



Audit Committee Charter

TERMS OF REFERENCE

The Audit Committee is a committee created by the Board of Directors of the Philippine Business Bank to perform specific functions set out hereunder. The Board of Directors will appoint the Committee members including the Chairman. The Committee will report its activities to the Board on a regular basis and make recommendations thereon as it deemed appropriate.

GENERAL FUNCTIONS

The Committee, with the prior approval of the Board of Directors, shall provide oversight of the bank's internal and external auditor. It shall be responsible for the setting-up of the internal audit department and the appointment of the internal auditor. It shall monitor and evaluate the adequacy and effectiveness of the internal control system of the Bank. The Committee shall assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, and auditing and financial reporting practices. The Audit Committee 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.

ROLES AND RESPONSIBILITIES

This Audit Committee shall undertake the following roles and responsibilities:

1. Recommend the approval of Internal Audit (IA) Charter, which formally define the role of Internal Audit and the audit plan as well as oversees the implementation of the IA Charter.
2. Maintain a robust process for approving and recommending the appointment, reappointment, removal, and fees of the external auditor, subject to approval by the Board of Directors and ratification by the shareholders. For removal of the external auditor, the reasons for removal or change are disclosed to the regulators and the public through the company website and required disclosures.
3. Ensures independence of the internal audit service provider; That it complies with the sound internal auditing standards, such as Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics.
4. Ensure that the audit plan is aligned with the overall plan strategy and budget of the bank and is based on robust risk assessment.

5. Provide oversight of the work of the external auditor and resolution of disagreements between management and the external auditor regarding financial reporting. The external auditor shall report directly to the Audit Committee.
6. Retain special legal, accounting or other consultants to advise the Committee, to the extent it deems necessary and appropriate upon Board approval. The Bank shall provide for the appropriate funding, as determined by the Audit Committee, for payment of compensation for the external auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Audit Committee.
7. Request any officer or employee of the Bank or the Bank's outside counsel or external auditor to attend a meeting of the committee or to meet with any members of, or consultant to, the Committee.
8. Make regular reports to the Board, which shall include a review of any issues that arise with respect to the quality or integrity of the Bank's financial statements.
9. Review and discuss with management and the external auditor the annual audited financial statements, including disclosures made in management's discussion and analysis.
10. Discuss with management and the external auditor major issues regarding accounting principles and financial statement presentations, including any significant changes in the Bank's selection or application of accounting principles, any major issues as to the adequacy of the Bank's internal controls and any special audit steps adopted in light of material control deficiencies, as well as significant financial reporting issues and judgments made in connection with the preparation of the Bank's financial statements, including the development, selection and disclosure of critical accounting estimates, analyses of the effect of alternative assumptions, estimates or PAS methods on the Bank's financial statements.
11. Review and discuss with the management and external auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Bank's financial statements.
12. Responsible for the external auditor on the following:
 - 12.1 Assess the integrity and independence of external auditors;
 - 12.2 Exercise effective oversight to review and monitor the external auditor's independence and objectivity, and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements;
 - 12.3 Review and monitor the external auditor's suitability and effectiveness on an annual basis;
 - 12.4 Ensures that the external auditor has adequate quality control procedures;
 - 12.5 Ensures that the external auditor is duly accredited by the SEC under Group A category; and agreed to be subjected to the SEC Oversight Assurance Review (SOAR) Inspection Program to be conducted by the SEC's Office of the General Accountant (OGA).

13. Ensure that the external auditor is credible, competent and has the ability to understand complex related party transactions, its counterparties, and valuations of such transactions.
14. Approve all non-audit services conducted by the external auditor.
15. Ensure that the nature of non-audit services performed by the external auditor is disclosed in the Annual Report to deal with the potential conflict of interest.
16. Stay alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which may impair the external auditor's objectivity.
17. Ensure that the fees paid for non-audit services do not outweigh the fees paid for audit services.
18. Obtain and review a report from the external auditor at least annually regarding (a) the auditor's internal quality control procedures, (b) any material issues raised by the most recent internal quality control review, or peer review, of the Bank, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the external auditor, (c) any steps taken to deal with any such issues, and (d) all relationships between the external auditor and the Bank.
19. Assure the regular rotation of those partners of the external auditor as required by regulations.
20. Meet with the external auditor prior to the audit to discuss the planning and staffing of the audit.
21. Approve the appointment and removal of the Chief Internal Auditor and key internal auditors or contracted internal auditors, if applicable.

