



26 May 2017

ATTY. JUSTINA F. CALLANGAN
Director
Corporate Governance & Finance Department
Securities and Exchange Commission
Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City

**Subject: PSBank's Annual Corporate Governance Report (ACGR) for the
Y2016**

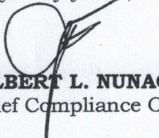
Dear Dir. Callangan:

In compliance with SEC Memorandum Cir. No. 20 Series of 2016, we submit to you
herewith three (3) complete sets of our duly accomplished report on subject ACGR.

We hope you will find everything in order.

Thank you very much.

Very truly yours,

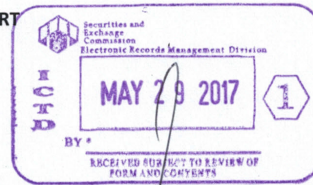


GILBERT L. NUNAG
Chief Compliance Officer

SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

ANNUAL CORPORATE GOVERNANCE REPORT



1. Report is Filed for the Year 2016
2. Exact Name of Registrant as Specified in its Charter Philippine Savings Bank
3. Address of Principal Office PSBank Center 777 Paseo de Roxas corner Seden Street, Makati City
Postal Code 1226
4. SEC Identification Number 15552
5. (SEC Use Only)
Industry Classification Code [REDACTED]
6. BIR Tax Identification Number 000-663-983-000
7. Issuer's Telephone number, including area code (632) 885-8208
8. Former name or former address, if changed from the last report Not Applicable – Not Changed

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A. BOARD MATTERS

1) Board of Directors

| | |
|---|--------------------|
| Number of Directors per Articles of Incorporation | Nine (9) directors |
|---|--------------------|

| | |
|---|--------------------|
| Actual number of Directors for the year | Nine (9) directors |
|---|--------------------|

(a) Composition of the Board

Complete the table with information on the Board of Directors:

| Director's Name (as of 26 Apr 2016) | Type [Executive (ED), Non- Executive (NED) or Independent Director (ID)] | If nominee, identify the principal | Nominator in the last election (if ID, state the relationship with the nominator) | Date first elected | Date last elected (if ID, state the number of years served as ID) ¹ | Elected when (Annual /Special Meeting) | No. of years served as director |
|--|--|---|--|--------------------------|---|--|---|
| Chairman Jose T. Pardo (re-elected) | ID | Minority | Joaquin Aligguy (no relation) | 2003 | 26 April 2016, ID for 9 years | Annual SH Meeting | 13 |
| Vice-Chairman Arthur V. Ty (re-elected) | ED | Metrobank (majority owner) | Metrobank President Fabian S. Dee | 2001 | 26 April 2016 | Annual SH Meeting | 15 |
| CEO Vicente R. Cuna, Jr. (re-elected) | ED | Metrobank (majority owner) | Arthur V. Ty | 2013 | 26 April 2016 | Annual SH Meeting | 3 |
| Samson C. Lim (re-elected) | ID | Minority | Dulce D. Arcebal (no relation) | 2008 | 26 April 2016, ID for 8 years | Annual SH Meeting | 8 |
| Jeanne Frances T. Chua (re-elected) ² | NED | Metrobank (majority owner) | Arthur V. Ty | 2013 | 26 April 2016 | Annual SH Meeting | 3 |
| Benedicto Jose R. Arcinas (re-elected) | ID | Minority | Glenn Conrad N. Jao (no relation) | 2012 | 26 April 2016, ID for 4 year | Annual SH Meeting | 4 |
| Jose Vicente L. Alde (new) | ED | Metrobank (majority owner) | Arthur V. Ty | 2016 | 26 April 2016 | Annual SH Meeting | New |
| Ma. Soledad D.S. De Leon (new) | NED | Minority | Danilo L. Dolor | 2016 | 26 April 2016 | Annual SH Meeting | New |
| Amelia B. Cabal (re-elected) | NED | Metrobank (majority owner) | Arthur V. Ty | 2014 | 26 April 2016 | Annual SH Meeting | 2 |

¹ Reckoned from the election immediately following January 2, 2012.

² Ms. Jeanne Frances T. Chua resigned as a Director of the Bank in August 2016. She was replaced by Mr. Eduardo A. Sahagun during the Annual Stockholders Meeting held in April 2017.

(b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

- At PSBank, we abide by various disclosure requirements of the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), and the Philippine Stock Exchange (PSE) as a publicly-listed company. We ensure that we are transparent to our shareholders by posting the latest public disclosures on the Investor Relations section of our website and in press releases. The policies and guidelines embodied in our annually updated Corporate Governance Manual are posted in our website, www.psbank.com.ph, and in our intranet site, InfoChannel, for the guidance of all our stakeholders.

We also maintain an open communication line and use feedback from our stakeholders to develop better policies, products and services. We likewise accommodate requests for information pertaining to the management of our Bank, stockholders rights or any other bank-related matters, while remaining mindful of disclosure limitations under existing laws on bank deposits secrecy and data privacy.

Our Corporate Governance Manual (CGM) serves as a valuable guide and reference in our implementation of the corporate governance rules and regulations of both the BSP and the SEC.

(c) How often does the Board review and approve the vision and mission?

- The Bank's Mission, Vision and Core Values Statement was reviewed in May 2016 by the Board of Directors. For many years, the Bank's vision and mission remains the same as it is relevant and continues to be a work-in-progress despite its many achievements and current standing in the Thrift Banking industry, to wit:

Vision:

To be the country's consumer and retail bank of choice.

Mission:

As an INSTITUTION: To conform to the highest standards of integrity, professionalism and teamwork.

For our CLIENTS: To provide superior products and reliable, top quality services responsive to their banking needs.

For our EMPLOYEES: To place a premium on their growth, and nurture an environment of teamwork where outstanding performance is recognized.

For our SHAREHOLDERS: To enhance the value of their investments.

Core Values:

In realizing our mission and vision, we will be:

PROACTIVE in serving our customers.

PERFORMANCE-driven and recognized, reinforced, and rewarded accordingly.

PROFESSIONAL to the highest standards and in all respects.

PEOPLE-ORIENTED in our dealings with our internal and external customers alike.

(d) Directorship in Other Companies

(i) Directorship in the Company's Group³

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

| Director's Name | Corporate Name of the Group Company | Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman. |
|----------------------|---|---|
| Arthur V. Ty | <ul style="list-style-type: none">Metropolitan Bank and Trust Company, GT Metro Foundation Inc, Metropolitan Bank (China) Ltd.GT Capital Holdings Inc., Metrobank Foundation Inc, and First Metro Investment CorporationFederal Land Inc. | <ul style="list-style-type: none">Chairman, Non-ExecutiveVice Chairman, Non-ExecutiveNon-Executive Director |
| Vicente R. Cuna Jr. | <ul style="list-style-type: none">Orix Metro Leasing and Finance Corp.Metropolitan Bank and Trust Company | <ul style="list-style-type: none">Chairman, Non-ExecutiveDirector, Non-Executive |
| Jose Vicente L. Alde | <ul style="list-style-type: none">Sumisho Motor Finance Corporation | <ul style="list-style-type: none">Director, Non-Executive |

(ii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

| Director's Name | Name of Listed Company | Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman. |
|-----------------|--|--|
| Jose T. Pardo | <ul style="list-style-type: none">JG Summit Holdings Inc.Philippine Seven Corporation | <ul style="list-style-type: none">Independent DirectorChairman and Independent Director |

(iii) Relationship within the Company and its Group

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

| Director's Name | Name of the Significant Shareholder | Description of the relationship |
|------------------------------------|--|---------------------------------|
| Arthur V. Ty, PSBank Vice Chairman | Metropolitan Bank and Trust Company (MBTC) | MBTC Chairman |

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

³ The Group is composed of the parent, subsidiaries, associates and joint ventures of the company.

| | Guidelines | Maximum Directorships in other companies |
|------------------------|--------------------|--|
| Executive Director | (Please see below) | (Please see below) |
| Non-Executive Director | | |
| CEO | | |

Under Part II, Sec. 1.B.12 of the Bank's Updated CG Manual, the Non-Executive Directors of the Board may concurrently serve as directors up to a **maximum of five (5) Publicly Listed Companies (PLCs)** in order 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. Nonetheless, the ability of such directors to diligently and effectively perform their duties & responsibilities, the nature and kind of corporations they may also be directors of as well as the limitations on concurrent/interlocking directorship between Banks or between a Bank and a quasi-Bank under existing BSP regulations should always be taken due consideration.

The President and other executive directors may be covered by a lower indicative limit for membership in other Boards. A similar limit may apply to independent or non-executive directors who, at the same time, serve as full-time executives in other corporations. In any case, the capacity of the directors to diligently and efficiently perform their duties and responsibilities of the Boards they serve shall not be compromised

Bank, however, does not have any director holding board seats in other publicly-listed companies more than said limit.

** Current BSP rules and regulations (including the recent BSP Circular No. 749 re: Guidelines in Strengthening CG in BSP-supervised FIs), however, do not prescribe any limit nor guidelines but require that directors (executive or non-executive) should give sufficient time and attention to the affairs of the Bank. The position of President/CEO, however, requires full-time work and cannot be held concurrently in other companies in accordance with BSP's rules on Interlocking Officership.*

(e) Shareholding in the Company

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

| Name of Director | Position | Rollforward of Common Shares | | | | | |
|-------------------------------|-----------------------------|------------------------------|----------|-----------|------------|------------|----------|
| | | Beginning | | Movements | | End | |
| | | 12/31/2015 | % | Additions | Deductions | 12/31/2016 | % |
| Jose T. Pardo | Chairman & Independent Dir. | 1,852 | 0.000771 | - | - | 1,852 | 0.000771 |
| Arthur V. Ty | Vice-Chairman | 117 | 0.000049 | - | - | 117 | 0.000049 |
| Vicente R. Cuna, Jr. | President | 100 | 0.000042 | - | - | 100 | 0.000042 |
| Ma. Theresa G. Barretto * | Director | 3,557 | 0.001481 | - | 3,557 | - | |
| Ma. Soledad D.S. De Leon | Director | | | 4,000,000 | | 4,000,000 | 1.664915 |
| Jeanne Frances T. Chua*** | Director | 100 | 0.000042 | - | 100 | - | |
| Samson C. Lim | Independent Dir. | 100 | 0.000042 | - | - | 100 | 0.000042 |
| Benedicto Jose R. Arcinas | Independent Dir. | 100 | 0.000042 | - | - | 100 | 0.000042 |
| Amelia B. Cabal | Director | 100 | 0.000042 | | - | 100 | 0.000042 |
| Severinus Petrus P. Hermans** | Director | 100 | 0.000042 | | 100 | - | |
| Jose Vicente L. Alde | Director | | | 100 | | 100 | 0.00042 |
| Total | | 6,126 | 0.002553 | 4,000,100 | 3,757 | 4,002,469 | 1.666323 |

2) Chairman and CEO

- (a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes

☒

No

☐

Identify the Chair and CEO:

| | |
|-----------------------|----------------------|
| Chairman of the Board | Jose T. Pardo |
| CEO/President | Vicente R. Cuna, Jr. |

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

| | Chairman | Chief Executive Officer |
|--|--|---|
| Role / Accountabilities / Deliverables | <p>Under Sec. 8.01 of the Bank's By-Laws, the Chairman of the Board shall have the following duties and responsibilities:</p> <ul style="list-style-type: none"> - To preside at all meetings of the stockholders and of the Board of Directors - To submit an annual report of operations of the Bank to the stockholders at the annual meeting - To exercise such general supervision as may be necessary to determine whether the resolutions and orders of the Board of Directors and of any authorized committees have been carried out by the management - To exercise such powers and perform such duties as the Board of Directors may fix or delegate | <p>Under Sec. 8.03 of the Bank's By-Laws, the President shall be the Chief Executive Officer of the Bank. He shall have the primary responsibility of carrying out the policies and implementing strategies in order to meet the objectives approved by the Board. His powers and duties also include but are not limited to the following :</p> <ul style="list-style-type: none"> • To exercise direct and active management on the business and operations of the Bank • To exercise direct superintendence and direction over the other officers and employees of the Bank and to see to it that their respective duties are properly performed • To recommend to the Board the appointment or removal of any of the management officers, the fixing of their salaries and compensation, to prescribe their functions, responsibilities and duties and to require guarantee or bonds to secure the faithful discharge of certain officers, employees or agents of their official duties • To sign and execute on behalf of the Bank, when so authorized by the Board, either singly or jointly with any other officer by the Board, all contracts and agreements which it may enter under the statutes of the Philippines • To represent the Bank in all judicial and administrative proceedings affecting the business • To sign with the Secretary all the certificates of stock of the Bank • To carry out all the resolutions and orders of the Board and of any authorized committees |

| | | |
|--|--|---|
| | | <ul style="list-style-type: none"> • To submit to the Board such documents as the latter may require, and prepare such documents as may be required from time to time by law or government regulations with respect to domestic corporations in general and banks in particular • To perform such other duties as may be prescribed by the Board or which may properly pertain to its office and which in his judgment will serve the best interest of the Bank in conformity with the provision of statutory law and of these by-laws. |
|--|--|---|

3) Explain how the board of directors plans for the succession of the CEO/Managing Director/President and the top key management positions?

- Succession planning for members of the Board including the President is handled by the Bank's Nominations Committee.
- Succession for Board members/directors including the President and top key management positions is governed by the Nominations Committee Charter which is guided by the Bank's By-Laws (Secs. 6.02-6.03) and the Corporate Governance (CG) Manual, all of which are aligned with the BSP's Manual of Regulations for Banks (MORB).
- For the organization, the succession planning program is carried out as follows:
 - HRG and top management convene regularly to pinpoint areas in the organization with anticipated turnover, resulting from resignations/ retirements and other changes.
 - The incumbent heads shall nominate individuals to fill key positions from the respective groups. The list is then submitted to HRG for consolidation and profiling. These individuals are classified as follows:
 - Ready Now
 - He/she readily displays all the required leadership competencies of the head position and is capable of assuming the role anytime;
 - The next logical candidate for the post once said post is vacated;
 - Ready Later
 - He/she already displays most of the required competencies of the targeted position;
 - The next logical candidate for the post once he/she is able to further develop certain competencies required for the post.

- HRG and the Selection Team convene to review and assess the list of possible successors for key roles across the organization based on criteria below:
 1. The candidate must be a consistent high performer. As a minimum requirement, the latest 2 years' performance evaluation must at least be High Met Expectations (HME).
 2. He / She must have no derogatory record or any administrative sanction for the last 2 years.
- Though a related experience, adequate technical capabilities, and exposure on the job are important, the Bank also gives value to strong leadership capabilities of the candidate. The candidates undergo leadership assessment to gauge their capability for team management.
- The incumbent supervisor, together with the employee-candidate, shall design the candidate's Individual Development Plan (IDP) based on the assessment for career planning and development. The IDPs are recorded and carefully tracked by HRG to ensure fulfillment and follow through.
- In cases where no successor is identified internally, external recruitment will commence immediately
- The Bank also offers a referral incentive program to supplement staffing needs thru the PSBanker Gets future PSBanker (PGP) Referral program.

4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

Yes. The Bank's CG Manual specifies the qualifications of a director, one of which is that he must be fit and proper for the position of a director of the bank. 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, competence, relevant education/financial literacy/training, diligence and knowledge/experience, independence of mind and sufficiency of time to fully carry out responsibilities. As a **Board Diversity Policy**, no director or candidate for directorship shall be discriminated upon by reason of gender, age, sexual orientation, disability, ethnicity, skills/knowledge/competence, nationality, or political, religious or cultural backgrounds. This aims to avoid groupthink and ensure that optimal decision-making is achieved.

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

Yes. Out of the Bank's total 9 directors, 6 i.e. other than the President are non-executives or not involved in the management of the Bank's day-to-day activities/operations. All these 6 non-executive directors have experience in the banking industry either as the Bank's director for a significant time or as a present/past director or formerly part of the senior management team in other banks.

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

| | Executive | Non-Executive | Independent Director |
|------------------|---|--|--|
| Role | Vice-Chairman, President/CEO and the Executive Vice-President (3) | Directors (3) | Independent Directors including the Chairman (3) |
| Accountabilities | <ul style="list-style-type: none"> ➤ Same accountabilities as a director ➤ Also accountable to the Board for having the primary responsibility of carrying out the policies, implementing the strategies and meeting the goals/objectives approved by the Board. | <p>> Accountable to the stakeholders in running the Bank in a prudent and sound manner; primarily responsible for approving and overseeing the implementation of strategic objectives, risk management strategy, corporate governance and corporate values; and monitoring the performance of senior management which manages the day-to-day affairs of the Bank</p> | <ul style="list-style-type: none"> ➤ Same accountabilities as directors ➤ The Chairman is particularly tasked to provide active leadership by ensuring that the Board and its different committees function effectively, including maintaining a relationship of trust among Board members and that the Board follows a sound decision-making process. |
| Deliverables | <ul style="list-style-type: none"> ➤ Same regular duties & responsibilities of Directors. ➤ As the Bank's Chief Executive Officer, he is expected to exercise direct and active management on the day-to-day business and operations of the Bank, conducting the same according to the orders, resolutions and instructions of the Board of Directors and of any authorized committee, and according to his own discretion whenever the same is not expressly limited by such orders, resolutions and instructions. | <p>> Tasked to do the regular duties & responsibilities of Directors as follows: to observe the fit and proper rule; expected to conduct fair business dealings, avoid conflict of interest and observe confidentiality; act honestly, judiciously and in good faith, and uphold the best interests of the Bank and its stakeholders; devote time and attention to their duties and responsibilities and contribute to the Board's decision-making process; and exercise independent judgment and have a working knowledge of laws, rules and regulations applicable to the Bank.</p> | <ul style="list-style-type: none"> ➤ Same regular duties & responsibilities of Directors. ➤ In addition as <i>Independent</i> Directors, they provide objective judgment, render unbiased decisions in the Board especially on matters posing potential conflicts of interest and strengthen check-and-balance in ensuring integrity, disclosure and transparency. |

Provide the company's definition of "independence" and describe the company's compliance to the definition

The Bank's definition of "independence" with respect to Independent Directors adopts that set by the BSP under its Circular No. 749 re: Guidelines in Strengthening CG in BSP-supervised FIs, as follows:

- 1) Is not or have not been an officer or employee of the Bank, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of election;
- 2) Is not a director or officer of the related companies of the Bank's majority stockholder;
- 3) Is not a stockholder with shares of stock sufficient to elect one seat in the Board of Directors of the Bank, or any of its related companies or of its majority corporate shareholders;
- 4) Is not a relative, legitimate or common-law of any director, officer or majority shareholder of the Bank or any of its related companies. For this purpose, relatives refer to the spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law and brother-/sister-in-law;
- 5) Is not acting as a nominee or representative of any director or substantial shareholder of the Bank, any of its related companies or any of its substantial shareholders; and
- 6) Is not retained as professional adviser, consultant, agent or counsel of the Bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; is

independent of management and free from any business or other relationship, have not engaged and do not engage in any transaction with the Bank or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

All 3 Independent Directors of the Bank are compliant with this definition as determined by the Bank's Nominations Committee and as certified by the Independent Directors themselves.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

The Bank's term limit for its Independent Directors follows the "5-2-5" rule set by BSP Circular No. 749 which is also consistent with SEC Memorandum Circular No. 9 dated 5 December 2011 which took effect 2 January 2012. As such, any of the Bank's Independent Director, after having served 5 years as such and 2 years "cooling-off" period (reckoned from January 2012), may serve a final 5 more consecutive years as such. After serving said maximum 2 terms, he/she is banned from being elected as an Independent Director albeit may still be elected as a regular/non-independent director (*Note: Term limit for Independent Directors has been changed to straight of nine (9) years reckoned from 2012 per SEC Memorandum Circular No. 19, s2016*).

