Manual on Corporate Governance and Compliance Program

(As of 23 January 2019)

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The Board of Directors, Management and Staff, of **PHILIPPINE BUSINESS BANK, INC.** hereby commit ourselves to the principles and best practices contained in this Manual, and acknowledge that the same shall guide us in the attainment of our corporate goals.

A. OBJECTIVE

This Manual shall institutionalize the principles of good corporate governance in the entire organization.

The Board of Directors, Management and Staff and Shareholders of **PHILIPPINE BUSINESS BANK, INC. (PBB)** believe that corporate governance is an indispensable component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization as soon as possible.

PBB is committed, through its Corporate Governance and Compliance Program, to conform to the highest standards of ethics and corporate governance and to comply with all governing laws, rules and regulations and with established corporate policies and procedures, thereby maintaining excellence in all aspects of its operations.

B. PROGRAM COMPONENTS

The Corporate Governance and Compliance Program has the following components:

1. A written Manual on Corporate Governance defining the roles and responsibilities of the Board and its Directors and Committees, the Management Team and other officers and units involved in the governance process. This Manual is promulgated to adopt the principles and best practices of good governance serving as a guide in the attainment of the bank's corporate goals;

2. A written Code of Conduct governing the standards of proper conduct and behavior of the bank's growing number of employees in order to sustain and promote the highest level of integrity and professionalism in its business dealings and relationships;

3. The expanded responsibilities of the Corporate Governance Committee to include oversight functions over the bank's compliance efforts and the review of programs designed to raise the culture of ethics and compliance within the bank;

4. The designation of a Chief Compliance Officer who shall have a rank of Senior Vice President or an equivalent position with adequate stature and authority in the bank and who shall monitor compliance with the provisions and requirements of the Corporate Governance and Compliance Program and provide assistance to the Corporate Governance Committee in the performance of its functions;

5. A process of stakeholders' reporting, without fear of retaliation, instances of possible non-compliance with applicable laws, rules and regulations, as well as bank policies, procedures and standards of conduct; and

6. A process of investigation and correction of identified problems in the system, and the development of policy to address such problems.

C. DEFINITIONS

1. **Affiliate** – refers to a to an entity linked directly or indirectly to the Bank by means of:

   a. Ownership, control as defined un`der item "d" of this Subsection, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa;
   b. Interlocking directorship or officership, where the director or officer concerned owns, controls, as defined under item "d" of this Subsection, or has the power to vote, at least twenty percent (20%) of the outstanding voting stock of the entity;
   c. Common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the bank and at least twenty percent (20%) of the outstanding voting stock of the entity;
   d. Management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity; or
   e. Permanent proxy or voting trusts in favor of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice versa.

2. **Board of Directors** – refers to the governing body elected by the stockholders that exercises the corporate powers of a bank, conducts all its business and controls its properties.

3. **Close family members -** refer to persons related to the bank's directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother/sister-in-law, grandparent-in-law, and grandchild-in-law of the bank's DOS.

4. **Complex banks** - refer to universal/commercial banks (UBs/KBs). Nonetheless, a UB/KB may apply with the Bangko Sentral for a reclassification as simple or non-complex bank in order to avail of the reduced minimum requirement on the constitution of board committees. The Bangko Sentral may likewise declare thrift banks (TBs), rural banks (RBs) or cooperative banks (Coop Banks) as complex. Any TB, RB or Coop Bank having at least three (3) of the following characteristics shall be deemed a complex bank:

   a. Total assets of at least P6 billion;
   b. Extensive branch network;

c. Non-traditional financial product and services by virtue of special authorities (e.g. trust, quasi-banking derivatives licenses), as well as distinctive products like credit cards, remittance, trade-related services, contract-to-sell (CTS) financing, among other financial services;
d. Use of non-conventional business model, such as those using non-traditional delivery platform such as electronic platforms; and
e. Business strategy characterized by risk appetite that is aggressive and risk exposures which are increasing such as those with robust branch expansion programs or acquisition plans as determined by the Bangko Sentral.

5. **Conglomerate** – a group of corporations that has diversified business activities in varied industries, whereby the operations of such businesses are controlled and managed by a parent corporate entity**.**

6. **Control** – this exists when the parent owns directly or indirectly through subsidiaries more than one-half of the voting power of an enterprise unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control may also exist even ownership is one-half or less of the voting power of an enterprise when there is:
   a. power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
   b. power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
   c. power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
   d. power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
   e. any other arrangement similar to any of the above.

   Control is also presumed to exist if there is ownership or holding, whether direct or indirect, of twenty percent (20%) or more of a class of voting shares of a company.

   Should the Bank choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, the Bank shall submit a written commitment that: (a) shares owned or held are exclusively for investment purposes; (b) the Bank-stockholder will not serve on the board of directors and will not nominate any candidate to serve on the board of directors or otherwise seek board representation; (c) the Bank-stockholder will have only limited contacts with Bank management that are customary for interested shareholders; (d) the Bank-stockholder will engage only in normal and customary transactions with the enterprise; and (e) the Bank will not pledge the shares acquired to secure a loan with any institution.

7. **Corresponding persons in affiliated companies** - refer to the DOS of the affiliated companies and their close family members.

8. **Corporate Governance** – The system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders.

   Corporate governance is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and senior management accountable for ensuring ethical behavior – reconciling long-term customer satisfaction with shareholder value – to the benefit of all stakeholders and society.
   Its purpose is to maximize the organization's long-term success, creating sustainable value for its shareholders, stakeholders and the nation.

9. **Directors** – Directors shall include:
   a. directors who are named as such in the articles of incorporation;
   b. directors duly elected in subsequent meetings of the stockholders or those appointed by virtue of the charter of government-owned banks; and
   c. those elected to fill vacancies in the board of directors.

10. **Enterprise Risk Management** – a process effected by an entity's Board of Directors, management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives.

11. **Exchange** – Refers to an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities.

12. **Executive Director** – refers to a director who has executive responsibility of day-to-day operations of a part or the whole of the organization.

13. **Independence** – refers to that environment which allows the person to carry out his/her work freely and objectively.

14. **Independent Director** - refer to a person who is independent of management and the controlling shareholder, and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director. Ideally, he:
    a. is not or has not been a senior officer or employee of the Bank, unless there has been a change in the controlling ownership of the Bank;
    b. is not, and has not been in the three years immediately preceding the election, a director of the Bank; director, officer, employee of the Bank's subsidiaries, associates, affiliates or related companies; or a director, officer, employee of the Bank's substantial shareholders and its related companies;
    c. has not been appointed in the Bank, its subsidiaries, associates, affiliates or related companies as Chairperson Emeritus, Ex-Officio Director/Officer or Member of any

Advisory Board or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three years immediately preceding his election;

d. is not an owner of more than two percent of the outstanding shares or substantial shareholder of the covered company, its subsidiaries, associates, affiliates or related companies or of its majority shareholders;
e. is not a close family member of any director, officer, or substantial shareholder of the Bank or any of its related companies or substantial shareholders;
f. is not acting as nominee or representative of any of director of the Bank or its related companies;
g. is not securities broker-dealer[1] of listed companies and registered issuers of securities;
h. is not retained, either in the personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the Bank, any of its related companies or substantial shareholders, or is otherwise independent of Management and free from any business or other relationship within three years immediately preceding date of his election;
i. does not engage or has not engaged , whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with the Bank or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and could not materially interfere with or influence the exercise of his independent judgment;
j. is not affiliated with any non-profit organization that receives significant funding from the Bank or any of its related companies or substantial shareholders; and
k. is not employed as an executive officer of another company where of the Bank's executives serve as directors.

Independent directors shall serve for a maximum cumulative term of nine years. After which the independent director shall be perpetually barred from re-election as such in the same company, but may continue to qualify for nomination and election a non-independent director. In the event that the Bank wants to retain an independent director who has served for nine years, the Board shall provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.

15. **Internal Auditing** – refers to an independent, objective assurance and of consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

16. **Internal Audit Department** – refers to a department, division, team of consultants, or other practitioner(s) that provide an independent, objective assurance and consulting services designed to add value and improve an organization's operations.

[1] *Broker-dealer refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker dealer.*

17. **Internal Auditor** – refers to the highest position within the organization responsible for internal audit activities. In a traditional internal audit activity, this would be the internal auditor. In the case where internal audit activities are obtained from outside service providers, the chief auditor is the person responsible for overseeing the service contract and the overall quality assurance of these activities, and follow-up of engagement results. The term also includes such titles as general auditor, chief internal auditor, chief audit executive, and inspector general.

18. **Internal Control** – refers to a process designed and effected by the Board of Directors, senior management and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information and compliance with applicable laws, regulations, and the organization's policies and procedures.

19. **Internal Control System** – refers to the framework under which internal controls are developed, implemented alone, or in concert with other policies or procedures, to manage and control a particular risk or business activity, or combination of risks or business activities, to which the company is exposed.

20. **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.

21. **Management** – refers to a group of executives given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the bank.

22. **Non-audit Work** - refers to other services offered by the external auditor to a corporation that are not directly related and relevant to its statutory audit function. Examples include accounting, payroll, bookkeeping, reconciliation, computer project management, data processing or information technology outsourcing services, internal auditing, and services that may compromise the independence and objectivity of the external audit.

23. **Non-executive Director** – refers to those who are not part of the day to day management operations and shall include the independent directors. However, not all non-executive directors are considered independent directors.

24. **Objectivity** – refers to unbiased mental attitude that requires the person to carry out his/her work in such a manner that he/she has an honest belief in his/her work product and that no significant quality compromises are made. Objectivity requires the person not to subordinate his/her judgment to that of others.

25. **Officers** - include the President, Chief Executive Officer (CEO), Chief Operating Officer (COO), executive vice president, senior vice-president, vice president, general manager treasurer, secretary, trust officer and others mentioned as officers of the banks, (or those

whose duties as such are defined in the by-laws, or are generally known to be the officers of the banks or any of its branches and offices other than the head office) either through announcement, representation, publication or any kind of communication made by the bank: Provided, That a person holding the position of chairperson or vice-chairperson of the board of directors or another person in the board of directors shall not be considered as an officer unless the duties of his position in the board of directors include functions of management such as those ordinarily performed by regular officers: Provided, further, that members of a group or committee, including sub-groups or sub-committees, whose duties include functions of management such as those ordinarily performed by regular officers, and are not purely recommendatory or advisory, shall likewise be considered as officers.

26. **Parent** – refers to a bank, which has control over another bank directly, or indirectly through one (1) or more intermediaries.

27. **Public Company** – refers to any corporation with a class of equity securities listed in an Exchange or with assets in excess of Fifty Million Pesos (Php50,000,000.00) and having two hundred (200) or more stockholders each holding at least one hundred (100) shares of a class of its securities.

28. **Related company** - refers to another company which is:
    a. Its parent or holding company;
    b. Its subsidiary or affiliate; or
    c. A corporation where a bank or its majority stockholder own such number of shares that will allow/enable such person or group to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner.

29. **Related interest** - refer to any of the following:
    a. Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a director, officer or stockholder of the bank;
    b. Partnership of which a director, officer, or stockholder of a bank or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;
    c. Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;
    d. Corporation, association or firm of which any or a group of directors, officers, stockholders of the bank and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm;
    e. Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in items "m(2)" and "m(4)" of this Subsection;

f. Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the bank or which controls majority interest of the bank pursuant to Subsec. X303.1g;
g. Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the bank; and
h. Non-governmental organizations (NGOs)/foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers or related banks.

