CHARTER
BOARD AUDIT AND COMPLIANCE COMMITTEE
June 2020

I. OVERALL PURPOSE

The Board Audit and Compliance Committee (BACC) of the Philippine National Bank ("PNB") is a standing committee of the Board of Directors ("Board").

The purpose of the Committee is to:

1. Assist the Board in the performance of its oversight responsibility by providing independent advice and guidance on the adequacy of organization's initiatives relating to values and ethics, governance structure, risk management, internal control framework, financial reporting process, audit process and monitoring of compliance with applicable laws, rules and regulations;

2. Provide oversight functions over internal, external auditors and ensure that the internal, external auditors act independently from each other;

3. Provide oversight over compliance functions and/or oversee the compliance program;

4. The annual independent audit of PNB's financial statements, the engagement of the External Auditors and the evaluation of the External Auditor's qualifications, independence and performance;

5. The compliance by PNB with legal and regulatory requirements, including PNB's disclosure controls and procedures;

6. The fulfillment of the other responsibilities set out herein.

While the Committee has the responsibilities and powers as set forth in this Charter, it is not the duty of the BACC to determine that PNB's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of Management and the External Auditors

II. MEMBERSHIP

The Board Audit and Compliance Committee shall be composed of at least three (3) Board members, who shall all be non-executive directors, must have accounting, auditing or related financial management expertise, majority shall be independent directors, including the Chairman and another non-executive director with audit experience. The members of the BACC and the Committee Chair shall be appointed by the Board. The Chairman of the Board Audit and Compliance Committee should not be the Chairman of the Board of Directors or of any other Board Level Committees.

The presence of the majority of the members of the Committee less 1 member shall constitute a quorum; but the vote of the majority of the quorum which in no case be less than 2 members is required to approve any act in all the meetings of the Committee.

When there is a lack of quorum due to the absence of other members, an alternate member from among the Board Members may be appointed to attend a particular meeting and automatically sit as a voting member.

Subject to Section 35 of the Corporation Code, the Board of Directors shall have the power, at any time, to change, to increase or decrease the membership of the Board Audit and Compliance Committee or to fill vacancies therein, and to determine from time to time, by resolution, the number of members to constitute a quorum.

The Committee shall designate a Secretariat that will handle the administrative requirements of the Committee.

III. MEETINGS

The Committee shall hold a meeting at such time and place as it considers appropriate, provided that a meeting shall be held at least four (4) times a year. Special meetings maybe convened as necessary.

The Committee shall invite resource persons in any of its meetings to render a report, clarify and provide guidance to the Committee on any relevant issue the Committee is confronted with.

IV. AUTHORITY

Investigate significant issues/concerns raised. The BACC shall have explicit authority to investigate any matter within its terms and 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.

The Committee shall have the sole authority to select, evaluate, appoint, dismiss, replace and re-appoint the External Auditors (subject to stockholder ratification) based on fair and transparent criteria such as (I) core values, culture and high regard for excellence in audit quality; (ii) technical competence and expertise of auditing staff; (iii) independence; (iv) effectiveness of the audit process; and (v) reliability and relevance of the external auditor's reports. The BACC shall set compensation of the external auditor in relation to the scope of its duties and approve in advance all audit engagement fees and terms and all audit related, and tax compliance engagements with the External Auditors. It may recommend to the Board of Directors to grant the President or his designate authority to negotiate and finalize the terms and conditions of the audit engagement as well as the audit fees, and sign, execute and deliver the corresponding contract and all non-audit engagement with the External Auditors subject to the confirmation/approval of the BACC members.

The BACC shall have the authority, to the extent it deems necessary or appropriate, to retain special legal, accounting, or other consultants to advise the Committee. The Bank shall provide funding, as determined by the BACC, for payment of compensation to the External Auditors and to any advisors employed by the Board Audit and Compliance Committee.

The BACC may form and delegate authority to subcommittees, comprised of one or more members of the Committee, as necessary or appropriate. Each subcommittee shall have the full power and authority of the BACC.

The BACC shall ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually.

Establish a whistleblowing mechanism. The BACC shall 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. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action and subsequent resolution of complaints.

V. DUTIES AND RESPONSIBILITIES

The Board Audit and Compliance Committee shall have the following duties and responsibilities:

1. On Financial Statements:

- Review the quarterly, semi-annual, annual and any periodic financial statement signed by the CEO and CFO prior to submission to the Board, with particular focus on the following:

  - Any change/s in accounting policies and practices
  - Major judgmental areas
  - Significant adjustments
  - Going concern assumptions
  - Compliance with accounting standards
  - Compliance with tax, legal, and stock exchange requirements

- Establish a system that addresses, in a timely and effective manner any findings or fraud or error on the financial statements.

2. Oversight of the Bank's External Auditors:

- Review/approve the Audit Program of the External Auditors prior to any audit undertaking, the scope among which includes the nature, coverage, expenses of the audit, and ensure proper coordination if more than one audit firm and/or internal independent review/external examination is involved in the activity to secure proper coverage and minimize duplication of efforts.

- Review and approve the engagement contract and ensure that the scope of audit likewise cover areas specifically prescribed by the Bangko Sentral ng Pilipinas (BSP) and other regulators.

- Evaluate and determine non-audit work/services by External Auditor and keep under review the non-audit fees paid to the External Auditor both in relation to their significance to the auditor and in relation of the Bank's total expenditure on consultancy and whether provision of non-audit services is compatible with maintaining the External Auditor's independence. The non-audit work, if allowed, should be disclosed in the Annual Report and Annual Corporate Governance Report.

- Ensure that the external auditor/auditing firm shall be changed or the lead or concurring partner shall be rotated every five years or earlier. The rotation of the lead and concurring partner shall have an interval of at least 2 years.