5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

| Name | Position | Date of Cessation | Reason |
|--|----------|-------------------|------------------------------|
| Ma. Theresa G. Barretto (replaced by Ma. Soledad D.S. De Leon) | Director | 26 April 2016 | Term expired; not re-elected |
| Severinus Petrus Paulus Hermans (replaced by Jose Vicente L. Alde) | Director | 26 April 2016 | Term expired; not re-elected |
| Jeanne Frances T. Chua | Director | 11 August 2016 | Resignation |

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

| Procedure | Process Adopted | Criteria |
|---------------------------------|---|--|
| a. Selection/Appointment | | |
| (i) Executive Directors | <ul style="list-style-type: none"> Selection/appointment of directors is determined and handled by the Bank's Nominations Committee. Once determined, the Bank's Nominations Committee convenes to review and evaluate all nominees to the Board. Election of nominated directors is held during the Bank's Annual Stockholders' | <ul style="list-style-type: none"> Guidelines set forth in the Bank's Nominations Committee's Charter and as adopted in the Bank's Corporate Governance Manual. Qualifications (including the required criteria of independence for Independent Directors) and Grounds for Disqualifications of Directors as set |
| (ii) Non-Executive Directors | | |
| (iii) Independent Directors | | |

| | | |
|-------------------------------|--|--|
| | <p>Meeting.</p> <p>➤ Elected/re-elected directors are then submitted to the BSP, together with other documentary requirements, for the Monetary Board's confirmation of their directorship.</p> | <p>forth by the BSP in the Manual of Regulations for Banks (MORB)</p> <p>➤ Basic Considerations: integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence, knowledge/experience, skills, independence of mind and sufficiency of time to fully carry out responsibilities.</p> <p>➤ In addition, BSP Circ. No. 889 now requires the following in assessing a director's integrity/probity: 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</p> |
| b. Re-appointment | | |
| (i) Executive Directors | Same process as above | Same criteria as above |
| (ii) Non-Executive Directors | | |
| (iii) Independent Directors | | |
| c. Permanent Disqualification | | |
| (i) Executive Directors | <p>➤ The Board of Directors and management of the Bank are responsible for determining the existence of the ground for disqualification of the director and for reporting the same to the BSP. While the Bank may conduct its own investigation and impose appropriate sanction/s as are allowable, this shall be without prejudice to the authority of the Monetary Board to disqualify a director from being elected as director in any FI under the supervision of the BSP. Grounds for disqualification made known to the Bank, shall be reported to the appropriate department of the BSP-SES within seventy-two (72) hours from knowledge thereof.</p> <p>➤ On the basis of knowledge and evidence on the existence of any of the grounds for disqualification, the director concerned shall be notified in writing either by personal service or through registered mail with registry return receipt card at his/her last known address by the appropriate department of the BSP-SES of the existence of the ground for his/her disqualification and shall be allowed to submit within fifteen (15) calendar days from receipt of such notice an</p> | <p>Following the same criteria set forth by the BSP for <i>Permanent Disqualification</i> of directors and as adopted in the Bank's Corporate Governance Manual, as follows:</p> <p>1) Persons who have been convicted by final judgment of a court for offenses involving dishonesty or breach of trust</p> <p>2) Persons who have been convicted by final judgment of a court sentencing them to serve a maximum term of imprisonment of more than six (6) years;</p> <p>3) Persons who have been convicted by final judgment of the court for violation of banking laws, rules and regulations;</p> <p>4) Persons who have been judicially declared insolvent, spendthrift or incapacitated to contract;</p> <p>5) Directors, officers or employees of closed banks who were found to be culpable for such institution's closure as determined by the Monetary Board;</p> <p>6) Directors and officers of banks found by the Monetary Board as administratively liable for violation of</p> |
| (ii) Non-Executive Directors | | |
| (iii) Independent Directors | | |

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| | <p>explanation on why he/she should not be disqualified and included in the BSP's watchlisted file, together with the evidence in support of his/her position. The head of said BSP department may allow an extension on meritorious ground.</p> <ul style="list-style-type: none"> ➤ Upon receipt of the reply explanation of the director concerned, the appropriate department of the BSP-SES shall proceed to evaluate the case. The director concerned shall be afforded the opportunity to defend/clear himself/herself. ➤ If no reply has been received from the director concerned upon the expiration of the period prescribed above, said failure to reply shall be deemed a waiver and the appropriate department of the BSP-SES shall proceed to evaluate the case based on available records/evidence. ➤ If the ground for disqualification is delinquency in the payment of obligation, the concerned director shall be given a period of thirty (30) calendar days within which to settle said obligation or, restore it to its current status or, to explain why he/she should not be disqualified and included in the watchlisted file, before the evaluation on his disqualification and watchlisting is elevated to the Monetary Board. ➤ For directors of closed banks, the concerned department of the BSP-SES shall make appropriate recommendation to the Monetary Board clearing said directors when there is no pending case/complaint or evidence against them. When there is evidence that a director has committed irregularity, the appropriate department of the SES shall make recommendation to the Monetary Board that his/her case be referred to the Office of Special Investigation (OSI) for further investigation and that he/she be included in the masterlist of temporarily disqualified persons until the final resolution of his/her case. Directors with pending cases/complaints shall also be included in said masterlist of temporarily disqualified persons upon approval by the Monetary Board until the final resolution of their cases. If the director is cleared from involvement in any irregularity, the appropriate department of the SES shall recommend to the Monetary Board his/her delisting. On the other hand, if the director concerned is found to be responsible for the closure of the institution, the concerned department of the SES shall recommend to the Monetary Board his/her delisting from | <p>banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; or</p> <p>7). Directors and officers of banks or any person found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.</p> |
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| | <p>the masterlist of temporarily disqualified persons and his/ her inclusion in the masterlist of permanently disqualified persons.</p> <ul style="list-style-type: none"> ➤ If the disqualification is based on dismissal from employment for cause, the appropriate department of the SES shall, as much as practicable, endeavor to establish the specific acts or omissions constituting the offense or the ultimate facts which resulted in the dismissal to be able to determine if the disqualification of the Director concerned is warranted or not. The evaluation of the case shall be made for the purpose of determining if disqualification would be appropriate and not for the purpose of passing judgment on the findings and decision of the entity concerned. The appropriate department of the SES may decide to recommend to the Monetary Board a penalty lower than disqualification (e.g., reprimand, suspension, etc.) if, in its judgment the act committed or omitted by the director/ officer concerned does not warrant disqualification. ➤ All other cases of disqualification, whether permanent or temporary shall be elevated to the Monetary Board for approval and shall be subject to the same procedures above. ➤ Persons who are elected as director in any of the BSP-supervised institutions for the first time but are subject to any of the grounds for disqualification shall be afforded the procedural due process prescribed above. | |
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| d. Temporary Disqualification | | |
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| (i) Executive Directors | Same process as above | <p>Following the same criteria set forth by the BSP for <i>Temporary Disqualification</i> of directors and as adopted in the Bank's Corporate Governance Manual, as follows:</p> <ol style="list-style-type: none"> Persons who refuse to fully disclose the extent of their business interest or any material information to the appropriate department of the BSP-SES when required pursuant to a provision of law or of a circular, memorandum, rule or regulation of the BSP. <i>This disqualification shall be in effect as long as the refusal persists;</i> Directors who have been absent or who have not participated for whatever reasons in more than fifty percent (50%) of all meetings, both regular and special, of the board of directors during their incumbency, and directors who failed to physically attend for whatever reasons in at least twenty-five percent (25%) of all board meetings in any year, |
| (ii) Non-Executive Directors | | |
| (iii) Independent Directors | | |

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| | | <p>except that when a notarized certification executed by the corporate secretary has been submitted attesting that said directors were given the agenda materials prior to the meeting and that their comments/decisions thereon were submitted for deliberation or discussion and were taken up in the actual board meeting, said directors shall be considered present in the board meeting. <i>This disqualification applies only for purposes of the immediately succeeding election;</i></p> <p>Persons who are delinquent in the payment of their obligations as defined in the BSP's MORB. <i>This disqualification shall be in effect as long as the delinquency persists;</i></p> <p>3. Persons who have been convicted by a court for offenses involving dishonesty or breach of trust <i>but whose conviction has not yet become final and executory;</i></p> <p>4. Directors and officers of closed banks <i>pending their clearance by the Monetary Board;</i></p> <p>5. Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. <i>This disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board on recommendation by the appropriate department of the SES of such directors' election/reelection;</i></p> <p>6. Directors who failed to attend the special seminar on corporate governance for board of directors conducted or accredited by the BSP. <i>This disqualification applies until the director concerned had attended such seminar;</i></p> <p>7. Persons dismissed/terminated from employment for cause. <i>This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity or upon clearance, on their request, from the Monetary Board after showing good and justifiable reasons, or after the lapse of five (5) years from the time they were officially advised by the appropriate department of the BSP-SES of their disqualification;</i></p> <p>8. Those under preventive suspension;</p> <p>9. Persons with derogatory records as</p> |
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| | | <p>certified by, or on the official files of, the judiciary, NBI, Philippine National Police (PNP), quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities of foreign countries for irregularities or violations of any law, rules and regulations that would adversely affect the integrity of the director/officer or the ability to effectively discharge his duties. <i>This disqualification applies until they have cleared themselves of the alleged irregularities/violations or after a lapse of five (5) years from the time the complaint, which was the basis of the derogatory record, was initiated;</i></p> <p>10. Directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and <i>which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court;</i></p> <p>11. Directors and officers of banks or any person found by the Monetary Board to be unfit for the position of director or officer because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and <i>which finding of said government agency is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court;</i> and</p> <p>Directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed, regardless whether the finding of the Monetary Board is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court. <i>The disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid.</i></p> |
| e. Removal | | |
| (i) Executive Directors | ➤ Upon approval by the Monetary Board, the | BSP/Monetary Board's approval of |

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| (ii)Non-Executive Directors | <p>concerned director shall be informed by the appropriate department of the BSP-SES in writing either by personal service or through registered mail with registry return receipt card, at his/her last known address of his/her disqualification from being elected as director in any FI under the supervision of BSP and/or of his/her inclusion in the masterlist of watchlisted persons so disqualified.</p> <p>➤ The Board of Directors of the Bank shall be immediately informed by the BSP of cases of disqualification approved by the Monetary Board and shall be directed to act thereon not later than the following board meeting.</p> <p>➤ Within seventy-two (72) hours thereafter, the Bank's Corporate Secretary shall report to the Governor of the BSP through the appropriate department of the SES the action taken by the Board on the director involved.</p> | disqualification of concerned director as adopted in the Bank's Corporate Governance Manual |
| (iii) Independent Directors | | |
| f. Re-instatement | | |
| (i) Executive Directors | <p>➤ Whenever a director is cleared in the process mentioned above or, when the ground for disqualification ceases to exist, he/she would be eligible to become director of any bank, QB, trust entity or any institution under the supervision of the BSP only upon prior approval by the Monetary Board.</p> <p>➤ It shall be the responsibility of the appropriate department of the BSP-SES to elevate to the Monetary Board the lifting of the disqualification of the concerned director and his/her delisting from the masterlist of watchlisted persons.</p> | <p>BSP-SES' elevation to the Monetary Board for the lifting of disqualification & delisting from the watchlisted file when the concerned director is cleared or when the ground for disqualification ceases to exist.</p> <p>These guidelines are all adopted in the Bank's Corporate Governance Manual.</p> |
| (ii) Non-Executive Directors | | |
| (iii) Independent Directors | | |
| g. Suspension | | |
| (i) Executive Directors | <p>➤ The Monetary Board may, whenever warranted by circumstances, preventively suspend (and thus temporarily disqualify and watchlist) any director of a bank or quasi-bank pending an investigation: Provided, That should the case be not finally decided by the Bangko Sentral within a period of one hundred twenty (120) days after the date of suspension, said director shall be reinstated in his position: Provided, further, That when the delay in the disposition of the case is due to the fault, negligence or petition of the director, the period of delay shall not be counted in computing the period of suspension herein provided.</p> <p>➤ The above administrative sanctions need not be applied in the order of their severity. Whether or not there is an administrative proceeding, if the directors concerned continue with or otherwise persist in the commission of the indicated practice or violation, the Monetary Board may issue an</p> | <p>As provided under Sec. 37 of the New Central Bank Act, the Monetary Board may impose administrative sanctions (including suspension of directors) for any willful violation of its charter or by-laws, willful delay in the submission of reports or publications thereof as required by law, rules and regulations; any refusal to permit examination into the affairs of the institution; any willful making of a false or misleading statement to the Monetary Board or the appropriate supervising and examining department or its examiners; any willful failure or refusal to comply with, or violation of, any banking law or any order, instruction or regulation issued by the Monetary Board, or any order, instruction or ruling by the Governor; or any commission of irregularities, and/or conducting business in an unsafe or unsound manner as may be determined by the Monetary Board.</p> |
| (ii) Non-Executive Directors | | |
| (iii) Independent Directors | | |

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| | <p>order requiring the directors concerned to cease and desist from the indicated practice or violation, and may further order that immediate action be taken to correct the conditions resulting from such practice or violation. The cease and desist order shall be immediately effective upon service on the respondents.</p> <p>➤ The respondents shall be afforded an opportunity to defend their action in a hearing before the Monetary Board or any committee chaired by any Monetary Board member created for the purpose, upon request made by the respondents within five (5) days from their receipt of the order. If no such hearing is requested within said period, the order shall be final. If a hearing is conducted, all issues shall be determined on the basis of records, after which the Monetary Board may either reconsider or make final its order.</p> | <p>These guidelines are all adopted in the Bank's Corporate Governance Manual.</p> |
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Voting Result of the last Annual General Meeting

| Name of Director (2016) | Votes Received |
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| Jose T. Pardo (re-elected) | PSBank implements cumulative voting for its BOD members. Per section 5.05 of the PSBank Articles of Incorporation and By-Laws on voting, at any stockholders meeting, voting shall be by shares of stock and not "per capita" unless the law provides. Cumulative voting should be used in the election of members of the Board of Directors. |
| Arthur V. Ty (re-elected) | |
| Vicente R. Cuna, Jr. (re-elected) | |
| Samson C. Lim (re-elected) | |
| Benedicto Jose R. Arcinas (re-elected) | |
| Amelia B. Cabal (re-elected) | |
| Jeanne Frances T. Chua (re-elected) ⁴ | |
| Jose Vicente L. Alde (new, replaced Severinus Petrus Paulus Hermans) | |
| Ma. Soledad D.S. De Leon (new, replaced Ma. Theresa G. Barretto) | |

- Per section 5.05 of the PSBank Articles of Incorporation and By-Laws on voting, at any stockholders meeting, voting shall be by shares of stock and not "per capita" unless the law provides. Cumulative voting should be used in the election of members of the Board of Directors.

6) Orientation and Education Program

(a) Disclose details of the company's orientation program for new directors, if any.

- Newly elected directors are provided copies of the Board's and of their individual general and specific duties and responsibilities of which they are required to acknowledge receipt thereof and certify that they have read, fully understood and accepted the same which notarized certifications are then submitted to the BSP within 20 banking days after their election.

⁴ Ms. Chua resigned as a Director of the Bank in August 2016. She was replaced by Mr. Eduardo A. Sahagun during the Annual Stockholders' Meeting on April 24, 2017.