30. **Related Parties** – shall cover the company's subsidiaries, as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the company exerts direct or indirect control over or that exerts direct or indirect control over the company: the company's directors, officers, shareholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person or juridical entity whose interest may pose a potential conflict with the interest of the company.

The above definition shall also include direct or indirect linkages to a bank identified as follows:
a. Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa;
b. Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
c. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity; or
d. Permanent proxy or voting trusts in favor of the bank constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

31. **Related Party Transactions (RPTs)** – refer to transactions or dealings with related parties of the bank, including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:
a. On-and-off balance sheet credit exposures and claims and write-offs;
b. Investments and/or subscriptions for debt/equity issuances;
c. Consulting, professional, agency and other service arrangements/contracts;
d. Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
e. Construction arrangements/contracts;
f. Lease arrangements/contracts;
g. Trading and derivative transactions;
h. Borrowings, commitments, fund transfers and guarantees;

i. Sales, purchase or supply of any goods or materials; and
j. Establishment of joint ventures.

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

32. **Risk appetite statement -** refers to the articulation, in written form, of the aggregate level and types of risk that a bank is willing to accept or avoid to achieve its business objectives. It includes qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate.

33. **Risk governance framework** - refer to the framework through the board of directors and management establish the bank's strategy; articulate and monitor adherence to risk appetite and risk limits; and identify, measure, and manage risks.

34. **Risk limits** - refer to the allocations of the bank's risk appetite statement to: specific risk categories (e.g., credit, market, liquidity, operational); the business unit or platform level (e.g., retail, capital markets); lines of business or product level [e.g. concentration, value-at-risk (VaR), or other limits]; and other levels, as appropriate.

35. **Stakeholders** – any individual, organization or society at large who can either affect and/or be affected by the company's strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.

36. **Standard for the Professional Practice of Internal Auditing (SPPIA)** – refers to the criteria by which operations of an internal auditing department are evaluated and measured. They are intended to represent the practice of internal auditing as it should be, provide a framework for performing and promoting a broad range of value-added internal audit activities and foster improved organizational processes and operation.

37. **Stockholder** - refer to any stockholder of record in the books of the bank, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts, whose stockholdings in the bank, individual and/or collectively with the stockholdings of: (1) his spouse and/or relative within the first degree by consanguinity or affinity or legal adoption; (2) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and (3) corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association of firm, amount to one percent (1%) or more of the total subscribed capital stock of the bank.

38. **Subsidiary** – means a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is owned or controlled directly or indirectly or held with power to vote by its parent corporation.

39. **Substantial or major shareholder** – refer to a person, or group of persons, 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 security.

D. CORPORATE GOVERNANCE COMMITTEE

1. TERMS OF REFERENCE

The Corporate Governance Committee (CGC) is a committee created by the Board of Directors of PBB to assist the Board in the performance of its corporate governance responsibilities.

2. FUNCTIONS

The committee is responsible for the development, implementation and review of the Bank's Corporate Governance and Compliance Program, which shall include a set of effective corporate governance policies and procedures applicable to its business. Its core responsibilities are as follows:

a. Oversees the nomination process for members of the board of directors and for positions appointed by the board of directors. The committee shall review and evaluate the qualifications of all persons nominated to the board of directors as well as those nominated to other positions requiring appointment by the board of directors. The committee shall recommend to the board of directors matters pertaining to the assignment to board committees, as well as succession plan for the members of the board of directors and senior management.

b. Oversees the continuing education program for the board of directors. The committee shall ensure allocation of sufficient time, budget and other resources for the continuing education of directors, and draw on external expertise as needed. The committee shall establish and ensure effective implementation of policy for on-boarding/orientation program for first time directors and annual continuing education for all directors.

   For this purpose, the orientation program for first time directors shall be for at least eight hours, while the annual continuing training shall be at least for four (4) hours. The training programs should cover topics relevant in carrying out their duties and responsibilities as directors.

c. Oversees the performance evaluation process. The committee shall oversee the periodic evaluation of contribution and performance (e.g., competence, candor, attendance, preparedness and participation) of the board of directors, board-level committees, and senior management. Internal guidelines shall be adopted that address the competing time commitments of directors serving on multiple boards.

d. Oversees the design and operation of the remuneration and other incentives policy. The committee shall ensure that the remuneration and other incentives policy is aligned with operating and risk culture as well as with the strategic and financial interest of the Bank, promotes good performance and conveys acceptable risk-taking behavior defined under its Code of Ethics, and complies with legal and regulatory requirements. It shall work closely with the bank's risk oversight committee in evaluating the incentives created by the remuneration system. In particular, the risk oversight committee shall examine whether incentives provided by the remuneration system take into consideration risk, capital, and the likelihood and timing of earnings. Moreover, it shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes to ensure that it operates and achieves the objectives as intended.

e. Oversees the implementation of the corporate governance framework and periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the bank's size, complexity and business strategy, as well as its business and regulatory environments.

f. Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance.

g. Establishes a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Bank's culture, strategy and control environment.

h. Develops a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired.

i. Disallows any director to decide his or her own remuneration.

j. Provides in the Bank's annual reports, information and proxy statements a clear, concise and understandable disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors, and top four (4) management officers for the previous fiscal year and the ensuing year.

k. Reviews of the existing Human Resources Development or Personnel Handbook, to strengthen provisions on conflict of interest, and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts.

l. Performs the following compliance functions:
   i. Oversees the bank's compliance efforts with respect to the Manual of Corporate Governance, Code of Conduct, "Whistle-Blowing" Program and Complaint Policy and related laws, rules and regulations as well as bank policies and procedures;
   ii. Meet with compliance officers to review programs designed to raise the culture of ethics and compliance within the bank, and install an enforcement mechanism to sanction non-compliance and unethical behavior while rewarding the deserving officials and employees;
   iii. Reviews the Bank's Code of Conduct, Manual of Corporate Governance. "Whistle–Blowing" Program and recommend any changes it deems necessary to the Board;
   iv. Ensures adherence to the Bank's Code of Conduct and faithful observance on the Manual of Corporate Governance;
   v. Determines if there is any potential conflict of interest by a Director, and institute a process for handling these situations in accordance with existing law, rules and regulations and in line with global as well as ethical and other regulatory standards;
   vi. Receives reports from the Chief Compliance Officer and other members of Management regarding compliance issues that may arise;
   vii. Provides guidance and support to the relevant work of the Compliance Office; and
   viii. Prepares and issues the report and evaluation required under the "Committee Reports."

3. **COMPOSITION OF THE CORPORATE GOVERNANCE COMMITTEE**

The committee shall be composed of at least three (3) members of the Board of Directors who shall all be non-executive directors, majority of whom shall be independent directors, including the chairperson.

4. **TERM OF OFFICE**

The members of the Committee shall serve at the pleasure of the Board and for such term or terms as the Board may determine, or until their earlier resignation, death, or removal by the Board. Termination of members' term of office may be staggered to allow the retention of seasoned members and to ensure Committee's uninterrupted workflow.

The term of office of independent directors shall be subject to the requirements of SEC Memorandum Circular No. 19 series of 2016 dated 22 November 2016.

5. **CONDUCT OF MEETING**

The Committee shall meet every other month or as often as may be required by the Chairperson of the Committee, on such date and on such time as determined by the said Chairperson of the Committee.

The Secretary of the Committee shall confer with the Chairperson on the items to be included in the agenda for each meeting.

During each meeting, the Committee may require the attendance of relevant officer/s to address any query from its Members or to present specified reports.

6. **QUORUM**

The quorum shall be at least 51% of the regular members, one of which should be the Chairperson of the committee or in his absence the designated Vice-Chairperson who shall chair the meeting. A majority vote among the present, but excluding the Chairperson or in his absence the acting Chairperson, who is an Independent Director, shall be required to pass or defeat any resolution at the meeting.

The Chairperson or in his absence the designated vice-chairman shall be the casting vote to resolve a deadlock.

7. **APPROVALS**

Approvals by the Committee may be made at or during its meetings or through circulation to all members of the Committee.

8. **COMMITTEE REPORTS**

The Committee shall render the following report and evaluation and provide them to the Board:

a. An annual report of Corporate Governance Committee for inclusion in the agenda for annual stockholders meeting.

b. An annual performance evaluation of the Committee, which evaluation shall compare the performance of the Committee with the requirements of this charter. The performance evaluation shall also include a review of the adequacy of this charter and shall recommend to the Board any revisions the Committee deems necessary or desirable, although the Board shall have the sole authority to amend the Committee's charter. The performance evaluation shall be conducted in such manner, as the Committee deems appropriate.

E. CORPORATE COMPLIANCE SYSTEM

This consists of the organization, officers, functions, responsibilities and procedures established by the bank that would ensure compliance with this manual.

1. Chief Compliance Officer

   a. To ensure adherence to corporate principles and best practices, the Board shall designate a Chief Compliance Officer who shall have a rank of Senior Vice President or an equivalent position with adequate stature and authority in the bank.

   b. He shall have direct reporting responsibilities to the Board of Directors, through the Audit Committee and shall be directly under the administrative supervision of the President and CEO.

   c. He is an independent and objective officer who reviews and evaluates compliance issues and concerns within the organization; assists the Board of Directors in ensuring that the rulings of regulatory bodies are complied with, that bank policies and procedures are being followed, and that behavior in the organization meets the Bank's Code of Conduct and other standards of ethics.

   d. He shall perform the following duties:
      i. Ensures that the compliance system is designed to specifically identify and mitigate compliance/business risks, which may erode the franchise value of the bank.
      ii. Ensures that the compliance function shall have formal status within the Bank, which shall be established by a charter duly approved by the Board of Directors that defines the compliance function's standing, authority and independence, and addresses the following issues:
         (1) Measures to ensure the independence of the compliance function from the business activities of the bank;
         (2) The organizational structure and responsibilities of the unit or department administering the compliance program;
         (3) The relationship of the Compliance Office with other functions or units of the organization, including the delineation of responsibilities and lines of cooperation;
         (4) The right of the Compliance Office to obtain access to information necessary to carry out its responsibilities;
         (5) The right of the Compliance Office to conduct investigations of possible breaches of the compliance policy;

(6) The formal reporting relationships of the Compliance Office to Senior Management, the Board of Directors, and the appropriate board-level Committee; and

(7) The rights of the Compliance Office direct access to the Board of Directors and to the appropriate Committee level Committee.

iii. Is tasked in managing the implementation of the Corporate Governance and Compliance Program of the Bank, with the following specific duties and responsibilities:

(1) Ensures proper on-boarding of new directors (i.e., orientation on the bank's business, charter, articles of incorporation and by-laws, among others);

(2) Monitors, reviews, evaluates and ensures the compliance by the Bank, its officers and directors with the relevant laws, this Code, rules and regulations and all governance issuances of regulatory agencies;

(3) Reports the matter to the Corporate Governance Committee if violations are found and recommends the imposition of appropriate disciplinary action;

(4) Ensures the integrity and accuracy of all documentary submission to regulators;

(5) Appears before the SEC when summoned in relation to compliance with this Code;

(6) Collaborates with other departments to properly address compliance issues, which may be subject to investigation;

(7) Identifies possible areas of compliance issues and works towards the resolution of the same;

(8) Ensures the attendance of board members and key officers to relevant trainings;

(9) Performs such other duties and responsibilities as may be provided by the SEC;

(10) Manages the implementation, and periodic revision, of the Corporate Governance and Compliance Program; and

(11) Develops and recommends policies and programs to the Board of Directors, through the Corporate Governance Committee, which will encourage officers and employees to report suspected fraud and other improprieties without fear of retaliation.

e. The Chief Compliance Officer (CCO) and/or Compliance Officer (CO) for Corporate Governance may attend meetings of all committees of the Bank whose activities may relate to compliance with laws, rulings and regulations of regulatory agencies, bank policies and procedures, the bank's Code of Conduct and other standards of conduct, as observer.

f. The CCO/CO for Corporate Governance may call on any of the Bank's Management and employees to seek assistance or solicit information necessary for the effective implementation of the Corporate Governance and Compliance Program.

g. Access and Resources
   i. The CCO/CO for Corporate Governance shall have access to all documents and information relevant to compliance activities; may seek advice from the Legal Services Center, whenever necessary.
   ii. He shall be provided with the resources necessary to discharge the duties and responsibilities of the position, that include the following:
      (1) Compliance Office Staff that will provide backstop technical and administrative support to the Corporate Governance Unit of the Compliance Office in administering the implementation of the Corporate Governance and Compliance Program. For this purpose, the Corporate Governance Unit shall maintain the approved plantilla positions as follows:

      One (1) Compliance Officer and one (1) Compliance Assistant/Staff

h. The appointment of the Chief Compliance Officer shall be disclosed immediately to the Securities and Exchange Commission on SEC Form 17-C. All correspondences relative to his functions shall be addressed to said officer.

