

## CHARTER OF THE AUDIT COMMITTEE

### I. Purpose and Objectives

This Charter sets forth the authority and responsibilities of the Audit Committee of the Board of the Directors.

- A. The Committee assists the Board in fulfilling its oversight responsibilities with respect to internal controls including financial reporting control and information technology security, accounting policies, and auditing and financial reporting practices.
- B. The Committee assists the Board in its oversight of:
  - 1. the financial reporting process;
  - 2. compliance with legal and regulatory requirements;
  - 3. the external auditor's qualification and independence;
  - 4. the performance of the external auditors and the Bank's internal audit function; and
  - 5. the system of internal control.
- C. The Committee will report its activities to the Board on a regular basis and make such recommendations, as the Committee deems necessary or appropriate.
- D. The Committee is entitled to place reasonable reliance on:
  - 1. the integrity of those persons and organizations within and outside the Bank from whom and from which it receives information; and
  - 2. the accuracy of the financial and other information provided to the Committee by such persons or organizations, absent actual knowledge to the contrary which will be promptly reported to the Board of Directors.
- E. The function of the Committee is oversight.
  - 1. The management of the Bank is responsible for the preparation, presentation and integrity of the Bank's consolidated financial statements.

2. Management is responsible for maintaining appropriate accounting and financial reporting principles and policies as well as internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations.
  3. The external auditors are responsible for planning and performing proper audits, including an audit of the Bank's annual consolidated financial statements filed on SEC Form 17-A, and other procedures, including reviews of the Bank's unaudited interim consolidated financial statements prior to the filing of each quarterly report on SEC Form 17-Q.
- F. The Committee will review and assess the adequacy of this written charter annually and recommend changes to the Board of Directors when necessary.

## **II. Membership**

- A. The Audit Committee shall be composed of at least three (3) members of the Board of Directors, who shall all be non-executive directors, majority of whom shall be independent directors including the Chairman. The Chairman of the Audit Committee shall not be the Chairman of the Board of Directors or of any other board-level committee.
- B. With respect to Committee members, the basis for determining independence will be the director independence guidelines specified in the Bank's Corporate Governance Manual plus additional requirements imposed upon audit committees by the regulatory authorities. The Committee members will not receive, directly or indirectly through their affiliations or relatives, any consulting, advisory or other compensatory fee from the Bank or its subsidiaries other than Director's Fees as defined in the Bank's Corporate Governance Manual and fixed amounts of compensation under a retirement plan for prior service.
- C. The composition of the Committee and its independence will be reviewed annually by the Board of Directors.
- D. Should there be members who sit simultaneously on the Audit Committees of two or more other public companies, the Board will determine if their duties on other boards impair their ability to serve effectively on the Audit Committee of the Bank, and such determinations will be disclosed in the Annual Proxy Statement.

- E. The Audit Committee shall have accounting, auditing, or related financial management expertise or experience commensurate with size, complexity of operations and risk profile of the Bank. The Board of Directors will perform an annual review to confirm the qualifications and independence of the Committee. Committee members will serve at the pleasure of the Board and may be removed by the Board of Directors in its discretion.
  
- F. If a member of the Committee resigns or for any other reason ceases to be a member with the result that the number of members is reduced below three, the Board of Directors shall, within three months of that event, appoint such number of new members as may be required to make up the minimum number of three members.

### **III. Duties and Responsibilities**

#### **A. Matters to Be Reviewed and Discussed by the Committee**

- 1. The Committee shall:
  - a. 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.
  - b. Oversee the implementation of internal control policies and activities. It shall also ensure that periodic assessment of the internal control system is conducted to identify the weaknesses and evaluate its robustness considering the Bank's risk profile and strategic direction.
  - c. Be responsible for the appointment/selection, remuneration and dismissal of the Chief Audit Executive. It shall review and approve the audit scope and frequency. It shall ensure that the scope covers the review of the effectiveness of internal controls including financial, operational and compliance controls and risk management system. The Committee shall functionally meet with the Chief Audit Executive and such meetings shall be duly minuted and adequately documented. In this regard, the Committee shall review and approve the performance and compensation of the Chief Audit Executive and budget of the internal audit function.
  - d. Be responsible for the appointment, fees and replacement of the external auditor. It shall review and approve the engagement contract and ensure that the scope of the audit likewise cover areas specifically prescribed by the BSP and other regulators.
  - e. Receive key audit reports and ensure that Senior Management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors and other control functions.