(b) State any in-house training and external courses attended by Directors and Senior Management⁵ for the past three (3) years:

| Name of Director/Officer | Date of Training | Program | Name of Training Institution |
|--------------------------------|------------------|---|--|
| DIRECTORS: | | | |
| Jose T. Pardo (Chairman & ID)* | Nov. 12, 2014 | Seminar on Corporate Governance | SGV & Co. |
| | June 22, 2015 | Corporate Governance: Best Practices and ASEAN Scorecard | Center for Training and Development, Inc. |
| Arthur V. Ty (Vice Chairman) | Feb. 5, 2014 | Distinguished Corporate Governance Speaker Seminar Series | The Institute of Corporate Directors |
| | Apr. 22, 2015 | Annual Training Program for Corporate Governance | The Institute of Corporate Directors |
| | Aug. 19, 2016 | Corporate Governance | SGV & Co. |
| Vicente R. Cuna, Jr. | Feb. 5, 2014 | Distinguished Corporate Governance Speaker Seminar Series | The Institute of Corporate Directors |
| | Apr. 22, 2015 | Annual Training Program for Corporate Governance | The Institute of Corporate Directors |
| | Aug. 19, 2016 | Corporate Governance | SGV & Co. |
| Samson C. Lim (ID) | Aug. 29, 2014 | AML Briefing to Board of Directors and Senior Management | Bankers Institute of the Philippines, Inc. |
| | Nov. 27, 2014 | Orientation Course on Corporate Governance | The Institute of Corporate Directors |
| | Apr. 22, 2015 | Annual Training Program for Corporate Governance | The Institute of Corporate Directors |
| | Aug. 26, 2016 | Corporate Governance | SGV & Co. |
| Benedicto Jose R. Arcinas (ID) | Aug. 15, 2014 | Seminar on Corporate Governance | SGV & Co. |
| | Aug. 29, 2014 | AML Briefing to Board of Directors and Senior Management | Bankers Institute of the Philippines, Inc. |
| | Apr. 22, 2015 | Annual Training Program for Corporate Governance | The Institute of Corporate Directors |
| | Aug. 31, 2016 | Corporate Governance Training Program | Institute of Corporate Directors |
| Ma. Theresa G. Barretto | Aug. 29, 2014 | AML Briefing to Board of Directors and Senior Management | Bankers Institute of the Philippines, Inc. |
| | Nov. 27, 2014 | Orientation Course on Corporate Governance | The Institute of Corporate Directors |
| | Apr. 22, 2015 | Annual Training Program for Corporate Governance | The Institute of Corporate Directors |

⁵ Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

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| Jeanne Frances T. Chua | Aug. 29, 2014 | AML Briefing to Board of Directors and Senior Management | Bankers Institute of the Philippines, Inc. |
| | Nov. 27, 2014 | Orientation Course on Corporate Governance | The Institute of Corporate Directors |
| | Apr. 22, 2015 | Annual Training Program for Corporate Governance | The Institute of Corporate Directors |
| Amelia B. Cabal | Jan. 29, 2014 | Risk Management Briefing | Christian G. Lauron Partner, SGV & Co. |
| | Feb. 5, 2014 | Corporate Governance | Institute of Corporate Directors |
| | Jun.6, 2014 | Seminar on Corporate Governance | SGV & Co. |
| | Aug. 29, 2014 | AML Briefing to Board of Directors and Senior Management | Bankers Institute of the Philippines, Inc. |
| | Oct. 12, 2015 | Seminar on Corporate Governance | SGV & Co. |
| | Aug. 31, 2016 | Corporate Governance Training | Institute of Corporate Directors |
| Severinus Petrus Paulus Hermans | Apr. 22, 2015 | Annual Training Program for Corporate Governance | The Institute of Corporate Directors |
| Ma. Soledad D.S. De Leon | Sept. 6, 2016 | Corporate Governance Orientation Program | Institute of Corporate Directors |
| | Oct. 7, 2016 | Distinguished Corporate Governance Speaker Series | Institute of Corporate Directors |
| Jose Vicente L. Alde | Aug. 29, 2014 | AML Briefing to Board of Directors and Senior Management | Bankers Institute of the Philippines, Inc. |
| | Nov. 27, 2014 | Orientation Course on Corporate Governance | The Institute of Corporate Directors |
| | Dec. 9, 2015 | Seminar on Corporate Governance | SGV & Co. |
| | Aug. 26, 2016 | Corporate Governance | SGV & Co. |
| SENIOR MANAGEMENT (Officers with rank of SVP & up): | | | |
| SVP Noli S. Gomez | Feb. 8, 2014 | Six Sigma Champion | Ma. Nenita Asuncion Concio: Neville-Clarke Philippines, Inc. |
| | Aug. 29, 2014 | AML Briefing to Board of Directors and Senior Management | Bankers Institute of the Philippines, Inc. |
| | Dec. 9, 2015 | Seminar on Corporate Governance | SGV & Co. |
| | Aug. 26, 2016 | Corporate Governance | SGV & Co. |
| SVP Perfecto Ramon Z. Dimayuga | Nov. 27, 2014 | Orientation Course on Corporate Governance | The Institute of Corporate Directors |
| | Apr. 22, 2015 | Annual Training Program for Corporate Governance | The Institute of Corporate Directors |
| | Aug. 26, 2016 | Corporate Governance | SGV & Co. |
| SVP Jose Jesus B. Custodio | Nov. 27, 2014 | Orientation Course on Corporate Governance | The Institute of Corporate Directors |

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| | Dec. 9, 2015 | Seminar on Corporate Governance | SGV & Co. |
| | Aug. 26, 2016 | Corporate Governance | SGV & Co. |
| SVP Emmanuel A. Tuazon | Nov. 27, 2014 | Orientation Course on Corporate Governance | The Institute of Corporate Directors |
| | Dec. 9, 2015 | Seminar on Corporate Governance | SGV & Co. |
| | Aug. 26, 2016 | Corporate Governance | SGV & Co. |
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| SVP Neil C. Estrellado | Dec. 9, 2015 | Seminar on Corporate Governance | SGV & Co. |
| | Aug. 26, 2016 | Corporate Governance | SGV & Co. |

**Chairman Pardo was granted a Permanent Exemption from Annual Corporate Governance Training requirement by SEC per its letter dated 02 September 2015.*

(c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

Please refer to the above table. On top of the above formal trainings, the directors are also regularly apprised by the Bank's Chief Compliance Officer of the relevant regulatory updates i.e. significant regulatory issuances and their impact to the Bank during the monthly Board of Directors' and Corporate Governance Committee meetings which forms part of the directors' continuing education program.

B. CODE OF BUSINESS CONDUCT & ETHICS

1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

| Business Conduct & Ethics | Directors | Senior Management | Employees |
|--------------------------------------|---|---|------------------|
| (a) Conflict of Interest | In the Bank's Corporate Governance Manual, the Board of Directors is mandated to consistently conduct the affairs of the institution with a high degree of integrity. The Board of Directors shall lead in establishing the tone of good governance from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior, for itself, senior management and other employees. The same Manual requires individual directors to conduct fair business transactions with the bank and 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 that 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 interest. He should avoid situations that would | In ensuring that PSBank's business interests are duly safeguarded, the Bank requires all its employees to make sure that their personal interests and those of their "affiliates" e.g. their relatives up to the third degree of consanguinity and affinity, their immediate family/household members, persons to whom they furnish financial or material support, business in which they have a financial interest, etc. do not conflict with the duties which they perform for the Bank or with the duties which the Bank performs for its clients. | |

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| | compromise his impartiality. | |
| (b) Conduct of Business and Fair Dealings | Based on the Bank's By-Laws, Section 16.3 on Prohibition, no director or officer of the Bank shall directly or indirectly, for himself or as representative or agent of other, borrow money from the Bank, nor shall he become a guarantor, endorser or surety for loans from the Bank to others, or in any manner be an obligor for moneys borrowed from the Bank or loaned by it except with the written approval of the majority of Directors of the Bank, excluding the Director or Officer concerned. Any such approval shall be entered upon the records of the Bank and shall be properly reported as required by the appropriate regulations. | Like the directors, the Bank's Senior Management and employees are likewise bound to observe the proper conduct of business and fair dealings in accordance with DOSRI and Related Party Transactions policies and rules to ensure that such are thoroughly reviewed and are approved/done at "arms-length" terms. |
| (c) Receipt of gifts from third parties | In the Bank's Corporate Governance Manual, the Board of Directors is mandated to consistently conduct the affairs of the institution with a high degree of integrity. The Board of Directors shall lead in establishing the tone of good governance from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior, for itself, senior management and other employees. | <p>All employees are prohibited from accepting gifts from clients or suppliers in any form; although gifts of nominal value that may be impractical to return and which are intended to generate ordinary goodwill are permitted.</p> <p>This provision is not intended to disallow the acceptance of gifts, per se, specifically if such gifts are given at appropriate occasions, for acceptable reasons, and are of reasonable value. Receiving gifts, however, can result in inequity in the delivery of service to clients or may influence business decisions. These are some reasons why, as a rule, accepting gifts is discouraged.</p> |
| (d) Compliance with Laws & Regulations | Based on the Bank's CG Manual, the Board shall conduct and maintain the affairs of the institution 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 banking practice. The Board shall appoint a compliance officer who shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. The compliance officer shall be vested with appropriate authority and provided with appropriate support and resources. | The Policies, Procedures, Rules and Regulations of PSBank, Bangko Sentral ng Pilipinas, the just and authorized causes enumerated in the Labor Code of the Philippines for termination of employment, and, other applicable laws and enactments, are deemed part of the Bank's Code of Conduct. |
| (e) Respect for Trade Secrets/Use of Non-public Information | The same Manual requires individual directors to observe confidentiality. Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They may not disclose said | Bank personnel are expected to hold in strictest confidence information and data relating to clients, business plans and marketing strategies and systems as well as proprietary or other confidential information that they may have acquired in the course of |

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| | <p>information to any other person without the authority of the board.</p> | <p>their employment. Employees are likewise prohibited from taking out of the Bank's premises bank records and/or forms and/or from giving them to outside parties without prior approval.</p> <p>Care should be taken to ensure the security of papers and computer files of information and records, including data programs and vendor software, in one's custody. As such, employees should only have access to data, computer software and to physical areas, which are necessary in the performance of their job functions. No one should attempt to access data, computer systems, printouts and physical areas to which he or she has not been authorized. The Bank's computer systems and data, including personal computers, word processors and associated magnetic media printouts, should be used only for authorized Bank-related business purposes.</p> <p>The obligation to safeguard confidential information continues even after the employee leaves the Bank.</p> |
| (f) Use of Company Funds, Assets and Information | <p>The position of a bank 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 board of directors is primarily responsible for approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the board of directors is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day to day affairs of the institution.</p> | <p>No one is allowed to use Bank supplies, materials or equipment or official forms/documents in connection with activities not related to official business.</p> <p>Employees may not trade in the stock or other securities of the Bank based on inside information. Inside information may include information that relates to clients of the Bank and can be in the form of advance knowledge about earnings, dividends, acquisitions, securities offerings and the like.</p> |
| (g) Employment & Labor Laws & Policies | <p>A director's office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability and fairness.</p> <p>To ensure a high standard of best practice for the Corporation and its stakeholders, the Board shall, among other important duties, ensure that PSBank complies with all relevant laws,</p> | <p>Being an organized institution, the Bank has an existing Collective Bargaining Agreement with the Union. For other and all issues pertaining to employment not covered by the CBA, the Bank abides the Labor Code of the Philippines.</p> |

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| | regulations and codes of best business practices; and keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulation. | |
| (h) Disciplinary action | Under the same Manual, the Compliance Officer is tasked with determining violations of the CG Manual and recommending penalties for violation thereof for further review and clarification of the Board. For violations of required internal processes and controls and the Code of Ethics, prevailing internal rules and regulations will be applied. | <p>Corrective action may be taken by the Bank due to unsatisfactory performance, tardiness and attendance problems, and unacceptable conduct of behavior or failure to comply with Bank's rules, policies and procedures. The Bank shall ensure the observance of due process prior to the imposition of disciplinary sanctions on erring employees and shall ensure the impartial treatment of all disciplinary cases. The following corrective measures may be taken by the Bank against erring employees: a. Written Reprimand; b. Suspension; c. Termination; and/or d. Restitution, and/or the e. Filing of Appropriate Legal Actions.</p> <p>No employee shall be held liable for the commission of an act, which may be deemed in violation of the Policies, Procedures, Rules and Regulations of PSBank, Bangko Sentral ng Pilipinas or any applicable law, enactment or statute, unless he has been so informed, allowed to explain the same in writing, called to a hearing or conference, if deemed necessary where he, with the assistance of counsel if so desires, is given the opportunity to respond to the charge/s, present his evidence or rebut the evidence presented against him, in accordance with due process.</p> |
| (i) Whistle Blower | The Board of Directors shall allow employees to communicate with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the Board of Directors or any independent unit. Policies are likewise 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 itself. | <p>In ensuring that the values of honesty and integrity are continually upheld at all times, the Bank requires all its employees to immediately report to their Group Heads or directly to the Human Resources Group (HRG) Head or to the Chief Audit Executive/Internal Audit Group (IAG) Head for investigation purposes any noted impropriety or malpractice committed by a co-employee(s) which includes concealment or non-reporting thereof.</p> <p>To ensure that reporting is not made for personal gain or otherwise to malign anybody, this policy requires that the report shall be made in good faith and with reasonable belief that the information or allegation about an impropriety or malpractice is substantially true. Otherwise, the reporting employee may also be subject to disciplinary sanction(s) for malicious or baseless reporting.</p> |
| (j) Conflict Resolution | The Board of Directors leads in establishing the tone of good governance | Violations of the Collective Bargaining Agreement or of the Bank's rules, regulations |

| | | |
|--|---|---|
| | <p>from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior for itself, the senior management and other employees.</p> <p>The Chairman is particularly tasked to provide active leadership by ensuring that the Board and its different committees function effectively, maintaining a relationship of trust including resolving any conflicts among Board members and ensuring that the Board follows a sound decision-making process.</p> | <p>and policies by an employee are within the scope of authority of the Grievance Machinery.</p> <p>It helps that the Labor-Management Council (LMC), where issues are immediately discussed in a dialogue and settled even before they turn to grievances, is likewise in place. The LMC meets almost every month to discuss any or all matters affecting the employees of the Bank.</p> <p>Conflict resolution involving Bank's employees is also governed by the Bank's Code of Conduct.</p> |
|--|---|---|

2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?

- Yes. Two (2) of the mandatory topics during the New Employees Orientation Program are the Corporate Ethics and the Code of Conduct. These are given in two (2) sessions covering half of the day. It is also during this time that the each of the employees is provided with a copy of the Code of Conduct.

The Code of Conduct on the other hand is posted in the Banks Intranet called the Info Channel, which can be accessed by the employees anytime using any of the Bank's online computers.

In addition, the Board through its Compensation and Remuneration committee is tasked with developing and continuously reviewing the Code of Ethics, obtaining Board approval for it and ensuring that it includes the same parameters in good governance as stated in the Bank's CG Manual.

On the other hand, the Corporate Governance Manual provides guidance to all directors as to the proper discharge of their roles, duties and responsibilities and accountabilities.

3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.

- It is Management's belief that compliance to the Code of Conduct, the Rules and Regulations, Circulars and Laws is the direct responsibility of all employees.

On the other hand, the responsibility of ensuring discipline on the employees is strictly vested in the Bank. Human Resources Group shall provide assistance to the line management by guiding them through the disciplinary process, preparation and issuance of memoranda templates, follow-ups to the line to ensure their compliance with the disciplinary process and the documentation it requires.

Supervisors who do not fulfill their role in ensuring their subordinates compliance to Bank policies, procedures, and Code of Conduct, shall themselves be subject to the disciplinary process for failure to adhere to the Code of Conduct and Management directives.

In addition, the Bank's Internal Audit processes as well as Whistle Blowing policy also help in monitoring compliance with the Code of Conduct.

4) Related Party Transactions

(a) Policies and Procedures

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

| Related Party Transactions | Policies and Procedures |
|---|---|
| <div data-bbox="305 226 678 583"> (1) Parent Company (2) Joint Ventures (3) Subsidiaries (4) Entities Under Common Control (5) Substantial Stockholders (6) Officers including spouse/children/siblings/parents (7) Directors including spouse/children/siblings/parents (8) Interlocking director relationship of Board of Directors </div> | <p data-bbox="695 258 1404 436">In line with the principles of fairness and transparency, it is the policy of PSBank that all transactions or dealings with its related parties are made in the regular course of business, conducted at arm's length terms i.e. not less favorable to the Bank than those offered to other unaffiliated/unrelated parties and that corporate/business resources are not misappropriated or misapplied.</p> <p data-bbox="695 468 1404 594">Towards these ends, PSBank has put in place a <i>Board-approved</i> Related Party Transactions (RPT) policy (updated as of December 2016) that embodies the following key requirements, among others, likewise pursuant to BSP Circular No. 895 re: RPT Guidelines:</p> <ol data-bbox="695 625 1404 1917" style="list-style-type: none"> 1. Identification of the Bank's related parties, both natural and juridical persons, and their respective classification whether "DOSRI", "Subsidiary/Affiliate" or "Other Related Parties". 2. Identification of transactions covered and transactions exempted from the RPT process. 3. Setting up of transaction materiality thresholds for purposes of determining which RPT items should go up to the Board for approval and which ones can be approved at Management level. 4. Constitution of a <i>Board-level</i> Related Party Transactions Committee (RPTC) that is majority-composed of Independent Directors and tasked to assist the Board in ensuring that transactions with related parties are reviewed, appropriate restrictions are followed, and corporate resources are judiciously used. This committee is also tasked to review/evaluate and endorse for Board approval RPTs beyond their set transaction materiality thresholds (material RPT items) further subject of stockholders' ratification during the Annual Stockholders' Meeting. 5. Establishment of a Management-level Related Party Transactions Management Committee (RPTMC) that is tasked to assist the RPTC and to review/evaluate/approve RPT items within their set transaction materiality thresholds (non-material). These non-material RPT items are further subject of the RPTC's post-transaction notation and confirmation of the Board. Lending to DOSRI and Subsidiaries/Affiliates and Real Estate/Chattel Transactions with DOSRI and employees, however, shall be subject to prior Board approval regardless of amount. 6. Establishment of individual and aggregate internal limits for credit exposures to related parties (which are lower than the existing regulatory limits) including the monitoring, reporting and handling of any breaches thereof to ensure compliance. 7. Requirement for directors and principal officers to submit, upon their election or appointment and on an annual basis thereafter, an information statement declaring therein any of their existing or proposed transactions with the Bank. 8. Prohibition of a director and/or officer of the Bank to engage in any Board, RPTC/RPTMC or other committee discussion or approval of any transaction in which he/she and/or his/her related parties is (are) involved; provided however, that such director or officer must provide to the Board/RPTC/RPTMC all material information reasonably requested about the transaction. 9. Requirement for the Compliance Office and the RPTC/RPTMC to |

| | |
|--|--|
| | <p>consider the following factors and other relevant facts and surrounding circumstances in reviewing proposed transactions with related parties:</p> <ul style="list-style-type: none"> ○ Transaction and Transacting Parties - Nature of transaction and identity of the parties involved in the transaction or relationship for purposes of ascertaining if such is indeed RPT or not; ○ Terms and Conditions - Whether the terms of the transaction or relationship are no less favorable than terms generally offered or available to an unrelated third party under the same circumstances; ○ Purpose and Rationale - Business purpose, timing, rationale and benefits of the transaction or relationship; ○ Monetary Value - Approximate monetary value of the related party's interest in the transaction; ○ Valuation Methodology - Valuation methodology used as alternative approaches to valuation of the transaction; ○ Potential Counterparties - Information concerning potential counterparties in the transaction; ○ Provisions or Limitations - Description of provisions or limitations imposed as a result of entering into the transaction; ○ Reputational Risk - Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the transaction; ○ Director's Independence - Impact to a director's independence; and ○ Conflict of Interest - Extent that such transaction or relationship would present an improper conflict of interest. ○ Comparison – The availability of other sources of comparable products and services. |
|--|--|

(b) Conflict of Interest

(i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

| | Details of Conflict of Interest (Actual or Probable) |
|----------------------------------|--|
| Name of Director/s | none |
| Name of Officer/s | none |
| Name of Significant Shareholders | none |

(ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

| | Directors/Officers/Significant Shareholders |
|---------|---|
| Company | Detection/Determination: |
| Group | <ul style="list-style-type: none"> ➤ Internal Audit process ➤ "Whistle Blowing" policy & process ➤ Departmental Self-Testing and Compliance Office's Independent Compliance Testing processes ➤ RPT/DOSRI Determination & Review process by the business/operating units, |

| | |
|--|--|
| | <p>Compliance Office and the Related Party Transactions Committee (RPTC)/ and required Board approval in the case of credit accommodations to DOSRI subject to compliance with the required DOSRI ceilings and reporting</p> <p><u>Resolution:</u></p> <ul style="list-style-type: none"> ➤ Due process of administrative actions and corresponding sanctions as provided for under the Bank's Code of Conduct ➤ Required inhibition of concerned/involved directors from approving submitted proposals or participating in the deliberations taking up such proposals |
|--|--|