2. **Plan of Compliance**

a. Board Governance

The Board of Directors (Board) is primarily responsible for the governance of the Bank. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management. As such, it is vitally important that a number of board members be independent from management.

   i. Composition of the Board of Directors.
      (1) 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, independent judgment on corporate affairs and to substantiate proper checks and balances. The board of directors shall determine the appropriate number of its members to ensure that the number thereof is commensurate to the size and complexity of the Bank's operations;
      (2) To the extent practicable, the members of the board of directors shall be selected from a broad pool of qualified candidates. Non-executive directors, who shall include independent directors, shall comprise at least majority of the board of directors to promote the independent oversight of management by the board directors;

(3) At least one-third (1/3) but not less than two (2) members of the board of directors shall be independent directors: Provided, that any fractional result from applying the required minimum proportion, i.e., one-third (1/3), shall be rounded up to the nearest whole number;

(4) Non-Filipino citizens may become members of the board of directors of the Bank to the extent of the foreign participation in its equity: Provided, That pursuant to Section 23 of the Corporation Code of the Philippines (BP Blg. 68), a majority of the directors must be residents of the Philippines.

The Board shall encourage diversity in its composition, such as gender, age, ethnicity, culture, skills, competence and knowledge.

ii. Competence of the Board

The Board shall have collective working knowledge, experience or expertise that is relevant to banking and/or finance. The Board shall always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction. For this purpose, the Board shall set qualification standards for its members to facilitate the selection of potential nominees for board seats, and to serve as a benchmark for the evaluation of its performance.

iii. Powers of the Board of Directors

The corporate powers of the bank shall be exercised, its business conducted and all its property controlled and held, by its board of directors. The powers of the board of directors as conferred by law are original and cannot be revoked by the stockholders. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the Bank.

iv. Duties and Responsibilities of the Board of Directors

Specific duties and responsibilities of the board of directors. The board of directors is primarily responsible for defining the bank's vision and mission. The Board of Directors has the fiduciary responsibility to the Bank and all its shareholders including minority shareholders. It shall approve and oversee the implementation of strategies to achieve corporate objectives. It shall also approve and oversee the implementation of the risk governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework. The board of directors shall approve the selection of the CEO and key members of senior management and control functions and oversee their performance.

(1) The board of directors shall define the Bank's corporate culture and values. It shall establish a code of conduct and ethical standards in the Bank and

shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the Board of Directors shall:

(a) Approves a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the Bank as well as the corresponding disciplinary actions and sanctions. The code of conduct shall explicitly provide that directors, officers, and all personnel are expected to conduct themselves ethically and perform their job with skill, due care, and diligence in addition to complying with laws, regulations, and company policies.

(b) Consistently conducts the affairs of the bank with a high degree of integrity and play a lead role in establishing the bank's corporate culture and values. The board of directors shall establish, actively promote, and communicate a culture of strong governance in the bank, through adopted policies and displayed practices. The board of directors shall ensure that the CEO and executive team champion the desired values and conduct, and that they face material consequences if there are persistent or high profile conduct and value breaches.

(c) Oversees the integrity, independence, and effectiveness of bank's policies and procedures for whistle blowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or the board of directors itself. It shall prevent the use of the facilities of the bank in the furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.

(2) The board of directors shall be responsible for approving bank's objectives and strategies and in overseeing management's implementation thereof. In this regard, the board of directors shall:

(a) Ensures that the bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.

(b) Approves the bank's strategic objectives and business plans. These shall take into account the bank's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the board of directors shall establish a system for measuring performance against plans.

(c) Actively engages in the affairs of the bank and keep up with material changes in the bank's business and regulatory environment as well as act in a timely manner to protect the long term interests of the bank.

(d) Approves and oversees the implementation of policies governing major areas of the bank's operations. The board of directors shall regularly review these policies, as well as evaluate control functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues.

(3) The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel. In this regard, the board of directors shall:

(a) Oversees selection of the CEO and other key personnel, including members of senior management and heads of control functions based on the application of fit and proper standards. Integrity, technical expertise, and experience in the bank's business, either current or planned, shall be the key considerations in the selection process. Moreover, since mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the bank.

(b) Approves and oversee the implementation of performance standards as well as remuneration and other incentives policy. The policy should be consistent with the long-term strategic objectives and financial soundness of the bank and should promote good performance, convey acceptable risk-taking behavior, and reinforce the bank's operating and risk culture.

(c) Oversees the performance of senior management and heads of control functions:

(i) The board of directors shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.

(ii) The board of directors shall hold members of senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the board of directors' performance expectations. These expectations shall include adherence to the bank's values, risk appetite and risk culture, under all circumstances.

(iii) The board of directors shall regularly meet with senior management to engage in discussions, question, and critically review the reports and information provided by the latter.

(iv) Non-executive board members shall meet regularly, other than in meetings of the audit, risk oversight, corporate governance, and related party transactions committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk management committees.

(d) Engages in succession planning for the CEO and other critical positions, as appropriate. In this respect, the board of directors shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions.

(e) Ensures that personnel's expertise and knowledge remain relevant. The board of directors shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibility.

(f) Ensures that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the bank at all times, and that all transactions involving the pension fund are conducted at arm's length terms.

(4) The board of directors shall be responsible for approving and overseeing implementation of the bank's corporate governance framework.

(a) Defines appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed:

(i) The board of directors shall structure itself in a way, including in terms of size and frequency of meetings, so as to promote efficiency, critical discussion of issues, and thorough review of matters. The board of directors shall meet regularly to properly discharge its functions, and likewise have discussions on values, conduct, and behaviors.

(ii) The board of directors shall create committees to increase efficiency and allow deeper focus in specific areas. The number and nature of board-level committees would depend on the size of the bank and the board of directors, the bank's complexity of operations, as well as the board of directors' long-term strategies and risk tolerance.

(iii) The board of directors shall regularly review the structure, size and composition of the board of directors and board-level committees with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation of the structure, size and composition of the board of directors and board-level committees shall be adopted which shall include, but not limited to, benchmark and peer group analysis. The results of assessment shall form part of the ongoing improvement efforts of the board of directors.

(iv) The board of directors shall adopt policies aimed at ensuring that the members of the board of directors are able to commit to effectively discharge their responsibilities, which shall include policy on the number of directorship positions and/or other internal/external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the Bank's operations.

(v) The board of directors shall ensure that individual members of the board of directors and the shareholders are accurately and timely informed of a comprehensive and understandable assessment of the bank's performance, financial condition, and risk exposures. All members of the board of directors shall have reasonable access to any information about the bank at all times. The board of directors shall also ensure that adequate and appropriate information flows internally and to the public.

(vi) The board of directors shall assess at least annually its performance effectiveness as a body, as well as its various committees, the CEO, the individual directors, and the Bank itself, which may be facilitated by the Corporate Governance Committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each board member taking into account his or her performance in the board of directors and board-level committees.

(vii) The board of directors shall maintain appropriate records (e.g. meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The board of directors shall also ensure that independent views in meetings of the board of directors shall be given full consideration and all such meetings shall be duly minuted.

(b) Develops remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The board of directors shall ensure that the policy is consistent with the long-term interest of the bank, does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities.

(c) Adopts a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.

(d) Conducts and maintain the affairs of the bank within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound practice.

(e) Maintains and periodically updates organizational rules, by-laws or other similar documents setting out its organization, rights, responsibilities and key activities. The board of directors shall ensure that the bank's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability.

(f) Oversees the development, approves, and monitors implementation of corporate governance policies. The board of directors shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.

(g) Approves an overarching policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged. In this regard:

  (i) The board of directors shall approve all material RPTs, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the board of directors. In case where a director has conflict of interest in a particular RPT, he shall refrain from evaluating the transaction and let the non-related directors decide. All final decisions of the board of directors on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders meetings and duly reflected in the minutes of the board of directors and stockholders' meetings.

(ii) The board of directors shall delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the board of directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.

(iii) The board of directors shall establish an effective system to:

- Determine, identify and monitor related parties and RPTs;
- Continuously review and evaluate existing relationships between and among businesses and counterparties; and
- Identify, measure, monitor, and control risks arising from RPTs. The system should be able to define related parties' extent of relationship with the bank; assess situations in which a nonrelated party (with whom a bank has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulators/supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the Bangko Sentral and audit functions for review. Any changes in the policies and procedures shall be approved by the board of directors.

(iv) The board of directors shall maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the bank is well-insulated from any going concern issue of related parties.

(v) The board of directors shall oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The board of directors should ensure that senior management addresses legitimate issues on RPT that are raised. The board of directors should take responsibility for ensuring that staff who raises concerns is protected from detrimental treatment or reprisals.

(h) Defines an appropriate corporate governance framework for group structures, which shall facilitate effective oversight over entities in the group. The board of directors of the parent company shall ensure consistent adoption of corporate governance policies and systems across the group.

(5) The board of directors shall be responsible for approving bank's risk governance framework and overseeing management's implementation thereof. In this regard, the board of directors shall:

(a) Defines the bank's risk appetite. In setting the risk appetite, the board of directors shall take into account the business environment, regulatory landscape, and the bank's long-term interests and ability to manage risk.

(b) Approves and oversees adherence to the risk appetite statement (RAS), risk policy, and risk limits.

(c) Oversees the development of, approvse, and oversees the implementation of policies and procedures relating to the management of risks throughout the bank.

(d) Defines organizational responsibilities following the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions for the second line of defense, and the internal audit function for the third line of defense. In this regard:

(i) The board of directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.

(ii) The Board of Directors shall ensure that non-executive directors meet regularly with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit, and risk oversight committees, in the absence of senior management.

v. Internal Control Responsibilities of the Board

The control environment of the Bank consists of (a) the Board which ensures that the Bank is properly and effectively managed and supervised; (b) a Management that actively manages and operates the Bank in a sound and prudent manner; (c) the organizational and procedural controls supported by effective management information and risk management reporting system; and (d) an independent audit mechanism to monitor the adequacy and effectiveness of the Bank's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.

