



B. AUDIT COMMITTEE CHARTER

I. Constitution

The Audit Committee was created in accordance with the requirement of BSP Manual of Regulations for Banks (2018 Edition) – Part 1 Section 133 Board-Level Committees and Securities and Exchange Commission (SEC) Memorandum Circular No. 19 series of 2016:

- **BSP Manual of Regulations for Banks (2018 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."

- **Securities and Exchange Commission (SEC) Memorandum Circular No. 19 series of 2016**

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."

II. Objective

1. To provide oversight on the Bank's financial reporting process, system of internal control, audit process, monitoring of compliance with applicable rules and regulations, and ensures efficiency and effectiveness of operations and safeguarding of assets.
2. To ensure that a review of the effectiveness of the company's internal controls, including financial, operational and compliance controls and risk management are conducted annually.
3. To provide oversight functions over the Bank's internal and external audit functions.

III. Duties and Responsibilities

1. It shall be responsible for establishing internal audit function (including in-house and outsource audit services), and the appointment of qualified Chief Audit Executive (CAE) as well as the independent external auditor who shall both report directly to the Audit Committee.
2. It shall perform oversight function over the internal audit function and shall be responsible for:
 - a. Reviewing, approving and overseeing matters pertaining to the performance of internal audit activities;
 - b. Approving the internal audit plan, scope and budget. It shall ensure that the audit plan is aligned with the overall plan strategy and budget of the Bank and is based on robust risk assessment. It shall also ensure that the internal audit has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities;
 - c. Reviewing the internal audit reports and the corresponding recommendations to address the weaknesses noted, discussing the same with the head of the internal audit function and

- reporting significant matters to the Board of Directors;
- d. Ensuring that the internal audit function 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 the internal audit function;
 - f. Reporting to the Board of Directors the annual performance appraisal of the head of the internal audit function;
 - g. Recommending for approval of the Board of Directors the annual remuneration of the head of the internal audit function and key internal auditors;
 - h. Appointing, reappointing or removing the head of the internal audit function and key internal auditors; and
 - i. Selecting and overseeing the performance of the internal audit service provider, if any.
3. It shall be responsible for oversight of the financial reporting process, practices and controls and ensure 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 audited financial statements before submission to the Board.
 4. It shall be responsible for establishing 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.

IV. Reporting Hierarchy

The Audit Committee shall report to the Board minutes of its meetings. The minutes shall include the recording of names of those present, and significant information deemed necessary to merit the Board's attention.

V. Authority

The Audit Committee shall have:

1. 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/s to attend its meetings. It shall also 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.

VI. Membership

1. The Audit Committee shall be composed of at least three (3) members of the Board of Directors, wherein two (2) of whom shall be independent directors, including the Chairman.
2. All Audit Committee members shall be non-executive directors, who shall preferably have accounting and finance backgrounds.
3. The Chairman of the Audit Committee shall not be the chairman of the Board of Directors or any other board-level committees.

VII. 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.

VIII. 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.

IX. 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.

X. Meetings

1. The Committee shall meet at least once every two months with the presence of two (2) members one of whom should be an independent director. The minutes of the meetings shall be circulated promptly to all members of the Committee.
2. The chairman shall establish agendas for the audit committee meetings in consultation with the 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.

XI. 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.

XII. Other Matters

1. At least once a year, the Board shall review the adequacy of this Charter, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
2. 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.