

AUDIT COMMITTEE CHARTER

A. Purpose and Objective

The Audit Committee provides a structured, systematic oversight of the Bank's governance, risk management and internal control processes. The committee primarily oversees all matters pertaining to the Bank's internal audit (IA) function and performance, and plays an important role in empowering and elevating the status of the internal audit activity throughout the organization as provider of quality and significant assurance and consulting services that adds value to the Bank. Likewise, it assists the Board and Management by providing advice on the adequacy of the Bank's initiatives for:

- Values and ethics
- Governance structure
- Risk Management
- Internal control framework
- Oversight of external auditors and other assurance providers
- Integrity of the Bank's financial statements and the accounting processes in general.

In general, the Audit Committee provides the board with independent advice and guidance regarding the adequacy and effectiveness of management's activities and its potential improvements.

B. Mandate

The mandate for the establishment of the audit committee was derived from:

- **BSP Manual of Regulations for Banks (2020 Edition) – Part 1 Section 133 Board-Level Committees**

“The board of directors may delegate some of its functions, but not its responsibilities, to board-level committees. In this regard, the board of directors shall:

- d. Constitute, at a minimum, the following committees: (1) Audit Committee; (2) Risk Oversight Committee, and (3) Corporate Governance Committee: Provided, That the board of directors of simple or non-complex banks may, at a minimum, constitute only the Audit Committee unless directed by the Bangko Sentral to create other board-level committees.”*

Including all other applicable provisions under this Section, with regard to the Composition and Duties & Responsibilities of the Committee.

- **Securities and Exchange Commission (SEC) Memorandum Circular No. 24 series of 2019**

Recommendation 3.2

“The Board should establish an Audit Committee to enhance its oversight capability over the company’s financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations.”

C. Membership

1. The Audit Committee shall be composed of at least three (3) members of the Board of Directors, who shall be non-executive directors, wherein two (2) of whom shall be independent directors, including the Chairman.
2. All of the members of the committee must have a relevant background, knowledge, skills and/or experience in the areas of accounting, auditing and financial management commensurate with the size, complexity of operations and risk profile of the Bank.
3. The Chairman of the Audit Committee shall not be the chairman of the Board of Directors or of any other board-level committees.
4. No member of the Audit Committee, shall be concurrently designated as a member of the Trust Committee.

D. Terms of Office

The Board has the power to re-organize committee membership, thus, in case of vacancy the Board of Directors may appoint the replacement in accordance with the Bank’s By-Laws.

E. Voting and Quorum Requirements

Majority of the members of the Committee shall constitute a quorum; each member is allowed to vote for matters brought to the attention of the committee for action. Every decision of at least a majority of the Committee members present at a meeting at which there is a quorum shall be valid, unless a specific number of votes is required by existing laws and regulations. Directors who participate through remote communication shall be deemed present, for purposes of quorum.

F. Audit Committee Values

The Committee will conduct itself in accordance with the Code of Ethics for Directors and the Bank’s Code of Ethics, as applicable.

G. Authority

This charter sets out the authority of the Audit Committee to carry out its responsibilities as established by the Board. In discharging its responsibilities, the Audit Committee shall have:

1. Explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings. The Audit Committee shall ensure that a review of the effectiveness of the Bank's internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually;
2. Unrestricted access to records, data and reports; and
3. Access to independent experts or seek professional guidance from independent counsel, accountants, or others to advise and assist the Committee in the effective performance of their duties.

H. Duties and Responsibilities

The Committee shall have the following duties and responsibilities:

1. Evaluate the committee's and individual members' performance on a regular basis.
2. Provide the board with independent, objective advice on the adequacy of management's arrangements with respect to the following aspects:
 - a. **Values and Ethics** - To obtain reasonable assurance with respect to the Bank's values and ethics practices.
 - b. **Organizational Governance** - To obtain reasonable assurance with respect to the Bank's governance process, the audit committee shall review and provide advice on the governance process established and maintained within the Bank and the procedures in place to ensure that they are operating as intended.
 - c. **Risk Management** - To obtain reasonable assurance with respect to the Bank's risk management practices.
 - d. **Fraud** – To obtain reasonable assurance with respect to the Bank's procedures for the prevention and detection of fraud.
 - e. **Oversight of Internal Control** - Oversee senior management in establishing and maintaining an adequate, effective and efficient internal control system, including the Bank's information technology security and control.
 - 1) 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, taking into consideration the Bank's risk profile and strategic directions.
 - 2) Review and discuss the following, with management, the external auditors and internal audit, as appropriate:
 - a) Management's assessment of the adequacy of internal controls of the Bank as a whole and its individual units, including the Report on Internal Control that is

filed with the Bank's Annual Report, which shall state the responsibilities of management for establishing and maintaining an adequate internal control system and contain an assessment of the effectiveness of such system;