(1) The minimum internal control mechanism for the performance of the Board's oversight responsibility may include:
   (a) Definition of the duties and responsibilities of the CEO who is ultimately accountable for the Bank's organizational and operational controls;
   (b) Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO;
   (c) Evaluation and selection of proposed senior management appointments through the Corporate Governance Committee; and
   (d) Review of the Bank's human resource policies, conflict of interest situations, compensation program for employees, and management succession plan.

(2) The scope and particulars of the systems of effective organizational and operational controls shall depend on, among others, the following factors: nature and complexity of the business and the business culture; volume, size and complexity of transactions; degree of risks involved; degree of centralization and delegation of authority; extent and effectiveness of information technology; and extent of regulatory compliance.

(3) The Bank shall establish an internal audit system that can reasonably assure the Board, Management and stockholders that the key organizational and operational controls are faithfully complied with. The Board shall appoint an Internal Auditor to perform the audit function, and may require him to report to a level in the organization that allows the internal audit activity to fulfil its mandate. The Internal Auditor shall be guided by the International Standards on Professional Practice of Internal Auditing.
   The following are the functions of the internal audit, among others:
   (a) Provides an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in (1)

promoting the right values and ethics (2) ensuring effective performance management and accounting in the organization (3) communicating risk and control information, and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;

(b) Performs regular and special audit as contained in the annual audit plan and/or based on the Bank's risk assessment;

(c) Performs consulting and advisory services related to governance and control as appropriate for the organization;

(d) Performs compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;

(e) Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;

(f) Evaluates specific operations at the request of the Board or Management, as appropriate; and

(g) Monitors and evaluates governance processes.

A bank's internal audit activity may be a fully resourced activity housed within the organization or may be outsourced to qualified independent third party service providers.

vi. Directors

Specific duties and responsibilities of a director. The position of a director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders i.e. the bank itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The members of the board of directors should exercise their "duty of care" and "duty of loyalty" to the institution.

(1) Remain fit and proper for the position for the duration of his term. A director is expected to remain fit and proper for the position for the duration of his term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that the bank is engaged in or intends to pursue as well as the developments in the

banking industry including regulatory changes through continuing education or training.

(2) Conducts fair business transactions with the bank and to ensure that personal interest does not bias board decisions. Directors should, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the institution cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the institution than those offered to others. The basic principle to be observed is that a director should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that would compromise his impartiality.

(3) Act honestly and in good faith, with loyalty and in the best interest of the Bank, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public. A director must always act in good faith, with the care that an ordinary prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interest of other stakeholders.

(4) Devotes time and attention necessary to properly and effectively discharge their duties and responsibilities, including sufficient time to be familiar with the bank's business.

(a) They shall attend and actively participate in all meetings of the board, Committees and Shareholders in person or through tele-/video-conferencing conducted in accordance with the rules and regulations of the SEC, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent them from doing so. In Board and Committee meetings, the director shall review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.

A director's commitment to the Bank is evident in the amount of time he dedicates to performing his duties and responsibilities which includes his presence in all meetings of the Board, Committees and shareholders. In this way, the director is able to effectively perform his/her duty to the Bank and its shareholders.

The absence of a director in more than fifty percent (50%) of all regular and special meetings of the Board during his/her incumbency is a ground for disqualification in the succeeding election unless the absence is due to illness, death in the immediate family, serious accident or other unforeseen or fortuitous events.

(b) The non-executive directors of the Board shall concurrently serve as directors to a maximum of five publicly listed companies to ensure that they have sufficient time to fully prepare for meetings, challenge Management's proposals/views, and oversee the long-term strategy of the Bank.

NEDs shall to scrutinize Management's performance, particularly in meeting the companies' goals and objectives. Further, they shall satisfy themselves on the integrity of the bank's internal control and effectiveness of the risk management systems. This role can be better performed by the NEDs if they are provided access to the external auditor and heads of the internal audit, compliance and risk functions, as well as to other key officers of the Bank without any executive directors present. The lead independent director should lead and preside over the meeting.

(c) A Bank's Director shall notify the Board before accepting a directorship in another company.

(5) Act judiciously. Before deciding on any matter brought before the board of directors, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

(6) Contributes significantly to the decision-making process of the board. Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of the Board.

(7) Exercises independent judgment. A director should view each problem/ situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollary to this, he should support plans and ideas that he thinks will be beneficial to the Bank.

(8) Possess a working knowledge of the statutory and regulatory requirements affecting the Bank, including the content of its articles of incorporation and by-laws, the requirements of the Bangko Sentral ng Pilipinas, and where applicable, the requirements of other regulatory agencies. A Director should also keep himself informed of the industry developments and business trends in order to safeguard the Bank's competitiveness.

(9) Observes confidentiality. Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They

may not disclose said information to any other person without the authority of the Board.

Qualifications of a Director

(1) A director shall have the following minimum qualifications:

(a) He must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness; relevant to education/financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.

In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Subsection X150.1. A director shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using the Appendix 98 as guide within twenty (20) banking days from the date of election. Non-submission of complete documentary requirements or their equivalent within the prescribed period shall be construed as his failure to establish his qualifications for the position and results in his removal from the board of directors.

(b) He must have attended a seminar on corporate governance for board of directors. A director shall submit to the Bangko Sentral a certification of compliance with the Bangko Sentral-prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance; Provided, That the following persons are exempted from complying with the aforementioned requirement:

(i) Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance;

(ii) Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board members; or
(iii) Former Chief Justices and Associate Justices of the Philippine Supreme Court:

Provided, further, that this exemption shall not apply to the annual training requirements for the members of the board of directors.

(2) Independent and non-executive directors

In selecting independent and non-executive directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry out his duties and responsibilities. In this regard, the following shall apply:

(a) A non-executive director may concurrently serve as director in a maximum of five (5) publicly listed companies. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the non-executive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement; and
(b) An independent director of a bank may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the same bank, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.

(3) Members of the board of directors shall not be appointed as Corporate Secretary or Chief Compliance Officer.

Disqualification of Director

The following may be considered as grounds for the permanent disqualification:
(1) Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that:
(a) involves the purchase or sale of securities, as defined in the Securities Regulation Code;
(b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or

(c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them.

(2) Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC, BSP or any court or administrative body of competent jurisdiction from:
(a) Acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker;
(b) Acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company;
(c) Engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.

The disqualifications shall also apply if:
(a) Such person is the subject of an order of the SEC, BSP or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the Commission or BSP;
(b) Such person has otherwise been restrained to engage in any activity involving securities and banking; or
(c) Such person is the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

(3) Any person convicted by final judgment or order by a court, or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;

(4) Any person who has been adjudged by final judgment or order of the SEC, BSP, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law, rule, regulation or order administered by the SEC or BSP;

(5) Any person judicially declared as insolvent;

(6) Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated previously;

(7) Conviction by final judgment of an offense punishable by imprisonment for more than six years, or a violation of the Corporation Code committed within five years prior to the date of his election or appointment; and

(8) Other grounds as the SEC may provide.

In addition, the following may be grounds for temporary disqualification of a director:

(1) Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any 12-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualifications should apply for purposes of the succeeding election;

(2) Dismissal or termination for cause as director of any publicly-listed company, public company, registered issuer of securities and holder of a secondary license from the Commission. The disqualification should be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;

(3) If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with;

(4) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final; and

(5) Those under preventive suspension by the Bank.

The Corporate Governance Committee shall be responsible to conduct investigation on any misconduct and/or violations committed by any member of the Board of Directors, including the President, against the laws, rules, regulations and internal policies and procedures. Results of the investigation shall be elevated to the Board of Directors which shall meet en banc, excluding the director subject of the investigation, to deliberate on the case.

A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.

vii. Adequate and Timely Information

To enable the members of the Board to properly fulfill their duties and responsibilities, Management should provide them with complete, adequate and timely information about the matters to be taken in their meetings.

Reliance on information volunteered by Management would not be sufficient in all circumstances and further inquiries may have to be made by a member of the Board to enable him to properly perform his duties and responsibilities. Hence, the members should be given independent access to Management and the Corporate Secretary.

The information may include the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

The members, either individually or as a Board, and in furtherance of their duties and responsibilities, should have access to independent professional advice at Bank's expense.

viii. Board Meetings and Quorum Requirement.

(1) Full board of directors meetings
The meetings of the board of directors may be conducted through modern technologies such as, but not limited to, teleconferencing and video conferencing as long as the director who is taking part in said meetings can actively participate in the deliberations on matters taken up therein: Provided, That every member of the board of directors shall participate in at least fifty percent (50%) and shall physically attend at least twenty-five percent (25%) of all meetings of the board of directors every year: Provided, further, That the absence of a director in more than fifty percent (50%) of all regular and special meetings of the board of directors during his/her incumbency is a ground for disqualification in the succeeding election.

Independent directors should always attend Board meetings. Unless otherwise provided in the by-laws, their absence shall not affect the quorum requirement. However, the Board may, to promote transparency, require the presence of at least one independent director in all its meetings.

(2) Board-level committee meetings.
Board-level committees shall meet as prescribed in their respective charters. Participation of committee members may likewise be in person or through modern technologies: Provided, that the attendance and

participation of members in committee meetings shall be considered in the assessment of continuing fitness, and propriety of each director as member of board-level committees and the board of directors.

ix. Board-level Committees

The Board of Directors may delegate some of its functions, but not its responsibilities, to Board-level committees. In this regard, the board of directors shall:

(1) Approves, reviews, and updates, at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures. Said documents shall articulate how the committee will report to the full board of directors, what is expected of the committee members, and tenure limits for serving on the committee. The board of directors shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.

(2) Appoint members of the committees taking into account the optimal mix of skills and experience to allow the board of directors, through the committees, to fully understand and objectively evaluate the relevant issues. In order to promote objectivity, the board of directors shall appoint independent directors and non-executive members of the board of directors to the greatest extent possible. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight and Corporate Governance, Related Party Transactions committees, without prior approval of the Monetary Board.

(3) Ensures that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.

(4) Constitutes, at a minimum, the following committees: (1) Audit Committee; (2) Risk Oversight Committee, and (3) Corporate Governance Committee: Provided, That the board of directors of simple or non-complex banks may, at a minimum, constitute only the Audit Committee unless directed by the Bangko Sentral to create other board-level committees: Provided, further, That the board of directors shall discuss risk management and corporate

governance matters in the meetings of the board of directors, with the views of the independent directors duly considered and minuted.

In view of the foregoing, the Bank shall create the following Board-level committees:

Audit Committee

The audit committee shall be composed of at least three (3) members of the board of directors, who shall all be non-executive directors, majority of whom shall be independent directors, including the Chairperson: Provided, That the Chairperson of the audit committee shall not be the Chairperson of the board of directors or of any other board-level committees.

The audit committee shall have accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the bank. It shall have access to independent experts to assist them in carrying out its responsibilities.

The Audit Committee is responsible for overseeing the senior management in establishing and maintaining an adequate, effective, and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring, compliance with laws, regulations and internal policies, efficiency and effectiveness of operations and safeguarding of assets.

Duties and Responsibilities of the Audit Committee

(1) Oversees the financial reporting framework. The committee shall oversee the financial reporting process, practices, and controls. It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.

(2) Monitors and evaluates the adequacy and effectiveness of the internal control system. The committee shall oversee the implementation of internal control policies and activities. It shall also ensure that periodic assessment of the internal control system is conducted to identify the weaknesses and evaluate its robustness considering the bank's risk profile and strategic direction.

