor's opinion regarding the capability of management and the adequacy of accounting and financial systems to comply with financial and prudential reporting responsibilities.

- 3. Receive reports or other communications obtained from regulators, and updates from the legal counsel on legal and regulatory matters that may have material effect on the Bank's activities and related financial statements.

B. Internal Controls and Risk Management

- 1. Oversee senior management in establishing, maintaining, and periodically reviewing the adequacy, effectiveness, and efficiency of the Bank's internal control framework, including information technology security and control.

It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring, compliance with laws, regulations, and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

- 2. Assist the Board in defining the Bank's level of risk tolerance and in implementing the policies and procedures relating to the management of risks throughout the Bank.
- 3. Evaluate and review with the internal and external auditors the following:
 - a. The adequacy and effectiveness of the Bank's internal controls, financial reporting controls, operational, and compliance controls, and risk management policies and systems including information systems and security established by management; and
 - b. Any related reports of the internal and external auditors together with management's responses including the timetable for implementation of recommendations to correct internal control weaknesses.
- 4. Establish and maintain mechanisms by which officers and staff may, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. AuditCom shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, subsequent resolution of complaints, and that informants who acted in good faith will not be subjected to any form of harassment or restitution from the subject of the case.
- 5. Review the Bank's implementation of the business continuity plan.
- 6. Identify high-risk areas or risk exposures that require more AuditCom and internal audit's consideration.
- 7. Recommend improvement in policies, procedures, and processes.

C. Internal Audit and Fraud Management

- 1. Oversee the Internal Audit Group (IAG) and Fraud Management Group (FMG).
 - a. Ensure the independence and objectivity of the internal audit and fraud management activities.
 - b. Ensure that IAG and FMG have adequate human resources with sufficient qualifications and skills necessary to accomplish their functions.
 - c. Ensure that the Chief Audit Executive (CAE) and the FMG Head share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting services providers to ensure proper coverage and minimize duplication of efforts.

- d. Review IAG' and FMG's periodic and annual reports. Periodic reports shall highlight the status of projects in accordance with the annual plan approved by the AuditCom, as well as any unplanned projects. The annual report shall discuss IAG and FMG activities and performance relative to the annual plan and strategies approved by the AuditCom.
 - e. Ensure that IAG complies with sound internal auditing standards such as The Institute of Internal Auditors' Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, Code of Ethics, and International Standards for Professional Practice of Internal Auditing (ISPPA) and comply with other supplemental standards issued by regulatory authorities/ government agencies. Also, ensure that FMG adheres to relevant laws and regulations in the performance of its duties.
2. Recommend to the Board the appointment, reappointment, and dismissal of the CAE and the FMG Head, as well as the key IAG and FMG personnel (division head level). Senior management may recommend the appointment, reappointment, and dismissal of the CAE and the FMG Head subject to concurrence of the AuditCom. If the CAE or the FMG Head resigns or communicates an intention to resign, the AuditCom should follow up the reasons giving rise to such resignation, and should consider whether it needs to take any action in response to those reasons. In cases when the CAE will be replaced, the Bank shall report the same and the corresponding reason for replacement to the Bangko Sentral ng Pilipinas (BSP) within five (5) days from the time it has been approved by the Board.
 3. Establish and identify the reporting line of the CAE and FMG Head so that the reporting level allows the internal audit activity and fraud management function to fulfill its duties and responsibilities. The CAE and FMG Head shall functionally report directly to the AuditCom.
 4. Ensure that the internal auditors and fraud management personnel have free and full access to all the Bank's records, properties, and personnel relevant to and required by its function and that the internal audit activity shall be free from interference by outside parties in determining the scope of internal audit examinations, performing work, and communicating results.
 5. Ensure that IAG and FMG maintain an open communication with senior management, the AuditCom, external auditors, and supervisory authorities.
 6. Review and recommend for Board approval the annual internal audit and fraud management risk-based plans (including scope, audit frequency, resources, budget, and any resource limitation and its impact) and any changes thereto, and ensure that it is aligned with the overall plan strategy and budget of the Bank, and that the audit resources are reasonably allocated to the areas of highest risk.
 7. Recommend the approval and oversee the implementation of the Internal Audit Charter (IA Charter) and Fraud Management Charter, including subsequent revisions thereto, which formally define the role of IAG and FMG, respectively, and the annual plans.
 8. Receive and review reports of IAG and regulatory agencies, where applicable, to monitor and evaluate the adequacy, effectiveness, and efficiency of the Bank's governance, internal control system, including financial reporting, operational and compliance controls, risk management, and information technology security and control on a going-concern basis and communicate the same through-out the Bank to ensure that the management is taking appropriate corrective actions in a timely manner, in addressing control weaknesses and non-compliance issues with policies, laws, and regulations and other issues identified by auditors. Report significant matters to the Board.
 9. Require IAG to conduct a periodic formal review of the group structure, its controls, and activities to assess consistency with the Board-approved policies, practices, and strategies, and report the results of assessment directly to the AuditCom.
 10. Monitor and review effectiveness of IAG and recommend enhancements in the audit process.

