

BPI EUROPE PLC AUDIT AND RISK COMMITTEE TERMS OF REFERENCE

Section 1. Purpose

The Audit and Risk Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of the Bank of the Philippine Islands (Europe) Plc (“BPI Europe” or the “bank”), a wholly-owned subsidiary of BPI (the “Parent” or “BPI”). The Committee monitors and evaluates the adequacy and effectiveness of the internal control system, including the financial reporting process, statutory audit, and information technology security. It is mainly responsible for:

- Oversight of the compliance framework and processes;
- Oversight of the risk management framework and systems;
- Assessment of the effectiveness of the bank’s systems and controls;
- Monitoring results and status of regulatory, internal, and external audit and provide regular updates to the Board;
- Monitoring of the financial reporting process; and
- Review and monitor independence of the bank’s auditors.

Section 2. Committee Membership

The Audit Committee is a subcommittee of the Board of Directors composed of at least (3) members. At least two (2) of the members shall be non-executive independent directors, one of whom should act as Chairperson, preferably with related financial management or risk management expertise or experience.

The selection and appointment of the Audit Committee members, including its Chairperson, shall rest with the Board in accordance with the existing rules and regulations.

Section 3. Meetings

The Committee must meet regularly, preferably every quarter, at such date, time and place to be decided by the Committee. Special meetings shall be convened by any member of the Committee anytime as the need arises. The Chairperson of the Committee and any one (1) of the members, constitute a quorum.

The Committee must meet with the external and internal auditors, at least annually, including the visiting bank examiners of the Bangko Sentral ng Pilipinas (BSP), to discuss the pertinent matters and issues arising from any audit.

The Compliance and Risk Management Units are responsible for the preparation of the meeting agenda, sending of invitation to the required attendees, and preparation of the presentation materials. The Committee may request any employee of BPI Europe or the bank’s outside counsel or external auditor to attend a meeting of the Committee or to meet with any members, as necessary. In the absence of Compliance/Risk members, the Committee may appoint any suitable person to attend to the necessary preparation for, and taking of the minutes of, the meeting.

The meeting agenda and supporting documents must be circulated to the Committee members within a reasonable period, at least one week, in advance of each meeting.

The minutes of the meetings must be sent to the members of the Committee, to the Board, and to BPI Internal Audit as appropriate.

Section 4. Committee Authority

The Committee is empowered by the Board to:

- a. Investigate any matter within its Terms of Reference (Terms);
- b. Seek any information it requires from employees, all of whom are directed to fully cooperate with the Committee's requests;
- c. Obtain assurances, and when appropriate, reports, from BPI Internal Audit, bank officers, external auditors, or outside counsel;
- d. Obtain professional advice at the bank's expense, whenever deemed necessary;
- e. Invite any director or executive officer to attend its meetings; and
- f. Secure adequate resources to enable it to effectively discharge its functions.

Section 5. Duties and Responsibilities

The Audit and Risk Committee have the following duties and responsibilities.

5.1 General Provisions

- a. Review and reassess the adequacy of this document at least annually and submit the revised Terms, if any, to the Board for re-approval;
- b. Undertake an annual evaluation assessing its performance with respect to its purposes, duties and tasks set forth in this document, with such evaluation being reported to the Board; and
- c. 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.

5.2 Compliance Function

The Committee exercises its oversight on the compliance framework of the bank by execution of the following:

- a. Ensure that BPI Europe has established, implemented, and maintained adequate policies and procedures to ensure the firm's compliance, and detect any risk of failure to comply, to its regulatory obligations;
- b. Ensure that robust policies and procedures are in place to counter the risk of the firm's involvement in financial crime;
- c. Provides input or challenge to the appointment of a Compliance Officer who shall perform the compliance functions of the bank. The Compliance Officer must have the necessary authority, resources, expertise and access to all relevant information; and

- d. Approve the Annual Compliance Plan and monitor the status of the items in the action tracker presented to the Committee in its quarterly meeting.

5.3 Risk Management Function¹

The Committee's risk management functions shall include:

- a. Providing advice to the Board on risk strategy, including oversight on the current and prospective risk exposures of the firm, particularly on prudential risks;
- b. Develop, propose, and recommend for approval the overall risk appetite and risk indicators / metrics to measure the firm's risk exposures;
- c. Oversight in embedding a culture of risk awareness in the organisation and challenge management's approach in the management of risks;
- d. Oversight and challenge on business strategies and transactions that will have a material impact on the bank's risk profile; and
- e. Challenge and endorse risk management policies and procedures to the Board, including effective procedures for risk assessment, which identify the risks relating to the firm's activities, processes and systems;
- f. Ensure that adequate resources are allocated to management for all identified material risks.



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5.4 Internal Audit Function

The bank outsources its internal audit function to Internal Audit of the BPI Group of Companies. The BPI Internal Audit team is equipped with sufficient knowledge, skills, experience, and necessary professional certification to effectively discharge its functions. Internal Audit reviews whether BPI Europe is employing appropriate technology and operating hardware and software systems to ensure the proper recording, storage, retrieval and analysis of transaction data.

The Audit and Risk Committee performs the following tasks as part of the oversight function:

- a. Conduct a review of the internal audit function of BPI Europe, including its independence and the authority of its reporting relationships. Likewise, the Committee shall ensure that the Chief Audit Executive, or any appointed senior officer from BPI Internal Audit², is not dependent on any BPI Europe executive or operating officer for the security of his or her position. The Committee shall ensure that BPI Internal Audit has access to the Board, on a confidential basis, and the Internal Audit is independent of BPI Europe management, both by intent and actual practice.