- f. Have explicit authority to investigate any matter within its terms of reference, have full access to and cooperation by management and have full discretion to invite any director or executive officer to attend its meetings.
    - g. Establish and maintain mechanisms by which officers and staff shall, 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. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action and subsequent resolution of complaints.
2. The Committee will review management's assessment of the adequacy of internal controls, and the resolution of identified material weaknesses and reportable conditions in internal controls, errors, fraud, sufficiency of risk controls, including the prevention and detection of management override or compromise of internal controls. The Committee will obtain assurance from management on the state of the Bank's internal controls including controls over information systems and information technology functions.
3. The Committee will review the Report on Internal Controls that is filed within the Bank's Annual Report. That report will state the responsibilities of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting and contain an assessment of the effectiveness of such structure and procedures. The Committee will also review the external auditors' examination of management's assertion regarding the Bank's internal controls over financial reporting.
4. The Committee will review and discuss with management and the external auditors the scope of services required at the commencement of the audit, matters relating to the conduct of the audit, and the results of the audit.
5. The Committee, or in its discretion, the Chairman of the Committee, will discuss with management, the Chief Audit Executive and/or the external auditors, as appropriate, the Bank's correspondences with regulators regarding financial statement filings and disclosures and the Bank's financial earnings press releases and financial information and earnings guidance provided to analysts and rating agencies.
6. The Committee will review with management, the external auditors, and the Chief Audit Executive the Bank's annual consolidated financial statements and the related opinion thereon, prior to filing with the

Securities and Exchange Commission. The Chief Executive Officer, Chief Financial Officer, and Chief Audit Executive will be present at this review, which will include a review of the Bank's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" to be included in the Bank's Annual Report on SEC Form 17-A, as well as any other matters to be reviewed per the requirements of the regulatory agencies and the Philippine Stock Exchange.

7. The Committee will review the external auditors' judgment about the quality of accounting principles as applied in financial reporting, and will review and assess the reasonableness of analyses prepared by management and the external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of financial statements. Specifically, the external auditors will report to the Committee:
  - a. all critical accounting policies and practices used by the Bank;
  - b. all material alternative accounting treatments of financial information within generally accepted accounting principles that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the external auditors;
  - c. going concern assumptions; and
  - d. other material written communications between the external auditors and management.
  
8. The Committee will review the interim and annual financial statements before their submission to the Board with particular focus on the following matters:
  - a. Any change/s in accounting policies and practices
  - b. Major judgmental areas
  - c. Significant adjustments resulting from the audit
  - d. Going concern assumptions
  - e. Compliance with accounting standards
  - f. Compliance with tax, legal and regulatory requirements.
  
9. The Committee will receive from management reports on unusual or complex transactions including related party transactions and review these with management, the external auditor and the Chief Audit Executive.
  
10. The Committee will consider a review of the number and experience of supporting staff, the size and complexity of the Controllership Group in order to determine whether the Controller has adequate

staff resources with the appropriate experience and expertise, and that the Controller is able to perform his duties in support of good internal controls, effective audits and high quality financial reporting and disclosure. It may consider participating in the appointment of the Controller by reviewing management's recommendation of candidates and their qualifications and experience and finally concurring with management's recommendation on the choice of candidate.

