

Bank of Commerce

Audit Committee Charter

Committee Name **Audit Committee**

Short Name **AUDITCOM**

Nature Board Committee

Responsibility Statement The Audit Committee is a committee created by the Board of Directors (BOD) of Bank of Commerce to assist in the oversight of the Bank's financial reporting policies, practices and internal controls system, audit process, and compliance with applicable laws and regulations. This is to emphasize that the Audit Committee (AC), as with other board committees, has oversight responsibilities and should not perform the role of management who should provide the committee with the necessary information and analyses for their additional insights and comments. These oversight responsibilities are set out in this charter.

Membership, Composition, Qualifications and Voting The Audit Committee shall be composed of five (5) members of the BOD, who shall be Non-executive Directors, majority of whom shall be Independent Directors, including the Chairperson. All members shall have relevant accounting, auditing, or related financial management background or experience commensurate with the size, complexity of operations and risk profile of the Bank. At least one member shall specifically have accounting expertise or experience. The Audit Committee shall have access to independent experts who can assist in carrying out its responsibilities.

All Audit Committee members shall be encouraged to participate in relevant and appropriate self-study or other educational opportunities to enhance their understanding of the business and environment in which the Bank operates, including areas of financial reporting policies, practices and control, internal and external audit activities, and compliance function.

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.

A member of the audit committee shall have a term of one year but may be extended to an indefinite term upon approval by the BOD. All other applicable provisions as to the terms and qualifications of

independent directors (like maximum cumulative term of 9 years) and regular directors (particularly for non-executive directors) as provided in the corporate governance code of BSP and SEC shall apply.

Actions are decided through resolutions put forth and seconded by the Committee members present during the meeting that constitute a quorum, equivalent to a minimum of three Directors including at least one Independent Director.

**Support
Personnel**

Committee Secretary	Corporate Secretary
Secretariat Support	Internal Audit Division

**Duties and
Responsibilities**

The Audit Committee shall carry out the following duties and responsibilities:

Financial Reporting Oversight

1. Provide Board-level oversight on the establishment and maintenance of the Bank's financial reporting framework. The AC shall ensure that management has incorporated in the said framework the appropriate processes, industry best practices, and appropriate controls that enable the generation and preparation of accurate, reliable and comprehensive financial information and reports.
2. Provide direction and feedback to management on how adequately it fulfills its responsibilities in the following areas:
 - a. Ensuring the Bank's compliance with relevant financial reporting standards;
 - b. Ensuring the soundness of analysis, selection, and interpretation of accounting policies and accounting standards—current or new—adopted by the Bank;
 - c. Deciding on the acceptability of estimates, reasonableness of assumptions, and impartiality of judgments used in the preparation of financial statements;
 - d. Identifying and resolving material errors and fraud, and maintaining sufficiency of risk controls;
 - e. Deciding on, and executing actions or measures in case of finding of error or fraud in financial reporting;

- f. Maintaining consistency in the treatment of unusual or complex transactions including all related party transactions vis-à-vis the Bank's established policies;
 - g. Reviewing the Management representation letter before its submission to the external auditor;
 - h. Communicating with legal counsel covering litigation, claims, contingencies or other significant legal issues that impact financial statements
 - i. Ensuring the quality, timeliness, and sufficiency of resources for the preparation of the Bank's Financial report, both interim and annual;
 - j. Providing direction and resources in managing correspondence between the Bank and regulators regarding financial statement filings and disclosures;
 - k. Ensuring timely and accurate communication with external auditor on 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.
3. Oversee management in its preparation of the Bank's monthly and year-end financial statements and analyses. Discuss with the External Auditor the results of their interim review and annual audit of the Bank's financial statements before endorsing the annual Audited Financial Statements to the BOD for approval. In addition, ensure resolution of any significant challenges, issues and disagreements between the auditors and Management.
4. Provide comments and clarifications on the disclosures made by the CEO and/or the CFO about significant deficiencies in the design or operation of internal controls or any financial statement fraud that involves Management or other employees who have a significant role in the Bank's internal controls.

Internal Controls

1. Oversee Management's establishment of an internal control framework; effective implementation of internal control system and actions taken for significant issues and control gaps raised by internal auditor, external auditor, or regulators; and monitoring of the continuing effectiveness of actions taken to address these issues and control gaps.
2. Provide comments, expert opinion, and clarification on the scope of the Internal and External Auditor's review of management's internal control over financial reporting, and obtain reports on significant findings and corresponding recommendations, together with management's responses.