5) Family, Commercial and Contractual Relations

- (a) Indicate, if applicable, any relation of a family,⁶ commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

| Name of Senior Management | Number of Direct shares | Number of Indirect shares / Through (name of record owner) | % of Capital Stock |
|---------------------------|-------------------------|--|--------------------|
| None | | | |

| Names of Related Significant Shareholders | Type of Relationship | Brief Description of the Relationship |
|--|--------------------------------|---|
| Metropolitan Bank and Trust Co. / Arthur V. Ty | Parent Bank / Beneficial Owner | Mr. Ty is the Chairman of Metrobank and Vice Chairman of PSBank |
| Danilo L. Dolor | Beneficial Owner | Mr. Dolor is a stockholder and former director of PSBank |

- (b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

| Names of Related Significant Shareholders | Type of Relationship | Brief Description |
|---|----------------------|---|
| Metropolitan Bank and Trust Co. (MBTC) | Parent Bank | Letters of Guaranty between MBTC and PSBank for certain transactions like loan take-outs and ROPA sales |

- (c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

| Name of Shareholders | % of Capital Stock affected (Parties) | Brief Description of the Transaction |
|----------------------|---------------------------------------|--------------------------------------|
| None | None | None |

6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

| | Alternative Dispute Resolution System |
|----------------------------|---|
| Corporation & Stockholders | Dispute resolution is governed by the Corporation Code and Corporate By-laws of the Bank, the Bank follows the provisions of the Corporation Code and the Revised Securities Code in managing disputes as well as the |

⁶ Family relationship up to the fourth civil degree either by consanguinity or affinity.

| | |
|--------------------------------------|--|
| | amicable means set out in the conduct of stockholders' meetings and other avenues. Being a listed corporation, PSBank also is governed by the PSE Rules and Regulations |
| Corporation & Third Parties | The Bank has been availing alternative dispute resolution practices and is an active participant in the BSP FCPD and with the PCHC Arbitration Board, for non-judicial dispute resolution with respect to client complaints. Likewise, the Bank through its Legal Department is facilitating negotiations between the Bank's clients and the Remedial Accounts department to look for non-judicial settlement of disputes. It is also a practice of the Legal Department to avail of the "mediation services" of the Philippine Mediation Center (PMC) for the alternative resolution of client-related cases and also voluntarily submit to Judicial Dispute Resolution (JDR) being facilitated by the judges themselves. |
| Corporation & Regulatory Authorities | Exit conferences in the case of regulatory examination findings, formal written and verbal communication with the regulators, and holding of meetings with the regulators. |

C. BOARD MEETINGS & ATTENDANCE

1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

- BOD meetings, which are conducted on a regular (monthly) basis, are usually scheduled a month before the actual meeting depending on the availability of the directors.

2) Attendance of Directors

| Board | Name | Date of Election | No. of Meetings Held in 2016 | No. of Meetings Attended | % |
|---------------|-----------------------------|------------------|------------------------------|--------------------------|------|
| Chairman (ID) | Jose T. Pardo | April 2003 | 12 | 12 | 100% |
| Vice Chairman | Arthur V. Ty | April 2001 | 12 | 12 | 100% |
| Member | Vicente R. Cuna, Jr. | April 2013 | 12 | 12 | 100% |
| Member (ID) | Samson C. Lim | April 2008 | 12 | 12 | 100% |
| Member (ID) | Benedicto Jose R. Arcinas | April 2012 | 12 | 10 | 83% |
| Member | Amelia B. Cabal | April 2014 | 12 | 12 | 100% |
| Member | Jose Vicente L. Alde * | April 2016 | 9 | 9 | 100% |
| Member | Ma. Soledad D.S. De Leon ** | April 2016 | 9 | 8 | 89% |
| Member | Ma. Theresa G. Barretto ** | April 2006 | 3 | 3 | 100% |
| Member | Jeanne Frances T. Chua *** | April 2013 | 7 | 7 | 100% |
| Member | Severinus P. P. Hermans * | April 2015 | 3 | 3 | 100% |

(ID) Independent Director

* Mr. Severinus P. P. Hermans was replaced by Mr. Jose Vicente L. Alde who was elected as Director of the Bank in April 2016.

** Ms. Ma. Theresa G. Barretto was replaced by Ms. Ma. Soledad D.S. De Leon who was elected as Director of the Bank on April 2016.

*** Ms. Jeanne Frances T. Chua resigned as a Director of the Bank in August 2016. She was replaced by Mr. Eduardo A. Sahagun during the Annual Stockholders Meeting held in April 2017.

3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

- Yes. Board-level committees composed of independent and non-executive directors, particularly the Corporate Governance Committee, Related Party Transactions Committee, and Audit Committee, all chaired by an independent director, meet monthly without the presence of any executive director/officer. In addition, an annual Independent Directors' Executive Session with the Bank's Chief Compliance Officer (CCO), Chief Risk Officer (CRO), Chief Audit Executive (CAE), and External Auditor-SGV & Co. was also held in 2016 in the absence of any executive director/officer.

4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

- Since PSBank has a total of nine (9) directors, at least 5 directors represent quorum. Under Sec. 6.07 of the Bank's Amended Code of By-Laws, a quorum at any meeting of the Board of Directors shall consist of the majority of the Directors.

5) Access to Information

1) How many days in advance are board papers⁷ for board of directors meetings provided to the board?

- All directors are provided with documents on the Bank's financial and operational performance, committee activities, regulatory developments, and items for their information and approval two (2) days prior the actual Board meetings.

2) Do board members have independent access to Management and the Corporate Secretary?

- Yes. The Board has access to the secretary who manages the flow of information to the Board prior to the meetings. They also have access to a permanent compilation of documents related to past Board activities. They can readily seek clarification from management should they have concerns about the Bank or any of the items submitted for their consideration.

3) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

- As mentioned in the Corporate Governance (CG) Manual, specifically in Part II, Section 2C thereof, based on the Bank's By-Laws, the Corporate Secretary shall have the following duties:
 - a. To keep accurate minutes of all meetings of the stockholders and of the Board and to attend to the giving of all notices required under the By-Laws to be given;
 - b. To be the custodian of the corporate seal, stock certificate books, stock and transfer books, records, documents and papers of the Bank, prepare ballots for the annual election and keep a complete and up-to-date list of stockholders and their addresses;
 - c. To perform such other duties as may be assigned to him from time to time by the Board, Chairman or President and such other duties incidental to his office;
 - d. To sign with the President all contracts, deeds, licenses and other instruments when so ordered by the President or by the Board; and
 - e. To prepare such reports and statements required by the Board and/or the Chairman or the President.

In addition to the foregoing, the Corporate Secretary shall also have the following responsibilities:

- a. Safe keep and preserve the integrity of the meetings of the Board committees, as well as other official records of the Bank;
- b. Be loyal to the mission, vision and objectives of the Bank;
- c. Work fairly and objectively with the Board, stockholders and other stakeholders;
- d. Have appropriate administrative and interpersonal skills;
- e. 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;
- f. Have a working knowledge of the operations of the Bank;
- g. Inform members of the Board, in accordance with the By-Laws, of the agenda for their meetings and ensure that the directors have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- h. Ensure that all Board procedures, rules and regulations are strictly followed by the directors;
- i. And other duties and responsibilities as prescribed by relevant regulations.

⁷ Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

4) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

- Yes. The Corporate Secretary, Mr. Pocholo V. Dela Peña graduated at the University of Santo Tomas with a degree of Bachelor of Science in Commerce major in Accounting. The Company Secretary holds executive positions in Metrobank as the Head of Special Accounts Management Division and Legal Division. Within the Bank, he is assisted by the Corporate Affairs Division. He has likewise attended seminars and trainings on corporate functions and is the corporate secretary since July 2011.

5) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes ☒ No ☐

| Committee | Details of the procedures |
|---|--|
| Executive Committee (ExCom) | Advance copy of the agenda is provided at least a day before the meeting. |
| Audit Committee (AuditCom) | Audit Committee materials (in hard copy) are sent to the members at least 2 banking days before the scheduled meeting. Items that need immediate attention of or longer review by the AC members are sent via email. |
| Nomination Committee (NomCom) | Advance copy of the agenda is provided at least 2 banking days before the meeting. |
| Remuneration Committee (RemCom) | Advance copy of the agenda is provided at least 2 banking days before the meeting. |
| Trust Committee (TrustCom) | Trust Division sends to Trust Committee Members detailed information on matters to be taken up by the Trust Committee at least 2 banking days prior to the scheduled meeting. |
| Risk Oversight Committee (ROC) | Yes, ROC members are provided with advance copies of the meeting materials at least 2 banking days prior to the scheduled meeting. We also accommodate requests for additional information and arrange for resource persons as needed. |
| Corporate Governance Committee (CGC) | Yes, CGC members are provided with advance copies of the meeting materials at least 2 banking days prior to the scheduled meeting. We also accommodate requests for additional information and arrange for resource persons as needed. |
| Related Party Transactions Committee (RPTC) | Yes, RPTC members are provided with advance copies of the meeting materials at least 2 banking days prior to the scheduled meeting. We also accommodate requests for additional information and arrange for resource persons as needed. |
| Anti-Money Laundering Oversight Committee (AMLOC) | Yes, AMLOC members are provided with advance copies of the meeting materials at least 2 banking days prior to the scheduled meeting. We also accommodate requests for additional information and arrange for resource persons as needed. |

- In addition, the Finance Group, in coordination with other key departments, accommodates requests for information pertaining to the management of the Bank, stockholders rights or any other bank-related issues.

6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

| Procedures | Details |
|---|---|
| Audit | Advices/recommendations are provided by the external auditors in their reports or during their meetings with the Audit Committee members. |
| Risk Management process | The Risk Oversight Committee, shall, where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions. |
| Board Performance Assessment process | The Corporate Governance Committee may coordinate with external facilitators in carrying out board performance assessment, within the frequency approved by the entire Board. The corporate governance committee shall also decide whether or not a director is able to and has been adequately carrying out his/her duties as director based on its own assessment or the assessment of external facilitators, bearing in mind the director's contribution and performance (e.g., competence, candor, attendance, preparedness and participation). |
| Related Party Transactions Review process | In reviewing proposals endorsed to it, the Related Party Transactions Committee may consult third-party experts if it deems the same necessary. |

7) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

| Existing Policies | Changes | Reason |
|-------------------|---------|--------|
| None. | | |

D. REMUNERATION MATTERS

1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

| Process | CEO | Top 4 Highest Paid Management Officers |
|---------------------------|---|---|
| (1) Fixed remuneration | Salary adjustments are based on performance for the review period | Salary adjustments are based on performance for the review period |
| (2) Variable remuneration | none | none |
| (3) Per diem allowance | Actual expenses may be reimbursed to the senior officer | Actual expenses may be reimbursed to the senior officer |
| (4) Bonus | The bonuses that form part of the guaranteed pay are based on rank and tenure – the higher the rank, the greater the entitlement as well as a | The bonuses that form part of the guaranteed pay are based on rank and tenure – the higher the rank, the greater the entitlement as well as a longer tenure means |

| | | |
|---|-------------------------------------|-----------------|
| | longer tenure means greater premium | greater premium |
| (5) Stock Options and other financial instruments | none | none |
| (6) Others (specify) | none | none |

2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

| | Remuneration Policy | Structure of Compensation Packages | How Compensation is Calculated |
|-------------------------|---|---|---|
| Executive Directors | Under Sec. 6.08 of the Bank's Amended Code of By-Laws, the Chairman, Vice Chairman and each Director shall receive reasonable per diems for attendance at any meeting of the Board, for each day of session; Provided, however, that nothing herein contained shall be construed to preclude any Director from serving in any other capacity and receiving compensation therefore. The Board shall fix the compensation and other remuneration of any Director or any other officer of the Bank should they be designated to perform executive functions or any special services to the Bank. | Regular compensation and bonuses (as officer of the Bank), Director's fee | Regular compensation and bonuses + Director's fee |
| Non-Executive Directors | | Director's fee, Transportation allowance, committee meeting allowance and Christmas Bonus | Director's fee + Transportation allowance + committee meeting allowance + Christmas Bonus |

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.

- No, as the Bank has its Compensation and Remuneration Committee designed to formulate policies and designate reasonable and sufficient remuneration packages for corporate officers and directors.

| Remuneration Scheme | Date of Stockholders' Approval |
|---------------------|--------------------------------|
| N/A | N/A |

3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

| Remuneration Item | Executive Directors | Non-Executive Directors (other than independent directors) | Independent Directors |
|---------------------------|---|--|-----------------------|
| (a) Fixed Remuneration | Please refer to discussion below on Director and Executive compensation and their other benefits. | | |
| (b) Variable Remuneration | | | |
| (c) Per diem Allowance | | | |

| |
|--|
| (d) Bonuses |
| (e) Stock Options and/or other financial instruments |
| (f) Others (Specify) – Transportation Allowance |
| Total |

| Other Benefits | Executive Directors | Non-Executive Director (other than independent directors) | Independent Directors |
|---|---|---|-----------------------|
| 1) Advances | Please refer to discussion below on Director and Executive compensation and their other benefits. | | |
| 2) Credit granted | | | |
| 3) Pension Plan/s Contributions | | | |
| (d) Pension Plans, Obligations incurred | | | |
| (e) Life Insurance Premium | | | |
| (f) Hospitalization Plan | | | |
| (g) Car Plan | | | |
| (h) Others (Specify) | | | |
| Total | | | |

➤ Below is the summary for the Executive Compensation (in millions of PhP):

| Name and Principal Position | Year | Salary | Bonus* |
|---|------|-----------|----------|
| Vicente R. Cuna, Jr. - President | | | |
| Jose Vicente L. Alde – Executive Vice President | | | |
| Noli S. Gomez – Senior Vice President | | | |
| Perfecto Ramon Z. Dimayuga, Jr. – Senior Vice President | | | |
| Jose Jesus B. Custodio – Senior Vice President | | | |
| | | | |
| TOTAL FOR THE TOP 5 EXECUTIVES ABOVE | 2016 | PhP52.17 | PhP20.24 |
| | 2015 | PhP46.80 | PhP17.96 |
| | 2014 | PhP36.78 | PhP18.15 |
| TOTAL FOR ALL OFFICERS (AVP & UP) and Directors | 2016 | PhP182.26 | PhP63.61 |
| | 2015 | PhP142.32 | PhP50.50 |
| | 2014 | PhP132.82 | PhP42.34 |
| * In Million Pesos | | | |

Each director receives a monthly professional fee for attending Board and committee meetings. This is also in consideration of their valuable contributions in the formulation of the Bank's overall strategy. The total per diem and transportation allowance paid to directors for their attendance in Board meetings amounted to ₱16.8 million, ₱16.9 million and ₱16.3 million in 2016, 2015 and 2014, respectively. This translates to an average of ₱113,802, ₱123,287 and ₱116,343, per month/per director in 2016, 2015 and 2014, respectively. Aside from said amounts, they have no other compensation plan or arrangement with the Bank.

The executive officers receive salaries, bonuses and other usual bank benefits that are also included in the amounts stated above. Aside from these, they have no other compensation plan or arrangement with the bank.

There are no warrants or options held by the Bank's officers and directors.

4) Stock Rights, Options and Warrants

(a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

| Director's Name | Number of Direct Option/Rights/Warrants | Number of Indirect Option/Rights/Warrants | Number of Equivalent Shares | Total % from Capital Stock |
|-----------------|---|---|-----------------------------|----------------------------|
| N/A | None | N/A | N/A | N/A |

(b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

| Incentive Program | Amendments | Date of Stockholders' Approval |
|-------------------|------------|--------------------------------|
| N/A | None | N/A |

5) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

| Name of Officer/Position | Total Remuneration |
|---|--|
| Noli S. Gomez - Senior Vice President | The executive officers receive salaries, bonuses and other usual bank benefits that are also included in the amounts stated in item 3) above. Aside from these, they have no other compensation plan or arrangement with the bank. |
| Perfecto Ramon Z. Dimayuga, Jr. - Senior Vice President | |
| Jose Jesus B. Custodio - Senior Vice President | |

E. BOARD COMMITTEES

1) Number of Members, Functions and Responsibilities

| Committee (2016) | No. of Members | | | Committee Charter | Functions | Key Responsibilities | Power |
|---------------------|----------------------------|------------------------------|---------------------------|-------------------|--|--|--|
| | Executive Director or (ED) | Non-executive Director (NED) | Independent Director (ID) | | | | |
| Executive | 3 | - | - | Yes | It regularly reviews and approves credit proposals within its limits | It recommends additional conditions and requirements on loan applications for Board approval | Approval of credit proposals; Recommends to the board of directors any credit exceptions that merit approval provided they are supported by strong business rationale. |
| Audit | - | 1 | 2 (including the Chair) | Yes | It provides independent oversight of internal controls and financial reporting, risk management, ethical environment, compliance with laws and regulations, and internal and external audit activities | Oversight of audit activities | Oversight of audit activities |
| Nomination | 1 | - | 2 (including the Chair) | Yes | It reviews and evaluates all nominees to the Board | It promulgates the guidelines or criteria to govern the conduct of nominations. It pre-screens the | It pre-screens and shortlists all candidates nominated to become a member of the board of |

| | | | | | | | |
|--------------|---|---|-------------------------|-----|--|---|--|
| | | | | | | qualifications and prepares a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for independent directors. | directors. |
| Remuneration | 1 | - | 2 (including the Chair) | Yes | It reviews and evaluates remuneration packages of executive and corporate officers and directors | It 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 mgt and other key personnel ensuring that compensation is consistent with the corporate culture, strategy and control environment | Oversight of remuneration process |
| Trust | 1 | 2 | 1 (the Chair) | Yes | Oversees the fiduciary activities of the Bank | Ensures that fiduciary activities are conducted in accordance with applicable | Prescribes and approves new fiduciary activities that are in |

| | | | | | | | |
|--|--|--|--|--|--|--|--|
| | | | | | | <p>laws, rules and regulations, and prudent practices;</p> <ul style="list-style-type: none"> - Ensures that policies and procedures that translate the Board of Directors' objectives and risk tolerance into prudent operating standards are in place and continue to be relevant, comprehensive and effective; - Oversees the implementation of the risk management framework and ensure that internal controls are in place relative to fiduciary activities; - Adopts an appropriate organizational structure/staffing pattern and operating budgets that shall enable the Trust department to effectively carry out its functions; - Oversees and evaluate the performance of the Trust Officer; - Conducts regular meetings at | <p>accordance with applicable laws, rules and regulations, and prudent practices;</p> <ul style="list-style-type: none"> - Prescribes and approve policies and procedures that translate the Board of Directors' objectives and risk tolerance into prudent operating standards are in place and continue to be relevant, comprehensive and effective; - Approves new products that adhere to the risk management framework and are covered by internal controls |
|--|--|--|--|--|--|--|--|

| | | | | | | | |
|--|--|--|--|--|--|---|--|
| | | | | | | least once every quarter, or more frequently as necessary, depending on the size and complexity of the fiduciary business; - Reports regularly to the Board of Directors on matters arising from fiduciary activities. | |
|--|--|--|--|--|--|---|--|

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

| Committee (2016) | No. of Members | | | Committee Charter | Functions | Key Responsibilities | Power |
|----------------------------|----------------------------|---------------------------------|---------------------------|-------------------|-----------|----------------------|--|
| | Executive Director or (ED) | Non-executive Director or (NED) | Independent Director (ID) | | | | |
| Risk Oversight | 2 | 1 | 1 (the Chair) | ROC Charter | See below | | Recommends or endorses to the Board for approval |
| Corporate Governance | - | 1 | 2 (including the Chair) | CGC Charter | See below | | Recommends or endorses to the Board for approval |
| Related Party Transactions | - | 1 | 2 (including the Chair) | RPTC Charter | See below | | Recommends or endorses to the Board for approval |
| AML Oversight | 1 | 2 | 1 (the Chair) | AMLOC Charter | See below | | Recommends or endorses to the Board for approval |

Functions & Key Responsibilities:

Risk Oversight Committee

Function

The ROC is constituted by the Board to be responsible for the development and oversight of the Risk Management Program for the Bank.

