



BOARD CHARTER

Philippine Business Bank, Inc. (PSE:PBB)

ABSTRACT

As a written policy document, this Charter clearly defines the respective roles, responsibilities and authorities of the Board of Directors (both individually and collectively) and Management of Philippine Business Bank, Inc. (PSE:PBB).

Making things happen, today.
(Corporate Slogan)



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BOARD CHARTER

I. PURPOSE

This Board of Director's (the "**Board**") Charter (the "**Charter**") sets out the key values and principles of the Board of **Philippine Business Bank, Inc.** ("**PBB**" or the "**Bank**"). Within their authority under the Corporation Code (Batas Pambansa Bilang 68), the Central Bank Act (Republic Act No. 7653), the Securities Regulation Code (Republic Act No. 8799) and other applicable laws and the By-Laws of the Corporation, the Directors, acting as the Board, have the fullest powers to regulate concerns of the Corporation according to their best judgment. The Board is the supreme authority in matters of governance and in managing the business of the Bank.

Further, this Board Charter provides for the concise overview of the roles and responsibilities of the Board; the powers of the Board and its Committees; separation of roles between the Board and Senior Management ("**SM**"); and the practice of the Board in respect of corporate governance matters.

II. ROLE OF THE BOARD

- a) The Board is primarily responsible for the overseeing the corporate governance framework of the Bank.¹
- b) The Board provides for an independent check on SM.²
- c) The Board is responsible for establishing a sound system of internal control for the Bank.
- d) The Board is responsible for:
 - i. adoption of strategic plans and policies;
 - ii. monitoring the operational performance;
 - iii. establishing policies and processes that ensure integrity of the Company's internal controls; and

¹ PBB Corporate Governance Manual (Revised as of March 2017), E(2)(a)

² Ibid.



iv. risk management.

- e) The Board is responsible for establishing clear roles and responsibilities in discharging its fiduciary and leadership functions.
- f) The Board is responsible for ensuring that SM actively cultivates a culture of ethical conduct and sets the values to which the institution will adhere.
- g) The Board is responsible for ensuring that the strategies adopted promote the sustainability of the company.
- h) The Board is responsible for establishing policies and procedures for effective operations of the Company.
- i) The Board shall establish appropriate staffing and remuneration policies for all employees as required.
- j) The Board shall ensure the Bank's compliance with all applicable laws, BSP, SEC and PSE regulations, governance codes, guidelines and regulations and establish systems to effectively monitor and control compliance across PBB.

III. MATTERS RESERVE FOR THE BOARD

The Board reserves specific powers to itself and delegates other matters to SM of the Bank. The Board delegates its day to day powers and duties to the President and Chief Executive Officer (CEO) and to the Executive Committee which in turn will make further delegations in accordance with the Bank's Corporate Governance Manual and as required by law.

IV. DELEGATION OF AUTHORITY

Effective governance of the Bank requires management to be involved in all significant decisions, and to be accountable to the Board. All delegated authorities must emanate from the Board. In establishing delegated authorities, whether for risk/business approval, financial expenditure approval, or other approvals, the Company mirrors standard Group delegations of authority, in respect of both quantum and individuals to be granted authority. The President/CEO must raise with the Board any matter of significance affecting the Bank which requires the Board's attention, including any matters which exceed the delegated authority of the executive management.



V. COMPOSITION OF THE BOARD

The Board shall be optimally constituted giving consideration to the size and nature of the Bank's business and its subsidiaries. The Board shall ensure that it comprises a diverse mix of skills and expertise critical for effective oversight on the management of the Bank. This shall be underscored by ensuring that each member has the requisite skill and access to the necessary tools required for their effective performance.

The Board shall be composed of at least five (5), but not more than (15), members who are elected by the stockholders, a majority of whom are non-executive directors who possess the necessary qualifications to effectively participate and help secure objective and independent judgment on corporate affairs and to substantiate proper checks and balances, and at least three (3) of whom are independent directors, or such number as to constitute at least one-third (1/3) of the members of the Board.³

VI. BOARD DIVERSITY

The Board forms one of the pillars of a robust corporate governance framework. This is evidenced by the Code of Corporate Governance for Publicly-listed Companies stating that "*having a board diversity policy is a move to avoid groupthink and ensure that optimal decision-making is achieved*". This, in turn, links to the fundamental concepts of corporate governance—namely, judgment, responsibility and accountability.