- b) Internal control reports (management letters) submitted by the external auditors in connection with their audit of the financial statements;
- c) Internal control issues noted during internal audits, together with management's responses and determine that appropriate and timely corrective actions have been taken to address significant deficiencies and weaknesses;
- d) Through the Internal Audit Division, monitor and evaluate the adequacy and effectiveness of the Bank's internal control system, integrity of financial reporting, and security of physical and information assets; and
- e) Scope of internal and external auditors' review of internal control over financial reporting.

- 3) Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to senior management and the board.

f. **Compliance System** - The Audit Committee shall:

- 1) Review 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;
- 2) Obtain updates from Management and other relevant resource persons regarding compliance matters; and
- 3) Issue certifications as may be necessary, for assurance purposes.

3. Oversight of Internal Audit Function and Other Assurance Providers

- Establish the internal audit function (including in-house and outsource audit services) and appoints qualified Chief Audit Executive (CAE) as well as the independent external auditor who shall both report directly to the Audit Committee.
- Ensures the independence of Internal and External Auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.

a. **Internal Audit**

To obtain reasonable assurance with respect to work of the internal audit function, the Audit Committee shall provide oversight related to:

1) Internal Audit Charter and Resources

- a) Review and approve the IA Charter, at least annually, as well as oversee the implementation of the IA Charter.

- b) Establish and identify the reporting lines of the CAE to the Audit Committee to properly fulfill his/her duties and responsibilities.
- c) Make appropriate inquiries of management and the CAE to determine whether there is inappropriate scope or resource limitations.
- d) Advise the board about increases and decreases to the requested resources to achieve the internal audit plan and evaluate the need for additional resources permanently or provided through outsourcing, including selecting and approving the terms and conditions for outsourcing internal audit services.
- e) Oversee the performance of the internal audit service provider (for outsourced *internal audit activities*):
 - Ensure independence of the internal audit service provider;
 - Report to the Board of Directors on the status of accomplishments of the outsourced internal audit activities, including significant findings noted during the conduct of the internal audit;
 - Ensure that the internal audit service provider comply with sound internal auditing standards such as The Institute of Internal Auditor's (IIA) International Standards for the Professional Practice of Internal Auditing (ISPPIA) and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics;
 - Ensure that the audit plan is aligned with the overall plan strategy and budget of the Bank and is based on robust risk assessment; and
 - Ensure that the internal audit service provider has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities;

2) CAE Performance

- a) Approve the appointment, reappointment or removal of the CAE and key internal auditors;
- b) Report to the Board of Directors the annual performance appraisal of the CAE;
- c) Recommend for approval of the Board of Directors the annual remuneration of the CAE and key internal auditors; and
- d) Monitor and review the effectiveness of the internal audit function.

3) Internal Audit Strategy and Plan

- a) Review and approve the risk-based internal audit plan, scope, frequency of work and budget, including internal audit resources necessary to achieve the plan, all major changes thereafter and make recommendations concerning internal audit projects.
- b) Receive communications from the CAE on the internal audit activity's progress, findings and performance relative to its plan and other matters.
- c) Ensure that the internal audit function maintains an open communication with senior management, the audit committee, external auditors, and the supervisory authorities.

4) Internal Audit Engagement and Follow Up

- a) Review the internal audit reports and the recommendations to address the weaknesses noted, discussing the same with the CAE and reporting significant matters to the Board of Directors.
- b) Review and advise management on discoveries of fraud and violations of laws and regulations on results of any special investigations of internal audit function.

5) Standards Conformance

- a) Ensures that the CAE and internal audit function are free from interference by outside parties.
- b) Make inquiries with the CAE on steps to ensure monitoring and reviewing of the effectiveness of the Internal Audit function including conformance with *The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (IIA-ISPPIA)* and the Code of Ethics.

b. External Auditors

To obtain reasonable assurance with respect to work of external assurance providers, the Audit Committee shall:

- a) Select and appoint the external auditors directly reporting to the Committee, subject to stockholder ratification. In cases of appointment or dismissal of external auditors, it is encouraged that the decision be made only by independent audit committee members.
- b) Recommend for approval of the Board audit fees and fees for non-audit services, if any, including the review and determination of the non-audit work.

