

MEMBERSHIP

Committee Position	Designated Member
Chairman	Edgar O. Chua
Vice Chairman	Francisco F. Del Rosario Jr.
Regular Members	Solomon S. Cua Angelica H. Lavares
Secretary	Marlon C. Villegas

CHARTER

Committee Name **Audit Committee**

Short Name **AUDITCOM**

Nature Board-Level Committee

Responsibility Statement As an extension of the Board of Directors, the AUDITCOM shall assist the Board of Directors in fulfilling its statutory and fiduciary responsibilities, enhancing shareholder value, and protecting shareholders' interest through (a) effective oversight of internal and external audit functions, (b) transparency and proper reporting, (c) compliance with laws, rules and regulations; and code of conduct, and (d) adequate and effective internal controls.

The AUDITCOM shall be responsible for overseeing the Senior Management in establishing and maintaining an adequate, effective and efficient internal control framework. It shall ensure that systems and processes are designed to provide assurance in areas including financial reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of physical and information assets.

Duties and Responsibilities

Authority

The AUDITCOM shall have 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, and adequate resources to enable it to effectively discharge its functions.

Primary Responsibilities

1. Provide effective oversight of external and internal audit functions, including internal audit activities provided to subsidiaries/associates and outsourced internal audit activities;
2. Ensure transparency and proper reporting with emphasis on the reports' integrity, timeliness and compliance with standards;
3. Ensure compliance with Bank policies, and applicable laws, rules and regulations and code of conduct; and,
4. Ensure adequate and effective internal controls.

Duties and Responsibilities

1. Effective Oversight of External and Internal Audit Functions, including internal audit activities provided to subsidiaries/ associates and outsourced internal audit activities, and ensure that the internal and external auditors act independently from each other.
 - a. Be responsible for the appointment/ selection, re-appointment and dismissal of internal auditor, as well as the independent external auditor and external service providers based on fair and transparent criteria.
 - i. In the case of the external auditor, the appointed auditor should be selected from the List of Selected External Auditors for BSFIs and the recommendation should be approved by the Board and ratified by the shareholders;
 - ii. In the case of the internal auditor, the Senior Management may appoint the internal auditor subject to the concurrence of the AUDITCOM;
 - iii. The AUDITCOM shall approve the terms and conditions for outsourcing internal audit services; and,
 - iv. If the internal/ external auditor resigns or communicates an intention to resign, the AUDITCOM should follow up the reasons/ explanations giving rise to such resignation, and should consider whether it needs to take any action in response to those reasons. For removal of the external auditor, the reasons for removal or change should be disclosed to the regulators and the public through the company website and required disclosures;
 - v. The external auditor, including the engagement and quality control partners, shall be periodically rotated in accordance with the relevant regulatory requirements;
 - b. Review and approve the internal audit risk assessment and overall annual plan (including scope, audit frequency and resources) of the internal auditors, including the internal audit activities to be provided to subsidiaries/ associates and to be outsourced, to ensure conformity with the objectives of the Bank; Ensure that the audit plan of the internal/external service provider is aligned with the overall strategy and budget of the Bank and is based on robust risk assessment; and that the internal audit service provider is independent and has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities;
 - c. Review and approve the Internal Audit Group Charter, and oversee the implementation of the Charter. Identify and establish the reporting line of the Head of internal audit so that the reporting levels allow the internal audit activity to fulfill its responsibilities. The head of internal audit shall functionally report directly to the AUDITCOM;
 - d. Discuss and agree to the terms of the engagement letter issued by the external auditor prior to the approval of the engagement, obtain an understanding of the nature, audit approach, and scope of work covering areas specifically prescribed by the BSP and other regulators and those relevant to the Bank's operations and risk exposures. These shall include the following, among others:

- i. Review of the adoption of applicable reporting framework as well as the assessment of the accuracy, adequacy, and reliability of accounting records and financial reports;
 - ii. Assessment of the propriety and adequacy of disclosures in the financial statements;
 - iii. Assessment of the adequacy and effectiveness of internal controls and risk management systems;
 - iv. Assessment of the quality of capital in relation to risk exposures; and
 - v. Evaluation of the quality of corporate governance;
- e. Set compensation of the external auditor in relation to the scope of its duties upon recommendation of Controller, and ensure coordination where more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
 - f. Ensure that the internal/external auditors shall have free and full access to all the Bank's records, properties and personnel relevant to the audit activity, and that audit be given latitude in determining the scope of auditing examinations, performing work, and communicating results and shall be free from interference by outside parties in the performance of work;
 - g. Take necessary measures to provide the appropriate resources and staffing that would enable internal audit to achieve its objectives and assess the extent of cooperation provided by the management during the conduct of the internal/ external audit;
 - h. Evaluate and determine non-audit work by external auditor and keep under review the non-audit fees paid to the external auditor both in relation to their significance to the total annual income of the external auditor and in relation to the Bank's total expenditure on consultancy and disallow any non-audit work that will conflict with or pose a threat to the independence of the external auditor. The non-audit work, if allowed, should be disclosed in the Annual Report and Annual Corporate Governance Report;
 - i. Review management representation letters before these are transmitted to the external auditor to ensure that items in the letter are complete and appropriate;
 - j. Review the disposition of the recommendations in the external auditor's management letter;
 - k. Review quarterly result of oversight activities on internal audit functions of the Bank's subsidiaries and associates, including reporting of significant audit observations;
 - l. Receive and review reports of internal auditors, to monitor and evaluate the adequacy and effectiveness of the Bank's and covered subsidiaries' internal control system, including financial reporting, operational and compliance controls, risk management and security of physical and information assets on a going-concern basis and communicate the same through-out the Bank to ensure that Senior Management is taking appropriate corrective actions, in a timely manner in addressing control weaknesses and non-compliance with policies, laws and regulations and other issues identified by auditors and other control functions.