Recent academic literature suggests that one of the ways to enhance corporate governance, arguably, is to diversify the board.⁴

Diversity is believed to affect a firm's long-term and short-term financial value in several ways. While these propositions do not flow from any single theoretical framework, Robinson and Dechant (1997) cite limited empirical evidence and provide intuitive examples to support each proposition. These propositions are as follows:

- 1) Corporate diversity promotes a better understanding of the marketplace. Because demographic projections indicate the marketplace is becoming more diverse, matching the diversity of a company to the diversity of the

³ PBB Corporate Governance Manual (Revised as of March 2017), E(2)(a)(i).

⁴ "*Corporate Governance, Board Diversity and Firm Value*" by David A. Carter, Betty J. Simkins and W. Gary Simpson. The Financial Review 38 (2003) 33-53. Oklahoma State University.



company's potential customers and suppliers increases the ability to penetrate markets.

- 2) Diversity increases creativity and innovation. According to this view, “attitudes, cognitive functioning, and beliefs are not randomly distributed in the population, but tend to vary systematically with demographic variables such as age, race, and gender” (Robinson and Dechant, 1997).
- 3) Diversity produces more effective problem-solving. While heterogeneity may initially produce more conflict in the decision making process, the variety of perspectives that emerges cause decision makers to evaluate more alternatives and more carefully explore the consequences of these alternatives.
- 4) Diversity enhances the effectiveness of corporate leadership. Homogeneity at the top of a company is believed to result in a narrow perspective while diverse top managers take a broader view. The result of diversity at the top is a better understanding of the complexities of the environment and more astute decisions.
- 5) Diversity promotes more effective global relationships.

In PBB, the board diversity is not limited to gender diversity. It also promotes diversity in terms of age, ethnicity, culture, skills, competence and knowledge, among others.

VII. APPOINTMENT AND REMUNERATION OF BOARD MEMBERS

- a) The Board shall consist of both Executive Directors (EDs) and Non-Executive Directors (NEDs) which shall be elected during each regular meeting of stockholders and shall hold office for one (1) year and until their successors are elected and qualified. They shall be determined from time to time and subject to regulatory requirements. The Board, through the Nominations Committee shall recommend Directors for appointment by the shareholders at the Annual Stockholders Meetings (ASMs).⁵ Independent Directors (IDs) shall be appointed as per regulatory requirements. An “Independent Director” is a person who:

⁵ PBB Amended Corporate By-Laws as of July 2012, Article III, Section 2.



- a. Is not or has not been an officer or employee of the bank, its subsidiaries or affiliates or related interest during the past three (3) years counted from the date of election.
- b. is not a director or officer of the related companies of the institution's majority stock holder;
- c. is not a stock holder with shares of stock sufficient to elect one seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;
- d. is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or a stockholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies;
- e. is not acting as nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders; and
- f. is not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with the other persons or through a firm which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

An independent director of a bank may only serve as such for a maximum cumulative term of nine (9) years. Provided that, should the Bank wants to retain an ID who has served for nine years, the Board shall provide meritorious justification/s and shall seek the shareholders' approval during the annual stockholders' meeting.⁶

The following terms, when used in relation to a company subject to the requirements above, shall be defined accordingly:

(a) "**related company**" shall mean another company which is

⁶ Pursuant to *SEC Memorandum Circular No. 19, Series of 2016*.



- (i) its parent or holding company;
 - (ii) its subsidiary or affiliate;
 - (iii) (iii) a corporation where a bank or its majority stockholder own such number of shares that will allow/enable him to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner;
- (b) “**parent**” shall mean a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries;
- (c) “**subsidiary**” shall mean a corporation more than fifty percent (50%) of the voting stocks of which is owned or controlled directly or indirectly through one (1) or more intermediaries by a bank;
- (d) “**affiliate**” shall mean juridical person that directly or indirectly, through one (1) or more intermediaries, is controlled by, or is under common control with the bank or its affiliates;
- (e) “**related interests**” as defined under Sections 12 and 13 of R.A. No. 8791 shall mean individuals related to each other within the fourth degree of consanguinity or affinity, legitimate or common law, and two (2) or more corporations owned or controlled by a single individual, or by the same family group or the same group of persons;
- (f) “**control**” exists when the parent owns directly or indirectly through subsidiaries more than one-half of the voting power of an enterprise unless, in exceptional circumstance, it can be clearly demonstrated that such ownership does not constitute control. Control may also exist even when ownership is one-half or less of the voting power of an enterprise when there is
- (i) power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
 - (ii) power to govern the financial and operating policies of the enterprise under a statute of agreement; or
 - (iii) power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
 - (iv) power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
 - (v) any other arrangement similar to any of the above;