- Review and discuss with management and the External Auditors the annual audited financial statements and disclosures and matters such as, but not limited to, accounting policies and practices, management letter, significant disagreement with management.

- Periodic review and monitor the External Auditor's independence, objectivity and overall effectiveness of the External Audit process;

- Review and monitor the External Auditor's technical competence;

- Establish a system of reporting where the External Auditor can communicate directly to the Audit Committee on a timely basis;

- Continually engage the External Auditor on matters concerning audit quality;

- 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.

- Closely coordinate with the External Auditor during all phases of the external audit engagement, as follows:

    - 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;

    - 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;

    - 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;

    - Review management representation letters before these are transmitted to the External Auditor to ensure that items in the letter are complete and appropriate;

    - Assess the extent of cooperation provided by the bank's management during the conduct of the external audit; and

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

- Maintain effective communication channels with the external auditor through regular and structured dialogues in the course of the external audit by focusing on the key accounting or auditing issues that, in the external auditor's judgment, give rise to a greater risk of material misstatement of the financial reports, as well as other external audit concerns of the Audit Committee. Internal and external auditors should be allowed and encouraged to attend the meetings of the Committee. During regular meetings, matters that may be raised include audit findings that would impact on the bank's compliance with regulatory requirements, disclosures and other accounting concerns.

3. Oversight of the Bank's Internal Auditor

- Responsible for the establishment of the Internal Audit Group and the appointment, re-appointment and replacement of the Chief Audit Executive (who will report directly to the BACC functionally) and the Deputy Chief Audit. The responsibility of the BACC shall include the annual performance review of the CAE, accepting the resignation and/or dismissal subject to due process.

- Recommend for the approval of the Board of Directors the annual remuneration of the CAE and the Deputy Chief Audit Executive.

- Review, evaluate and approve the Annual Audit Plan to include the audit scope, frequency and prioritization of high risk business units/entities as well as approve any significant change to the Annual Internal Audit Plan.

- Ensure that the Internal Audit Group has adequate resources in terms of manpower, budget and training to effectively fulfill its independent duties in the expedient implementation of the Annual Audit Plan.

- Review and approve audit reports to the extent that BACC Chairman may issue directives to Senior Management to develop and implement the necessary corrective actions in a timely manner and/or require submission of a Project Plan to address promptly any significant weaknesses in internal controls, non-compliance with corporate policies and standards, potential violations to laws and regulations and recommendations by Internal Audit Group to align the bank with global or industry best practices.

- Review and evaluate the adequacy of the work performed by the CAE and Internal Audit Group.

- Review discoveries of fraud and violations of laws and regulations as raised by the Internal Audit Group.

- Ensure that the Internal Audit Group maintains an open communication with Senior Management, the BACC, External Auditors, and regulators.

The Committee shall ensure that the internal auditors shall have free and full access to all the Bank's records, properties and personnel relevant to the internal audit activity and that the internal audit activity should be free from interference in determining the scope of internal auditing examinations, performing work, and communicating results.

4. Oversight of the Bank's Chief Compliance Officer

- Review and approve the Global Compliance Organizational Structure including the appointment of the Compliance Officers/Compliance Designates across all business units and recommend appointment of the designated Compliance Officers to the respective Board of the subsidiaries and affiliates.

- Evaluate and recommend to the Board the appointment of the Chief Compliance Officer who shall report directly to the Chairman of the Board through the BACC.

- Review and approve the Annual Compliance Program/Plan submitted by the Chief Compliance Officer and significant amendments to the Annual Compliance Plan including accomplishments vs. the approved Compliance Plan every January.

- Oversee the Board approved Compliance Programs across all businesses and ensure compliance recommendations are addressed by the President/ CEO and Senior Management and/or the respective Board of the bank subsidiaries/affiliates on a timely basis.

- Oversee the AML Compliance Framework through the Global Compliance Group to ensure effective senior management oversight, coordination, monitoring and escalation of significant weaknesses in AML policies and procedures and potential violations with AML implementing

rules and regulations issued by the resident country regulators of the Parent Bank and its subsidiaries and affiliates.

- Review and approve AML Compliance Testing Review reports to the extent that the BACC Chairman may issue directives to the President/CEO, Senior Management and notify the respective Board of the subsidiaries and affiliates to implement corrective actions or provide Project Plans primarily to address significant weaknesses in AML Compliance by Parent Bank and its subsidiaries and affiliates.

VI. OTHER DUTIES AND RESPONSIBILITIES

1. Monitor and evaluate the adequacy and effectiveness of the Bank's internal control system including financial reporting control and information technology security.

2. Receive and review reports of internal and external auditors, compliance and regulatory agencies, where applicable and ensure that Management is taking appropriate corrective actions, in a timely manner.

3. Conduct self-assessment of the performance of the Parent Bank. BACC as a whole, as well as the individual performance of each Committee member annually. The results of the self-assessment shall be validated by the Board Corporate Governance Committee and endorsed to the Board for approval. The entire assessment process should be documented and should form part of the records of the Bank that may be examined by the regulators from time to time.

4. Review and evaluate the self-assessment of the performance of the Audit and Compliance Committees of the Bank subsidiaries and affiliates to ensure that the respective Audit and Compliance Committee policies and activities are aligned with the Parent Bank.

5. Review and assess the adequacy of this Charter annually and recommend any proposed changes for approval of the Board of Directors.

6. Establish effective audit programs that cover IT risk exposures throughout the Bank, risk-focused, promote sound IT controls, ensure the timely resolution of audit deficiencies and period reporting to the Board on the effectiveness of the Bank's IT risk management, internal controls, and IT governance.