

7. The Chief Compliance Officer (CCO)

- 7.1. To ensure adherence to corporate principles and best practices, there shall be a designated Compliance Officer who shall hold the position of at least a Vice President or its equivalent. He shall have direct reporting responsibilities to the Chairman of the Board thru the Board Audit and Compliance Committee (BACC).
- 7.2. He shall perform the following duties:
 - 7.2.1. Monitor compliance by the Bank with the provisions and requirements of this Revised Manual and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board thru the BACC and recommend the adoption of measures to prevent a repetition of the violation. The Compliance Officer shall likewise refer the matter to the Administrative Board or the Corporate Governance/Nomination/Remuneration Committee, as the case maybe, to determine the administrative liability and imposition of penalty, if any, against the responsible parties in accordance with the Bank's Code of Conduct;
 - 7.2.2. Appear before the Securities and Exchange Commission when summoned in relation to the Bank's compliance with this Revised Manual;
 - 7.2.3. Oversee the design of an appropriate compliance system, promote its effective implementation and address breaches that may arise. The CCO shall be responsible for ensuring the integrity and accuracy of all documentary submissions to BSP;
 - 7.2.4. Provide appropriate guidance and direction to the bank on the development, implementation and maintenance of the compliance program; and
 - 7.2.5. In charge in monitoring the bank compliance with the provisions and requirements of the Corporate Governance Manual and relevant banking rules and regulations as well as keeping the Directors updated regarding any related statutory changes.

8. The External Auditor

- 8.1. An External Auditor shall ensure the establishment and maintenance of an environment of good corporate governance as reflected in the financial records and reports of the Bank;

The Board, after consultations with the Board Audit and Compliance Committee, shall recommend to the stockholders an External Auditor duly accredited by SEC;

The External Auditor as appointed by the stockholders shall undertake an independent audit of the Bank, and shall provide an objective assurance regarding the manner under which the financial statements are prepared and presented to the stockholders;
- 8.2. The External Auditor of the Bank shall not at the same time provide internal audit services to the Bank. Non-audit work may be given to the External Auditor provided it does not conflict with his duties as an independent auditor or does not pose a threat to his independence;
- 8.3. If the External Auditor resigns, is dismissed or ceases to perform his services, the reason/s and the date of effectivity of such action shall be reported in the Bank's annual and current reports. The report shall include a discussion of any disagreement between him and the bank on accounting principles or practices, financial statement disclosures or audit procedures which the former auditor and the Bank failed to resolve satisfactorily;
- 8.4. If the External Auditor believes that any statements made in the Bank's annual report, information statement or any report filed with the SEC or any regulatory body during the period of his engagement is incorrect or incomplete, he shall properly present his views in said reports;

- 8.5. The Bank's External Auditor shall be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the corporation, should be changed with the same frequency;
- 8.6. Form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework based on an evaluation of the conclusions drawn from the audit evidence obtained; and express that opinion clearly through a written report that also describes the basis for the opinion;
- 8.7. The External Auditor shall identify and assess the risks of material misstatement in the bank's financial statements, taking into consideration the bank's operations, control environment and its components as well as the bank's financial reporting systems. The assessment shall also take into account qualitative aspects of the bank's accounting practices, including indicators of possible biases in management's judgments. The External Auditor should, likewise, assess and communicate to the Board Audit and Compliance Committee the results of its assessment on the capability of bank management, the strength of the bank's control environment, and the adequacy of the bank's accounting/information systems to comply with financial and prudential reporting responsibilities;
- 8.8. The External Auditor shall conclude whether it has obtained reasonable assurance that the financial statements, as a whole, are free from material misstatement, whether due to fraud or error. That conclusion shall include an evaluation of the following:
- 8.8.1. Whether sufficient appropriate audit evidence has been obtained;
 - 8.8.2. Whether uncorrected misstatements are material, individually or in aggregate; and
 - 8.8.3. Compliance with the applicable framework.
- If material error or fraud is discovered, the external auditor shall immediately bring such information to the attention of the Board Audit and Compliance Committee. Moreover, the external auditor shall report to the BSP such material error or fraud and other matters as prescribed under existing regulations.
- 8.9. The External Auditor shall evaluate the requirements of the applicable financial reporting framework:
- 8.9.1. The financial statements adequately disclose the significant accounting policies selected and applied;
 - 8.9.2. The accounting policies selected and applied are appropriate and consistent with the applicable financial reporting framework;
 - 8.9.3. The accounting estimates made by management are reasonable;
 - 8.9.4. The methodologies, assumptions and valuation practices including provisioning for loan losses are appropriate and consistent with the applicable financial reporting framework;
 - 8.9.5. The information presented in the financial statements are relevant, reliable, comparable and understandable;
 - 8.9.6. The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
 - 8.9.7. The terminologies used in the financial statements, including the title of each financial statement, are appropriate.

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.
- 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 should be disclosed in the annual 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.
- Regularly review and monitor the External Auditor's technical competence, independence, objectivity and overall effectiveness of the External Audit process;
- 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.