

AUDIT COMMITTEE CHARTER

INTRODUCTION

The Audit Committee (AuditCom) plays an important role in providing oversight on the Bank's governance, risk management, regulatory compliance and internal control practices. The oversight mechanism also serves to provide confidence in the integrity of these practices.

A. PURPOSE

The AuditCom is responsible for enhancing the Board's oversight capability over the company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. It shall oversee 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 reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations and safeguarding of assets.

B. COMPOSITION AND QUALIFICATIONS OF COMMITTEE MEMBERS

The AuditCom shall be composed of at least three (3) appropriately qualified non-executive directors, the majority of whom, including the Chairperson, should be independent directors. All of the members of the AuditCom must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance. The Chairperson of the AuditCom should not be the Chairperson of the Board or of any other committees.

CSBI Board of Directors (BoD) shall appoint the AuditCom members, including its Chairman in accordance with the existing rules and regulations. New AuditCom members shall be oriented on the AuditCom's authorities/duties/ responsibilities and shall be provided with an overview of the company's internal control, compliance, governance and risk management systems. The AuditCom shall also ensure that all members are provided with regular and timely updates on changes in regulatory environment, accounting standards, and best practices in corporate governance and industry.

C. COMMITTEE MEETING AND QUORUM

1. The AuditCom shall meet at least quarterly at such date, time, and place to be determined by the Committee. It has authority to convene additional/special meetings as circumstances require.

2. Non-executive board members shall meet regularly, other than in meetings of the audit, risk oversight, corporate governance, and related party transactions committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.
3. The majority of the members of the Committee will constitute a quorum.
4. Each member / director is expected to attend the regular and special committee meetings.
5. The committee may invite members of management, auditors, compliance officer or other resource person to attend the meetings and provide pertinent information as necessary.
6. The committee members may meet with the internal and external auditors as deemed necessary.
7. Schedule of the committee meetings are to be agreed by all members of committee and to be presided by the AuditCom Chairman.
8. The agenda will be prepared by the Chief Audit Executive (CAE) /Internal Audit Department (IAD) Head in consultation with the AuditCom Chairman and also with the committee directors / members.
9. The AuditCom will maintain written minutes of the meeting which shall be submitted to CSBI Board of Directors for notation / confirmation. The committee will also maintain copies of the materials taken up in the meetings.

D. AUTHORITY OF THE COMMITTEE

The Committee shall have sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports and appropriate action on audit recommendations.

The Committee shall have explicit authority to investigate any matter within its scope based on the Audit Committee Charter, have full access to and cooperation by management, have full discretion to invite any director or executive officer to attend its meetings, and have full and unrestricted access to records, data, information, reports, personnel, and physical properties relevant to the discharge of its duties.

E. DUTIES AND RESPONSIBILITIES

The AuditCom shall have the following duties and responsibilities:

1. Recommends the approval of the Internal Audit (IA) Charter, which formally defines the responsibilities, powers and authority of the Internal Audit Department (IAD), the

audit plan of the IAD, as well as oversees the implementation of the IA Charter. The IA Charter shall be periodically reviewed by the AuditCom and any changes thereto shall be approved by the BoD. The Charter should contain, among others, the AuditCom's purpose, membership, structure, operations, reporting process, resources and other relevant information.

2. Internal Audit

- 2.1 Oversee the internal audit function and shall ensure its independence and unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions taking into consideration relevant Philippine professional and regulatory requirements. The Bank should have an independent internal audit function that provides an independent and objective assurance, and consulting services designed to add value and improve the Bank's operations.
- 2.2 Monitor and review the effectiveness of IAD and ensure that it complies with internal auditing standards and the Code of Ethics. In line with this, it shall:
 - a. Review and approve the audit plan, scope, frequency and budget of the IAD.
 - b. Ensure that audit plan is based on a robust risk assessment.
 - c. Ensure that the audit scope covers the review of the effectiveness of the Bank's internal controls, including financial, operational and compliance controls, and risk management system.
 - d. Review the internal audit reports and the corresponding recommendations to address the weaknesses noted, discussing the same with IAD Head and report significant matters to the BoD.
 - e. Ensure that the IAD maintains an open communication with Senior Management, the AuditCom, External Auditors, and the supervisory authority.
 - f. Review discoveries of fraud and violations of laws and regulations as raised by the IAD.
- 2.3 Responsible for the qualifications, appointment/selection, reappointment, and dismissal of the CAE/IAD Head and key internal auditors. It shall report to the BoD the annual performance appraisal of the CAE/IAD Head. It shall recommend for approval of the BoD the annual remuneration of the CAE/IAD Head and key internal auditors. The remuneration shall be in accordance with the Bank's remuneration policies and practices and shall be structured in such a way that these do not create conflicts of interest or compromise independence and objectivity.
- 2.4 Functionally meet with the Head of Internal Audit and such meetings shall be duly minuted and adequately documented.
- 2.5 Establish and identify the reporting line of the IAD to enable it to properly fulfill his duties and responsibilities. For this purpose, the IAD should directly report to the AuditCom.

2.6 Receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws, and regulations and other issues and recommendations identified by auditors and other control functions.

2.7 In case of outsourced audit services, the AuditCom shall be responsible for:

- a. Selecting and overseeing the performance of the internal audit service provider.
- b. Approving the terms and conditions for outsourcing internal audit services.
- c. Ensuring the independence of the internal audit service provider.
- d. Reporting to the BoD on the status of accomplishments of the outsourced internal audit activities, including significant findings noted during the conduct of internal audit.
- e. Ensuring that the IA service provider complies with sound internal auditing standards such as the Institute of Internal Auditors' International Standard 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.
- f. Ensuring that the audit plan is aligned with the overall plan strategy and budget of the Bank and is based on a robust risk assessment.
- g. Ensuring that the outsourced service provider has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.

