

# Bank of Commerce

## Audit Committee Charter

**Committee Name**    **Audit Committee**

**Short Name**        **AUDITCOM**

**Nature**              Board Committee

**Responsibility Statement**    The Audit Committee represents and assists the Board of Directors (BOD) in the general oversight of the Bank's financial reporting policies, practices and controls, and internal and external audit functions. It shall be responsible for the setting up of the internal audit department and for the appointment, removal and remuneration of the Chief Audit Executive (CAE) and the independent External Auditor, both of whom report directly to the Audit Committee.

Management is responsible for:

1. The preparation, presentation and integrity of the Bank's financial statements;
2. Accounting and financial reporting principles; and
3. The Bank's internal controls and procedures designed to promote efficiency and effectiveness of operations and compliance with accounting standards and applicable laws and regulations. The independent External Auditor is responsible for performing an independent audit of the Bank's financial statements in accordance with generally accepted auditing standards.

The Audit Committee serves a board level oversight role where it oversees the relationship with the independent External Auditor, receives information and provides advice, counsel and general direction, as it deems appropriate, to management and the External Auditor, taking into account the information it receives, discussions with the External Auditor, and the experience of the Committee's members in business, financial and accounting matters.

**Membership**            The Audit Committee shall be composed of at least three (3) members of the BOD, who shall be Non-executive Directors, majority of whom shall be Independent Directors, including the Chairperson, preferably with accounting, auditing, or related financial

management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank. The Audit Committee shall have access to independent experts who can assist in carrying out its responsibilities.

The Chairperson of the Audit Committee shall not be the Chairperson of the BOD or of any other board-level committees. The Chief Executive Officer (CEO), Chief Financial Officer (CFO) and/or Treasurer, or officers holding equivalent positions, shall not be appointed as members of the Audit Committee.

**Composition,  
Qualifications  
and Voting**

See *Membership* for Composition and Qualifications.

Actions are decided en banc through resolutions put forth and seconded by the Committee members present during the meeting.

**Duties and  
Responsibilities**

The Audit Committee will carry out the following responsibilities:

Financial Reporting

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 financial information and reports.
2. Review significant accounting and reporting issues and understand the impact on the financial statements, such as:
  - a. Complex or unusual transactions and highly judgmental areas;
  - b. Major business transactions (other than deposits and loans) that have significant financial impact to the Bank;
  - c. Major issues regarding accounting principles and financial statement presentations, including any significant changes in the Bank's selection or application of accounting principles;
  - d. The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Bank;
  - e. Write-off of assets.
3. Review analyses prepared by Management and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative financial reporting standards or accounting principles

and methods on the financial statements.

4. Review with Management and the External Auditor the results of the audit, including any difficulties encountered. This review will include any restrictions on the scope of the independent External Auditor's activities or on access to requested information, and any significant disagreements with Management.
5. Discuss the annual audited financial statements with External Auditor and monthly financial statements with Management and the Internal Auditors, including Bank disclosures.
6. Review disclosures made by the CEO and the CFO about significant deficiencies in the design or operation of internal controls or any fraud that involves Management or other employees who have a significant role in the Bank's internal controls.
7. Review with Management the movement in Real and Other Properties Acquired (ROPA) /Non-Current Assets Held for Sale and approve high-value or bulk sale, special pricing and discount schemes for the purpose of expediting the sale/disposal of ROPA.
8. Review and approve additions to or reversal of provisions related to (but not limited to):
  - a. Expected credit losses based on the results of the Bank's currently-approved methodology;
  - b. Allowance for probable losses (APL) on Other Assets (such as Meralco deposits, utility deposits and lease arrangement deposits), with P/L impact of Php1 million and above based on the result of the review of such assets by the Finance & Controllership Group (FCG) and after initial approval of and endorsement by the Senior Executive Team (SET) to the Audit Committee.

Adjustments on APL on Other Assets that are below Php1 million will be approved by Management but FCG will report such items for notation during the Audit Committee meeting.

The approving authorities for adjustments on APL on Other Assets will therefore be as follows:

Amount	Approving Authority
Up to Php 200,000	CFO
Above Php 200,000 to less than Php 500,000	President or CEO
Php 500,000 to less than Php 1,000,000	SET
Php 1,000,000 and above	Audit Committee

### Internal Control

1. Monitor and evaluate the adequacy and effectiveness of the Bank's internal control system, including information technology security and control.
2. Understand and approve the scope of internal and External Auditor's review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Management's responses.

