



AUDIT AND COMPLIANCE COMMITTEE (ACC) CHARTER

(Amended as of June 2016)

PURPOSE

The Audit and Compliance Committee ("ACC" or "Committee") of the Development Bank of the Philippines ("DBP") is a standing committee of the Board of Directors ("Board").

The purpose of the Committee is to assist the Board of Directors provide oversight over the:

- (i) Adequacy, effectiveness and efficiency of the Bank's internal control framework;
- (ii) Internal and external audit functions and compliance functions/programs;
- (iii) Bank's financial reporting policies, practices and control, and monitoring of compliance with applicable laws, rules and regulations;
- (iv) Bank's compliance with legal and regulatory requirements, including the Bank's disclosure controls and procedures; and
- (iv) Coordination with the Commission on Audit (COA) and the Bangko Sentral ng Pilipinas (BSP).

While the Committee has the responsibilities and powers as set forth in this Charter, it is not the duty of the ACC to determine that DBP'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. Likewise, Management is responsible for maintaining, monitoring and evaluating the adequacy and effectiveness of the internal control system on an on-going basis, and for reporting on the effectiveness of internal controls on a periodic basis.

MEMBERSHIP

The ACC shall be composed of at least three (3) members of the Board, wherein two (2) of whom shall be independent directors, including the Chairperson. The Chairman and the members shall have accounting, auditing or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank.

The President and/or Chief Executive Officer, Chief Financial Officer and/or Treasurer, or officers holding equivalent positions/line management positions, shall not be appointed as members of the ACC.

The presence of majority of the members will constitute a quorum for the transaction of business. Any action taken by a majority of the members present at a meeting where there is a quorum shall be valid as an act of the Committee.

MEETINGS

The Committee shall hold a meeting at such time and place as it considers appropriate, provided that meeting shall be held at least once a month. Special meetings may be held at any time deemed necessary by the ACC Chairperson. Written notice of meetings shall be sent to all members of the Committee at least three (3) days prior to the meeting, unless such notice is waived by any member.

The Committee may invite resource persons in any of its meetings to render a report, clarify and provide guidance to the Committee on any relevant issue.

AUTHORITY

The ACC shall have the authority to -

- 1) Investigate any matter within its terms and reference, to have full access to and cooperation by Management and full discretion to invite any Director or executive officer to attend its meetings, and have adequate resources to enable it to effectively discharge its functions.
- 2) Approve the annual audit plan (all auditing and non-audit services), compliance plan/program and all major changes therein.
- 3) Determine the overall internal auditing and compliance policies to ensure that the Office of Internal Audit and the Office of the Chief Compliance Officer are vested with adequate authority to fulfill their responsibilities including free and full access to bank records, properties and personnel relevant to and required by their functions. The internal audit activity shall be free from interference in determining the scope of internal auditing examinations, performing work, and communicating results.

DUTIES AND RESPONSIBILITIES

The ACC shall have the following duties and responsibilities:

Internal Control

- Ensure that a review of the effectiveness of the Bank's internal controls, including financial, operational and compliance controls, is conducted at least annually.
- Develop a transparent financial management system that will ensure the integrity of internal control activities throughout the Bank through procedures and policies handbook that will be used by the entire organization.
- Define and establish with management the periodic qualitative information needed by the Committee related to internal control and risk management, particularly on higher risk areas.

Financial Statements

- Review the quarterly, half-year and annual financial statements before submission to the Board focusing on changes in accounting policies, major judgmental areas, significant adjustments resulting from audit, going concern assumptions and compliance with tax, legal and regulatory requirements and accounting standards.
- Evaluate compliance with applicable accounting principles, and to identify, with management and the auditors, the major and critical accounting policies that have the greatest effect on the Bank's financial position. Review total financial and control structure and procedures for the Bank to ensure that these meet the objectives established as well as financial reporting requirements and, likewise, maintain the integrity of internal control activities throughout the Bank.
- Review and discuss with management and auditors –
 - a) Significant financial and regulatory reporting issues, including highly complex or unusual transactions that render the determination of their effects on the financial statements difficult or highly subjective.
 - b) Significant changes in the selection or application of accounting principles.
 - c) Significant related-party transactions not in the ordinary course of business or with related entities that either is not audited or are audited by another firm.
 - d) Significant unadjusted audit differences
 - e) Significant off-balance sheet structures
- Establish a system that addresses, in a timely and effective manner any findings of fraud or error on the financial statements

