

# ANNEX A



## **BOARD AUDIT AND COMPLIANCE COMMITTEE CHARTER AMENDED AS OF JUNE 2025**



**BOARD AUDIT AND COMPLIANCE COMMITTEE CHARTER  
(Amended as of June 2025)**

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## **BOARD AUDIT AND COMPLIANCE COMMITTEE CHARTER**

**(Amended as of June 2025)**

### **I. OVERALL PURPOSE**

The Board Audit and Compliance Committee (BACC or the Committee) 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 PNB’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 audit, external auditor and ensure that the internal and external auditor act independently from each other;
3. Provide oversight over compliance functions and/or oversee the compliance program;
4. Oversee 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. Ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, legal and regulatory requirements and other issues identified by auditors and other control functions
6. Carry out 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 -

## **II. MEMBERSHIP AND VOTING PROCEDURES**

1. The BACC shall be composed of at least three (3) Board members, who shall all be non-executive directors, majority of whom shall be independent directors including the Chairman. All of the members of the Committee must have relevant background, knowledge, skills and/or experience in accounting, auditing and finance. The members of the BACC and the Committee Chair shall be appointed by the Board. The Chairman of the BACC should not be the Chairman of the Board of Directors or of any other Board Level Committees.
2. The presence of the majority of the members of the Committee 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.
3. 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.
4. The unanimous vote of all the members present at the meeting shall be required to approve/endorse any act or Management recommendation in all the meetings of the Committee.

In case the unanimous vote was not attained because of an objection from any of the Committee members, the following rules shall be observed:

- 4.1. For acts/management recommendations that need urgent approval/endorsement, the Chairperson shall call the matter to a vote during the said meeting, under the following guidelines:
  - 4.1.a The Chairperson shall not cast his/her vote unless and until all members have voted;
  - 4.1.b Voting shall be by roll-call in alphabetical order, unless the Chairperson deem that a show of hands will be sufficient for the purpose;
  - 4.1.c A majority vote of the Committee members present is required to approve/endorse an act/Management recommendation;
  - 4.1.d In the event the votes are tied, the Chairperson shall cast his/her vote to break the tie;
  - 4.1.e If, despite the Chairperson's vote, the voting resulted in an equal/even number of votes, another round of deliberation shall be held by the members of the Committee to possibly resolve contentious issues or clarify certain matters regarding the subject act/management recommendation. Thereafter, the process mentioned from Sections 4.1.a to 4.1.d shall be observed for the second (2nd) time during the

same meeting. If the required majority vote was still not obtained, then the act/Management recommendation is deemed rejected by the Committee.

- 4.2. For acts/management recommendations that do not need urgent approval/endorsement, the Committee shall defer its action on the matter and schedule another meeting to undergo another round of deliberation and/or for Management present further its recommendation/proposal.

In case the unanimous vote was not attained, the Committee shall follow the guidelines set in Sections 4.1.a to 4.1.e.

- 4.3. The urgency of an act/Management recommendation shall be determined and based on the advice of Management or as required by the rules of any of the Bank's regulators.
- 4.4. The applicable provisions of the above-referenced voting procedure shall be observed for referendum approvals.

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:

1. 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 may be convened as necessary.
2. 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.

#### **Executive Sessions**

The Audit Committee shall meet privately with the external auditor at least once a year, without the presence of any member of management and the CAE, to discuss any audit concerns, findings, or matters affecting the integrity of financial statements. The Committee shall ensure that any significant issues raised are properly addressed and escalated to the Board when necessary.

#### **IV. AUTHORITY**

1. 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.
2. The Committee shall have the sole authority to select, evaluate, appoint, dismiss, replace, and re-appoint the External auditor (subject to stockholder ratification) based on fair and transparent tender process 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 auditor. 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 auditor subject to the confirmation/approval of the BACC members.
3. 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 auditor and to any advisors employed by the Board Audit and Compliance Committee.
4. 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.