- (g) “**substantial or major shareholder**” shall mean a person, whether natural or juridical, owning such number of shares that will allow him to elect at least one (1) member of the board of directors of a bank or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity;
- (h) “**majority stockholder or majority shareholder**” means a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a bank.
- b) The Chairman of the Board shall be appointed by the Board of Directors. The number of Board members shall be as determined by the Bank’s Articles of Incorporation, Corporate By-Laws and local regulatory requirements.
- c) All directors must disclose outside directorships and inform the Corporate Secretary of any changes to such directorships as soon as the changes take place
- d) Executive directors intending to accept a board position outside of the Group for personal interests must receive prior clearance from the relevant Governance Head. Such appointments should be limited to one, subject to regulatory requirements and there must be no conflict of interest.
- e) The Board shall establish and approve formal and transparent remuneration policies and procedures for Board members. Executive directors will not be paid any directors’ fees in addition to their regular remuneration. INED fees will be reviewed at least every two (2) years.
- f) Directors’ remuneration package shall be adequately disclosed in the director’s remuneration report and shall retroactively be approved by shareholders in an Annual General Meeting.

VIII. BOARD INDEPENDENCE

To enhance independence, the Board shall avail an environment that ensures the members are critical and independent of one another so as to promote independent and objective judgment.



There shall be an annual review to evaluate the company's succession planning needs with regard to Independent Non-Executive Directors. Prior to appointment, Independent Non-Executive Directors shall be required to satisfy the following criteria:

- a) have no conflicts of interest;
- b) have appropriate professional skills, training and background;
- c) bring influence and stature in the local market, including government, regulators and the business community;
- d) to Board diversity but also fit with the existing board (directors from different sectors, industries including financial sector etc.);
- e) no political appointments;
- f) be financially stable;
- g) be able to devote sufficient time to the role and be willing to attend the scheduled board meetings in person. and only join by phone or video conference, if absence would otherwise be unavoidable;
- h) be independent as defined by local regulations;
- i) satisfy the requirements under the applicable local regulation and
- j) must not have served for more than nine years since they were first elected as an INED.

IX. ACCESS TO INFORMATION AND INDEPENDENT ADVICE.

- a) The Board may from time to time require independent legal, financial, governance or other expert advice. To facilitate this, the Board shall ensure members obtain external advice, as may be required, at the company's expense and shall invite senior management to provide technical advice as needed.
- b) The Board shall establish procedures to allow its members access to relevant, accurate and complete information and professional advice in order to discharge its duties effectively.



X. BOARD TRAINING

- a) Each Board member shall participate in an induction program that is tailored to effectively orient the member to the Bank's business, strategy, objectives, policies, procedures, operations, senior management and the business environment. The induction shall also include all the necessary information that shall be required by a member for effective performance on the Board. New Board members shall also be introduced to their fiduciary duties and responsibilities as well as any other aspects that are unique to the business. On this regard, the orientation program for first-time directors shall be for at least eight (8) hours.
- b) Board members should have a clear understanding of their role in corporate governance and be able to exercise sound and objective judgment about the affairs of the Company.
- c) The Board shall ensure adequate Board development through continuous training to keep the Board well informed on critical information pertinent to the business and corporate governance environment. Consequently, an annual continuing training for the Board members shall be for at least four (4) hours.
- d) The Board shall conduct an annual review to identify the training needs for each member on a regular basis and facilitate up skilling as well as continuous development.