(3) Oversees the internal audit function. The committee shall be responsible for the appointment/selection, remuneration, and dismissal of internal auditor. It shall review and approve the audit scope and frequency. The committee shall ensure that the scope covers the review of the

effectiveness of the bank's internal controls, including financial, operational and compliance controls, and risk management system. The committee shall functionally meet with the head of internal audit and such meetings shall be duly minuted and adequately documented. In this regard, the audit committee shall review and approve the performance and compensation of the head of internal audit, and budget of the internal audit function.

(4) Oversees the external audit function. The committee shall be responsible for the appointment, fees, and replacement of external auditor. It shall review and approve the engagement contract and ensure that the scope of audit likewise cover areas specifically prescribed by the Bangko Sentral and other regulators.

(5) Oversees implementation of corrective actions. The committee shall receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws, and regulations and other issues identified by auditors and other control functions.

(6) Investigates significant issues/concerns raised. The committee shall have explicit authority to investigate any matter within its terms of reference, have full access to and cooperation by management, and have full discretion to invite any director or executive officer to attend its meetings.

(7) Establishes whistleblowing mechanism. The committee shall establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

(8) Recommends the approval of the Internal Audit Charter (IA Charter), which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the IA Charter.

(9) Evaluates and determines the non-audit work, if any of the External Auditor, and periodically reviews the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the bank's overall consultancy expenses. The committee should disallow any non-audit work that will conflict with his duties as an External Auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the bank's Annual Report and Annual Corporate Governance Report.

(10) In case the Bank does not have a Board Risk Oversight Committee and/or Related Party Transactions Committee, performs the functions of said committees as provided under Recommendations 3.4 and 3.5.

The Audit Committee meets with the Board at least every quarter without the presence of the CEO or other management team members and periodically meets with the head of the internal audit.

Related Party Transactions Committee

The Related Party Transaction (RPT) Committee shall be composed of at least three (3) members of the Board of Directors, two (2) of whom shall be independent directors, including the chairperson. The Committee shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members. In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction. The Compliance Officer or Internal Auditor may sit as resource persons in said committee.

Duties and responsibilities of the Related Party Transactions Committee

(1) Evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors;

(2) Evaluates all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee takes into account among others, the following:

(a) The related party's relationship to the Bank and interest in the transaction;
(b) The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
(c) The benefits to the corporation of the proposed RPT;

(d) The availability of other sources of comparable products or services; and

(e) An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Bank should have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs.

All RPTs that are considered material based on bank's internal policies shall be endorsed by the RPT Committee to the board of directors for approval.

(3) Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Bank's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Bank's affiliation or transactions with other related parties;

(4) Reports to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;

(5) Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process; and

(6) Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs including a periodic review of RPT policies and procedures.

A director with a material interest in any transaction affecting the Bank shall abstain from taking part in the deliberations for the same.

The abstention of a director from participating in a meeting when related party transactions, self-dealings or any transactions or matters on which he/she has a material interest are taken up ensures that he has no influence over the outcome of the deliberations. The fundamental principle to be observed is that a director does not use his position to profit or gain some benefit or advantage for himself and/or his/her related interests.

Trust Committee

The Trust Committee shall be composed of at least five (5) members including the (1) President OR ANY SENIOR OFFICER OF THE BANK AND (2) the trust officer. The remaining committee members, including the Chairperson, may be any of the following: (1) non-executive directors or independent directors who are both not part of the Audit Committee; or (2) those considered as qualified "INDEPENDENT PROFESSIONALS": Provided, that, in case of more than five (5) Trust Committee memberships, majority shall be composed of qualified non-executive members.
The Trust Committee is a special committee which reports directly to the Board of Directors and is primarily responsible for overseeing the fiduciary activities of the Bank.

Duties and responsibilities of the Trust Committee

(1) Ensures that fiduciary activities are conducted in accordance with applicable laws, rules and regulations, and prudent practices.

(2) Ensures that policies and procedures that translate the Board's objectives and risk tolerance into prudent operating standards are in place and continue to be relevant, comprehensive and effective.

(3) Oversees the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities.

(4) Adopts an appropriate organizational structure/ staffing pattern and operating budgets that shall enable the Trust and Investment Center to effectively carry out its functions.

(5) Oversees and evaluate performance of the Trust Officer.

(6) Conducts regular meetings at least once every quarter, or as often as necessary and keep minutes of its actions and make periodic reports thereon to the Board.

(7) Reports regularly to the BOD on matters arising from fiduciary activities.

(8) Ensures that the responsibilities vested to the Trust Officer are properly performed. These include, but not limited, to the following:
    (a) Administration of trust and other fiduciary accounts;
    (b) Implementation of policies and instructions of the Board and the Trust Committee;
    (c) Maintenance of necessary control measures to protect assets under their custody and held in trust or other fiduciary capacity;

(d) Performance of investment and other fiduciary activities in accordance with client's agreements and parameters set by the Trust Committee as approved by the Board;
(e) Submission of reports on matters that require the attention of the Trust Committee and the Board;
(f) Maintenance of adequate books, records and files for each trust and other fiduciary accounts; and
(g) Submission of periodic reports to regulatory agencies on the conduct of the trust operations.

Executive Committee

The Board of Directors shall delegate some of its powers and responsibilities to the Executive Committee as provided for in the by-laws, including but not limited to the supervision of other board committees and subject to the limitations and restrictions as may be imposed by the Board of Directors. The Executive Committee shall have at least three (3) members from the Board of Directors.

Risk Oversight Committee

The Risk Oversight Committee (ROC) shall be responsible for the oversight of a Bank's Enterprise Risk Management system to ensure its functionality and effectiveness. The ROC should be composed of at least three (3) members of the Board of Directors, majority of whom should be independent directors, including the chairperson. The chairperson should not be the chairperson of the Board or of any other board-level committee. The risk oversight committee shall possess a range of expertise and adequate knowledge on risk management issues and practices. It shall have access to independent experts to assist it in discharging its responsibilities.

Enterprise risk management is integral to an effective corporate governance process and the achievement of a bank's value creation objectives. Thus, the ROC has the responsibility to assist the Board in ensuring that there is an effective and integrated risk management process in place. With an integrated approach, the Board and top management will be in a confident position to make well-informed decisions, having taken into consideration risks related to significant business activities, plans and opportunities.

Duties and responsibilities of the ROC. The ROC shall advise the board of directors on the bank's overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement, and report on the state of risk culture of the bank. The ROC shall:

(1) Oversees the risk management framework. The committee shall oversee the enterprise risk management framework and ensure that there is periodic review of the effectiveness of the risk management systems and

recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.

(2) Oversees adherence to risk appetite. The committee shall ensure that the current and emerging risk exposures are consistent with the bank's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.

(3) Oversees the risk management function. The committee shall be responsible for the appointment/selection, remuneration, and dismissal of the Chief Risk Officer (CRO). It shall also ensure that the risk management function has adequate resources and effectively oversees the risk taking activities of the bank.

The risk management function involves the following activities, among others:

(a) Defining a risk management strategy;
(b) Identifying and analyzing key risks exposure relating to economic, environmental, social and governance (EESG) factors and the achievement of the organization's strategic objectives;
(c) Evaluating and categorizing each identified risk using the Bank's predefined risk categories and parameters;
(d) Establishing a risk register with clearly defined, prioritized and residual risks;
(e) Developing a risk mitigation plan for the most important risks to the Bank as defined by the risk management strategy;
(f) Communicating and reporting significant risk exposures including business risks (i.e. strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Board Risk Oversight Committee; and
(g) Monitoring and evaluating the effectiveness of the organization's risk management processes.

Risk management personnel shall possess sufficient experience and qualifications, including knowledge on the banking business, the developments in the market, industry and product lines, as well as mastery of risk disciplines. They shall have the ability and willingness to challenge business lines regarding all aspects of risk arising from the Bank's activities.

(4) Develops a formal enterprise risk management plan which contains the following elements: (a) common language or register of risks, (b) well-defined risk management goals, objectives and oversight, (c) uniform

processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes and measures;

(5) Conducts regular discussions on the Bank's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;

(6) Reviews at least annually the Bank's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Bank;

(7) Assesses the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Bank and its stakeholders;

(8) Provides oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the Bank. This function includes regularly receiving information and on risk exposures and risk management activities from Management; and

(9) Reports to the Board on a regular basis, or as deemed necessary, the Bank's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

For committees with members in even numbers, a casting vote may be exercised by the chairperson/presiding officer of the committee, to resolve a deadlock and which can be exercised only when such a deadlock exists.

Corporate Governance Committee
Duties and Responsibilities - See Subsection D.2

x. **Qualifications of an Officer**

An officer must be fit and proper for the position he is being appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered: integrity/probity, education/training, and possession of competencies relevant to the function such as knowledge and experience, skills and diligence.

In assessing an officer's integrity/probity, consideration shall be given to the officer's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house of exchange, or government and any of its instrumentalities/agencies.

An appointed officer has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Subsection X150.2. An officer shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using Appendix 98 as guide within twenty (20) banking days from the date of meeting of the board of directors in which the officer is appointed/promoted. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position and results to his/her removal therefrom.

xi. The Management Team[2]

(1) Chairperson of the board of directors

The Chairperson of the board of directors shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. He shall:

(a) Ensures that the meeting agenda focuses on strategic matters, including discussion on risk appetites and key governance concerns;
(b) Ensures a sound decision making process;
(c) Encourages and promote critical discussion;
(d) Ensures that dissenting views can be expressed and discussed within the decision-making process;
(e) Ensures that members of the board of directors receives accurate, timely, and relevant information;
(f) Ensures the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
(g) Ensures conduct of performance evaluation of the board of directors at least once a year.

The Chairperson shall not be at the same time the Chief Executive Officer of the Bank.

[2] *Subject to BSP confirmation, of which the letter-request should be signed by an authorized officer with affirmative statement that the institution has conducted a fit and proper test on the officer/s concerned, such as treasurer, trust officer, heads of internal audit, risk management, compliance functions, and other officers with rank of Senior Vice President and above.*

Qualifications of the Chairperson of the board of directors. To promote checks and balances, the Chairperson of the board of directors shall be a non-executive director or an independent director, and must not have served as CEO of the bank within the past three (3) years. The positions of Chairperson and CEO shall not be held by one person. In exceptional cases where the position of Chairperson of the board of directors and CEO is allowed to be held by one (1) person as approved by the Monetary Board, a lead independent director shall be appointed.

For this purpose, the board of directors shall define the responsibilities of the lead independent director, which shall be documented in the corporate governance manual. The board of directors shall ensure that the lead independent director functions in an environment that allows him to effectively challenge the CEO as circumstances may warrant. The lead independent director shall perform a more enhanced function over the other independent directors and shall:

(a) Lead the independent directors at board of directors meetings in raising queries and pursuing matters; and
(b) Lead meetings of independent directors, without the presence of the executive directors.

(2) Vice Chairperson of the Board

The Vice Chairperson shall preside at the meetings of the Board of Directors in the absence of the Chairperson of the Board. He shall perform such other duties incidental to his office or are entrusted to him by the Board of Directors.

(3) President and Chief Executive Officer (CEO)

The President, who shall be a director, shall be the Chief Executive Officer who shall handle the administration and direction of the day-to-day business affairs of the Bank. He shall exercise the following roles and responsibilities:

(a) Determines the Bank’s strategic direction and formulates and implements its strategic plan on the direction of the business;
(b) Communicates and implements the Bank’s vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same;
(c) Oversees the operations of the Bank and manages human and financial resources in accordance with the strategic plan;
(d) Has a good working knowledge of the Bank’s industry and market and keeps up-to-date with its core business purpose;
(e) Directs, evaluates and guides the work of the key officers of the Bank;
(f) Manages the Bank’s resources prudently and ensures a proper balance of the same;

(g) Provides the Board with timely information and interfaces between the Board and the employees;
(h) Builds the corporate culture and motivates the employees of the Bank; and
(i) Serves as the link between internal operations and external stakeholders.