Key Responsibilities

1. Identify and evaluate exposures – The ROC shall assess the probability of each risk becoming reality and estimate its possible effect and cost. Priority areas of concern are those risks that are the most likely to occur and costly when they happen.
2. Develop risk management strategies – The ROC shall develop a written plan defining the strategies for managing and controlling major risks. It shall identify practical strategies to reduce the chance of harm and failure or minimize losses if risks become real. These plans are embodied in the Risk Management Framework, Policies and other directives as indicated in the ROC minutes and related documents.
3. Oversee the implementation of the risk management plan – The ROC shall conduct regular discussions on the Bank's current risk exposure based on regular management reports and direct concerned units or offices on how to reduce risks. It shall communicate the risk management plan and loss control procedures to affected parties.
4. Review and revise the plan as needed – The ROC shall evaluate the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The ROC shall report regularly to the Board the Bank's overall risk exposure, actions taken to reduce the risks, and recommend further action or plans as necessary.

Corporate Governance Committee

Function

To assist the Board in fulfilling its corporate governance responsibilities

Key Responsibilities

1. It shall ensure the Board's effectiveness and due observance of corporate governance principles and guidelines.
2. It shall oversee the periodic performance evaluation of the Board and its committees and executive management and shall also conduct an annual self-evaluation of its performance. It may coordinate with external facilitators in carrying out board assessment, within the frequency approved by the entire Board.
3. It shall decide the manner by which the Board's performance shall be evaluated and propose an objective performance criteria approved by the Board. Such performance indicators shall address how the Board has enhanced long term shareholders' value.
4. It shall also decide whether or not a director is able to and has been adequately carrying out his/her duties as director based on its own assessment or the assessment of external facilitators, bearing in mind the director's contribution and performance (e.g., competence, candor, attendance, preparedness and participation). Internal guidelines shall be adopted that address the competing time commitments that are faced when directors serve on multiples boards.
5. It shall make recommendations to the Board regarding the continuing education of director, assignment to board committees, succession plan for the board members and senior officers, and their remuneration commensurate with corporate and individual performance.
6. It shall oversee the implementation of the Bank's Compliance Program and the performance of compliance function.

Related Party Transactions Committee

Function

To assist the Board in ensuring that transactions with related parties are conducted at arms-length terms and that corporate or business resources of the Bank are not misappropriated or misapplied

Key Responsibilities

- Taking off from Compliance Office's initial review, the RPTC shall further review/evaluate proposals on Related Party Transactions endorsed to it by:

1. Evaluating 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 shall be reflected in the relevant reports to the Board and regulators/supervisors.
2. Evaluating 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 shall take 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 Bank 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 shall have in place an effective price discovery system and have exercised 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 RPTC to the Board of Directors for approval.

3. Ensuring 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 shall 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. Reporting 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. Ensuring that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process (i.e. if there are processes for independent compliance testing and internal audits).
6. Overseeing the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

In reviewing proposals endorsed to it, the RPTC may consult third-party experts if it deems the same necessary.

- No director shall participate in any RPTC discussion concerning a related party transaction for which he/she or any member of his/her immediate family is a related party except in order to provide material information on the related party transaction to the RPTC.
- Based on the above review and other factors or circumstances that it deems relevant, the RPTC through the Chief Compliance Officer shall report to the Board of Directors the RPT items reviewed including the RPTC's recommendations if any for the BOD's notation and/or appropriate action.

Anti-Money Laundering Oversight Committee

Function

The AMLOC shall assist the Board of Directors in fulfilling its oversight responsibility over the Bank's compliance management to make sure that the Bank complies with the provisions of the AMLA, as amended, its Revised

Implementing Rules and Regulations (RIRRs) and BSP AML regulations to the end that the Bank shall not be used as a vehicle to legitimize the proceeds of unlawful activity or to facilitate or finance terrorism.

Key Responsibilities

In line with the AMLOC's mandate to assist the Board of Directors in fulfilling its oversight on Bank's compliance with the requirements of AMLA, its RIRRs and BSP AML regulations:

1. It shall provide oversight on AML policy development and execution such that AML Policies & Procedures established by Senior Management, led by Compliance Office and assisted by the AMLCC, are adequate to ensure compliance and are kept updated/remain relevant to best react on the changing AML regulatory scenarios and conditions.
2. As designed, updated/revised and recommended by the Compliance Office/AMLCC, it shall review and endorse to the Board for approval the Bank's Money Laundering & Terrorism Financing Prevention Program (MLTFPP) documenting the policies and procedures of the Bank's compliance with the core components of AMLA, its RIRRs and BSP AML regulations.
3. It shall receive from, review and take action (as necessary) on AML-related reports coming from the Bank's Compliance Office. It may also devise and require new/additional AML reports to ensure that Bank's compliance with AMLA, its RIRRs and BSP AML regulations as well as effective management of AML risks are duly monitored.
4. It shall oversee and ensure the effective performance of the AML/TF functions of the Bank's Compliance Office.
5. It shall oversee and ensure the effective performance of the duties and responsibilities of the Bank's AMLCC by reviewing the results of the AMLCC's annual performance self-evaluation/assessment and directing needed actions to address areas for AMLCC's improvement.
6. It shall report to the Board significant developments, issues and concerns in the Bank's AML compliance as necessary.

2) Committee Members

(a) Executive Committee

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended (2016) | % | Length of Service in the Committee |
|---------------|--|----------------------------|-----------------------------|--|----------|---|
| Chairman | Arthur V. Ty | April 2009 | 6 | 6 | 100% | 7yrs. 8 mos. |
| Member (ED) | Vicente R. Cuna, Jr. | April 2013 | 6 | 6 | 100% | 3 yrs. 8 mos. |
| Member (ED) | Jose Vicente L. Alde* | April 2016 | 4 | 4 | 100% | 8 mos. |
| Member (NED) | Jeanne Frances T. Chua ** | April 2015 | 2 | 2 | 100% | 9 mos. |
| Member | Rosanna F. De Vera (non-director/MBTC representative) | October 2012 | 6 | 5 | 83% | 4 yrs. 2 mos. |
| Member | Mary Myleen M. Masanque (non-director/PSBank representative) | April 2015 | 6 | 5 | 83% | 1 yr. 8 mos. |

* Appointed as Member in April 2016

** Term expired in April 2016

(b) Audit Committee

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended (2016) | % | Length of Service in the Committee |
|---------------|-----------------|---------------------|----------------------|---------------------------------|------|------------------------------------|
| Chairman (ID) | Jose T. Pardo | April 2009 | 14 | 14 | 100% | 7 yrs. 8 mos. |
| Member (ID) | Samson C. Lim | April 2008 | 14 | 13 | 93% | 8 yrs. 8 mos. |
| Member (NED) | Amelia B. Cabal | April 2014 | 14 | 14 | 100% | 2 yrs. 8 mos. |

Disclose the profile or qualifications of the Audit Committee members.

- JOSE T. PARDO, Chairman / Independent Director
Chairman since 2003. Chairman/ Independent Director, Philippine Stock Exchange, Securities Clearing Corporation of the Philippines, Bank of Commerce. Chairman, EC Pay Network Inc., Franchise Investment Holdings Inc., De La Salle University, Inc., ECOP Council of Business Leaders, PCCI Council of Business Leaders, Philippine Business Center Inc., Foundation for Crime Prevention, Assumption (Antipolo), EDSA People Power Foundation, Philippine-Japan Vocational Technical Foundation. Co-Chairman, De La Salle Philippines. Vice Chairman, EDSA People Power Commission, Office of the President. Independent Director, JG Summit Holdings, Inc. Director, National GRID Corporation of the Philippines and ZNN Radio Veritas. First graduate of the Harvard-DLSU Advisory Program. BS Commerce-Accountancy and MBA, De La Salle University.
- SAMSON C. LIM, Independent Director
Director since 2008. President, Blims Fine Furniture and Canadian Tourism & Hospitality Institute. Chairman, Automatic Appliances Inc., Collins International Trading Corporation and Francorp Philippines. Chairman/ Tourism Committee, Philippine Chamber of Commerce and Industry. Chairman Emeritus/ International Relation, Philippine Franchise Association. Chairman Emeritus, Philippine Retailers Association. BS Liberal Arts, Cum Laude, Ateneo de Manila University. Masters in Business Economics, University of Asia and the Pacific. Exchange Student, Sophia University Tokyo, Japan. Special Training on International Business, Institute of International Studies and Training, Fujinomia, Japan. Top Management Program, Asian Institute of Management.
- AMELIA B. CABAL, Director
Director since 2014. Independent Director, Deutsche Regis Partners, Inc., Ionics EMS, Inc., Ionics Inc., Bank Supervisor, Metropolitan Bank (China) Ltd. BS Commerce Major – Accounting, Far Eastern University. Advanced Management Program, Harvard Business School. Advanced Management Program, Asian Institute of Management. Pacific Rim Banking Program, Pacific Coast Banking School/ University of Washington, Seattle, USA. Top Management Program- Bangkok.

Describe the Audit Committee's responsibility relative to the external auditor.

The Audit Committee is delegated with fiduciary functions to assist the Board in fulfilling its oversight responsibility to the shareholders relating to the external audit functions.

(c) Nomination Committee

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended (2016) | % | Length of Service in the Committee |
|---------------|---------------|---------------------|----------------------|---------------------------------|------|------------------------------------|
| Chairman (ID) | Samson C. Lim | April 2009 | 2 | 2 | 100% | 7 yrs. 8 mos. |
| Member (ED) | Arthur V. Ty | April 2004 | 2 | 2 | 100% | 12 yrs. 8 mos. |
| Member (ID) | Jose T. Pardo | April 2012 | 2 | 2 | 100% | 4 yrs. 8 mos. |

(d) Remuneration Committee`

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended (2016) | % | Length of Service in the Committee |
|---------------|---------------|---------------------|----------------------|---------------------------------|------|------------------------------------|
| Chairman (ID) | Jose T. Pardo | April 2003 | 2 | 2 | 100% | 13 yrs. 8 mos. |
| Member (ED) | Arthur V. Ty | April 2001 | 2 | 2 | 100% | 15 yrs. 8 mos. |
| Member (ID) | Samson C. Lim | April 2014 | 2 | 2 | 100% | 2 yrs. 8 mos. |

(e) Others (Specify)

Provide the same information on all other committees constituted by the Board of Directors:

Corporate Governance Committee (CGC)

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended (2016) | % | Length of Service in the Committee |
|---------------|--------------------|---------------------|----------------------|---------------------------------|------|------------------------------------|
| Chairman (ID) | Samson C. Lim | April 2008 | 12 | 10 | 83% | 8 yrs. 8 mos. |
| Member (ID) | Jose T. Pardo | April 2009 | 12 | 12 | 100% | 7 yrs. 8 mos. |
| Member (NED) | Jeanne T. Chua * | April 2013 | 8 | 7 | 88% | 3 yr. 8 mos. |
| Member (NED) | Amelia B. Cabal ** | November 2016 | 2 | 2 | 100% | 1 month |

* Term expired in August 2016

** Appointed as Member in November 2016

Related Party Transactions Committee (RPTC)

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended (2016) | % | Length of Service in the Committee |
|---------------|---------------------------|---------------------|----------------------|---------------------------------|------|------------------------------------|
| Chairman (ID) | Jose T. Pardo | Jan 2012 | 12 | 12 | 100% | 4 yrs. |
| Member (ID) | Benedicto Jose R. Arcinas | April 2012 | 12 | 9 | 75% | 4yrs. 8 mos. |
| Member (NED) | Amelia B. Cabal | April 2014 | 12 | 12 | 100% | 2yrs. 8 mos. |

Risk Oversight Committee (ROC)

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended (2016) | % | Length of Service in the Committee |
|---------------|---------------------------|---------------------|----------------------|---------------------------------|------|------------------------------------|
| Chairman (ID) | Benedicto Jose R. Arcinas | April 2012 | 12 | 9 | 75% | 4 yrs. 8 mos. |
| Member (ED) | Vicente R. Cuna, Jr. | April 2013 | 12 | 9 | 75% | 3 yrs. 8 mos. |
| Member (NED) | Amelia B. Cabal | April 2014 | 12 | 10 | 83% | 2 yrs. 8 mos. |
| Member (ED) | Jose Vicente L. Alde* | April 2016 | 8 | 8 | 100% | 8 mos. |
| Member | Edmund A. Go (non- | May 2009 | 12 | 10 | 83% | 6 yrs. 8 mos. |

| | | | | | | |
|--------------|-------------------------------|------------|---|---|------|-------|
| | director/adviser) | | | | | |
| Member (NED) | Severinus Petrus P. Hermans** | April 2015 | 3 | 3 | 100% | 1 yr. |

* Appointed as Member in April 2016

** Term expired in April 2016

Trust Committee

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended (2016) | % | Length of Service in the Committee |
|---------------|--------------------------------|---------------------|----------------------|---------------------------------|--------------|------------------------------------|
| Chairman (ID) | Benedicto Jose R. Arcinas | June 2012 | 4 | 4 | 100% | 4 yrs. 6 mos. |
| Member (ED) | Vicente R. Cuna, Jr. | April 2013 | 4 | 4 | 100% | 3 yrs. 8 mos. |
| Member (NED) | Ma. Theresa G. Barretto* | April 2008 | 1 | 1 | 100% | 7 yrs. 8 mos. |
| Member (NED) | Jeanne T. Chua *** | April 2013 | 2 | 2 | 100% | 3 yrs. 8 mos. |
| Member (NED) | Ma. Soledad D.S. De Leon ** | April 2016 | 3 | 3 | 100% | 8 mos. |
| Member (NED) | Severinus Petrus P. Hermans ** | April 2015 | 3 | 1 4 | 100% 100% | 1 yr. 8 mos. 4 yrs. 6 mos. |

* Term expired in April 2016

** Appointed as Member in April 2016

*** Member from April 2016 to August 2016

AML Oversight Committee

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended (2016) | % | Length of Service in the Committee |
|---------------|---------------------------|---------------------|----------------------|---------------------------------|------|------------------------------------|
| Chairman (ID) | Benedicto Jose R. Arcinas | April 2014 | 12 | 9 | 75% | 2 yrs. 8 mos. |
| Member (ED) | Vicente R. Cuna, Jr. | April 2014 | 12 | 11 | 92% | 2 yrs. 8 mos. |
| Member (NED) | Amelia B. Cabal | April 2014 | 12 | 10 | 83% | 2 yrs. 8 mos. |
| Member (NED) | Jeanne Frances T. Chua* | April 2014 | 7 | 7 | 100% | 2 yrs. 8 mos. |

* Term expired in August 2016

3) Changes in Committee Members (as of 31 December 2016)

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

| Name of Committee | Name | Reason |
|-------------------|---|--|
| Executive | Jose Vicente L. Alde (inclusion) Dir. Jeanne Frances T. Chua | Appointed as new director and member in the April 2016 ASM Term expired in April 2016 |

| | | |
|----------------------------|---|---|
| | (exclusion) | Replaced by Director Jose Vicente L. Alde |
| Audit | (none) | (none) |
| Nomination | (none) | (none) |
| Remuneration | (none) | (none) |
| Risk Oversight | Jose Vicente L. Alde (inclusion) | Appointed as new director and member in April 2016 ASM |
| | Severinus Petrus Paulus Hermans (exclusion) | Term expired in April 2016; Replaced by Director Jose Vicente L. Alde |
| Corporate Governance | Amelia B. Cabal (inclusion) | Replaced Director Jeanne Frances T. Chua |
| | Jeanne Frances T. Chua (exclusion) | Resignation (August 2016) |
| Related Party Transactions | (none) | (none) |
| Trust | Ma. Soledad D.S. De Leon (inclusion) | Appointed as new director and member in the April 2016 ASM |
| | Jeanne Frances T. Chua (inclusion) | Appointed as new member in the April 2016 ASM |
| | Ma. Theresa G. Barretto (exclusion) | Term expired in April 2016; Replaced by Dir. Ma. Soledad D.S. De Leon |
| | Severinus Petrus Paulus Hermans (exclusion) | Term expired in April 2016; Replaced by Dir. Jeanne Frances T. Chua |
| | Jeanne Frances T. Chua (exclusion) | Resignation (August 2016) |
| AML Oversight | Jeanne Frances T. Chua (exclusion) | Resignation (August 2016) |