XI. BOARD EVALUATION

- a) For improved Board effectiveness, the Board shall carry out an assessment of its performance the performance of the Chairperson, that of its committees, individual members, the President and Chief Executive Officer and the Corporate Secretary.
- b) The Board shall discuss the results of the evaluation exercise which shall also inform the Board on the training needs for its members.
- c) The Board shall disclose whether evaluation of the Board, the Chairperson, the President and Chief Executive Officer and Corporate Secretary has been undertaken in the annual report and financial statements of the company.

XII. ROLE OF THE CHAIRMAN AND THE PRESIDENT & CEO



The Board shall elect a **Chairman** and a **President & CEO**, both of which must be director. The President & CEO shall keep the Board informed about the business of the Bank.

The Role of the **Chairman** shall be to:

- a) Provide leadership to the Board and ensure its effectiveness in all aspects of its role. The Chairman shall set the Board agenda with the assistance of the President & Chief Executive Officer and Corporate Secretary;
- b) Facilitate the effective contribution of non-executive directors and encourage constructive relations between executive and non-executive directors.
- c) Monitor attendance at Board meetings;
- d) To ensure that there is a robust process for Board succession and that a current pool of candidates has been identified;
- e) Develop the strategy of the Bank, together with the President & CEO, and ensure the Board is fully appraised and has the opportunity to debate the strategic direction of the Bank;
- f) Put in place and maintain an effective delegation of authority structure to provide effective management and control over the Bank's business with the assistance of the President & CEO;
- g) Communicate effectively with the Bank's stakeholders. The stakeholders include, where applicable, shareholders, regulators, governments, customers, staff and the communities within which the Company operates;
- h) Together with the President & CEO, to ensure that the Bank communicates effectively with international institutions, shareholders, stakeholders, governments, rating agencies, financial institutions, the media, the public and any relevant special interest groups who have a legitimate concern or involvement with the business of the Bank;
- i) Ensure that the views of the shareholders are communicated to the Board as a whole;
- j) Chair the Annual Stockholders' Meeting and all other shareholder meetings of the Bank;



- k) Together with the President & CEO and Corporate Secretary, ensure that the Bank operates to the highest standards of corporate governance;
- l) Manage the training needs of each board member and ensure development;
- m) Ensure the Board undertakes continuous development in order to enhance governance practices within the Board itself and in the interest of the Bank.

The role of the **President & CEO** shall be to:

- a) Ensure that the policies spelt out by the Board in the Bank's overall corporate strategy are implemented;
- b) Identify and recommend to the board competent officers to manage the operations of the institution. In the fulfilment of this duty, the President & CEO ensures that the institution's human resources policy is adhered to;
- c) Co-ordinate the operations of the various departments within the institution;
- d) Establish and maintain efficient and adequate internal control systems;
- e) Design and implement the necessary management information systems in order to facilitate efficient and effective communication within the institution;
- f) Ensure that the Board is frequently and adequately appraised about the operations of the institution through presentation of relevant board papers, which must cover, but are not limited to, the following areas:
 - Actual performance compared with the past performance and the budget together with explanations of all the variances.
 - Capital structure and adequacy.
 - Advances performance in particular problem loans, losses, recoveries and provisions.
 - Income and expenses.
 - Deposits: sources and distribution profile.



- All insider transactions that benefit directly or indirectly any officer or shareholder of the institution.
- Report on violation of laws and remedial activities undertaken to ensure compliance with the banking laws and BSP and SEC regulations.
- Large exposures.
- Non-performing insider loans.
- BSP, external, internal and audit committee reports.
- Any other areas relevant to the institution's operations.
- Ensure that the institution complies with all the relevant banking and other applicable laws in the execution of its operations.
- Any other duties as may be assigned by the Board from time to time.

XIII. DUTIES OF BOARD MEMBERS

Each Board member shall have the fiduciary duty to—

- a) Exercise a reasonable degree of care, skill and diligence;
- b) act in good faith and in the best interests of the Bank and not for any other purpose;
- c) act honestly at all times and must not place themselves in a situation where personal interests conflict with those of the Bank;
- d) exercise independent judgment at all times
- e) devote sufficient time to carry out their responsibilities and enhance their skills;
- f) promote and protect the image of the Bank;
- g) owe their duty to the Bank and not to the nominating authority; and
- h) owe the Bank a duty to hold in confidence all information available to them by virtue of their position as a Board member.