Furthermore, significant matters in the said reports should be reported to the Board of Directors;

- m. Require Internal Audit Group to conduct a periodic formal review of the group structure, its controls and activities to assess consistency with the board approved policies, practices and strategies across the Metrobank Group and report the results of assessment/review directly to the AUDITCOM;
- n. Review and monitor the overall suitability and effectiveness and conduct a regular performance appraisal of internal and external auditors and insourced/outsourced arrangement.
 - i. Review the annual performance appraisal of the Internal Audit Group Head and report the same to the Board of Directors. Furthermore, the AUDITCOM shall recommend for approval of the Board of Directors the annual remuneration of the Internal Audit Group Head and budget of the internal audit function;
 - ii. The AUDITCOM shall 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;
 - iii. Assess and monitor the integrity, independence and objectivity of external auditor, and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements. Also, AUDITCOM shall review and monitor the external auditor's suitability and effectiveness on an annual basis;
- o. Supervise and direct any special projects or investigations considered necessary; and
- p. Recommend enhancements in the audit processes, ensure that the internal audit function follows sound internal auditing standards such as the International Standards for the Professional Practice of Internal Auditing (ISPPA) and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics, and continually engage the external auditor on matters concerning audit quality.

2. Oversee the Financial Reporting

The AUDITCOM shall 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.

Before submission to the Board, review and discuss in full and on a timely manner the Bank's quarterly, semi-annual and annual financial statements with external auditor and management to decide the appropriate action to be taken, including reporting to the Board, focusing particularly on:

- a. Any change/s in accounting policies and procedures;
- b. Major estimates, assumptions and judgmental areas;
- c. Unusual or complex transactions;
- d. Significant adjustments, material errors and fraud;

- e. Going concern assumption;
- f. Compliance with accounting standards;
- g. Compliance with tax, legal and regulatory requirements; and,
- h. Ensuring employee pension funds are fully funded or the corresponding liability is appropriately recognized in the books.

Understand and duly assess the external auditor's opinion regarding the capability of the management and the adequacy of accounting/information systems to comply with financial and prudential reporting responsibilities.

3. Compliance with Bank Policies, and applicable Laws, Rules and Regulations, and Code of Business Conduct

- a. Monitor compliance by the Bank with laws, regulations and promulgated policies of the BSP and other regulatory government agencies, including but not limited to Anti-Money Laundering and Countering Financing of Terrorists (CFT).
- b. Monitor compliance with Bank regulations and policies as contained in the various manuals of operating policies and procedures of the Bank, as well as the Bank's code of Business Conduct and other codes of conduct as may be imposed by the Bank.
- c. Establish and maintain mechanisms by which officers and staff may, 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. AUDITCOM shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, subsequent resolution of complaints, and that reporting employee or stakeholder who raise the concerns are protected from detrimental treatment or reprisals.

4. Monitor and evaluate the adequacy and effectiveness of the internal control system.

The AUDITCOM shall oversee the implementation of internal control policies and activities. It shall also ensure that periodic assessment of internal control system is conducted to identify the weaknesses and evaluate its robustness considering the Bank's risk profile and strategic direction.

- a. Evaluate the adequacy and effectiveness of the Bank's accounting policies and procedures and financial and accounting management through observations and discussions with the external auditors, internal auditors and appropriate bank officers;
- b. Evaluate internal accounting controls through a review of the reports of the external auditors and internal auditors that describe internal accounting, organizational or operating control weaknesses and determine that appropriate corrective action is being taken by Management;
- c. Identify high-risk areas or areas of emphasis that will require more consideration by the AUDITCOM and internal audit; and
- d. Recommend improvement in policies, processes and procedures.