4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

| Name of Committee | Work Done | Issues Addressed |
|-------------------|---|--------------------------------|
| Executive | ➤ Regular review and approval of various loan proposals | ➤ Credit deviations/exceptions |
| Audit | <ul style="list-style-type: none"> ➤ Discussed and approved the overall audit scope and plans of both the Internal Audit Group (IAG) and Sycip Gorres Velayo & Co. (SGV); ➤ Reviewed and discussed the year-end financial statements with SGV, who are responsible for expressing an independent opinion on the audited financial statements and their conformity with Philippine Financial Reporting Standards; ➤ Reviewed with IAG, the results of its evaluation on the adequacy and effectiveness of the Bank's governance, risk management, and control processes and the Bank's compliance | |

| | |
|----------------|--|
| | <p>with policies, laws, and regulations with the management's action plans for the implementation of recommendations to improve the operations of the branches and head office units including the information systems and security.</p> <ul style="list-style-type: none"> ➤ Evaluated the process in assessing the significant risks and related-risk mitigation efforts of the Bank; ➤ Reviewed, approved, and endorsed to the Board the revised Audit Committee Charter; ➤ Discussed the results of the external quality assessment review of the Bank's internal audit activity by Punongbayan & Araullo, where IAG obtained "Generally Conforms" rating signifying IAG's conformance with the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing; ➤ Discussed and approved the result of the annual internal quality assessment of IAG's conformance with the international auditing standards and IA policies; ➤ Reviewed the adequacy of resources, staff competencies, activities, and effectiveness of the IAG; ➤ Monitored and assessed the Bank's compliance with applicable laws, rules, regulations, code of conduct as well as the adequacy and effectiveness of internal control system; and ➤ Reviewed the Committee's effectiveness through self-assessment process. |
| Nomination | <ul style="list-style-type: none"> ➤ Review and evaluation of the Nominees to the 2016-2017 Board of Directors ➤ Discussion of Board Committees – memberships and vacancies |
| Remuneration | <ul style="list-style-type: none"> ➤ Rank and file employees' CBA-based adjustments were effected in January ➤ Review/implementation of merit increase, bonuses and other benefits |
| Risk Oversight | <p>Reviewed and endorsed for Board approval the following:</p> <ul style="list-style-type: none"> ➤ Regular review and updating of the ROC Charter and risk management limits, model assumptions, methodologies and policy manuals ➤ Implementation of projects relative to the requirements under BSP Circular No. 855 <ul style="list-style-type: none"> ➤ Amendments/revisions in the limits and manuals are primarily to ensure its continued relevance, comprehensiveness, and effectiveness, taking into consideration changes in the regulatory and operating environment, organizational structure and policies. ➤ In coordination with the business units and loans support units, gaps of existing policies, procedures and practices with the new regulation were identified and appropriate actions identified to address them within the timeline of BSP. ➤ RMO completely deployed its projects to effectively implement the sound credit risk management system and practices prescribed by BSP in Circular 855. These include the internal loan loss models that ensure specific and collective allowance for expected credit losses are adequate. |

| | |
|----------------------------|---|
| Corporate Governance | <ul style="list-style-type: none"> ➤ Discussed and approved the 2016 Compliance Office (CO) Business/Work Plan ➤ Reviewed and endorsed for Board approval the Interlocking Officership-Directorship of President Vicente R. Cuna as Chairman-Director of Orix Metro Leasing & Finance Corporation ➤ Reviewed and endorsed for Board approval the Interlocking Officership-Directorship of Executive Vice-President (EVP) Jose Vicente L. Alde ➤ Conducted the Annual Performance Scorecard for all Board-level and Management-level committees ➤ Discussed BSP's Preliminary Assessment per Results of its Examination ended on May 4, 2016 ➤ Discussed Institute of Corporate Directors' (ICD) Report regarding PSBank's 2015 ASEAN Corporate Governance Scorecard (ACGS) Report. ➤ Reviewed and endorsed for Board approval the Bank's Vision-Mission Statements & Core Values ➤ Updated/revised the Bank's existing General Compliance Risk Rating System (GCRRS) and Trust Compliance Risk Rating System (TCRRS) ➤ Updated/revised the Bank's Compliance Program and Compliance Charter ➤ Updated/revised the Bank's Trust Compliance Program ➤ Updated/revised the Bank's Financial Consumer Protection (FCP) Compliance Program ➤ Updated/revised the following Board-level Committee Charters: <ul style="list-style-type: none"> • Trust Committee Charter • Corporate Governance Committee Charter • Nomination Committee Charter • AML Oversight Committee Charter • Compensation and Remuneration Committee Charter ➤ Updated/revised the Bank's Corporate Governance (CG) Manual ➤ Updated/revised the Bank's Insider Trading Policy Manual ➤ Updated/revised the Dividend Policy Manual |
| Related Party Transactions | <ul style="list-style-type: none"> ➤ Reviewed and evaluated all transactions of the bank with its directors, officers and related interests (DOSRI) and other related parties, for endorsement to the Board for approval. ➤ Conducted an Annual CG Scorecard for RPTC ➤ Updated the RPT Policy Manual to align with BSP Circular No. 895 |
| Trust | <ul style="list-style-type: none"> ➤ Conducted regular review of Trust activities and performance to ensure that fiduciary activities are in accordance with applicable laws, rules and regulations; ➤ Conducted annual review of Trust Manuals to ensure that policies and procedures translate the Board of Directors' objectives and risk tolerance into prudent operating standards which continue to be relevant, comprehensive and effective; ➤ Conducted annual review of counterparties and issuers of investment securities to ensure that Trust investment management guidelines are met; ➤ Reviewed and approved new product proposals of Trust Division to ensure that the risk management framework and internal controls are in place relative to fiduciary activities; ➤ Conducted regular meetings at least once every quarter; and ➤ Reported regularly to the Board of Directors on matters arising from fiduciary activities ➤ Overseen and evaluated the performance of the Trust Officer ➤ Reviewed and approved the result of accounts and investment review to ensure that client's investment mandate are carried out as instructed ➤ Reviewed and approved the branch incentive program for UITF |
| AML Oversight | <ul style="list-style-type: none"> ➤ Expanded the branch coverage of CO's Independent Compliance Testing (ICT) ➤ Maximization of AML resources such as the inclusion of head office units like CBRCD and BOSD in the AML validation process ➤ Inclusion of the Progress monitoring reports under Risk-Profiling for all existing clients of the branches as well as the status of updating customer records ➤ More frequent utilization of our Online AML Compliance Awareness Testing System (ACATS |

5) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

| Name of Committee | Planned Programs | Issues to be Addressed |
|----------------------------|---|--|
| Executive | ➤ Reinforcement of effective governance through good credit review and evaluation and ensure that sound credit policies and practices are followed through all the business segments. | |
| Audit | ➤ The Audit Committee provided oversight for the Bank's financial reporting process, system of internal control and risk management, internal and external audit functions, and monitoring of compliance with Bank policies, applicable laws, rules, regulations and Code of Conduct. | |
| Nomination Remuneration | ➤ Continued observance of policies and guidelines to ensure that all recommendations are in accordance with the charters | |
| Risk Oversight | <ul style="list-style-type: none"> ➤ Implementation of the Board-approved Risk Management Plan for 2016 ➤ Continued participation in group-wide risk coordination initiatives | <ul style="list-style-type: none"> ➤ The 2016 plan indicates the tasks to be accomplished in order to fulfill ROC and RMO duties and responsibilities across the major risk areas of Credit, Market, and Operational Risk. ➤ This is aimed at strengthening our parent bank's governance over us and ensuring proper coordination and alignment/sharing of best practices as much as applicable. |
| Corporate Governance | <ul style="list-style-type: none"> ➤ Review and updating of the Bank's Compliance Program & Charter ➤ Review and updating of the Bank's Corporate Governance Manual & Charter to comply with SEC Memorandum Circular No. 19, s2016 re: Code of Corporate Governance for Publicly-listed Companies ➤ Review and updating of the Bank's Policy Against Insider Trading, Trust Compliance Program (TCP) and the Financial Consumer Protection (FCP) Compliance Program ➤ Conduct of Annual Self-Assessment for all Board-level and Management-level committees | |
| Related Party Transactions | <ul style="list-style-type: none"> ➤ Annual review/updating of the Bank's RPTC Charter ➤ Annual review/updating of the RPT Policy Manual and such other related policies and procedures ➤ Continued observance of policy to ensure the proper identification, review, approval, monitoring and reporting of the Bank's related party transactions. | |
| Trust | ➤ Ensure that the Trust Committee carries out its duties and responsibilities in accordance with BSP Circular No. 766 (Guidelines in Strengthening Corporate Governance Practices on Trust, Other Fiduciary Business, and Investment Management Activities) which was approved by the Monetary Board last Aug. 17, 2012. | ➤ Address all issues/findings/deficiencies cited in the latest BSP examination |
| AML Oversight | <ul style="list-style-type: none"> ➤ Regular review/updating of the Bank's Money Laundering and Terrorist Financing Prevention Program (MLTFPP) and AMLOC Charter ➤ Implementation of the Bank's AML Compliance Risk Rating System ➤ Adoption of other AML-related automation projects ➤ Regular conduct of Independent Compliance Testing (ICT) | |

F. RISK MANAGEMENT SYSTEM

1) Disclose the following:

(a) Overall risk management philosophy of the company;

- Risk Management is an activity that is critical to the Bank's success and the responsibility for managing risk is shared by each employee. It commences at the highest level of the organization, the Board, and cascades to the line and support functions.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

- ROC does an annual self-assessment which is submitted to the Corporate Governance Committee, which in turn, reviews the same and reports its assessment to the Board. Based on its annual self-assessment, the ROC concludes that the risk management system of the bank is adequate in all material aspects.
- The Audit Committee through the Internal Audit Group (IAG) reviewed and confirmed the adequacy and effectiveness of the Bank's risk management systems.

(c) Period covered by the review;

- Full year

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness;

- Annually

(e) Where no review was conducted during the year, an explanation why not.

- Not applicable as the review is regularly conducted

2) Risk Policy

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

| Risk Exposure | Risk Management Policy | Objective |
|-------------------------|---|---|
| Credit Risk | The Bank's lending business follows credit policy guidelines set by the ROC and the Board. These guidelines serve as the Bank's minimum standards for extending credit. Everyone engaged in the credit process are required to understand and adhere to these policies. | The Bank provides guidance in the extension of credit to ensure a balance of quality and quantity of credit risk in the context of reward on capital. |
| Liquidity & Market Risk | Liquidity management emphasizes cashflow management, ability to raise funds, and maintenance of a stock of high quality liquid assets. | The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment |

| | | |
|------------------|---|---|
| | <p>The Bank follows a prudent policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.</p> <p>The Bank's policy is to maintain market risk exposures within the approved position, Value-at-Risk (VAR) and loss limits and within existing regulatory guidelines.</p> | <p>opportunities as they arise.</p> <p>The Bank manages its re-pricing gaps and caps its Earnings-at-Risk (EAR) to ensure that earnings do not drastically decline either immediately or over time as a result of adverse movements against its interest rate profile.</p> <p>The Bank's objective in market risk management is to ensure that risk-taking activities are managed within instituted market risk parameters.</p> |
| Operational Risk | The Bank constantly strives to maintain: a strong "control culture", prudent use of technology, and effective internal control system, which are key factors towards continuous self-improvement under a "no surprise" operating environment. | To ensure that the Bank manages all operational risks adequately. |

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

| Risk Exposure | Risk Management Policy | Objective |
|---|------------------------|-----------|
| Not Applicable, i.e. at the parent bank Metrobank's level | | |

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

| Risk to Minority Shareholders |
|---|
| In submitting corporate actions to the stockholders for approval, the Company is bound by the voting requirements of the Corporation Code. In addition, out of the 9 directors in the Board, the company has allocated 3 seats for independent directors, which is more than the minimum of two required by the SEC and BSP regulations. The Independent Directors are independent of management and free from business or other relationship that could, or could reasonably be perceived to; materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director. Independent directors are nominated by stockholders other than the majority stockholders. |

3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

| Risk Exposure | Risk Assessment | Risk Management and Control |
|---------------|-----------------|-----------------------------|
|---------------|-----------------|-----------------------------|

| | (Monitoring and Measurement Process) | (Structures, Procedures, Actions Taken) |
|-------------------------|--|--|
| Credit Risk | Credit risk control and management tools include product limits, credit scoring models, unique customer and group identification for aggregation of exposures, automated loan grading, 10-point credit rating systems, stress testing models, and external ratings. Aggregate exposures of at least P0.1 billion are placed on a special monitoring. Concentration of risk, by borrower, group of borrower, geographical region and industry sector are monitored on a regular basis. The Bank also performs impairment analyses on financial assets, on individual and collective basis in accordance with PFRS. | Product manuals are in place and define the product, business plan, parameters, associated risks and mitigating controls. The system of checks includes multiple approval system, ROC review, Internal Audit, and the BOD - through the ExCom, CreCom, TrustComm and ROC, for sound credit policies and practices. |
| Liquidity & Market Risk | <p>The main tool that the Bank uses for monitoring liquidity is the Maximum Cumulative Outflow (MCO) report. The Bank also projects liquidity positions under different stress scenarios and has in place a Liquidity Contingency Funding Plan (LCFP), to help evaluate funding needs and response strategies under various conditions.</p> <p>The Bank measures interest rate risk based on earnings perspective through the Earnings at Risk (EAR). It is a management tool that evaluates the sensitivity of the accrual portfolio to expected change in interest rates over the next 12 months. The Bank also performs stress-testing analysis to measure the impact of extreme interest rate movements.</p> <p>Market risk exposures arising from the trading portfolios are measured daily. The Bank has established position, stop loss, loss trigger, and VaR limits for its trading portfolios. Reports are prepared on a daily basis and are also reported to the ROC and BOD on a monthly basis. Stress testing is also conducted, based on historical and ad-hoc rate shocks to estimate potential losses in extreme or crisis situations.</p> | The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee (ALCO), TrustComm, ROC and BOD to ensure that these are up-to-date and in line with changes in the economy, environment and regulations. The ROC and the BOD set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in. |
| Operational Risk | The Bank continually identifies and assesses operational risks across the | The Board-approved bankwide organizational chart clearly |

| | | |
|--------------------------|--|--|
| | <p>organization and develops controls to mitigate and manage them as part of continuing efforts to enhance its Operational Risk Management Framework.</p> <p>In coordination with a network of Risk Delegates from the various business and operating units, Operational Risk Self-Assessments (ORSA) and Key Risk Indicators (KRIs), covering the areas of: People Technology, Regulatory, Financial Control, Products and Sales, Service Delivery, Legal, and External Events, are monitored.</p> <p>The Bank likewise has a Business Continuity Plan and a Disaster Recovery Program that are reviewed and tested regularly to ensure their effectiveness in the advent of business disruptions, system failures and disasters.</p> | <p>establishes areas of management responsibility, accountability and reporting lines for all its senior officers. Operational risk management policies and frameworks are continuously reviewed and updated, subject to ROC, Trust Committee and Board approvals to ensure that they remain relevant and effective.</p> <p>The Bank's products and operating manuals, policies and procedures spell out internal controls implemented by its business and operating support units.</p> <p>Other than Risk Management, there are many specialized functions that are also engaged in risk management. These include Information Technology and Quality Assurance, Information Security, Systems Financial Control, Legal, Compliance, Human Resources and Security Command. The Internal Audit Group (IAG) regularly reports to the Board's Audit Committee on the effectiveness of internal controls.</p> |
| Compliance/Business Risk | <p>On the basis of Severity i.e. adverse impact of violation or non-compliance on the Bank's business and Applicability of such requirements to a particular transaction, process/function or activity or to a particular business/operating unit of the Bank vis-à-vis the nature, frequency and volume/materiality of its transactions, processes/functions or activities, compliance/business risk exposures are already pre-assessed (e.g. Extreme, High, Medium or Low) which dictates the monitoring level, the self-testing frequency & coverage of CO's Independent Compliance Testing (ICT).</p> | <p>3-pronged risk-based compliance risk management, as follows:</p> <p>1st Prong: Line Units</p> <ul style="list-style-type: none"> ➤ Day-to-day compliance ➤ Department self-testing and compliance certifications <p>2nd Prong: Compliance Office</p> <ul style="list-style-type: none"> ➤ Guidance & education ➤ Independent compliance testing ➤ Issues elevation, reporting and resolution monitoring <p>3rd Prong: Internal Audit</p> <ul style="list-style-type: none"> ➤ Independent compliance validation via regular/special audit ➤ Audit reporting |

(b) Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

| Risk Exposure | Risk Assessment | Risk Management and Control |
|---------------|-----------------|-----------------------------|
|---------------|-----------------|-----------------------------|

| | (Monitoring and Measurement Process) | (Structures, Procedures, Actions Taken) |
|---|--------------------------------------|---|
| Not Applicable, i.e. at the parent bank Metrobank's level | | |

(c) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

| Committee/Unit | Control Mechanism | Details of its Functions |
|--------------------------------------|--|--|
| Risk Oversight Committee | The ROC is responsible for the development and oversight of the Bank's risk management program. It reviews and endorses for Board approval the risk management limits, model assumptions, methodologies and policies. It oversees the system of limits that the Board delegates to Management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached. It reports regularly to the Board and ensures that all it endorses to the Board are consistent with the Bank's overall objectives. | <ul style="list-style-type: none"> • Identification and evaluation of risk exposures • Development of risk management strategies • Oversee the implementation of the risk management plan • Review and revision of plans |
| Executive Committee | <p>The Board – through the Excom, Crecom, and ROC – ensures that all business segments follow sound credit policies and practices.</p> <p>Before extending a loan, the Bank observes a system of checks and balances, including the approval of at least two credit officers through the Crecom, Excom, or the Board.</p> | The Excom and Crecom regularly review and approve credit proposals within their limits. They recommend additional conditions and requirements on loan applications for Board approval. |
| Audit Committee | Provides independent oversight of internal controls, financial reporting, risk management, ethical environment, compliance with laws and regulations, and the internal and external audit activities. | IAG reports to the AuditCom the results of its independent review of compliance to the Bank's products and operating manuals, policies and procedures which spell out the internal controls implemented by its business and operating support units. |
| Corporate Governance Committee (CGC) | Oversees the implementation of the Bank's Compliance Program and the performance | ➤ Review, at least annually, the Bank's Compliance Program in accordance with existing |

| | | |
|---|--|---|
| | of compliance function | <p>regulatory requirements, in support of the Bank's goals and strategies and recommend approval thereof by the Board;</p> <ul style="list-style-type: none"> ➤ Monitor the implementation of the Bank's Compliance Program and ensure that compliance issues are resolved expeditiously; ➤ Monitor the Bank's compliance with the applicable laws, regulations and rules of regulatory agencies and recommend to the Board appropriate actions based on the review of the reports submitted to/by Compliance Office; and ➤ Review the regular reports submitted by Compliance Office as well as reports on significant compliance issues, general status of Bank's level of compliance, relevant regulations, updates and other compliance matters. |
| Related Party Transactions Committee (RPTC) | Assists the Board of Directors in ensuring that transactions with related parties are conducted at fair/arms-length terms and that corporate or business resources of the Bank are not misappropriated or misapplied | <ul style="list-style-type: none"> ➤ Compliance Office's guidance on RPT proponents for the review and endorsement of RPTs to the RPTC ➤ Use of the RPT and DOSRI Determination & Review Checklists facilitates Compliance Office's and the RPTC's review of RPTs |

G. INTERNAL AUDIT AND CONTROL

1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company -

- Internal control system is defined as the framework under which the policies, procedures, and activities established by management and the board are developed and implemented to manage and control a particular risk or business activity to which the Bank is exposed.