Internal Audit

- Responsible for the setting up, monitoring and reviewing the effectiveness of the internal audit function.
- Appointment/re-appointment or removal of the Chief Audit Executive (CAE); recommend for approval of the board of directors the annual remuneration of the CAE; and reporting to the board of directors CAE's annual performance appraisal.
- Review and approve the internal audit charter, audit scope and frequency, and the annual work plan of the internal audit function prior to submission to the Board and subsequently monitor significant deviations from the said plan. Ensure that the audit work plan is aligned with the overall plan strategy of the Bank and is based on robust risk assessment.

- Ensure that the Internal Audit has adequate resources in terms of manpower, budget and training to effectively fulfill its independent duties in the expedient implementation of the Annual Audit Plan.
- Review the internal and other key audit reports and management actions to address the weaknesses/deficiencies noted and report significant matters to the Board. Ensure that senior management is taking necessary corrective actions in a timely manner to address weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors;
- Ensure that the internal audit function maintains an open communication with senior management, ACC, and other auditors/regulatory/supervisory authority.
- Review discoveries of fraud and violations of laws and regulations as raised by the internal audit function.
- Select and oversee the performance of the internal audit service provider, and likewise ensure the service provider's independence.

Office of the Chief Compliance Officer (OCCO)

- Evaluate and recommend to the Board the appointment of the Chief Compliance Officer (CCO) who shall report directly to the Chairman of the Board through the ACC, and shall oversee the design of the Bank's Compliance System, with focus on identifying and mitigating the business risks of the Bank, and promote effectiveness of its implementation. It shall likewise -
 - a) Review and approve the OCCO's Annual Business Plan submitted by the Chief Compliance Officer, and any amendments thereto.
 - b) Ensure that the OCCO has adequate resources in terms of manpower, budget and training to effectively fulfill its duties in the expedient implementation of the Annual Business Plan.
 - c) Review the effectiveness of the Bank's compliance program to ensure compliance with regulatory requirements and regulatory changes which may affect the Bank's compliance regime.
 - d) Be ultimately responsible for compliance with applicable laws, rules and regulations, including the Anti-Money Laundering Act; thus, ensure the Bank's compliance management is adequate.
 - e) Oversee the Board-approved Compliance Programs across all businesses and subsidiaries and ensure that compliance recommendations are addressed by the President/CEO and Senior Management and/or the respective Board of the bank subsidiaries/affiliates on a timely basis.

Other Duties and Responsibilities

- Review and assess the adequacy of this Charter annually and propose changes to the Board of Directors.
- Require the Internal Audit Group and the Office of the Chief Compliance Officer to conduct a periodic formal review of their respective structure, their controls and activities to assess consistency with the board approved policies, practices and strategies and to report the results of their assessment directly to the Board.
- Meet regularly, other than the meetings of the ACC, in the absence of senior management, with the external auditors, and the CAE and the CCO, to discuss any matter that the ACC Members, the CAE or the CCO believes should be discussed privately.

Interrelationship with Other Units

In this Charter of the ACC, the following functional interrelationships are acknowledged –

- The Integrity and Quality of the Operational Processes and Internal Control is the primary responsibility of Management.
- The operational supervision of and oversight role over the Bank's Risk Management System is the primary function of the Risk Management Officer/Risk Management Committee.
- The mechanism by which officers and staff, in confidence, raise concerns about possible improprieties or malpractices, on matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action, through the Bank's Whistleblower Protection Policy is the primary responsibility of the Governance Committee which *ipso facto* act as the Whistleblower Protection Committee.