### Internal Audit

1. Review with the CAE and approve the internal audit charter, plans, scope, budget, frequency, activities, staffing, and organizational structure of the internal audit function, including subsequent changes.
2. Receive key audit reports and ensure that senior Management is taking necessary corrective actions in a timely manner to address the weaknesses, fraud, non-compliance with policies, laws and regulations and other issues identified by Internal Auditors. Ensure that significant matters are reported to the BOD.
3. Ensure there are no unjustified restrictions or limitations to the scope of the internal audit activity, and that the internal audit function maintains an open communication with senior management, the Audit Committee, External Auditor, and the supervisory authority.
4. Review and concur in the appointment, replacement, transfer, resignation, or dismissal of the CAE and Department Heads of the Internal Audit Division.
5. Report the annual performance appraisal of the CAE to the BOD, as well as recommend the annual remuneration of the CAE and Department Heads of the Internal Audit Department for approval of the BOD.
6. Review and monitor the effectiveness of the internal audit

function, including compliance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (ISPPIA) and IT audit-related standards issued by Information Systems Audit and Control Association (ISACA) such as COBIT 2019, Information Technology Assurance Framework (ITAF) 4th edition, and Risk IT Framework, 2nd edition.

7. On an ad hoc basis, meet separately in executive sessions, through the Chairman or plenary sessions, with the CAE and/or the CFO to discuss any matters that the Audit Committee or Internal Audit believes should be discussed privately.
8. Commission an assessment team outside of the organization to conduct an independent quality assurance review of the internal audit function at least every five (5) years.

#### External Audit

1. Review the appointment, fees and replacement of External Auditor.
2. Review and approve the engagement contract and ensure that the External Auditor's proposed audit scope and approach cover areas specifically prescribed by the Securities and Exchange Commission, Bangko Sentral ng Pilipinas and other regulators.
3. Review the performance of the External Auditor, including coordination of audit effort with Internal Audit.

#### Internal Audit Service Providers

1. Ensure the independence of the internal audit service providers.
2. Report to the BOD on the status of accomplishments of the outsourced internal audit activities, including significant findings noted during the conduct of the internal audit.
3. Ensure that the internal audit service provider comply with sound internal auditing standards such as the ISPPIA and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics.
4. Ensure that the audit plan to be carried out by the internal audit service provider is aligned with the overall plan strategy and budget of the Bank and is based on a robust risk assessment.
5. Ensure that the internal audit service provider has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.

## Other Responsibilities

1. Establish and maintain whistleblowing mechanism 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 relevant issues and ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.
2. Review procedures for:
  - a. The receipt, retention and treatment of complaints received regarding accounting and internal controls;
  - b. The confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
  - c. The process for communicating the Code of Conduct to Bank's personnel, and for monitoring compliance therewith.
3. Discuss with management the major policies of the Bank with respect to risk assessment and risk management.
4. Direct investigations of any matter within its terms of reference, with full access to and cooperation by Management and full discretion to invite any Director or executive officer to attend any Audit Committee meetings, and ensure that adequate resources are provided to enable it to effectively discharge its functions.
5. 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.
6. Review and assess the adequacy of the Audit Committee charter annually, request Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
7. Confirm annually that all responsibilities outlined in this charter have been carried out. Evaluates the Committee's and individual members' performance at least annually.
8. Perform other activities related to this charter as requested by the Board.

## **Meeting Schedule**

The Audit Committee will meet monthly, at least twelve (12) times a year, with authority to convene additional meetings, as circumstances require. The meetings may be conducted through modern technologies such as, but not limited to, teleconferencing and video-conferencing, as long as the committee members

attending the meeting can actively participate in the deliberations on matters taken up. Notwithstanding, every committee member shall participate in at least fifty percent (50%) and shall virtually or physically attend at least twenty-five percent (25%) of all committee meetings every year.

The attendance and participation of members in committee meetings shall be considered in the assessment of continuing fitness and propriety of each director as member of board-level committees and the BOD.

**Evaluation and Reports**

See *Duties and Responsibilities – Other Responsibilities* (items 5 to 7)

The minutes of meetings and the necessary reports and recommendations shall be elevated to the BOD so that the BOD is well informed and updated with the Committee's activities and actions.