11. Review result of oversight activities on internal audit functions of the Bank's subsidiaries and affiliates, including reporting of significant audit observations.
12. Review and advise management on the results of any investigations. Supervise and direct any investigation related to fraud; and oversee management's arrangements for the prevention and deterrence of fraud.
13. Conduct annual performance appraisal of the CAE and the FMG Head and report it to the Board.
14. Recommend for approval of the Board the annual remuneration of the CAE and the FMG Head, as well as the key IAG and FMG personnel (division head level).
15. Select and oversee the performance of the external service provider for IAG and FMG.
 - a. Ensure the independence and objectivity of the external service provider.
 - b. Ensure that the external service provider has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.
 - c. Ensure that the external service provider complies with sound internal auditing standards such as The Institute of Internal Auditors' Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, Code of Ethics, and International Standards for Professional Practice of Internal Auditing (ISPPA) and comply with other supplemental standards issued by regulatory authorities/ government agencies.
 - d. Report to the Board on the status of accomplishment of the external service provider, where applicable, including significant findings noted during the conduct of the audit or fraud investigation.
 - e. Ensure that the audit plan is aligned with the overall plan strategy and budget of the Bank and is based on robust risk assessment.
16. Receive reports on the quality assurance and improvement program of IAG and FMG. For IAG, disclosures include the scope and frequency of both internal and external assessments, the qualifications and independence of the assessment team, the conclusions of the assessors, any corrective action plan that has been created from the assessments to address areas that were not in conformance with the *Standards*, along with opportunities for improvement, and any nonconformance with the *Standards* and Code of Ethics which may impact the overall scope or operation of IAG. For FMG, the reports shall cover all aspects of the fraud management activity.
17. Address with senior management the level of residual risk, which the CAE or FMG Head has concluded that may be unacceptable to the Bank, and the senior management has accepted. This is after the CAE or FMG Head discussed the matter with senior management and determined that the matter has not been resolved.

D. External Audit

1. Recommend to the Board for approval, subject to ratification of the shareholders, the appointment, reappointment, dismissal, and fees of external auditors. The external auditors must be duly accredited by the Securities and Exchange Commission (SEC) and included in the List of Selected External Auditors for BSP-Supervised Financial Institutions (BSFIs). If the external auditor resigns or communicates an intention to resign, the AuditCom should determine reasons giving rise to such resignation and consider whether action is required. For removal of the external auditor, the reasons for removal or change should be disclosed to the regulators and the public through the Bank's website and required disclosures.
2. Review and evaluate the qualifications, performance, integrity, independence, and objectivity of the external auditor and its lead audit partner primarily responsible for the audit of the Bank's financial accounts. Review and monitor external audit process' overall effectiveness,

independence and objectivity, taking into consideration relevant Philippine professional and regulatory requirements. Review and monitor the external auditor's suitability and effectiveness on an annual basis.

3. Review with the external auditor the annual audit plan, including the scope and frequency. Review the terms of the engagement letter provided by the external auditor as to the nature, audit approach, professional fees of the annual audit before it commences and ensure coordination where more than one audit firm is involved in the activity to ensure proper coverage and minimize duplication of efforts, and scope of work covering areas specifically prescribed by the BSP and other regulators and those relevant to the Bank's operations and risk exposures. These include the following, among others:
 - a. Review of the adoption of applicable reporting framework as well as the assessment of the accuracy, adequacy, and reliability of accounting records and financial reports;
 - b. Assessment of the propriety and adequacy of disclosures in the financial statements;
 - c. Assessment of the adequacy and effectiveness of internal controls and risk management systems;
 - d. Assessment of the quality of capital in relation to risk exposures; and
 - e. Evaluation of the quality of corporate governance.
4. Ensure that external auditors are given unrestricted access to all records, properties, and personnel to enable them to perform their audit functions.
5. Assess the extent of management's cooperation provided during the conduct of the external audit.
6. Engage the external auditor on a continuing basis on matters concerning audit quality.
7. Obtain and consider reports or communications related to any significant disagreement with management. Resolve the disagreements between management and external auditor and ensure that a discussion of any disagreement on accounting principles or practices, financial statement disclosure or auditing scope or procedure is included in the Bank's annual and current reports.
8. Evaluate and determine non-audit works to be performed by the external auditor and review periodically the fees paid for such services in relation to their significance to the total annual income of the external auditor and to the Bank's total expenditure on consultancy. Disallow any non-audit work that will conflict with the external auditor's duties or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Bank's Annual Report and Annual Corporate Governance Report (ACGR).
9. Ensure that the external auditor or its lead audit partner primarily responsible for the audit or review of the Bank's financial accounts is rotated at least once every five (5) years or such shorter or longer period provided under applicable laws and regulations.
10. Review and approve management representation letter before submission to external auditor to ensure that items in the letter are complete and appropriate.
11. Review the disposition of the recommendations in the external auditor's management letter.