Limitation of Role

The AUDITCOM's role is one of oversight. Management is responsible for the preparation and fair presentation of the Bank's financial statements and adequacy of disclosures in accordance with Philippine Financial Reporting Standards (PFRS). The external/independent auditors' responsibility is to provide its opinion, based on their audits, that the financial statements fairly present in all material respects, the financial position, results of operations and cash flows of the Bank in accordance with PFRS. While the AUDITCOM has the responsibilities and powers set forth in this Charter, it is not the duty of the AUDITCOM to plan or conduct audits or to determine that the Bank's financial statements and disclosures are complete and accurate and in accordance with PFRS and applicable rules and regulations.

Composition

The members of the AUDITCOM are appointed annually by the Board of Directors. It shall be composed of at least three (3) qualified non-executive directors, and majority of whom shall be independent directors, including the Chairperson. All of the members of the AUDITCOM must have relevant background, knowledge, skills and/or experience in the areas of accounting, auditing and finance commensurate with the size, complexity of operations and risk profile of the bank. It shall have access to independent experts to assist them in carrying out its responsibilities. The Chairman of the AUDITCOM should not be the chairman of the board or of any other board-level committees.

Each member shall serve for a maximum tenure of nine years. If a member does not serve the position of director within the term, his/her AUDITCOM membership is automatically removed; the vacancy should then be filled up by the remaining Board of Directors, if still constituting a quorum. Once an independent director loses his/her independent director's position within the term, he/she will automatically lose qualification of AUDITCOM chairperson. A new chairperson shall be appointed subject to the approval of the Board of Directors. The AUDITCOM chairperson or member so appointed to fill a vacancy shall be appointed only for the unexpired term of his predecessor in office.

The committee members, including the Chairperson, may also be occasionally rotated.

Quorum/ Majority Votes

A majority of the AuditCom members shall be necessary to constitute a quorum at any meeting. When a quorum is present at any such meeting, a majority vote shall decide any matter brought before such meeting.

The member participating at the meeting through remote communication such as videoconferencing, teleconferencing, or other alternative modes of communication shall be deemed present for the purpose of attaining a quorum and shall be allowed reasonable opportunities to vote.

Meeting Schedule

The AUDITCOM shall meet as follows:

Monthly	Review of Internal Audit Reports
Semestral (or as the need arises)	Meeting with External Auditor Meeting with Management
Special Meetings	With BSP and others, as necessary

Performance Assessment	<p>The AUDITCOM shall perform a self-assessment to evaluate its performance at least annually to determine whether it is functioning effectively based on its responsibilities under the code:</p> <ul style="list-style-type: none"> • Setting of Committee Structure and Operation; • Oversight on Financial Reporting and Disclosure; • Oversight on Risk Management and Internal Controls; • Oversight on Management and Internal Audit; and, • Oversight on External Audit. <p>The self-assessment shall be performed on the basis that each AUDITCOM member shall complete it independently. The AUDITCOM chairman shall lead discussion on the results of the questionnaire, focusing on those areas which clearly need improvement or where there is great variation in answers. Alternatively, the self-assessment shall be undertaken as a facilitated group activity led by the AUDITCOM chairman or an external party.</p> <p>The results of the self-assessment and any action plans arising therefrom shall be validated by the Corporate Governance Committee and reported to the Board of Directors</p>				
Charter Review	<p>The AUDITCOM shall review and reassess the Charter at least annually or when there are significant changes to the committee's mandate, scope and working procedures. Any changes thereto shall be endorsed to Compliance Division for review and approved by the Board of Directors.</p>				
Reporting to the Board	<table> <tr> <td data-bbox="488 982 812 1039">Every other month or at least six times in a year</td><td data-bbox="836 982 1446 1224"> Review of Terms of Reference (Charter) to assess its adequacy, implement best practices and propose necessary changes thereto. Audit Plan Audit Results Appointment of External Auditors Approval of Financial Statements Self-Assessment </td></tr> <tr> <td data-bbox="488 1255 602 1287">Quarterly</td><td data-bbox="836 1255 1446 1346"> Meeting with the Board without the presence of the Chief Executive Officer, Executive Directors or other management team </td></tr> </table>	Every other month or at least six times in a year	Review of Terms of Reference (Charter) to assess its adequacy, implement best practices and propose necessary changes thereto. Audit Plan Audit Results Appointment of External Auditors Approval of Financial Statements Self-Assessment	Quarterly	Meeting with the Board without the presence of the Chief Executive Officer, Executive Directors or other management team
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Support Requirement	<table> <tr> <td data-bbox="488 1377 756 1409">AUDITCOM Secretary</td><td data-bbox="836 1377 1446 1671"> Send agenda at least 3 banking days before the meeting Send minutes of meeting not later than 10 banking days from said meeting Maintain appropriate records (e.g., minutes of meeting of summary of matters reviewed and decisions taken) of AUDITCOM deliberations and decisions </td></tr> </table>	AUDITCOM Secretary	Send agenda at least 3 banking days before the meeting Send minutes of meeting not later than 10 banking days from said meeting Maintain appropriate records (e.g., minutes of meeting of summary of matters reviewed and decisions taken) of AUDITCOM deliberations and decisions		
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Interaction with other Committees	As needed				

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