11. The Committee could obtain feedback on the competency and adequacy of the Controllership Group from the external auditors and internal auditors and inquire into the root causes for major/significant audit adjustments to ascertain the competence of the group.
12. The Committee will obtain from the external auditor's assurance that the audit was conducted in a manner consistent with auditing standards, accounting principles generally accepted in the Philippines or the International Accounting Standards.
13. The Committee will prepare and review with the external auditors the report relating to its oversight role, as required by the Securities and Exchange Commission, for inclusion in the Bank's Annual Proxy Statement.
14. At least annually, the Committee will obtain and review a report by the external auditors describing:
  - a. the external auditors' internal quality-control procedures;
  - b. any material issues raised by the most recent internal quality-control review, or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm; and
  - c. any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the external auditors and the Bank.
15. The Committee will review and approve management representation letters before submission to the external auditor.
16. The Committee will review with management, the Chief Legal Officer, the Chief Compliance Officer, and the Chief Audit Executive the Bank's

compliance with laws and regulations, including the laws and regulations relating to safety and soundness designated by responsible banking agencies and will also review management's assertions with respect to laws and regulations. It will receive reports from the Chief Legal Officer and the Controller reports covering litigations, claims, contingencies and other significant legal issues that impact financial statements.

17. The Committee will receive from management and review the results of all unsatisfactory regulatory examination reports, if there be any, and management's responses thereto.
18. The Committee will provide oversight over Management's activities in managing credit, market, operational, legal and other risks of the Bank. The Committee will review and discuss policies with respect to risk management and risk assessment and promote risk awareness in the Bank. The Committee may discharge this duty by receiving and discussing at least annually a report from the Risk Management Committee of the Board of Directors summarizing their reviews of the Bank's methods for identifying and managing risks.
19. The Committee will review and discuss any reports received from attorneys with respect to securities law violations and/or breaches of fiduciary duties which were reported to the Chief Legal Officer or the Chief Executive Officer and not resolved to the satisfaction of the reporting attorney.
20. The Committee will receive from the Chief Compliance Officer each year a report on compliance with laws and regulations and from the Head of Human Resource Group a report on compliance with the Code of Conduct.
21. The Committee will receive reports on the preparation and implementation of a Business Continuity Plan (BCP) from the BCP Directorate Chairman.

#### **B. The Committee's Relationship with the External Auditors**

1. The Committee will recommend to the Board the appointment, re-appointment and fees of the external auditors. Annually, the Committee will recommend that the Board request shareholder ratification of the appointment of the external auditors. The external auditors are to report to the Committee. The Committee also has the responsibility to evaluate and, when appropriate, to recommend

removal of the external auditors. If the external auditor resigns or communicates an intention to resign, the Audit Committee should follow up on the reasons/explanations giving rise to such resignation and consider whether it needs to take any action in response to those reasons. The Committee is responsible for setting the compensation of the external auditors, and the Committee shall periodically review the fees charged by the external auditors for all audit services and permitted audit-related, tax and other services. The reason for the removal or change of the external auditors should be disclosed to the Commission, shareholders, and the public through the company website and other required disclosures.

2. The Committee shall appoint, dismiss and re-appoint external auditors based on fair and transparent criteria such as:
  - a. core values, integrity, culture and high regard for excellence in audit quality,
  - b. technical competence and expertise of auditing staff,
  - c. independence,
  - d. effectiveness of the audit process,
  - e. reliability and relevance of the external auditor's reports, and
  - f. should be included in the List of Selected External Auditors for Bangko Sentral Supervised Financial Institutions (BSFIs).
3. The Committee will ensure that the internal and external auditors act independently from each other and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.
4. The Committee shall regularly review and monitor the external auditor's technical competence, independence, objectivity and overall effectiveness of the external audit process. The Committee is responsible for oversight of the external auditors' work as it pertains to the audit of the Bank's financial statements and related disclosures, control evaluations and other audit or attest services. The Committee will discuss with the external auditors the overall scope and plans for their audit, including the adequacy of staffing and it will continually engage the external auditor on matters concerning audit quality. The external auditors will also report to the Committee on the results of the audit, and the Committee will discuss any management or internal control letter issued or proposed to be issued by the external auditors. The Committee shall likewise review the disposition of the recommendations in the external auditor's management letters. The Committee shall establish a system that addresses, in a timely and

effective manner any findings of fraud or error on the financial statements.