3. External Audit

3.1 Perform oversight function over the Bank's External Auditors, and ensure unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions taking into consideration relevant Philippine professional and regulatory requirements.

3.2 Responsible for the appointment, reappointment, removal, replacement, and fees of External Auditor, duly accredited by the SEC and included in BSP's List of Selected External Auditors, who undertakes an independent audit of the Bank, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the shareholders/members.

The appointment, reappointment, removal, and fees of the external auditor is recommended by the AuditCom, approved by the BoD and the shareholders/members.

For removal of the external auditor, the reasons for removal or change are disclosed to the SEC, the shareholders/members, and the public through the company website and required disclosures.

3.3 Prior to the commencement of the audit, discuss with the External Auditor the nature, scope and expenses of the audit, and ensures the proper coordination if

more than one audit firm is involved in the activity to identify proper coverage and minimize duplication of efforts.

- 3.4 Responsible for assessing the integrity and independence of external auditors; exercising effective oversight to review and monitor the external auditor's independence and objectivity; and exercising effective oversight to review and monitor the effectiveness of the audit process, taking into consideration relevant Philippine financial and regulatory requirements.
 - 3.5 Review the recommendations in the External Auditor's management letter.
 - 3.6 Evaluate and determine the non-audit work, if any, of the External Auditor, and periodically review the non-audit fees paid to the External Auditor in relation to the total fees paid and the corporation's overall consultancy expenses. The AuditCom should disallow any non-audit work that will conflict with the duties of an External Auditor or may pose a threat to his independence¹. The non-audit work, if allowed, should be disclosed in the corporation's Annual Report and Annual Corporate Governance Report to manage potential conflict of interest cases.
 - 3.7 Be alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.
 - 3.8 Responsible for review and monitoring the external auditor's suitability and effectiveness on an annual basis.
4. Internal Control
- 4.1 Oversee the implementation of internal control policies and activities.
 - 4.2 Through the IAD, monitor and evaluate the adequacy and effectiveness of the Bank's internal control system, integrity of financial reporting, and security of physical and information assets.
 - 4.3 Ensure that well-designed internal control procedures and processes that will provide a system of checks and balances are in place in order to: (a) safeguard the company's resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the company's financial data, and (d) ensure compliance with applicable laws and regulations.
 - 4.4 Ensure that periodic assessment of the internal control system is conducted to identify the weaknesses and evaluate its robustness considering the Bank's risk profile and strategic direction.

¹ As defined under the Code of Ethics for Professional Accountants.

4.5 Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the corporation. This function shall include regular receipt from Management of information on risk exposures and risk management activities.

5. Financial Reporting and Disclosures

5.1 Oversee the financial reporting process, practices, and controls.

5.2 Ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.

5.3 Review and discuss with Senior Management the Interim and, with the External Auditor, the Annual Financial Statements before their submission to the Board, with particular focus on the following matters:

- Any change/s in accounting policies and practices
- Areas where a significant amount of judgment has been exercised
- Significant adjustments resulting from the audit
- Going concern assumptions
- Compliance with accounting standards/financial reporting regulations
- Compliance with tax, legal and regulatory requirements

5.4 Ensure that the scope of external audit work appropriately covers areas relevant to the Bank's operations and risk exposures. These include the following:

- Review of the adoption of applicable reporting framework as well as the assessment of the accuracy, adequacy, reliability of accounting records and financial reports
- Assessment of the propriety and adequacy of disclosures in the financial statements;
- Assessment of the adequacy and effectiveness of internal controls and risk management systems
- Assessment of the quality of capital in relation to risk exposures
- Evaluation of the quality of corporate governance

6. Compliance

6.1 Coordinate, monitor and facilitate compliance with laws, rules and regulations.

6.2 Ensure that the scope and frequency of audit is appropriate to the risk exposures. Any operational risk issue identified and reported in the audit process should be addressed by senior management in a timely and effective manner, or raised to the attention of the board as appropriate.

6.3 Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified,

RPTs are monitored, the Related Party Registry is updated to capture subsequent changes in relationships with counterparties (from non-related to related and vice versa).

- 6.4 Establish and maintain mechanisms 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 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.

F. REPORTING ON AUDIT COMMITTEE PERFORMANCE

The AuditCom will report to CSBI BoD annually, summarizing the committee's activities and recommendations. The report may be delivered during a regularly scheduled meeting of the board or in an audit committee meeting attended by the Board. The report shall include the following;

- A summary of the work the audit committee performed to fully discharge its responsibilities during the preceding year.
- A summary of management's progress in addressing the results of internal and external audit engagements reports.
- An overall assessment of management's risks, control, and compliance processes, including details of any significant emerging risks or legislative changes impacting the governance issue of the bank.
- Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended.
- Provide information required if any, by new or emerging corporate governance developments.
- The committee may report to CSBI BoD at any time regarding any other matter it deems of sufficient importance.

The AuditCom shall assess at least annually its performance and effectiveness as a body, and as individual AuditCom members, based on the requirements of the Code of Corporate Governance, other applicable laws and regulations in the Philippines, as well as best practices and standards. At a minimum, the self-assessment should cover the following areas:

- Setting of Committee Structure and Operation
- Oversight on Financial Reporting and Disclosures
- Oversight on Risk Management and Internal Controls
- Oversight on Management and Internal Audit
- Oversight on External Audit