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate –

- Based on the Report of the Audit Committee to the Board of Directors (for the year ended 31 December 2016), the Audit Committee reviewed with the Internal Audit Group (IAG) the results of its examinations and evaluations of internal control processes; and monitored and assessed the adequacy and effectiveness of internal control system. Given the foregoing, the Audit Committee confirmed that the Bank's internal controls are adequate and effective in all material aspects.

(c) Period covered by the review –

- The review is for the year ended 31 December 2016.

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system –

- Review of internal controls is done by the Audit Committee thru the IAG based on the internal audit reports. Review of control's effectiveness is done per engagement using the IAG's standard audit rating system and the audit programs as criteria.

(e) Where no review was conducted during the year, an explanation why not. –

- N/A

2) Internal Audit

(a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

| Role | Scope | Indicate whether In-house or Outsource Internal Audit Function | Name of Chief Internal Auditor/ Auditing Firm | Reporting process |
|---|--|--|---|---|
| To provide assurance services – an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes of the organization. | The scope encompasses, but is not limited to, the evaluation and improvement of the adequacy and effectiveness of the bank's governance, risk management process, and system of internal control to achieve its stated goals and objectives. | In-house | Atty. Emma B. Co | <p>A written report is prepared and issued by the Chief Audit Executive (CAE) or designee following the conclusion of each audit engagement and distributed to the members of the Board of Directors through the Audit Committee, the President, and other appropriate management personnel.</p> <p>The audit report include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response includes a timetable for anticipated completion of actions to be taken and an</p> |

| | | | | |
|---|---|----------|------------------|--|
| | | | | explanation for any corrective action that will not be implemented. |
| To provide consulting services which are intended to add value and improve the organization's governance, risk management and control processes without assuming management responsibility. (E.g. counsel, advice, facilitation, and training.) | The nature and scope are agreed with the client | In-house | Atty. Emma B. Co | A written report is prepared and issued by the CAE at the end of each consulting engagement. |

(b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

- The Audit Committee recommends to the Board the appointment, reappointment and dismissal of the Chief Audit Executive (CAE). Senior Management may recommend the appointment, reappointment, and dismissal of the CAE subject to the concurrence of the Audit Committee.

The Audit Committee recommends to the Board for approval, subject to ratification of the shareholders, the appointment, reappointment and dismissal of external auditors. The committee also approves the in-sourcing and out-sourcing of certain audits or engagements.

(c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

- The CAE heads the IAG and reports directly/functionally to the Audit Committee and administratively to the President. The IAG, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of PSBank functions, records, physical properties, and personnel relevant to carrying out any engagement. IAG also has direct and unrestricted access to senior management, Audit Committee and the Board.

(d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

| Name of Audit Staff | Reason |
|------------------------|-----------------------------|
| Michelle Aquino | Personal reasons |
| Ma. Teresita Yuchingco | Death |
| Franco Jessie Duran | Transfer to another company |

(e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

| | |
|-------------------------------|--|
| Progress Against Plans | |
|-------------------------------|--|

| | |
|---------------------------|--|
| | For FY 2016, IAG completed a total of 379 projects against plan of 358. The positive variance was due to the completion of additional regular audit, re-audit, continuous audit, and special audit projects; and excess of actual case investigations versus plan as completed by the different audit divisions using unused budgeted man-days for some completed engagements. Lesser man-days were spent due to the improved audit processes such as simplification of working paper documentation and use of analytical tools. |
| Issues | Issues are brought to the attention of the auditee thru the Audit Finding Sheet and Summary of Issues and Recommendations; and discussed with the auditees during the exit meetings. |
| Findings | Significant findings are reported to the Board thru the Audit Committee, Senior Management and Line Management together with the audit recommendations and management action plans. |
| Examination Trends | Unresolved issue are encoded in the Bank's Exception Management System at the end of each engagement for issue monitoring, tracking of resolution and building-up of issue-database, Regular reporting of the unresolved significant issues is done by IAG to the Audit Committee. |

The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

- 1) Preparation of an audit plan inclusive of a timeline and milestones;
- 2) Conduct of examination based on the plan;
- 3) Evaluation of the progress in the implementation of the plan;
- 4) Documentation of issues and findings as a result of the examination;
- 5) Determination of the pervasive issues and findings ("examination trends") based on single year result and/or year-to-year results;
- 6) Conduct of the foregoing procedures on a regular basis.]

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation."

| Policies & Procedures | Implementation |
|-------------------------------------|-----------------------|
| Risk-Based Audit Planning Framework | Implemented |
| IAG personnel job descriptions | Implemented |
| IA charter | Implemented |
| Rules of engagement | Implemented |
| Engagement planning procedures | Implemented |
| Audit Fieldwork | Implemented |
| Reporting process | Implemented |
| Audit monitoring and follow-up | Implemented |
| Audit Rating System | Implemented |
| Working paper guidelines | Implemented |

(g) Mechanisms and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and

imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

| Auditors (Internal and External) | Financial Analysts | Investment Banks | Rating Agencies |
|--|--|--|--|
| <p>Presence of an Audit Committee-approved IA charter that provides the following:</p> <ul style="list-style-type: none"> ▪ IAG reports functionally to the Audit Committee and administratively to the President. ▪ Internal auditors shall have no direct operational responsibility or authority to any of the activities they review. ▪ Internal auditors shall not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity which would normally be audited and may impair their judgment. | <p>The Finance Group, in coordination with other key departments, accommodates requests for information pertaining to the management of the Bank, stockholders rights or any bank related issues. In addition, the Bank ensures that it is transparent to our shareholders by posting the latest public disclosures on the Investor Relations section of its website and press releases.</p> | <p>PSBank engaged the services of investment banks during its Tier 2 Notes issuances in February 2012 and May 2014. Under the terms of agreements, the investment banks - appointed as selling agents - were mandated to ensure that they are jointly responsible for investor and trade information contained in Tier 2 documents together with the Issuer, and that, in the performance of their respective functions, they were required to fully comply with the Regulations, including ensuring that the Notes are sold to qualified holders. The same agreements were made between PSBank as the issuer of Long-Term Certificates of Time Deposit and its counterparties / selling agents in January 2017.</p> | <p>PSBank likewise engaged the services of a rating agency as part of its Tier 2 Notes issuance. The rating agency stated its commitment as follows “to express an independent, objective and fair credit opinion, adhering to its credit rating standards and ensuring that the credit rating function shall be performed with utmost professional competence”.</p> |
| Rotation of internal auditors’ assignments, whenever it is practicable to do so, to prevent potential and actual conflict of interest. | | | |
| Persons transferred to or temporarily engaged by IAG are not assigned to audit those activities they previously had responsibility for at least one year from the date they were reassigned. | | | |
| Internal auditors to | | | |

| Auditors (Internal and External) | Financial Analysts | Investment Banks | Rating Agencies |
|--|--------------------|------------------|-----------------|
| <p>comply with independence and objectivity guidelines by reviewing and signing the Audit Project Independence Statement at the start of each engagement. If there is a probability that the auditor's independence is impaired at the start or during the course of the engagement, this should be reported to the Audit Dept. Head/Division Head who will reassign the auditor. The signed independence statement is filed with the rest of the engagement working papers.</p> | | | |
| <p>The Audit Committee evaluates and determines the non-audit works to be performed by the external auditor. Disallows any non-audit work that will conflict with the external auditor's duties or may pose a threat to his independence. Discloses in the Bank's annual report, non-audit work, if allowed.</p> | | | |
| <p>External auditor or its lead audit partner primarily responsible for the audit or review of the Bank's financial accounts is rotated at least once every 5 years or such shorter or longer period provided under applicable laws and regulations.</p> | | | |

(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

- Based on the results of the annual evaluation, the Bank's Compliance Officer confirms the Bank's full compliance with the SEC Code of Corporate Governance and with the requirements of the Corporate Governance Manual.

H. ROLE OF STAKEHOLDERS

1) Disclose the company's policy and activities relative to the following:

| | Policy | Activities | |
|--|--|------------|-------|
| Customers' welfare | <u>PSBank Customer Complaints Management</u> | | |
| | 1. All customer complaints are handled by Customer Experience Division – Consumer Assistance Management Department (CAMD). | | |
| | 2. Customers may forward/send their complaints via the ff. channels. Contact information is visibly displayed in the branches and on the bank’s website. | | |
| | a. Email | | |
| | i. Consumer Assistance Management Department – consumerassistance@psbank.com.ph | | |
| | ii. Customer Experience Division - customerexperience@psbank.com.ph | | |
| | b. SMS | | |
| | i. 998-845-8888 | | |
| | c. Landline | | |
| | i. Consumer Assistance Management Dept. – 885-8208 local 8122, 8322 and 8324 | | |
| ii. Customer Experience Hotline – 845-8888 | | | |
| d. Live Chat – by visiting www.psbank.com.ph | | | |
| e. PSBank Corpsite – www.psbank.com.ph (Contact Us link) | | | |
| f. Mail | | | |
| PSBank Center, 777 Paseo De Roxas corner Sedeño St. Makati City | | | |
| g. Fax - 845-0048 | | | |
| h. Over-the-counter at all branches, Customer Experience Division, or Head Office units | | | |
| i. PSBank’s Social Media page @psbankofficial (via PM) | | | |
| 3. Complaints are encoded in an automated system known as RUSH.net (Request Using Service Helpdesk) under Customer Issues following a 4-Step Process. Any PSBank employee can encode in the customer’s behalf: | | | |
| CUSTOMER ISSUES Process (RUSH.net) | | | |
| # | Activity | TAT | Owner |

| | | | |
|---|--|------------|---|
| 1 | Acknowledgement | 30 Minutes | CXD Service Recovery Team |
| 2 | Decision / Disposition | 2 Hours | Emergency Recovery Team (Designated Senior Officers) |
| 3 | Investigation and XMAN Encoding. Provide Feedback to Client. | 8 Hours | CXD Service Recovery Team |
| 4 | Close Item | 8 Hours | Requestor / Encoder |

The Customer Issues Process is triggered by customer feedback, issues and complaints encoded in Rush.net that need immediate decision or resolution. It is implemented using 4 steps.

STEP 1 ACKNOWLEDGEMENT

- Customer Issues encoded in RUSH.net will be queued to CXD Service Recovery Team
- The CXD Service Recovery Team will call the customer to acknowledge receipt of complaint and gather additional information if necessary.
- After the call out, the CXD Service Recovery Team shall classify the complaint - whether it is a CODE RED or BLUE and immediately escalate the complaint to the Emergency Recovery Team (ERT).
- TAT for this activity is 30 minutes.

CODE RED CHECKLIST

Check if any of the listed elements are present in the case.

| | ELEMENTS FOR CODE RED |
|-------------------------------------|--|
| <input checked="" type="checkbox"/> | Value Client (value is based on standard multiplier provided by BIMS) |
| <input checked="" type="checkbox"/> | With Media Threat from various Media and High Profile Personalities which includes among others: <ol style="list-style-type: none"> Newspaper reporters and writers Television reporters and correspondents Influential actors and personalities High profile politicians and government officials |
| <input checked="" type="checkbox"/> | Internet Smear Campaign (i.e. Blogs, Social Networking Site posts, tweets, etc.) |
| <input checked="" type="checkbox"/> | Complaint filed by Bangko Sentral ng Pilipinas (BSP) Deputies |
| <input checked="" type="checkbox"/> | Complaint is filed by individuals known by PSBank Senior Officers or Board of Directors |
| <input checked="" type="checkbox"/> | Complaints raised to BSP and other government / regulatory bodies |
| <input checked="" type="checkbox"/> | Fraud-related Complaints |

CODE BLUE – for complaints without the elements listed above

STEP 2 RESOLUTION

| | <ul style="list-style-type: none">Once complaint is acknowledged, the Customer Issue will be simultaneously queued to the pool / cluster designated Senior Officers in RUSH.netThe designated senior officers are given a 2-hr TAT to encode a decision and mark the activity as done.An SMS will be automatically sent to the President and Executive Vice President if no decision was encoded and the TAT was breached.<ul style="list-style-type: none">SMS Script – Pending Customer Issue Rush # <rush request number>Four senior officers are assigned as the initial members of the pool of designated senior officers’ cluster.Depending on the classification, complaints will immediately and simultaneously be escalated to the Emergency Recovery Team (ERT) <table><tr><th>CODE</th><th>ERT Members</th><th>NOTE</th></tr><tr><td>RED</td><td>Executive Vice-President (EVP) CXD Head Process Owner Representative Corporate Communications Head – MCEG - for cases with media impact or requiring Public Relation (PR) solutions</td><td>With copy furnished to the President on details of escalated complaint and case updates</td></tr><tr><td>BLUE</td><td>Process Owner Representative</td><td></td></tr></table> <ul style="list-style-type: none">Fraud-related Complaints should be simultaneously escalated to Internal Audit Group (IAG) and the process owner.E-Fraud related complaints (i.e. unauthorized card usage via ATM, Online, POS) shall be endorsed to Information Security Division – Electronic Fraud Management Division and Fraud Risk Manager; copy furnished IAG <p>STEP 3 INVESTIGATION & ENCODING IN AN AUTOMATED SYSTEM KNOWN AS XMAN (Exception Management)</p> <ul style="list-style-type: none">Full investigation of the Customer Issues will be conducted.Complete details of the investigation are gathered and encoded in XMAN (Exception Management System), an automatic system for tracking exceptions in bank operations.Assignment and completion of resolution will be tracked thru XMAN.Closure of the Customer Issues is completed in XMAN.TAT for this activity is 8 hours. <p>STEP 4 CLOSING</p> <ul style="list-style-type: none">CAMD shall provide Feedback and Resolution to the client/complainant though call, SMS, email, or mailEncoder (channel where the complaint is filed) shall close the encoded customer issue in RUSH.net <p>4. A summary report on customer complaints received is sent to the President, EVP, BBG Head, LOG Head, and ITD Head on a daily basis.</p> | CODE | ERT Members | NOTE | RED | Executive Vice-President (EVP) CXD Head Process Owner Representative Corporate Communications Head – MCEG - for cases with media impact or requiring Public Relation (PR) solutions | With copy furnished to the President on details of escalated complaint and case updates | BLUE | Process Owner Representative | |
|--|---|--|-------------|------|-----|---|--|------|------------------------------|--|
| CODE | ERT Members | NOTE | | | | | | | | |
| RED | Executive Vice-President (EVP) CXD Head Process Owner Representative Corporate Communications Head – MCEG - for cases with media impact or requiring Public Relation (PR) solutions | With copy furnished to the President on details of escalated complaint and case updates | | | | | | | | |
| BLUE | Process Owner Representative | | | | | | | | | |
| Supplier/contractor selection practice | <div>Risk-based Outsourcing and Accreditation policies & procedures</div> <div>➤ Preparation by the proponent units of the documentary requirements set forth in the Bank’s Outsourcing &</div> | | | | | | | | | |

| | | |
|---|---|---|
| | | <p>Accreditation Policies & Procedures</p> <ul style="list-style-type: none"> ➤ Review by the General Services Division of the completeness and propriety of the submitted documentary requirements vis-à-vis requirements set forth by the BSP for entering into outsourcing arrangements ➤ Review by the Bank's Legal Department of the proposed Service Level Agreements or Memorandum of Agreements vis-à-vis the Bank's standards ➤ Review and endorsement of all such outsourcing proposals and renewals by the Bank's Outsourcing Oversight Committee (OOC), a Management-level committee ➤ Approval of the Board of Directors (for new proposals) or the President (for renewals) as endorsed by the OOC ➤ Periodic performance evaluation/appraisal of the Bank's service providers |
| Environmentally friendly value-chain | <p>From a mere contest on the "Small things you can do at work to help the environment," it became PSBank's culture to care for the environment. Since then, efforts to reduce the building's carbon footprint has been implemented, such as having only two (2) elevators operating from 7pm to 6am; having four (4) elevators turned off in the evening as PSBankers are encouraged to use the stairs; using LED lights in some of the floors (more wings to follow); and turning off of light during lunch breaks. The PSBank Center has also been a no smoking zone for quite some time already.</p> <p>PSBank also continues to join the Earth Hour programs within the Metrobank Group.</p> <p>PSBank in cooperation with Manila Doctors Hospital (MDH) has adopted an area in the Arroceros Park (believed to be the last forest park in the City of Manila). PSBank has started its clean-up drive on the adopted area and soon planting will start. The adopted area is called "Shrine for the Creative Mind."</p> | |
| Community interaction | <p>1. PSBank Educational Assistance Program</p> <p>For over nine years now, PSBank has been providing educational grants to 51 less privileged but deserving students of Chiang Kai Shek College (CKSC) and Association of Chinese Filipino Schools in the Phils (ACFSP) under the PSBank Educational Assistance Program. Each ACFSP scholar receives a PhP10,000 grant every school year while every CKSC scholar is given PhP10,000/semester. The college scholars are enrolled in Accountancy, IT, Marketing or Nursing programs. They also get priority hiring status in PSBank upon graduation, provided they pass the reasonable qualification requirements and standards set by PSBank. They will also be given preferential accommodation to take their practicum in PSBank as part of their compliance with their course requirements. To date, 22 scholars have graduated</p> | |

| | |
|--|--|
| | <p>from college.</p> <p>2. Save It Forward Program</p> <p>Under the Save It Forward program, PSBank awarded scholarships to benefit children from non-profit organizations such as World Vision and Resources for the Blind. Since the program started, we have been sending these scholars to school until they complete their elementary or high school education. To date, 61 scholars have graduated. World Vision provides opportunities for generous donors to send a less-fortunate child to school for only PhP600/month or PhP20/day. The sponsorship makes sure that the child is in good health and goes to school. It also empowers the community by providing them with livelihood to improve their economic status. Resources for the Blind, on the other hand, makes a difference in the lives of visually impaired children by providing special education with the aim of community integration.</p> <p>3. Metrobank Foundation’s Annual Search for the Country’s Outstanding Police Officers in Service (COPS)</p> <p>To honor the best men and women in uniform and further promote community partnership in preventing and solving crimes, the Metrobank Foundation, Rotary Club of New Manila East, the Philippine National Police and PSBank hold the Annual Search for the Country’s Outstanding Police Officers in Service (COPS). On its 14th year, 10 more awardees were added to the roster of outstanding police officers and each received PhP500,000 in cash prize, a trophy, and a Metrobank Foundation medallion.</p> <p>4. Participation in cause-oriented fun run activities</p> <p>A total of 164 PSBankers joined the Annual Fun Run of World Vision, Tytana College Founder’s Run, and Earth Day Run in 2016.</p> <p>5. Annual financial assistance to the World Vision, Resources for the Blind, Chosen Children Village Foundation i.e. for children who are either special, abandoned or orphaned</p> <p>6. Responsible Rest and Recreation (R3) In partnership with Manila Doctors Hospital (MDH) PSBank participated in a Medical Mission held in Doña Remedios Trinidad, Bulacan. Said mission catered to the medical needs of the “Dumagats”, indigenous group of people. The beneficiaries which consisted 2,774 individuals, including the Dumagat indigenous people received free medicines and medical services such as blood pressure monitoring, eye and dental check-up, minor surgery procedures, OB-GYNE and dermatology consultations, and pediatric care for the children. Called the R3, not only do the volunteers contribute to the Bank’s CSR, they also have the chance to enjoy nature and mingle with other cultures.</p> <p>7. Participation in World Vision Run 2016 and ProEarth Run 2016.</p> <p>8. Bags of Blessing in coordination with Metrobank Foundation wherein bags of groceries were given to 10,000 indigent families in Metro Manila, Cebu, Bicol, and Davao on Chinese New Year.</p> |
| Anti-corruption programmes and procedures | <p>No specific anti-corruption programs and procedures but this is already captured in the Bank’s Policy & Procedures re: Reporting of Impropriety or Malpractice which is the Bank’s “Whistle Blowing” policy</p> <p>➤ Reporting of noted improprieties/malpractices by discovering personnel/informant whereby all employees of the Bank are duty-bound to report such and</p> |

| | | |
|---------------------------------------|--|---|
| | | <p>failure to report is a punishable administrative offense</p> <ul style="list-style-type: none"> ➤ Receipt of such report by the informant's Group Head, HRG Head or the Internal Audit Group (IAG) Head ➤ Investigation of IAG ➤ Disciplinary due process in accordance with the Bank's Code of Conduct ➤ Reward system for reporting personnel as may be recommended by the IAG Head if the incident resulted to actual or potential monetary/non-monetary loss to the Bank |
| Safeguarding creditors' rights | The Bank safeguards creditor's right by complying to BSP circular 454, which provides guidelines on unfair collection practices. | <p>Observance of KYC practices and confidentiality during the collection calls.</p> <p>Adherence to the guidelines set by BSP with regard to collection activities.</p> |

Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?