(4) Corporate Secretary

The Corporate Secretary must be a resident, citizen of the Philippines and an officer of the Bank. He shall be the custodian of and shall maintain corporate books and record and shall be the recorder of the Bank's formal actions and transactions. He is primarily responsible to the bank and its shareholders, and has, among others, the following duties and responsibilities:

(a) Assists the Board and the board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar and assisting the chairs of the Board and its committees to set agendas for those meetings;
(b) Safe keeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the bank;
(c) Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the bank, and advises the Board and the chairperson all relevant issues as they arise;
(d) Works fairly and objectively with the Board, Management and stockholders and contributes to the flow of information between the Board and management, the Board and its committees, and the Board and its stakeholders, including shareholders;
(e) Advises on the establishment of board committees and their terms of reference;
(f) Informs members of the Board, in accordance with the by-laws, of the agenda of their meetings at least five working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decision on matters that require their approval;
(g) Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
(h) Performs required administrative functions;
(i) Oversees the drafting of the by-laws and ensures that they conform with regulatory requirement; and

(j) Performs such other duties and responsibilities as may be provided by the SEC.

The Corporate Secretary shall also have the following specific powers and duties:

(a) Keeps the corporate seal and affix it to all papers and documents requiring a seal, and to attest by his signature all corporate documents requiring the same;
(b) Attends to the giving and serving of all notices of the Bank required by law or by-laws;
(c) Provides the rationale and explanation for each agenda item in the Notice of Annual Stockholders' Meeting/ circulars/ accompanying statement. The Notice of ASM shall contain the following information:
    (i) Profile of candidates to the board, i.e., age, work experience directorships in other listed companies, date of first appointment (at least month and year) and academic qualifications.
    (ii) Dividend policy.
    (iii) Proxy documents which shall be attached to the Notice of ASM or downloadable in the Bank website.
(d) Certifies to such corporate acts, countersign corporate documents or certificates, and make reports or statements as may be required of him by law or by government rules and regulations;
(e) Acts as the inspector during shareholders' meeting and, as such, determine the number of shares of stock outstanding and entitled to vote, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and to receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote. The Secretary may assign the exercise or performance of any or all of the foregoing duties, powers and functions to any other person or persons, subject always to his supervision and control;
(f) In all transactions which may lawfully come to the knowledge of the corporate secretary involving transfer of voting shares of stock or registration of voting trust agreements, or any form of agreement vesting the right to vote the voting shares of stock of the Bank, the corporate secretary shall:
    (i) Discloses the ultimate beneficial owners of Bank shares held in the name of Philippine Central Depository (PCD) Nominee Corporation;
    (ii) Ascertains the identity and citizenship of the transferee, voting trustee, proxy or person vested with the right to vote, and his relation to existing stockholders, and for this purpose, he shall

require the transferee, voting trustee, proxy or the person vested with the right to vote to submit proof of citizenship, which may consist, in case of a corporation, of a certified true copy of the articles of incorporation, accompanied by the affidavit of the corporate secretary of the Bank, certifying to the correctness and accuracy of the list of stockholder and percentage of shares owned by them;

(iii) Requires the transferee, voting trustee, proxy or person vested with the right to vote, at the time of the receipt of the request for transfer or registration, or at any time thereafter, to disclose all information with respect to persons related to the transferee, voting trustee, proxy or person vested with the right to vote, within the fourth degree of consanguinity or affinity, as well as corporations, partnerships or associations where the transferee, voting trustee, proxy or person vested with the right to vote has controlling interest, and the extent thereof;

(iv) Requires the transferee to execute an affidavit per BSP sample format stating, among other things, that the transferee is a bona fide owner of shares of stock and that he acknowledges full awareness of the requirements of the law and the prohibitions against exceeding ownership of voting stocks beyond the prescribed limitations;

(v) If the request for transfer or the arrangement sought to be registered will patently cause the voting stocks of a person or a corporation, to exceed the limits prescribed by law, the corporate secretary shall deny the transfer or registration and forthwith inform the parties to the transaction in writing. Simultaneous with the notice to the parties, the corporate secretary shall submit a written report to the Governor of the BSP of the attempted illegal transfer or arrangement, together with the names, addresses of parties and other pertinent data with respect to the particular stock transaction;

(vi) In the event the corporate secretary has reason to doubt the legality of the transfer or of the arrangement sought to be registered, he may commence an action before the appropriate body;

(vii) Promptly inform the stockholders who have reached any of the ceilings imposed by law, of their ineligibility to own or control more than the applicable ceiling; and

(viii) Performs such other duties incidental to his office or as may be assigned to him by the Board of Directors or President.

(g) Be loyal to the mission, vision and objectives of the Bank;

(h) Have appropriate administrative and interpersonal skills;

(i) If he is not at the same time the Bank's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
(j) Have a working knowledge of the operations of the Bank; and
(k) Ensures that all Board procedures, rules and regulations are strictly followed by the members.

(5) Treasurer

The Treasurer of the Bank shall be its chief fiscal officer and the custodian of its funds, securities and properties. Its duties/responsibilities are as follows:

(a) In-charge of over-all fund management activities of the Bank and responsible for the liquidity and reserve management operations of the Bank;
(b) Reports to management covering information on Market developments and bank's treasury transactions; recommends investment outlets and sourcing of funds;
(c) Develops business relationships with other banks, as well as exchange of market views with other treasurers as well as with clients;
(d) Introduces/develops new treasury products to complement Bank's sources and utilization of funds;
(e) Directly involved in Asset Liability Management where Bank would minimize costs and maximize profit and assures liquidity at any given time; and
(f) Exercises such authority and perform such other duties and functions as may be assigned to the position.

(6) Internal Auditor/Chief Audit Executive (CAE)

The Internal Auditor/CAE shall oversee and be responsible for the internal audit activity of the organization, including that portion that is outsourced to a third party service provider. In case of a fully outsourced internal audit activity, a qualified independent executive or senior management personnel should be assigned the responsibility for managing the fully outsourced internal audit activity.

The Internal Auditor/CAE, in order to achieve the necessary independence to fulfill his/her responsibilities, directly reports functionally to the Audit Committee and administratively to the CEO. The following are the responsibilities of the Internal Auditor/CAE, among others:

(a) Periodically reviews the internal audit charter and presents it to senior management and the Board Audit Committee for approval;

(b) Establishes a risk-based internal audit plan, including policies and procedures to determine the priorities of the internal audit activity, consistent with the organization's goals;
(c) Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval;
(d) Spearheads the performance of the internal audit activity to ensure it adds value to the organization;
(e) Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and
(f) Presents findings and recommendations to the Audit Committee and gives advice to Senior Management and the Board on how to improve internal processes.

xii. External Auditor

The Board, after consultations with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the Commission, who shall undertake an independent audit of the Bank, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders. The external auditor 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.

If the external auditor resigns, is dismissed or ceases to perform his services, the reason/s for and the effective date 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 disclosures or audit procedures which the former auditor and the Bank failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the Bank to the external auditor before its submission.

If the external auditor believes that any statement made in an annual report, information statement or any report filed with the Commission or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said reports.

The Bank's external auditor shall be changed every five (5) years or earlier.

xiii. Chief Risk Officer

The Chief Risk Officer (CRO) is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources and support to fulfill his/her responsibilities, subject to a Bank's size, risk profile and complexity of operations.

The CRO shall have the following functions, among others:

(1) Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;

(2) Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board Risk Oversight Committee;

(3) Collaborates with the CEO in updating and making recommendations to the Board Risk Oversight Committee;

(4) Suggest ERM policies and related guidance, as may be needed; and

(5) Provides insights on the following:
   (a) Risk management processes are performing as intended;
   (b) Risk measures reported are continuously reviewed by risk owners for effectiveness; and
   (c) Established risk policies and procedures are being complied with.

(6) The CRO shall have the ability, without compromising his independence, to engage in discussions with the board of directors, chief executive officer and other senior management on key risk issues and to access such information as he deems necessary to form his or her judgment;

(7) The CRO shall meet with the board of directors/risk oversight com on a regular basis and such meetings shall be duly minuted and adequately documented; and

(8) The CRO shall be appointed and replaced with prior approval of the board of directors. In cases, when the CRO will be replaced, the Bank shall report the same to the SES of the Bangko Sentral ng Pilipinas (BSP) within five (5) days from the time it has been approved by the board of directors.

xiv. Chief Compliance Officer (CCO)
Duties and Responsibilities of the CCO – see Subsection E.1.d

xv. Duties and Responsibilities of Officers

The following are the duties and responsibilities of the bank officers:

(1) Set the tone of good governance from the top. Bank officers shall promote the good governance practices within the Bank by ensuring that policies on governance as approved by the board of directors are consistently adopted across the Bank.

(2) To oversee the day-to-day management of the Bank. Bank officers shall ensure that the Bank's activities and operations are consistent with the Bank's strategic objectives, risk strategy, corporate values and policies approved by the board of directors. They shall establish a bank-wide management system characterized by strategically aligned and mutually reinforcing performance standards across the organization.

(3) To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency. Bank officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each Bank personnel. Bank officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the board of directors for the performance of the Bank.

(4) To promote and strengthen checks and balances systems in the Bank. Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of internal audit, compliance and external audit functions.

(5) All employees of PBB are responsible for complying with the PBB Corporate Governance and Compliance Program. The effective implementation of this Program represents a shared undertaking on the part of all employees, from the highest levels of Management down to the lowest levels of the junior staff.

xvi. Duties and Responsibilities of Staff Employees

Each employee shall be responsible for:

(1) Contributing to the realization of PBB's commitment to integrity;

(2) Complying with the bank-wide standards of conduct and raising questions if the employee is concerned that the standards are not being met; and

(3) Requesting a conflict of interest determination for any activity or personal interest that might interfere with the employee's objectivity in performing his duties and responsibilities.

xvii. Duties and Responsibilities of Unit Heads/Branch Heads

Each Unit/Branch Officer shall be responsible for:

(1) Being familiar with, and behaving according to, the bank-wide standards of conduct being required of all PBB Officers and employees. This includes being knowledgeable concerning the resources available to assist him and his subordinates in resolving compliance concerns, issues or questions;

(2) Promoting compliance with the standards of conduct established by the Bank and applicable laws. This includes ensuring that employees under his/her supervision are aware of these standards and the legal requirements relevant to their work;

(3) Maintaining a work environment that encourages open communication regarding ethics, business conduct and legal/policy issues and concerns; and

(4) Promptly forwarding to the Compliance Office or Internal Audit Center or communicating through the Telephone Hotline any matter received that the Manager regards as a significant potential compliance issue.

xviii. Duties and Responsibilities of Group Heads/Region Heads

Each Group Heads/Region Heads has the overall responsibility for ensuring his Group's compliance with PBB standards of conduct, policies and procedures, and with the applicable laws, rules and regulations, including the following:

(1) Supporting the implementation of the Corporate Governance Compliance Program in his particular Group/Region;

(2) Ensuring the conduct of adequate compliance education programs;

(3) Maintaining mechanisms for monitoring compliance with the Bank's policies and procedures and applicable laws; and

(4) Taking appropriate corrective action against identified violations.