The Committee should disallow any non-audit work that will conflict with his duties as an External Auditor or may pose a threat to his independence. The non-audit work, if allowed should be disclosed in the Annual and Annual Corporate Governance Report.

- c) Evaluate the qualifications, performance, competence, integrity and independence of the external auditors.
- d) Review and approve the engagement contract and prior to the commencement of audit, discuss with the external auditor the nature, scope and expenses of the audit and ensure proper coordination if more than one audit firm is involved in the activity.

- e) Review and discuss the annual audited financial statements, management letters, and the disposition of the recommendation therein, regulatory and accounting issues and developments and their effect on the financial statements.
4. **Oversight of Financial Reporting** - The Audit Committee is responsible for oversight of the financial reporting process, practices and controls and ensures that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports. The Audit Committee shall review and discuss with management and external auditors the annual audited financial statements before submission to the Board, focusing particularly on the following matters:
- a. Any change/s in accounting policies and practices, standards and interpretations and its related impact;
 - b. Major judgmental areas including reasonableness of estimates and assumptions used in the preparation of financial statements;
 - c. Significant adjustments resulting from the audit, error or fraud in financial reporting;
 - d. Going concern assumption;
 - e. Compliance with accounting and auditing standards;
 - f. Compliance with tax, legal and stock exchange regulatory requirements;
 - g. Management's responsibility over the financial statements;
 - h. Identification of material errors and fraud, and sufficiency of risk controls;
 - i. Unusual or complex transactions including all related party transactions;
 - j. Assessment of annual and interim financial reports as to completeness, clarity, consistency and accuracy of disclosures of material information including on subsequent events and related party transactions;
 - k. Litigation, claims, contingencies or other significant legal issues that have impact on financial statements;
 - l. Fair and balance review of financial reports;
 - m. Assessment of correspondence between the company and regulators regarding financial statement filings and disclosures;
 - n. Resolution of any disagreements between management and the external auditor regarding financial reporting;
 - o. Management's competence regarding financial reporting responsibilities including aggressiveness and reasonableness of decisions; and
 - p. Completeness and timeliness of communication with external auditor as the critical policies, alternative treatments, observations on internal controls, audit adjustments, independence, limitations on the audit work set by the management, and other material issues that affect the audit and financial reporting.
5. **Whistleblowing** - Establish and maintain a mechanism by which officers and staff may, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing, code of conduct or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

I. Meetings and Access

1. The Committee shall meet every third 3rd Wednesday of the month at 12:00 noon at the Bank's Board Room, Head Office or such other date & time as may be agreed upon by the members.
2. The chairman shall establish agendas for the audit committee meetings in consultation with audit committee member, senior management and the CAE.
3. The Audit Committee shall establish and communicate its requirements for information, which includes the nature, extent, and timing of information. Information shall be provided to the Audit Committee at least one week prior to each audit committee meeting.
4. Audit Committee members are obliged to prepare for and participate in committee meetings.
5. The members of the Audit Committee who cannot physically attend or cast a vote at a meeting can participate through remote communication such as videoconferencing, teleconferencing or other alternative platforms/media that allow them reasonable opportunity to participate.
6. The Audit Committee shall:
 - a. Meet periodically with Board, management, internal audit and external auditors, together or separately as the Committee may see fit;
 - b. Meet privately with the CAE, at least annually, without management present, to discuss information concerning the internal audit activity's plans and activities and to keep each other informed on any other matters of mutual interest; and
 - c. Report on the committee's activities regularly to the Board.

J. Training

The Audit Committee members shall receive formal orientation on the purpose and mandate of the committee and the Bank's objectives. A process of continuing education shall be established.

K. Self-Assessment

In accordance with the Bank's Corporate Governance Manual and SEC Memo No.4 (series of 2012), the Committee shall conduct an annual assessment of its performance effectiveness through self-assessment.

L. Charter Review

The Board shall review and assess the adequacy of this charter annually or as needed, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.

References:

1. BSP Manual of Regulations for Banks Y2020 Edition
2. Securities and Exchange Commission (SEC) Memorandum Circular No. 24 series of 2019
3. SEC Memo No. 4 Series of 2012, Guidelines for the Assessment of the Performance of Audit Committee of Companies Listed on the Exchange
4. The Institute of Internal Auditors (IIA) Model Audit Committee Charter Revised: March 2017
5. IIA's Implementation Guide 1111 – Direct Interaction with the Board
6. SEC 52 of the Revised Corporation Code