21.1 Minimum qualifications of Chief Internal Auditor:

The internal auditor of a thrift bank, quasi-bank, trust entity or national cooperative bank must be a CPA with at least five (5) years' experience in the regular audit (internal or external) of a thrift bank, quasi-bank, trust entity or national cooperative bank as auditor-in-charge, senior auditor or audit manager or, in lieu thereof, at least three (3) years' experience in the regular audit (internal or external) of a universal bank or commercial bank as auditor-in-charge, senior auditor or audit manager.

22. Review the significant reports to the management prepared by the Internal Audit Center or contracted internal auditors, if any and management's responses including the corresponding recommendations to address the weaknesses noted, discussing the same with the Chief Internal Auditor and reporting significant matters to the Board of Directors.
23. Ensure that the internal audit function maintains an open communication with Senior Management, the Audit Committee, external auditors, and the supervisory authority.

24. Ensure that the Chief Internal Auditor conducts an annual confirmation of the organizational independence of the internal audit activity to the Board.
25. Review discoveries of fraud and violations of laws and regulations as raised by the Chief Internal Auditor.
26. Report to the Board of Directors the annual performance appraisal of the Chief Internal Auditor.
27. Recommend for approval of the Board of Directors the annual remunerations of the Chief Internal Auditor and key internal auditors.
28. Discuss with the Chief Internal Auditor or contracted internal audit executive the internal audit responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.
29. Review with the Board the performance of the Bank's internal audit function, "such as:
 - a) Examination and evaluation of the adequacy and effectiveness of the internal control systems;
 - b) Review of the application and effectiveness of risk management procedures and risk assessment methodologies;
 - c) Review of the management and financial information systems, including the electronic information system and electronic banking services;
 - d) Assessment of the accuracy and reliability of the accounting system and of the resulting financial reports;
 - e) Review of the systems and procedures of safeguarding assets;
 - f) Review of the system of assessing capital in relation to the estimate of organizational risk;
 - g) Transaction testing and assessment of specific internal control procedures; and
 - h) Review of the compliance system and the implementation of established policies and procedures."
30. Obtain reports from the management, the Bank's Chief Internal Auditor or contracted internal auditors and the external auditor that the Bank is in conformity with applicable legal requirements and the Bank's Code of Conduct.
31. Discuss with management and the external auditor any correspondence with regulators or government agencies and any employee complaints or published reports which raise material issues regarding the Bank's financial statements or accounting policies.
32. Discuss with the General Counsel legal matters that may have a material impact on the financial statements or the Bank's compliance policies;
33. 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.

34. Ensure that the Chief Executive Officer and Chief Internal Auditor attest in writing, at least annually, that a sound internal audit, control and compliance system is in place and working effectively.

While the Audit Committee has the responsibilities and powers under this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Bank'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 auditor.

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee shall be composed of at least three (3) members of the Board of Directors, where at least two (2) or majority of whom shall be independent directors, including the Chairman, preferably with Accounting, Auditing, or related financial management expertise or experience.

With respect to Committee members, the basis for determining independence will be the requirements imposed upon audit committees by the regulatory authorities. The Committee members will not receive, directly or indirectly through their affiliations or relatives, any consulting, advisory or other compensatory fee from the Bank or its subsidiaries other than Director's Fees and fixed compensation as defined in the Bank's By-Laws. The Board of Directors shall review the composition of the Audit Committee and its independence annually.

TERMS OF OFFICE

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 Board of Directors: Provided that, an Independent Director (ID) shall have a maximum cumulative term of nine (9) years. After which, the ID shall be perpetually barred from serving as ID in the Bank but may continue to serve as its regular director. The nine (9) year maximum cumulative term for IDs shall be reckoned from 2012.

Termination of member's term of office may be staggered to allow the retention of seasoned members and to ensure Committee's uninterrupted flow.

CONDUCT OF MEETING

The Committee will meet once every month or as often as necessary to fulfill its duties and responsibilities.

Minutes of all meetings will be approved by the Committee and be maintained accordingly.

QUORUM

The quorum shall be at least 51% of the regular members, one of whom should be the Chairman of the committee or in his absence the Acting Chairman, the other independent director, who shall chair the meeting. A majority vote among the present shall be required to pass or defeat any resolution at the meeting, provided such majority vote shall always include the vote of the Chairman or in his absence, the Acting Chairman. In case of deadlock, “the proposal which has the vote of the Chairman or in his absence the Acting Chairman, shall be the final decision to pass or defeat any resolution at the meeting.”