XIV. THE CORPORATE SECRETARY

The Board shall appoint a Corporate Secretary to assist and advise the Board and all Board Members.

The Corporate Secretary is the Secretary of the Board and is charged with the following responsibilities:

- a) to provide guidance to the Board on its duties and responsibilities and on other matters of governance;
- b) to ensure that the Board complies with its obligations under the law and the Bank's Articles of Incorporation;
- c) to assist the Chairman of the Board in organizing the Board's activities;
- d) to assist the Board with evaluation exercise;
- e) to coordinate the governance audit process;
- f) to maintain and update the register of conflict of interest
- g) to facilitate effective communication between the organization and the shareholders; and
- h) to carry out any other duties as may be assigned by the Board from time to time.

XV. BOARD COMMITTEES

- a) The Board may discharge any of its responsibilities through Board Committees appointed from amongst its members subject to the applicable laws.
- b) The Board has established the following committees:
 - Executive Committee
 - Credit Committee
 - Audit Committee
 - Risk Oversight Committee
 - Corporate Governance and Nominations Committee



- Manpower, Compensation and Remuneration Committee
 - Trust Committee
 - IT Steering Committee
 - Bid Committee
 - Remedial and Special Assets Committee
 - Asset & Liability Committee
 - Committee on Employee Discipline
 - Anti-Money Laundering Committee
 - Related-Party Transactions Committee
- c) The Board appoints the Chairpersons of the Committees and shall approve appropriate terms of reference for the Committees.
- d) Reporting obligations:
- The Committees shall report to the Board on matters referred to it by the Board and on the proceedings following each meeting of the committee. The report shall include findings, matters identified for specific recommendation to the Board, action points and any other issues as deemed appropriate.
 - The committees shall liaise with each other in so far as it is expedient to effectively perform their different roles.
- e) The Board remains collectively responsible for the decisions of any committee and shall review the effectiveness and performance of committees annually.
- f) The Board may be required to establish other committees from time to time.

XVI. CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS

Pursuant to BSP Circular No. 895 entitled, “Guidelines on Related Party Transactions,” the Bank recognizes that transactions between and among related parties create financial, commercial and economic benefits to individual institutions and to the entire group where said Institutions belong. In the exercise of appropriate oversight and implementation of effective control systems for managing said exposures, all directors are required to:



- Declare any interests that may give rise to potential or perceived conflict e.g. multiple directorships, business relationships or other circumstances that could interfere with exercise of objective judgment;
 - Declare as soon as they become aware that a subject to be discussed at a Board or committee meeting may give rise to a conflict of interest at the outset of the applicable meeting. The conflicted director shall not participate further in the discussion of that subject, nor vote on it. This is subject at all times to the provisions of the local laws, rules and regulations, By-Laws and Articles of Incorporation or other related rules of the Bank.
- a) The Board evaluates all potential or perceived conflict of interest as declared and approves such transactions with the Bank as may be appropriate.
 - b) A register of declared Conflicts of Interest shall be maintained by the Corporate Secretary.

XVII. CODE OF CONDUCT

- a) The Board adopts a Code of Conduct for all directors and employees that addresses, among other things, conflict of interest and which shall be reviewed and updated regularly. A summary of this code is available on the Bank's website.
- b) The Bank adopts effective whistle blowing mechanisms that encourage staff and other stakeholders to bring out information helpful in enforcing good corporate governance practices.
- c) The Board also adopts the Code of Conduct as prescribed by the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC) that applies to all directors and staff.

XVIII. RELATIONSHIP WITH SHAREHOLDERS

- a) The Board recognizes, respects and protects the rights of shareholders and ensures equitable treatment of all shareholders in the same class of issued shares whether minority, institutional or foreign.



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- b) The Board provides shareholders with information as is required under applicable laws and establishes mechanisms to ensure effective communication with shareholders.

XIX. RELATIONSHIP WITH STAKEHOLDERS

- a) The Board shall have a stakeholder-inclusive approach and will be responsible for giving due consideration to the legitimate interests and expectations of the Company's stakeholders in its deliberations, decisions and actions.
- b) The Board shall establish effective communication with the Company's stakeholders including the media as may be appropriate.

XX. AMENDMENT

The Board shall adopt this Board Charter which shall be reviewed periodically or as the need arises.

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