Internal Audit

1. Discuss with the CAE the Internal Audit Charter before endorsing to the Board for approval.
2. Discuss with the CAE the internal audit plans for clarification and additional insights and approve the same. Approve the organizational structure of the internal audit activities (including whether to outsource a portion of the internal audit activities), and any subsequent changes.
3. Receive key audit reports and ensure that management is taking necessary corrective actions in a timely manner to address the weaknesses, alleged irregularities, non-compliance with policies, laws and regulations and other issues identified by Internal Auditors. Ensure that significant matters are reported to the BOD with an adequate and actionable level of detail.
4. Ensure there are no unjustified restrictions or limitations to the scope of the internal audit activity, and that the internal audit activity maintains its independence. Maintain open communication with management, the Audit Committee, External Auditor, and the supervisory authority.
5. Evaluate and concur with the appointment, replacement, transfer, resignation, or dismissal of the CAE and Department Heads of the Internal Audit Division.
6. 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 Division for approval of the BOD.
7. Evaluate and monitor the effectiveness of the internal audit practices, including compliance with the Institute of Internal Auditors' (IIA) Global Internal Audit Standards 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.

8. On an ad hoc basis, meet separately in executive sessions, through the Chairman or en banc sessions, with the CAE and/or the CFO to discuss any matters that the Audit Committee or Internal Audit believes should be discussed privately.
9. Seek the services of an independent third party to conduct an independent quality assurance review of the internal audit activity at least every five (5) years.

External Audit

1. Evaluate and endorse for Board approval the appointment, re-appointment, fees and replacement of External Auditor. This shall be further ratified in a shareholders' meeting. Audit fees shall be disclosed in the Annual Report.
2. Ensure that the reason for removal or change of External Auditor is fully disclosed to regulators and the public.
3. Evaluate the External Auditor's professional qualifications and ensure that External Auditor:
 - a. shall be chosen from SEC List of Accredited External Auditors and BSP's List of Selected External Auditors for BSP-Supervised Financial Institutions according to the Bank's classification.
 - b. rotates lead audit partner every five (5) years.
 - c. is credible, competent and has the ability to understand complex related party transactions, its counterparties, and valuations of such transactions.
 - d. has adequate quality control procedures.
4. Review and endorse for board approval 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.
5. Approve non-audit services, including its fees, by the External Auditor, provided it does not pose a threat to auditor's independence and objectivity. Fees for non-audit services shall not outweigh the fees paid for audit services. Non-audit services by External Auditor shall be disclosed in the Annual Report.
6. Ensure compliance of External Auditor with auditing standards.

7. Ensure that management is taking necessary corrective actions in a timely manner to address the weaknesses, irregularities, non-compliance with policies, laws and regulations and other issues identified by External Auditor.
8. Conduct meetings with External Auditor without the presence of Management, when deemed appropriate.
9. Assess the integrity and independence of external auditors and exercise effective oversight to review and monitor the external auditor's independence and objectivity.
10. Evaluate and monitor the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements.
11. Evaluate the performance of the External Auditor, including External Auditor's suitability, effectiveness and coordination of audit effort with Internal Audit, on an annual basis.

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 IIA's Global Internal Audit Standards 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 Oversight Responsibilities

1. Ensure that management establishes and maintains 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. Evaluate the effectiveness of the procedures established by management 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. Oversee the direct investigations of internal auditors of any matter, 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 the Committee to effectively discharge its oversight responsibilities.
4. 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.
5. Re-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.
6. Confirm annually that all responsibilities outlined in this charter have been carried out.
7. Assess and document the Committee's and individual members' performance at least annually. Feedback shall be received from management, internal auditor, general counsel or external auditor. The results of said assessment shall be validated by the Chief Compliance Officer.
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. A majority of the Audit Committee members, equivalent to three Directors including at least one Independent Director, shall be necessary to constitute a quorum at any meeting. The meetings may be conducted through modern remote communication 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. Audit Committee members who participate through remote communication shall be deemed present,

for purposes of quorum. Notwithstanding, every committee member shall participate in at least fifty percent (50%) 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. Attendance of members shall be disclosed in the Annual Report.

**Evaluation and
Reports**

See ***Duties and Responsibilities – Other Oversight Responsibilities*** (items 5 to 8)

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.