E. Compliance with Bank Policies, and Applicable Laws, Rules and Regulations and Code of Business Conduct

1. Monitor compliance by the Bank with all applicable laws, rules, and regulations of the Bangko Sentral ng Pilipinas (BSP) and other regulatory government agencies, including but not limited to Anti-Money Laundering and Countering Financing of Terrorists (CFT).
2. Monitor compliance by the Bank with regulations and policies as contained in the various operations manuals as well as the Bank's Code of Conduct and other codes of conduct as may be imposed by the Bank.

F. Other Responsibilities

1. Attend a minimum of four hours of training every year, a program on Corporate Governance conducted by training providers duly accredited by the Securities and Exchange Commission (SEC) or through a SEC-approved in house corporate governance training, covering all the mandated topics including financial reporting and auditing.
2. Report annually to the stakeholders on the AuditCom's composition, responsibilities, and any other information required by rule, including approval of non-audit services.

Composition

The AuditCom shall be comprised of at least three (3) appropriately qualified non-executive directors, the majority of whom, including the Chairperson, shall be independent, with accounting, auditing or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank. The Chairperson of the Audit Committee shall not be the Chairperson of the Board of Directors ("Board") or of any other committees.

The AuditCom members shall be appointed annually by the Board. If a member is an independent director (ID), the member shall serve for a maximum cumulative tenure of nine years to be reckoned starting 2012. After which, the ID shall be perpetually barred from re-election as such, but may continue to qualify for nomination and election as a non-independent/ regular director. If the Bank wants to retain an ID who has already served for nine years, the Board should provide meritorious justification/s and seek shareholders' approval during the Annual Shareholders' Meeting.

The committee members, including the Chairperson, may also be occasionally rotated by the Board to avoid undue concentration of power and promote fresh perspective.

Quorum/Majority Votes

A majority of the AuditCom members shall be necessary to constitute a quorum at any meeting.

When a quorum is present at any such meeting, a majority vote shall decide any matters submitted for the AuditCom's disposition. All AuditCom members shall have voting rights.

The member participating at the meeting through remote communication such as videoconferencing, teleconferencing, or other alternative modes of communication shall be deemed present for the purpose of attaining a quorum and shall be allowed reasonable opportunities to vote.

Meeting Schedule

The AuditCom shall meet:

- Monthly with the internal auditor
- Monthly with the Board
- Regularly with the external audit team without anyone from management present to discuss any sensitive matters
- Annually with the Board without the presence of the President/ CEO or other management team members
- Annually with other non-executive directors, external audit team and heads of the internal audit, compliance, and risk functions, without any executive directors present to ensure that proper checks and balances are in place within the organization. The meeting shall be chaired by the lead independent director.
- As necessary with management, BSP, and other parties

The AuditCom members shall attend and actively participate in all meetings prescribed in this Charter in person or through modern technologies, except when justifiable causes prevent the members from doing so. Their attendance and participation shall be considered in the assessment of continuing fitness and propriety as member of the AuditCom and the Board.

The member participating at the meeting through remote communication shall sign all documents for approval on a reasonable time after the meeting through the use of electronic signature (e-signature) or whenever the act of signing through wet ink signature is practicable.

Facilitator and Secretariat	As IAG's designated Board-level committee reporting line, the AuditCom shall be assisted by IAG in fulfilling its duties and responsibilities. Thus, IAG shall regularly report to the AuditCom on all matters relative to audit.
	The IAG shall serve as the AuditCom Secretariat and shall facilitate its meetings. As such, the CAE and/ or his/ her designated officers shall prepare the agenda for each meeting, send out notices to the committee members at least two (2) banking days before the scheduled meeting date, and prepare and submit the pertinent reports as may be required by the Board and/ or the AuditCom, together with the draft of the minutes of the AuditCom meeting for review. Approval by the members of the previous minutes shall be during the succeeding AuditCom meeting. IAG shall also maintain on file such records (e.g., minutes or summary of matters taken up) that document the AuditCom's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.
Performance Assessment	The AuditCom shall evaluate and confirm its performance of responsibilities embodied in this Charter, at least annually within the first quarter of the year, preferably during the January Board meeting, which shall include the individual member's performance. The results of which shall be submitted to the Compliance Office for the Corporate Governance Committee's endorsement to the Board for notation during the following month's Board meeting.
Charter Review	The AuditCom shall review and reassess the AuditCom Charter at least annually or whenever there are significant changes to the committee's mandate, scope, and working procedures. Any changes thereto shall be endorsed to Compliance Office for review in terms of adherence to standard charter template, then to the Board of Directors for approval.
Reporting to the Board	The AuditCom shall report monthly to the Board about its activities and issues that arise with respect to the quality or integrity of the Bank's financial statements, the compliance with legal or regulatory requirements, the performance and independence of the external auditors, and the performance of the internal audit activity.
Interaction with Other Board/Management-Level Committees	The AuditCom may interact or coordinate with other Board or Management-level committees as necessary to discharge its duties.
Last Reviewed & Updated:	October 2020