F. SHAREHOLDERS' BENEFITS

The Bank recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors. For this purpose, the Bank acknowledges the following rights of its shareholders and shall protect and facilitate the exercise of such rights and shall treat them fairly and equitably:

1. Investor's Right and Protection
   a. Rights of Investors/Minority Interests

The Board is committed to respect the following rights of the Shareholders:

i. Voting Right/Right to nominate candidates to the Board of Directors
   (1) Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
   (2) Cumulative voting shall be used in the election of directors.

A director shall not be removed without just cause if it will deny minority shareholders' representation in the Board.
Further, all shareholders shall be given the opportunity to nominate candidates to the Board of Directors in accordance with the existing laws. The procedures of the nomination process are expected to be discussed clearly by the Board. The Bank is encouraged to fully and promptly disclose all information regarding the experience and background of the candidates to enable the shareholders to study and conduct their own background check as to the candidates' qualification and credibility.

ii. Pre-emptive Rights

iii. Power of Inspection
All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registers in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions during business hours.

iv. Right to Information
   (1) The shareholders shall be provided, upon request, with periodic reports, which disclose personal and professional information about the directors and officers and certain other matters such as their holdings with the Bank's shares, dealings with the Bank, relationship among directors and key officers, and the aggregate compensation of directors and officers.

   (2) The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting; provided the items are for legitimate business purposes.

   (3) The minority shareholders shall have access to any and all information relating to matters for which the management is accountable for, except for matters covered by confidentiality agreements.

v. Right to Dividends

(1) Shareholders shall have the right to receive dividends subject to the discretion of the Board.

(2) The Bank shall declare dividends when its retained earnings is in excess of 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve for probable contingencies.

vi. Appraisal Right

The shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Sec. 82 of the Corporation Code of the Philippines, under any of the following circumstances:

(1) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

(2) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code: and

(3) In case of merger or consolidation:
It shall be the duty of the directors to promote, and remove the impediments to, the exercise of shareholder's rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholder's voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administration or practical impediments to shareholders participating in meetings and/or voting in person. The directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

vii. Right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting. However, to prevent the abuse of this right, the Bank may require that the proposal be made by shareholders holding a specified percentage of the shares or voting rights. On the other hand, to ensure that minority shareholders are not effectively prevented from exercising this right, the degree of ownership concentration is considered in determining the threshold.

G. STOCKHOLDERS' MEETING

1. The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the Bank. It shall encourage active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least 28 days before the meeting and posted on the Bank website. Required information in the Notice include, among others, the date, location, meeting agenda and its rationale and explanation, and details of issues to be deliberated on and approved or ratified at the meeting. Sending the Notice in a timely manner allows shareholders to plan their participation in the meetings.

2. The Board shall encourage active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day. A stockholder may vote in person or by proxy executed in writing by the stockholder or his duly authorized attorney-in-fact. Electronic voting in absentia shall not be allowed. In addition, the Minutes of the Annual and Special Shareholders' Meeting should be available on the Bank website within five business days from the end of the meeting.

   Voting results shall include a breakdown of the approving and dissenting votes on the matters raised during the Annual or Special Stockholders' Meeting. When a substantial number of votes have been cast against a proposal made by the Bank, it may make an analysis of the reasons for the same and consider having a dialogue with its shareholders.

   The minutes of Meeting include the following matters: (1) A description of the voting and the vote tabulation procedures used; (2) the opportunity given to shareholders to ask questions, as well as a record of the questions and the answers received; (3) the matters discussed and the resolutions reached; (4) a record of the voting results for each agenda item; (5) a list of the directors, officers and shareholders who attended the meeting; and (6) dissenting opinion on any agenda item that is considered significant in the discussion process.

H. The Board shall make available, at the option of a shareholder, an alternative dispute mechanism to resolve intra-corporate disputes in amicable and effective manner.

It is important for the shareholders to be well-informed of the bank's processes and procedures when seeking to redress the violation of their rights. Putting in place proper safeguards ensures suitable remedies for the infringement of shareholders' rights and prevents excessive litigation. The Bank may also consider adopting in its Manual on Corporate Governance established Alternative Dispute Resolution (ADR) procedures.

I. The Board shall establish an Investor Relations Officer (IRO) to ensure constant engagement with its shareholders. The IRO should be present at every shareholders' meeting.

Setting up an avenue to receive feedback, complaints and queries from shareholders assure their active participation with regard to activities and policies of the Bank. The IRO has a designated investor relations officer, email address and telephone number. Further, creating an Investor Relations Program ensures that all information regarding the activities of the Bank is properly and timely communicated to shareholders.

J. DUTIES TO STAKEHOLDERS

1. Respecting rights of stakeholders and effective redress for violation of stakeholder's rights.

The rights of stakeholders established by law, by contractual relations and through voluntary commitments must be respected. Where stakeholders' rights and/or interests are at stake, stakeholders should have the opportunity to obtain prompt effective redress for the violation of their rights. For this purpose, the Board of Directors shall:

a. Identify the Bank's various stakeholders and promote cooperation between them and the Bank in creating wealth, growth and sustainability.

   Stakeholders in corporate governance include, but are not limited to customers, employees, suppliers, shareholders, investors, creditors, the community the Bank operates in society, the government, regulators, competitors, external auditors, etc. In formulating the Bank's strategic and operational decisions affecting its wealth, growth and sustainability due consideration is given to those who have an interest in the Bank and are directly affected by its operations.

b. The Board should establish clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.

   In instances when stakeholders' interests are not legislated, companies' voluntary commitments ensure the protection of the stakeholders' rights. The Bank's Code of Conduct ideally includes provisions on the Bank's policies and procedures on dealing with various stakeholders. The Bank's stakeholders include its customers resource providers, creditors and the community in which it operates. Fair, professional and objective dealings as well as clear, timely and regular communication with the various stakeholders ensure their fair treatment and better protection of their rights.

c. The Board shall adopt a transparent framework and process that allow stakeholders to communicate with the Bank and to obtain redress for the violation of their rights.

   The Bank's stakeholders play a role in its growth and long-term viability. As such, it is crucial for the Bank to maintain open and easy communication with its stakeholders. This can be done through stakeholder engagement touch points in the Bank, such as the Investor Relations Office, Office of the Corporate Secretary, Customer Relations Office, and Corporate Communications Group.

2. Encouraging employees' participation

A mechanism for employee participation shall be developed to create a symbiotic environment, realize the Bank's goals and participate in its corporate governance processes.

a. The Board should establish policies, programs and procedures that encourage employees to actively participate in the realization of the Bank's goals and in its governance.

   The establishment of policies and programs covering among others, the following: (1) health, safety and welfare; (2) training and development; and (3) reward/compensation for employees, encourages employees to perform better and motivates them to take a more dynamic role in the Bank. Active participation is further fostered when the Bank recognizes the firm-specific skills of its employees and their potential contribution in corporate governance. The employees' viewpoint in certain key decisions may also be considered in governance processes through work councils or employee representation in the board.

b. The Board shall set the tone and make a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Conduct. Further, the Board should disseminate the policy and program to employees across the organization through trainings to embed them in the Bank's culture.

   The adoption of an anti-corruption policy and program endeavors to mitigate corrupt practices such as, but not limited to, bribery, fraud, extortion, collusion, conflict of interest and money laundering. This encourages employees to report corrupt practices and outlines procedures on how to combat, resist and stop these corrupt practices. Anti-corruption programs are more effective when the Board sets the tone and leads the Bank in their execution.

3. **Encouraging sustainability and social responsibility**

The Bank shall be socially responsible in all its dealings with the communities where it operates. It should ensure that its interaction serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.

a. The Bank shall recognize and place an importance on the interdependence between business and society, and promote a mutually beneficial relationship that allows the Bank to grow its business, while contributing to the advancement of the society where it operates.

   The Bank's value chain consists of inputs to the production process, the production process itself and the resulting output. Sustainable development means that the Bank not only complies with existing regulations, but also voluntarily employs value chain processes that take into consideration economic, environmental, social and governance issues and concerns. In considering sustainability concerns, the Bank plays an indispensable role alongside the government and civil society in contributing solutions to complex global challenges like poverty, inequality, unemployment and climate change.

K. DISCLOSURE AND TRANSPARENCY

The Bank shall establish corporate disclosure policies and procedures that are practical and in accordance with best practices and regulatory expectations.

1. The Board shall establish corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders that give a fair and complete picture of a bank's financial condition, results and business operations.

   Setting up clear policies and procedures on corporate disclosure that comply with the disclosure requirement as provided in Rule 68 of the Securities Regulation Code (SRC), Philippine Stock Exchange Listing and Disclosure Rules and other regulations such as those required by the Bangko Sentral ng Pilipinas, is essential for comprehensive and timely reporting.

2. The Bank shall have a policy requiring all directors and officers to disclose/report to the Bank any dealings in the Bank's shares within three (3) business days.

   Directors often have access to material inside information on the Bank. Hence, to reduce the risk that the directors might take advantage of this information, it is crucial for companies to have a policy requiring directors to timely disclose to the Bank any dealings with the Bank shares. It is crucial for companies to have a policy requiring directors to timely disclose to the company any dealings with the company shares. It is emphasized that the policy is on internal disclosure to the Bank of any dealings by the director in company shares. This supplements the requirement of Rules 18 and 23 of the Securities Regulation Code.

3. The Board shall fully disclose all relevant and material information on individual board members and key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.

   A disclosure on the board members and key executives' information is prescribed under Rule 12 Annex C of the SRC. According to best practices and standards, proper disclosure includes directors and key officers' qualifications, share ownership in the Bank, membership of other boards, other executive positions, continuous trainings attended and identification of independent directors.

4. The Bank shall provide a clear disclosure of its policies and procedures for setting Board and executive remuneration, as well as the level and mix of the same in the Annual Corporate Governance Report. Also, companies should disclose the remuneration on an individual basis, including termination and retirement provisions.

   Disclosure of remuneration policies and procedure enables investors to understand the link between the remuneration paid to directors and key management personnel and the Bank's performance.

   The Revised Code of Corporate Governance requires only a disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors and top four (4) management officers during the preceding fiscal year. However, disclosure on board and executive remuneration on an individual basis (including termination and retirement provisions) is increasingly regarded as good practice and is now mandated in many countries.

5. The Bank shall make a full, fair, accurate and timely disclosure to the public of every material fact or event that occurs, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders. Moreover, the Board of the offeree bank shall appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.

   The disclosure on the acquisition or disposal of significant assets includes, among others, the rationale effect on operations and approval at board meetings with independent directors present to establish transparency and independence on the transaction. The independent evaluation of the fairness of the transparent price ensures the protection of the right of shareholders.

The essence of corporate governance is transparency. The more transparent the internal workings of the Bank are, the more difficult it will be for Management and dominant stockholders to mismanage the Bank or misappropriate its assets.

It is therefore essential that all material information about the Bank which could adversely affect its viability or the interests of its stockholders and other stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.

The Board shall therefore commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the Commission for the interest of its stockholders and other stakeholders.

L. INCREASING FOCUS ON NON-FINANCIAL AND SUSTAINABILITY REPORTING

The Bank should ensure that the material and reportable non-financial and sustainability issues are disclosed.

1. The Board shall have a clear and focused policy on the disclosure of non-financial information with emphasis on the management of economic, environmental, social and governance (EESG) issues of its business, which underpin sustainability. The Bank shall adopt a globally recognized standard/framework in reporting sustainability and non-financial issues.

   As external pressures including resource scarcity, globalization, and access to information continue to increase, the way corporations respond to sustainability challenges, in addition to financial challenges, determines their long-term viability and competitiveness. One way to respond to sustainability challenges is disclosure to all shareholders and other stakeholders of the Bank's strategic (long-term goals) and operational objectives (short-term goals), as well as the impact of a wide range of sustainability issues.