5. In assessing the effectiveness of the external auditor's work, the Audit Committee should closely coordinate with the external auditor during all phases of the external audit engagement, as follows:
  - a. It should discuss and agree to the terms of the engagement letter issued by the external auditor prior to the approval of the engagement. Where relevant, the engagement letter should reflect changes in circumstances relevant to the external audit;
  - b. It should obtain an understanding of the scope and audit approach which shall be adopted by the external auditor for purposes of meeting the Bank's financial reporting requirements;
  - c. It should ascertain and take steps to address the major areas of concern identified by the external auditor during the course of its audit. These issues may cover significant accounting estimates, valuation methodologies and accounting policies adopted;
  - d. It should review management representation letters before these are transmitted to the external auditor to ensure that items in the letter are complete and appropriate;
  - e. It should assess the extent of cooperation provided by the Bank's management during the conduct of the external audit; and
  - f. It should understand and duly assess the external auditor's opinion regarding the capability of Bank management and the adequacy of accounting/ information systems to comply with financial and prudential reporting responsibilities.
  
6. The Committee will ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.
  
7. The Committee will receive from the external auditors written disclosures about their independence and discuss with them any factors that might detract from their independence. Public accountants will not be independent if, at any point during the audit and professional engagement period, any audit partner earns or receives compensation based on that partner's procuring engagements with the Bank to provide any services other than audit, review, or attest services. The lead and concurring partner must rotate after five years and be subject to a five-year "time-out" period after rotation. Audit partners, other than the lead and concurring partner, will be subject to rotation and time-out periods as prescribed by regulation.

8. The Committee is responsible for the pre-approval of all audit and permitted non-audit services performed by the external auditors, and the Committee will not engage the external auditors to perform the specific non-audit services prescribed by law or regulation. The Committee may delegate authority for the pre-approval of all audit and non-audit services to a member of the Committee. All such approvals will be reported at the next subsequent Committee meeting. As an alternative to pre-approving each non-audit service, the Committee may establish and disclose policies and procedures for pre-approval, provided they are consistent with requirements of applicable laws and regulations. The Committee will review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the corporation's overall consultancy expenses.
9. The Committee will 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, will be disclosed in the Bank's Annual Report and Annual Corporate Governance Report, including the non-audit fees paid and the corporation's overall consultancy expenses.
10. The Committee will require the external auditors to certify annually that they are in compliance with all applicable legal and regulatory requirements including those addressing rotation of lead and concurring partners, provisions of prohibited services, document retention, and the submission of timely reports.
11. The Committee will prohibit management from hiring as a manager overseeing financial reporting matters of the Bank, any person who was employed by the external auditors and was the lead partner, concurring partner, or any other member of the audit engagement team who provided more than ten hours of audit, review or attest services for the Bank within the one-year period preceding the commencement of the audit of the current year's financial statements.
12. The Committee will review with the external auditors any audit problems or difficulties and management's response and will consider disagreements between management and the external auditors, if any arise, and oversee any process for resolution.
13. In order to reinforce the Audit Committee's effectiveness in performing its key role in strengthening corporate governance, the

Audit Committee shall maintain effective communication channels with the external auditor through regular and structured dialogues in the course of the external audit. Such communications should focus on the key accounting or auditing issues that, in the external auditor's judgment, give rise to a greater risk of material misstatement in the financial reports, as well as other external audit concerns of the Audit Committee. On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately. During regular meetings of the Audit Committee, matters that may be raised include audit findings that would impact on the Bank's compliance with regulatory requirements, disclosures and other accounting concerns.

### **C. Duties with Respect to Internal Audit**

1. The Committee will establish a permanent internal audit function and consider the appointment of an independent Chief Audit Executive, who must be a Certified Public Accountant or a Certified Internal Auditor.
2. The Committee will establish and identify the reporting line of the Chief Audit Executive to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Committee. The Committee shall ensure that, in the performance of the work of the Chief Audit Executive, he shall be free from interference by outside parties.
3. The Committee will ensure that the activities of Internal Audit are in compliance with the *International Standards for the Professional Practice of Internal Auditing (ISPIIA)*.
4. The Committee shall oversee Internal Audit and shall be responsible for:
  - a. Monitoring and reviewing the effectiveness of Internal Audit including an assessment of its performance.
  - b. Approving the Internal Audit plan, scope and budget. The Chief Audit Executive shall submit a report to the Audit Committee on the status of accomplishments of Internal Audit, including findings noted during the conduct of internal audit as well as status of compliance of concerned units.
  - c. Reviewing the Internal Audit reports and the corresponding recommendations to address the weaknesses noted, discussing

