

**REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS  
BANK OF PHILIPPINE ISLANDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**DATE REVIEWED, CONFIRMED/NOTED  
BY THE BOARD OF DIRECTORS  
(BPI)**

**MAR 20 2019**

**SECRETARY**

The role and responsibilities of the Audit Committee are defined in the Board-approved Audit Committee charter. In accordance with this charter, the Committee assists the Board of Directors in fulfilling its oversight responsibilities to the shareholders with respect to:

- Systems of internal controls, risk management and governance process of the Bank,
- Integrity of the Bank's financial statements and financial reporting process
- Performance of the internal audit function and the external auditor
- Compliance with bank policies, applicable laws, rules and regulatory requirements

The Committee is composed of three (3) qualified non-executive and independent directors, all with necessary background, knowledge, skills, and/or experience to carry out its functions. It held 12 regular and 4 special meetings in 2018. Highlights of the Committee's activities were as follows:

**1. Financial Statements:**

- a) Reviewed and discussed with Management and the external auditor, Isla Lipana & Co., a member firm of Price Waterhouse Coopers, the audited consolidated financial statements of Bank of the Philippine Islands (BPI) and the related disclosures for the year ended December 31, 2018, including the assessment of the internal controls relevant to the financial reporting process. The review was performed in the following context:
- that Management is responsible for the preparation and fair presentation of the financial statements in accordance with the prescribed financial reporting framework, and
  - that Isla Lipana has audited the financial statements in accordance with the Philippine Standards on Auditing and is responsible for expressing an opinion on the fairness of the presentation, including the results of its independent review of the Bank's business models and valuation techniques, estimates and assumptions used relative to the adoption of Philippine Financial Reporting Standards (PFRS) 9.

After obtaining assurance on the external auditor's independent and thorough review of the financial statements, the Committee endorsed the audited financial statements for approval by the Board and for inclusion in the 2018 Annual Report to the Stockholders.

- b) Discussed with Management and the internal auditors, the quarterly unaudited consolidated financial reports of BPI Group including the results of operations and endorsed the financial statements to the Board of Directors for approval.

**2. External Audit:**

- a) Reviewed the audit plan and the scope of work of the external auditors, ensuring that areas of focus were appropriately covered and there were no significant gaps in the scope between external and internal audits to ensure effective use of resources.

The Committee also reviewed the audit results focusing on significant items with financial impact and key control issues through the Management Letter of Comments and ensured that corrective actions are taken by Management. The Audit Committee also held an annual executive session with the external auditor to discuss any other concerns relating to its financial reporting and attestation process.

- b) Assessed the overall performance and effectiveness of the external auditor, Isla Lipana and its audit process. The Committee ensures that lead audit partner is rotated every five (5) years and that Isla Lipana & Co. had reaffirmed its independence from BPI and its subsidiaries and are in compliance with the relevant ethical and professional standards. In consultation with Management, the Committee recommended for consideration and endorsement of the Board of Directors to the stockholders, the re-engagement of Isla Lipana & Co for BPI and its subsidiaries and affiliates for year 2019 and the related audit fees for 2019.



### 3. Internal Audit:

- a) Reviewed and approved the annual work plan of Internal Audit including its charter, risk assessment model and audit rating framework. The Committee ensures that the internal audit function is independent, has adequate and competent resources, and has appropriate authority to be able to effectively discharge its duties. The members of the Audit Committee also had regular discussions with the Chief Audit Executive during the year on significant control and/or risk issues arising from the audit reviews.
- b) Reviewed and discussed the reports from internal audit and other management assurance units ensuring that Management is taking the appropriate corrective actions in a timely manner. The Audit Committee also held meetings in joint session with the Risk Management Committee to discuss the new PFRS 9 standard and other key risk areas particularly on information technology, cyber security threats and compliance with regulatory requirements as well as Management updates on its implementation plans to address the identified control gaps or significant issues noted.
- c) Reviewed the minutes of meetings of the different Audit Committees of the BPI subsidiaries, to ensure that identified control weaknesses, operational risks and compliance issues are monitored and acted upon.
- d) Evaluated the performance of the Chief Audit Executive. The Committee also ensures that Internal Audit activities continuously conform with the International Standards for the Professional Practice of Internal Auditing and Code of Ethics through internal and external quality assessment reviews.

### 4. Regulatory Compliance:

- a) Reviewed the effectiveness of the system for monitoring compliance with laws and regulations through the regular reports from the Group Compliance Office on the results of their compliance reviews and Management's actions to address the issues.
- b) Discussed the results of the post-implementation reviews of related party transactions (RPTs), ensuring that any significant issues had been appropriately addressed.
- c) Discussed the 2017 BSP Report of Examination and reviewed the replies and actions taken by Management on the findings, observations and recommendations making sure that committed actions are implemented.


In compliance with the SEC requirement and the BPI Corporate Governance Manual, the Audit Committee:

- Attended the annual SEC accredited workshop and other seminars on corporate governance, risk management and updates on new relevant laws, accounting standards, tax rules, and other regulatory requirements.
- Reviewed the Audit Committee Charter to ensure that it is updated and aligned with the regulatory requirements.
- Performed the annual self-assessment and reviewed its performance against its charter and other regulatory mandates. The result was validated by the Compliance Officer and discussed in the Corporate Governance Committee. The process confirmed a satisfactory performance of the Audit Committee.

Based on the results of the assurance activities performed by the Bank's Internal Audit and the external auditor's unqualified opinion on the financial statements, the Committee assessed that the Bank's systems of internal controls, risk management, and governance processes continue to be adequate and generally effective. This overall assessment states, among others, that the audit scope and coverage are sufficient, comprehensive, and risk-based, that Management is aware of its responsibility for internal control, and that there is no interference with the accomplishment of audit activities and reporting of issues and other relevant information to Management, Audit Committee, and the Board of Directors.

  
**OCTAVIO V. ESPIRITU**  
Member

  
**XAVIER P. LOIAZ**  
Chairman - Audit Committee

  
**MA. DOLORES B. YVENCIO**  
Member