M. PROMOTING A COMPREHENSIVE AND COST-EFFICIENT ACCESS TO RELEVANT INFORMATION

The Bank should maintain a comprehensive and cost-efficient communication channel for disseminating relevant information. This channel is crucial for informed decision-making by investors, stakeholders and other interested users.

The Bank should include media and analysts' briefings as channels of communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.

The manner of disseminating relevant information to its intended users is as important as the content of the information itself. Hence, it is essential for the Bank to have a strategic and well-organized channel for reporting. These communication channels can provide timely and up-to-date information relevant to investors' decision-making, as well as to other interested stakeholders.

N. STRENGTHENING THE INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK

To ensure the integrity, transparency and proper governance in the conduct of its affairs, the Bank shall have a strong and effective internal control system and enterprise-wide risk management framework.

1. The Bank shall have an adequate and effective internal control system and an enterprise risk management framework in the conduct of its business, taking into account its size, risk profile and complexity of operations.

   An adequate and effective internal control system and an enterprise risk management framework help sustain safe and sound operations as well as implement management policies to attain corporate goals. An effective internal control system embodies management oversight and control culture; risk recognition and assessment; control activities; information and communication; monitoring activities and correcting deficiencies. Moreover, an effective enterprise risk management framework typically includes such activities as the identification, sourcing, measurement, evaluation, mitigation and monitoring of risk.

O. COMMUNICATION PROCESS

1. Communication Protocol

   a. PBB adheres to an "open door policy" of encouraging its employees to discuss any issues, concerns, problems or suggestions with their immediate supervisor, Unit/Group/Region/Branch Heads or other officer(s) concerned, or the Chief Compliance Officer, without fear of retaliation and with the assurance that the matter will be kept as confidential as possible.

   b. Officers or employees who report possible compliance issues shall not be subjected to retaliation or harassment as a result of reporting a violation, misconduct or impropriety. No official or employee will suffer any penalty or retribution for reporting in good faith of any suspected violation, misconduct or impropriety.

c. All officers and employees of PBB shall abide by the Corporate Governance Compliance Program. In addition, all supervisory personnel are responsible for compliance by those they supervise.

d. Any individual who is aware of, or suspects any violations of applicable laws, rules and regulations or bank policies, procedures and standards of conduct, can make an appointment with the Chief Compliance Officer to discuss the matter or he may notify his supervisor of the concern. Such supervisor will be responsible for bringing the complaint or report to the attention of the Chief Compliance Officer who will determine whether probable cause exist for further investigation or action on the matter.

e. In case of violation, an officer or employee may submit a complaint or report following the guidelines set forth below:
   i. He should contact his supervisor (if that person is not involved in the matter of concern) immediately either personally, by telephone or in writing to request assistance or to report suspected improper activities or practices;
   ii. If the supervisor does not resolve the officer's or employee's concern or is involved in the matter of concern, said officer or employee must contact the Chief Compliance Officer or the Internal Audit Center Hotline telephone number.
   iii. The supervisor or the Chief Compliance Officer, as the case may be, will respond promptly to every report or complaint received and may seek the legal advice from Legal Services Center or may direct the officer or employee to discuss the issue or concern directly to with the Bank's legal services or any appropriate officer of PBB.
   iv. Report of violation, misconduct or impropriety may be made directly to the Compliance Office.

   All complaints or reports of violation, misconduct or impropriety whether internal or external will be treated confidentially.

2. "Whistle-Blowing" Program and Complaint Policy

a. PBB has established a "Whistle-Blowing" Program and Complaint Policy incorporated in the Bank's revised Manual of Corporate Governance by which employees can convey any concerns or suspicions that may arise in the course of performing their jobs.

b. The term "Whistle-Blowing" refers to the process whereby employees are encouraged to report suspected violations, complaints or concerns involving financial disclosure, accounting, and internal control, code of conduct and ethics or policies. "Whistle-Blowing" encourages employees to bring unethical or illegal practices to the forefront and addressing them before they become fatal to the organization. "Whistle-Blowing" is a key defense against override of internal controls and thus, can help improve corporate governance.

c. Under this established policy, the Internal Audit Center maintains a telephone hotline that can be accessed from 8:30 AM to 5:30 PM Mondays through Fridays, except non-working holidays. Any officer or employee may call the confidential hotline using the direct line (**02) 363-7905**, to report non-compliant conduct or improper action, or to ask questions about ethical or legal conduct, or to seek compliance information or advice. The hotline serves the following purposes:
   i. Allow callers to promptly report concerns without fear of retaliation or retribution.
   ii. Provide an alternative reporting mechanism to report information about non-compliance when the person concerned is uncomfortable using the standard PBB reporting system.
   iii. Concerns about possible retaliation or harassment should be reported directly to the Compliance Office who will report, in turn, to the Corporate Governance Committee.

   A copy of the complete Whistle-Blowing Program and Complaint Policy outlining the basic procedures and handling of investigation as tasked to Internal Audit Center is attached as ANNEX A.

3. This manual shall be available for inspection by any stockholder of the Bank at reasonable hours on business days.

4. All directors, executives, division and department heads are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.

5. An adequate number of printed copies of this Manual must be reproduced under the supervision of Compliance Office, with a minimum of at least one (1) hard copy of the manual per department.

P. TRAINING AND EDUCATION

1. PBB shall provide training and education to its employees, officers and directors regarding matters covered in the Corporate Governance and Compliance Program. The Compliance Office and the Human Resource Group will collaborate regarding compliance training and education programs for different corporate business functions designed to ensure that all officials and employees have the awareness of legal requirements that are relevant to their work at a level of detail appropriate to their jobs and that all employees have the awareness of Bank policies, procedures and standards of conduct.

2. PBB shall likewise conduct professional, scientific and technical trainings and education programs to enhance to the highest degree, the professionalism, excellence, intelligence

and skills of its officials and employees in the performance and discharge of their duties and responsibilities.

3. The overall success of this Corporate Governance Compliance Program depends primarily on promoting legal and ethics training at every level of the organization. The Corporate Governance Committee thru the Compliance Office and Human Resources Group shall ensure that there is a systematic and on-going compliance education and training program that enhances and maintains awareness of applicable laws, rules and regulations, as well as Bank policies and procedures among existing staff and that introduces new personnel to the organization's policies, procedures and applicable rules and regulations.

4. Compliance training and education is mandatory for all PBB officers and employees. Thus, the President & CEO of the Bank shall ensure the attendance of concerned officers and employees in such training and education programs, including value development programs. The Compliance Office will see to it that a system is developed to document that such training has occurred. The Compliance Office, in coordination with Human Resource Group and in consultation with the Units/Branches whose services are affected, shall determine who shall attend training sessions on particular issues, subject to the approval of the President & CEO.

5. If necessary, funds shall be allocated by the Controller or its equivalent officer for the purpose of conducting an orientation program or workshop on the Manual.

6. A director shall, before assuming as such, be required to attend at least eight (8) hours seminar on corporate governance, while annual continuing training shall be at least for four (4) hours. The Corporate Governance Committee, with the assistance of the Training and Service Quality Center of the Human Resource Group, shall be responsible for the planning of the training programs of the directors. The training programs shall cover relevant topics in carrying out the duties and responsibilities as directors and shall be conducted by duly recognized private and government institutions.

7. All directors and key officers shall also attend, at least once a year, a program on corporate governance conducted by training providers that are duly accredited by the Securities and Exchange Commission.

Q. RESPONSE AND CORRECTION

1. PBB supports prompt response and corrective action for detected problems as appropriate under the circumstances. Whenever an identified compliance issue requires corrective action, the appropriate department or responsible administrative personnel shall develop a corrective action plan specifying the tasks to be completed, completion dates and responsible parties.

2. Each corrective action plan must be approved by the Corporate Governance Committee, upon recommendation of the Compliance Office, prior to implementation. The

Compliance Office shall monitor the proper implementation of the approved corrective action plans and shall report to the Corporate Governance Committee on the status thereof.

R. REWARD/COMPENSATION SYSTEM

The Bank shall have a Performance Bonus Framework duly approved by the Board of Directors, as the Bank's reward system.

S. COMPLIANCE MONITORING AND ASSESSMENT

1. Each Committee shall report regularly to the Board of Directors.

2. The Chief Compliance Officer shall establish an evaluation system to determine and measure compliance with this Manual. Any violation thereof shall subject the responsible officer or employee to the penalty provided under Item 13 of this Manual.

3. The establishment of such evaluation system, including the features thereof, shall be disclosed in the Bank's annual report (SEC Form17-A) or in such form of report that is applicable to the Bank. The adoption of such performance evaluation system must be covered by a Board approval.

4. This Manual shall be subject to annual review unless the Board amends the same earlier than the desired frequency.

5. All business processes and practices being performed within any department or business unit of PHILIPPINE BUSINESS BANK, INC. that are not consistent with any provision of this Manual shall be deemed amended or revoked.

6. The Corporate Governance Program includes efforts to monitor compliance with applicable laws, rules and regulations and with corporate policies, procedures and standards of conduct. Effective monitoring provides the organization with the capacity to detect and prevent deviations that, in certain circumstances, can potentially result to compliance concerns.

7. Progress reports on the on-going monitoring activities, including the identification of suspected non-compliance, shall be maintained by the Compliance Office and reported to the Corporate Governance Committee on quarterly basis.

T. DECIDING AUTHORITY

With reference to the provision no. **E.1.d.iii item (3)** under the Manual of Corporate Governance, the Chief Compliance Officer shall be responsible in identifying and reporting violations of the Manual to the Corporate Governance Committee, which shall conduct hearings and shall recommend to the chairperson of the Board the imposable penalty for such violation, which shall be reviewed and approved by the Board.

U. REPORTS

Bank shall submit the documentary requirements within twenty (20)[3] banking business days from date of election/re-election/appointment/promotion of directors/officers that requires approval/confirmation by the Monetary Board to the appropriate department of the SES.

V. PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL

1. To ensure strict observance and implementation of the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Bank's directors, officers and staff, in case of violations.
   a. In case of first violation, the subject person shall be reprimanded.
   b. Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.
   c. For third violation, the maximum penalty of removal from office shall be imposed.

2. The commission of a third violation of this Manual by any member of the Bank's Board of Directors or of its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.

3. The Chief Compliance Officer shall be responsible in identifying and reporting violations of the Manual to the Corporate Governance Committee, which shall conduct hearings and shall recommend to the Chairperson of the Board the imposable penalty for such violation, which shall be reviewed and approved by the Board.

W. UPDATING THE MANUAL ON CORPORATE GOVERNANCE AND COMPLIANCE PROGRAM

From time to time, PBB may amend this Manual on Corporate Governance. The Corporate Governance Committee shall review all changes suggested by the Chief Compliance Officer or by other PBB Officers/Staff through the Chief Compliance Officer and any change receiving the support of a majority of the Committee members shall be forwarded to the Board of Directors

[3] *BSP Circular No. 887 dated 7 October 2015*

for approval. The decision of the Board of Directors shall be final. The Chief Compliance Officer shall be responsible for communicating all changes to affected personnel in a timely manner.

X. RULES OF INTERPRETATION

1. All references to the masculine gender in the salient provisions of the manual shall likewise cover the feminine gender.

2. All doubts or questions that may arise in the interpretation or application of the revised Code of Corporate Governance shall be resolved in favor of promoting transparency, accountability and fairness to the stockholders and investors of the Bank.

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