#### **V. DUTIES AND RESPONSIBILITIES**

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

##### **1. On Financial Statements:**

- a. Review the monthly, quarterly, semi annual, annual and any periodic financial statements 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
- b. 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 auditor:**

- a. Review the Annual Audit Plan/Audit scope and approach the external auditor prior to any audit undertaking, 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.
- b. 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.
- c. 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.
- d. The external auditor including engagement partner, quality review partner and key audit partner shall be periodically rotated in accordance with the regulatory requirements or the Code of Ethics for Professional Accountants in the Philippines as adopted by the Philippine Board of Accountancy. In addition, external auditor or may be replaced at any time if circumstances warrant.

The following guidelines on rotation and cooling-off period shall apply:

- Engagement Partner - Maximum of 7 cumulative years, the cooling-off period shall be 5 consecutive years
- Quality Review Partner - Maximum of 7 cumulative years, the cooling-off period shall be 3 consecutive years
- Key Audit Partner – Maximum of 7 cumulative years, the cooling-off period shall be 2 consecutive years

The policy on external auditor tender process shall be aligned with these provisions in the BACC Charter Appendix A-3.1 - PNB External Auditor Tender

Process

- e. Review and discuss with management and the External auditor 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.
- f. Periodic review and monitor the External Auditor's independence, objectivity, and overall effectiveness of the External Audit process;
- g. Establish a system of reporting where the External Auditor can communicate directly to the Audit Committee on a timely basis;
- h. Continually engage the External Auditor on matters concerning audit quality;
- i. 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.
- j. 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;
  - 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
- k. Maintain effective communication channels with the external auditor 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. These issues may cover significant accounting estimates, valuation methodologies, accounting policies adopted, bank's compliance with

regulatory requirements, disclosures, and other accounting concerns.

- I. 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.

### **3. Oversight of the Bank's Internal Audit Function**

- a. Responsible for the establishment of the Internal Audit Group and the appointment, re-appointment, and replacement of the Chief Audit Executive (CAE) (who will report directly to the BACC functionally) and the Deputy Chief Audit Executive. The responsibility of the BACC shall include the annual performance review of the CAE, accepting the resignation and/or dismissal subject to due process.
- b. Recommend for the approval of the Board of Directors the annual remuneration of the CAE and the Deputy Chief Audit Executive.
- c. 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.
- d. 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.
- e. 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, fraud, 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.
- f. Review and approve any revisions or updates in the IAG Manual to document new standards, enhanced procedures, and guidelines for the effective and efficient operation of internal audit.
- g. Review and evaluate the adequacy of the work performed by the CAE and Internal Audit Group.
- h. Ensure that the Internal Audit Group maintains an open communication with Senior Management, the BACC, other board committees, External auditor, 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**

- a. Review and approve the Global Compliance Organizational Structure including the appointment of the Compliance Officers across all business units and recommend the appointment of the designated Compliance Officers to the respective Boards of the subsidiaries and affiliates.
- b. 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.
- c. Review and approve the Annual Compliance Program/Plan submitted by the Chief Compliance Officer and significant amendments to the Annual Compliance Program/Plan including accomplishments vs. the approved Compliance Plan every January.
- d. 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.
- e. Oversee the Compliance Framework through the Global Compliance Group to ensure effective senior management oversight, coordination, monitoring and escalation of significant weaknesses in regulatory or AML policies and procedures and potential violations with BSP or AML implementing laws, rules and regulations issued by the resident country regulators of the Parent Bank and its subsidiaries and affiliates.
- f. Review regulatory and AML compliance testing review. As appropriate, the BACC may issue directives to the President/CEO and Senior Management, and notify the respective Boards of subsidiaries and affiliates, to implement corrective actions or submit Project Plans aimed at addressing significant deficiencies in Regulatory and AML Compliance across the Parent Bank and its related entities.

#### **5. 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.

## **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. 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.
3. 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.
4. 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
5. The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes for approval of the Board of Directors, following the favorable endorsement of the Corporate Governance and Sustainability Committee.