- the same with the Chief Audit Executive and reporting significant matters to the Board of Directors.
- d. Ensuring that Internal Audit maintains an open communication with Senior Management, the Audit Committee, external auditors and the supervisory authority.
  - e. Reviewing discoveries of fraud and violations of laws and regulations as raised by Internal Audit.
  - f. Reporting to the Board of Directors the annual performance appraisal of the Chief Audit Executive.
  - g. Recommending for approval of the Board of Directors the annual remuneration of the Chief Audit Executive and key internal auditors.
  - h. Selecting and overseeing the performance of the outsourced internal audit service provider where applicable, particularly:
    - Ensuring the independence of the service provider.
    - Reporting to the Board of Directors on the status of accomplishments of the service provider including significant findings noted.
    - Ensuring that the service provider complies with sound internal auditing standards such as the ISPPIA and other supplemental standards issued by regulatory authorities/ government agencies as well as with the relevant code of ethics.
    - Ensuring that the audit plan is aligned with the overall plan strategy and budget of the Bank and is based on robust risk assessment.
    - Ensuring that the service provider has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities outsourced.
5. The Committee will review recommendations of management with respect to the appointment, compensation, and replacement of the Chief Audit Executive prior to management's taking actions to hire, set compensation or replace the Chief Audit Executive. The Committee will review and approve the remuneration of the head and personnel of Internal Audit. Said remuneration shall be in accordance with the Bank's remuneration policies and practices and shall be structured in such a way that these do not create conflicts of interest or compromise independence and objectivity.
6. The Chief Audit Executive is accountable to the Committee. The Committee will advise the Chief Audit Executive that he or she is expected to provide the Committee with summaries of significant reports to management prepared by Internal Audit and management's responses thereto. The Audit Committee shall review and discuss all reports of examinations submitted by the Internal

Audit Group and shall confirm the recommendations, actions taken/to be taken by concerned management and the recommended audit rating. In addition, the Chief Audit Executive will report to the Committee on the follow-up of significant issues raised in reports and the resolution thereof to enable the Committee to review and monitor Management's responsiveness to audit findings and recommendations.

7. The Committee may outsource internal audit activities in accordance with existing BSP regulations. Outsourcing shall however be done on a limited basis to have access to certain areas of expertise that are not available to Internal Audit or to address resource constraints. The Chief Audit Executive shall ensure that the knowledge or inputs from the outsourced experts shall be assimilated into the Bank to the greatest extent possible.
8. On a regular basis, meet separately with the Chief Audit Executive to discuss any matters that the Committee or Internal Audit believes should be discussed privately.
9. Annually, review and approve changes (if any) to the Internal Audit Charter and endorse such for Board approval.
10. The Committee shall commission an assessment team outside of the organization to conduct an independent quality assurance review of Internal Audit at least every five (5) years.

#### **D. Other Responsibilities**

1. Regularly report to the Board of Directors about the Bank's compliance with internal policies and legal or regulatory requirements and evaluations on the assessment of effectiveness of internal control made by management, internal auditors and external auditors.
2. Perform any other activities consistent with this Charter that the Board of Directors determines are necessary or appropriate.

**IV. Meetings and  
Determination of  
Quorum**

- A. The Committee shall meet once a month at the 5<sup>th</sup> floor Boardroom, PBCOM Tower, Makati City. A quorum at any meeting of the Audit Committee shall consist of a majority of its independent and non-executive members.
- B. Minutes of all meetings will be approved by the Committee and maintained. The Secretary of the Audit Committee shall be designated by the Audit Committee Chairman.
- C. The Committee will meet separately at least quarterly with each of management, the Chief Audit Executive, the Chief Legal Officer and the external auditors, providing sufficient time to discuss any matters that the Committee or any of these persons or firms believes should be discussed.
- D. Meets with the Board at least once every quarter without the presence of the CEO or other Management team members.
- E. The Committee may request any officer or employee of the Bank or outside counsel to the Bank or external auditors or any special counsel or advisors to the Committee to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.