¹ Source: Supervisory Statement 21/15 [Internal Governance]

² The BPI personnel responsible for the bank's internal audit function shall be an approved person under the Senior Managers' and Certification Regime (SMCR).

- b. Review and approve the Annual Internal Audit Plan, including the audit scope and frequency, and any significant changes thereto. Furthermore, the Committee must review at the end of calendar year the implementation of this Plan.
- c. Review the final audit report(s) prepared by Internal Audit for matters deemed significant by the Chief Audit Executive and management's response to such reports.
- d. Ensure that internal auditors have free and full access to all BPI Europe bank's records, properties and personnel relevant to and required by its function and that Internal Audit shall be free from interference in determining its scope, performing its work and communicating its results.
- e. Periodically ensure that Internal Audit operates within acceptable international standards. Require evidence of Internal Audit certification that they are complying with acceptable international standards once every five years.

5.5 External Audit

The Committee has the following responsibilities relating to oversight on external audit:

- a. Recommend to the Board of Directors of BPI Europe the external audit firm that is acceptable to the PRA, FCA, and Financial Reporting Committee (FRC) for the purpose of preparing or issuing an audit report or related work and assess the external auditors if circumstances warrant. The Committee must advise the Board and oversee the resolution of any issue or disagreements between management and the external auditors in the event that they arise;
- b. Review the scope of the proposed external audit for the current calendar year, considering the coordination of internal and external audit procedures to promote the effective use of resources and ensure a complete and efficient audit;
- c. Approve all audit and non-audit services, including its fees, to be provided by the external auditor to the bank. The Committee shall pre-approve and satisfy itself that any non-audit work will not be in conflict with his duties as external auditor or may pose a threat to its independence. The non-audit work, if allowed, must be carried out within the guidelines of relevant accounting rules and authority, and must be disclosed in the bank's annual accounts;
- d. The Committee should ensure that -
 - i. No external auditor may be engaged by BPI Europe if he has or was committed to acquire any direct or material indirect financial interest in the bank, or if his independence is considered impaired under the circumstances specified in the Code of Professional Ethics for Chartered Accountants. In the case of a partnership, these limitations shall apply to the partners, associates and the auditor-in-charge of the engagement;
 - ii. The external auditor and the members of the audit team do not have /shall not have outstanding loans or any credit accommodation with BPI Europe at the time of signing the engagement and during the engagement;
 - iii. The external auditor and the members of the audit team adhere to the highest standards of professional conduct, integrity and objectivity;



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- iv. The external auditors have free and full access to all the bank's records, properties, and personnel to enable them to perform their audit functions.

5.6 Financial Statements and Disclosure Matters

The Committee should ensure that formal and transparent policies and procedures are in place to maintain the integrity of the financial statements. The Committee is responsible for overseeing the bank's Annual Accounts and has the following specific duties:

- a. Review and discuss with management the quarterly and half-year financial reports, and with the external auditor the annual financial statements, before submission to the Board, focusing on changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit, going concern assumptions, compliance with accounting standards/financial reporting regulations and compliance with tax, legal and stock exchange requirements.
- b. Review and discuss with management and the external auditor significant financial reporting issues and judgments made in connection with the preparation of BPI Europe's financial statements, including any significant changes in the bank's selection or application of accounting principles, any major issues as to the adequacy of BPI Europe's internal controls, unusual or complex transactions including all related party transactions
- c. Review with the external auditor any problems or difficulties encountered and management's response; review the external auditor's attestation and report on management's internal control report, and hold timely discussions with the external auditors regarding the following:
 - i. All critical accounting policies and practices;
 - ii. All alternative treatments of financial information within the Generally Accepted Accounting Principles (GAAP) and the International Accounting Standards (IAS) that have been discussed with management, implications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor;
 - iii. Other material written communication between the external auditor and management including, but not limited to, the management letter, audit adjustments, and schedule of unadjusted differences; and
 - iv. An analysis of the auditor's judgment as to the quality of BPI Europe's accounting principles, setting forth significant reporting issues and judgments made in connection with the preparation of the financial statements.
- d. Receive and review reports of external auditors, including reports of regulatory agencies, and ensure that management is taking appropriate corrective actions in a timely manner in addressing control and compliance functions with regulatory agencies.

5.7 Systems and Controls

The Committee shall ensure that adequate systems and controls are in place through the execution of the following responsibilities:



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- a. Discussion with management regarding the bank's major areas of risk and the steps management has taken to monitor and control such exposures, including BPI Europe's risk assessment and risk management processes, policies and control and governance processes. Review with management the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the bank.
- b. Establishing appropriate control mechanisms, systems and processes (e.g. policy manuals, risk measurement and control systems, performance reports, internal audit program and reports, etc.) to ensure the identity and authority of counterparties, the validity and integrity of transactions and data, and the competent management of risks.
- c. Ensuring the preparation and implementation of contingency plans to ensure business continuity in the event of any major crisis.
- d. Ensuring the alignment of financial accounting, measurement, reporting and auditing methodologies and practices with international standards and best practices.
- e. Ensuring full compliance with the laws and regulations and the specific requirements of any relevant regulatory bodies, where applicable.
- f. Ensuring that BPI Europe maintains its compliance with international standards on accounting processes, practices and methodologies; and
- g. Ensure the sound operation of a transparent financial management system that will ensure the integrity of internal control activities throughout BPI Europe through a procedures and policies handbook that will be used by the entire organisation.



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