➤ Yes.

2) Performance-enhancing mechanisms for employee participation.

(a) What are the company's policy for its employees' safety, health, and welfare?

- The Bank supports a clean and healthy lifestyle among its employees. It also promotes work-life balance for its employees and dependents.

Health. The Bank provides the below health benefits:

- Health card for employees and qualified dependents;
- Hospital cash assistance;
- Medical, dental and optical subsidies for employees;
- Maternity benefit; and,
- Vaccination (Flu, Cervical Cancer, Pneumonia and/or Hepatitis A and B) for employees and/or dependents at a lower cost and at staggered payment scheme.
- Annual Physical Examination for employees and their dependents.
- Availability of clinic with two nurses on duty from Monday to Friday and physician from Tuesday to Friday.
- All PSBank Branches are ensured to have their own first-aid kit.

Welfare. Employees are encouraged to avail gym membership at discounted corporate rates and join activities, such as but not limited to sports tournaments, fun run and team building activities. These activities are not only good for health; they also build competitiveness and camaraderie. The Bank also partnered with Philippine Children's Medical Center (PCMC) for annual bloodletting program.

To give employees an opportunity for rest, recreation, and to attend to their personal concerns, they are entitled to different types of leaves annually – vacation, sick, emergency, maternity, paternity, etc.

The Bank institutionalizes family-bonding activities, such as the Christmas Kiddie Party and the Educational Fun Day.

Safety. The Bank has an Occupational Health and Safety (OSH) Program that aims to ensure that the workplace is safe and free from work hazards that may cause or likely cause physical harm to the workers, or damages to property.

For this, the Bank has the following initiatives:

- Annual Emergency Drills drill to ensure that all employees are prepared during emergencies;
- First Aid Training for appointed First Aiders of Branches and Head Office Divisions.
- Regular maintenance of critical equipments like the elevators, generator sets and air-conditioning systems to ensure that occupants are comfortably served well and safe;
- Rehabilitation of the electrical system of the head office building;
- Rehabilitation of the centralized air-conditioning systems;
- Availability of purified water is made available to all employee;
- A housekeeping program enforced by a quality unit via random checks and visits to work areas (both head office and branch premises) ensuring 100% compliance to the good housekeeping guidelines of the Bank.
- A text reporting program where employees are encouraged to report busted signage, unkempt façade, faulty ATMs, and the like of branch areas to the responsible quality unit for immediate repair and maintenance.
- A housekeeping team by a service provider helps ensure the building and branch premises are clean;
- Implemented the no smoking policy within the building in coordination with HRG; and,
- 24-hour security at the head office and selected branches; placement of security alarms

Every now and then, the Bank through email sends articles pertaining to Health, Safety and Wellness.

(b) Show data relating to health, safety and welfare of its employees.

➤ PSBank held the following Health/Welfare activities:

2014

| Activity | Date | No. of Employees (and Dependents) Covered |
|---|--------------------------------------|---|
| Central Luzon Badminton Tournament | March 29, 2014 | 28 |
| Basketball Tournament | April 26 – July 12, 2014 | 315 |
| Volleyball Tournament | April 26 – July 12, 2014 | 48 |
| Vaccination Program (including dependents) - Head Office - Branches | May 17, 2014 | 585 209 |
| Educational Fun Day | May 17, 2014 | 120 |
| South Luzon Bowling Tournament | May 31, 2014 | 62 |
| World Vision Run | June 22, 2014 | 124 |
| Bowling Tournament | August 2 & 9 2014 | 64 |
| Executive Checkup | September 1, 2014 – January 31, 2015 | 46 |
| Annual Physical Checkup | October 1 – | 2,730 |

| Activity | Date | No. of Employees (and Dependents) Covered |
|------------------------|-------------------|---|
| (including dependents) | November 30, 2014 | |
| Halloween Party | October 29, 2014 | 100 |
| Badminton Tournament | December 6, 2014 | 80 |

2015

| Activity | Date | No. of Employees (and Dependents) Covered |
|--|--------------------------|---|
| Basketball Tournament | April 18 – July 12, 2015 | 286 |
| Volleyball Tournament | April 18 – July 11, 2015 | 44 |
| Davao – Digos Bankers Table Tennis Tournament | May 3, 2015 | 5 |
| Zamboanga Bankers Sports Fest | May 24, 2015 | 17 |
| Cebu Inter-Branch Bowling and Billiards Tournament | June 3, 2015 | 63 |
| Aklan Inter-Color Basketball Tournament | June 20, 2015 | 5 |
| Vigan Bankers Run-For-A-Cause | June 27, 2015 | 5 |
| Educational Fun Day | May 16, 2015 | 160 |
| Bowling Tournament | June 13 & 20, 2015 | 64 |
| World Vision Run | June 21, 2015 | 131 |
| Self-Defense Workshop | June 26 & 27, 2015 | 50 |
| Central Luzon Bowling Tournament | July 17, 2015 | 115 |
| Badminton Tournament | October 17, 2015 | 96 |

2016

| Activity | Date | No. of Employees (and Dependents) Covered |
|----------------------------------|----------------------------|---|
| Tytana Fun Run | February 13, 2016 | 12 |
| Paintball Tournament | April 23, 2016 | 100 |
| Earth Day Run | April 30, 2016 | 17 |
| World Vision Run | June 26, 2016 | 135 |
| Bowling Tournament | July to August 2016 | 64 |
| Volleyball Tournament | September to November 2016 | 48 |
| Basketball Tournament | September to November 2016 | 293 |
| Bowling Tournament | October 10, 2016 | 72 |
| Banker's Bowling Tourney | September to December 2016 | 11 |
| RMG's First Badminton Tournament | October 29, 2016 | 6 |
| Kids Convention | November 19, 2016 | 100 |
| World Vision Run | June 21, 2015 | 131 |
| Badminton Tournament | October 17, 2015 | 96 |

The following workshops, training, seminars and drills on Safety were conducted and attended:

| Activity | Date | No. of Employees (and Tenants) Covered |
|---|-----------------------------------|--|
| Basic Occupational Health and Safety Training | Various Dates (2014 & 2015) | 4 |
| Fire Safety Seminar | May 16, 2014 | 70 |
| First Aid Seminar | June 5 & 6, 2014 | 17 |
| Fire Drill (Head Office Employees and Tenants) | July 3, 2014 | 980 |
| Earthquake Safety Seminar | July 10, 2015 | 110 |
| First Aid Seminar | April 25 and November 05-06, 2015 | 52 |
| Earthquake Drill (Head Office Employees and Tenants) | July 30, 2015 | 1,171 |
| Fire Safety Seminar | April 15, 2016 | 78 |
| Emergency Brigade Briefing | April 21, 2016 | 70 |
| Fire Drill (Head Office Employees and Tenants) | May 6, 2016 | 1,222 |
| Metrowide Shake Drill (Head Office Employees and Tenants) | June 22, 2016 | 1,398 |

The Bank has come up with the following announcements on Health, Safety and Welfare:

- "What Should I Do In Case of Earthquake?" (May 30, 2014);
- "What You Need To Know About Diabetes Mellitus" (July 6, 2015);
- "What To Know and Do Before Emergency?" (July 6, 2015)
- "What You Need to Know About Pulmonary Tuberculosis" (August 17, 2015)
- "What You Need to Know About Dengue Fever" (October 9, 2015)
- "What You Need to Know About Diarrhea" (November 10, 2015)
- "What You Need To Know About EBOLA Virus?" (November 20, 2014); and,
- "Effects Of Chronic Kidney Disease To Our Bones" (November 25, 2014).
- "Zika Virus Infection" (February 18, 2016);
- "Cardiac Arrest vs. Heart Attack" (February 23, 2016);
- "Heat Stroke" (March 18, 2016);
- "Norovirus" (May 10, 2016);
- "Asthma" (May 11, 2016);
- "Leptospirosis" (June 10, 2016);
- "Hepatitis B" (July 1, 2016);
- "Influenza" (July 5, 2016);
- "Tuberculosis" (August 5, 2016);
- "August 12, 2016" (August 12, 2016);
- "Carpal Tunnel Syndrome" (October 11, 2016);
- "Measles" (October 28, 2016);
- "HIV/AIDS" (December 20, 2016).

(c) State the company's training and development programmes for its employees. Show the data.

The Bank provides the below listed training and development programs.

- New Employees Orientation (NEO) – provided to all newly hired employees
- Staff Professional Enhancement and Educational Development (SPEED) program
- eXceptional Career Enhancement and Employee Development (XCEED) program
- Compliance Training (i.e. AMLA)

- Systems Training
- Functional/Technical Training
- Product Knowledge Orientation
- Behavioral Training (Effective Leadership; Train the Trainers Workshop, etc.)
- Branch Operations Training for (Customer Service Associates; Branch Service and Control Officers and Branch Heads)

Training Data:

Internal Trainings

| Training | Total No. of Attendees | |
|----------------------|------------------------|------|
| | 2015 | 2016 |
| NEO | 389 | 318 |
| SPEED | 16 | 32 |
| XCEED | N.A. | 39 |
| Systems Trainings | 744 | 101 |
| Products | 390 | 609 |
| Functional Trainings | 1318 | 1081 |
| Behavioral Trainings | 221 | 626 |

External Trainings

| | 2015 | 2016 |
|-----------------------------------|------|------|
| Total No. of Trainings | 92 | 110 |
| Total No. of Employees | 342 | 250 |
| Employees with Multiple Trainings | 12 | 2 |

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures

- The Bank provides the below listed programs to its deserving employees.
 - Performance Based Merit Increase (MI) program
 - Annual and Quarterly Incentive scheme
 - Annual and Quarterly Recognition program thru the President's Cup
 - Promotions

3) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behaviour? Explain how employees are protected from retaliation.

- As mentioned above, an employee who comes to know about an illegal activity, malpractice and/or unethical behavior which are considered violations of the Bank's Code of Conduct should report to proper authorities, otherwise the same becomes a violation of the Code of Conduct itself.

As far as possible, the identity of the employee is held confidential unless it becomes in itself a violation of the rights of the other. And, when that happens the Bank sees to it that the rights of the whistle blower are protected, including that of retaliatory acts by the complained employee.

I. DISCLOSURE AND TRANSPARENCY

1) Ownership Structure

a. Holding 5% shareholding or more

| Shareholder | Number of Shares | Percent | Beneficial Owner |
|---|------------------|----------|---|
| Metropolitan Bank and Trust Co. Metrobank Plaza, Gil Puyat Avenue, Makati City (Parent Company of PSBank) | 198,629,513 | 82.6753% | Arthur V. Ty (Chairman of Metrobank) |
| Danilo L. Dolor # 56 Tamarind Rd., Forbes Park, Makati City | 12,610,891 | 5.249% | Danilo L. Dolor |

2) Does the Annual Report disclose the following:

| | |
|---|--|
| Key risks | Yes |
| Corporate objectives | Yes |
| Financial performance indicators | Yes |
| Non-financial performance indicators | Yes |
| Dividend policy | Yes. Subject to existing BSP and SEC rules and regulations, starting 2012, the Bank pays its stockholders a regular cash dividend rate of 30%, or Php3.00 per share annually which is paid quarterly at Php0.75 per share. |
| Details of whistle-blowing policy - referred to as reporting of violations in the PSBank AR | Yes |
| Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners | Yes |
| Training and/or continuing education programme attended by each director/commissioner | Yes |
| Number of board of directors/commissioners meetings held during the year | Yes |
| Attendance details of each director/commissioner in respect of meetings held | Yes |
| Details of remuneration of the CEO and each member of the board of directors/commissioners | Yes |

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

3) **External Auditor's fee**

| Name of auditor | Audit Fee | Non-audit Fee |
|-----------------|--------------|---------------------------|
| SGV and Company | Php2,587,200 | Php3,089,234 ⁸ |

4) **Medium of Communication**

List down the mode/s of communication that the company is using for disseminating information.

- Branches, ATMs, Customer Updates newsletter, Statements of Account, SMS and e-mail blasts, Annual Report, Corporate Website, Flyers, Brochures, Sales Kits, Media Releases, PSE disclosures

5) **Date of release of audited financial report:**

- February 23, 2017

6) **Company Website**

- www.psbank.com.ph

Does the company have a website disclosing up-to-date information about the following?

| | |
|--|-----|
| Business operations | Yes |
| Financial statements/reports (current and prior years) | Yes |
| Materials provided in briefings to analysts and media | Yes |
| Shareholding structure | Yes |
| Group corporate structure | Yes |
| Downloadable annual report | Yes |
| Notice of AGM and/or EGM | Yes |
| Company's constitution (company's by-laws, memorandum and articles of association) | Yes |

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

7) **Disclosure of RPT**

| RPT | Relationship | Nature | Value (in thousands of Php) |
|--------------------------|--------------------------|-----------------------------------|-----------------------------|
| Retirement Benefit Funds | Retirement Benefit Funds | Investment in Money Market Fund | 58,851 |
| | | Deposits in bank | 3 |
| | | Gain on sale of equity securities | 246,455 |
| | | Dividends earned | 6,901 |
| | | Interest income | 7 |

⁸ Non-audit fees includes non-regular audit services such as the consultancy services entered into with SGV & Co. to perform diagnostic, gap analysis and knowledge transfer for purposes of implementing new impairment model under BSP Circular No. 855 and IFRS9 Financial Instruments.

| | | | |
|-------------------------------------|----------------------|--|-----------|
| | | Income from Unit Investment Trust Fund (UITF) | 1,179 |
| | | Equity Investment to Sumisho Motor Financing Corporation | 200,000 |
| Metropolitan Bank and Trust Company | Significant Investor | Interbank Loans Receivables | - |
| | | Due from other banks | 1,452,777 |
| | | Accounts Receivable | 6,849 |
| | | AFS Investments | 51,757 |
| | | Miscellaneous Assets | 781 |
| | | Accrued other expense payable | 57,590 |
| | | Miscellaneous Liabilities | 6,242 |
| | | Interest Income | 4,077 |
| | | Rental Income | 24,775 |
| | | Miscellaneous income | 6,022 |
| | | Information technology expense | 263,263 |
| | | Trading and securities loss | 6,937 |
| | | Interest expense | 2,144 |
| | | Outright purchases of investments | 6,374,152 |
| | | Outright sales of investments | 2,611,040 |
| Sumisho Motor Financing Corporation | Joint Venture | Equity investment | 727,176 |
| | | Accounts Receivable | 514 |
| | | Deposit Liabilities | 12,387 |
| | | Miscellaneous liabilities | 2,975 |
| | | Rental Income | 11,460 |
| | | Share in net income | 35,467 |
| | | Interest expense-deposit | 47 |
| Casa Medica Inc | Other Related Party | Receivable from customer | 7,919 |
| Bautista, Marie Dell L. | Other Related Party | Receivable from customer | 894 |
| Escudero, Janice Genevieve U. | Other Related Party | Receivable from customer | 1,549 |
| Federal Brent Retail, Inc | Other Related Party | Miscellaneous Assets | 441 |
| | | Deposit liabilities | 1,991 |
| | | Interest expense | 5 |
| | | Rent expense | 1,500 |

| | | | |
|--|---------------------|-------------------------------|---------|
| Metrobank Card Co. | Other Related Party | Accounts receivable | 1,373 |
| | | Deposit Liabilities | 40,211 |
| | | Interest income | 749 |
| | | Bank commission | 4,629 |
| | | Interest expense | 40 |
| First Asset Management Inc. | Other Related Party | Accounts receivable | 597 |
| | | Deposit Liabilities | 26 |
| | | Bills payable | 900,000 |
| | | Miscellaneous liabilities | 1,658 |
| | | Rental income | 7,165 |
| First Metro Securities Brokerage Co. | Other Related Party | Accounts receivable | 483 |
| | | Deposit Liabilities | 1,544 |
| | | Miscellaneous liabilities | 1,511 |
| | | Rental income | 5,802 |
| | | Miscellaneous income | 1,020 |
| | | Interest expense | 26 |
| Charter Ping An Insurance Corporation | Other Related Party | Prepaid Expense | 8,600 |
| | | Deposit liabilities | 587,934 |
| | | Accounts payable | 174 |
| | | Insurance expense | 78,702 |
| | | | |
| First Metro Save and Learn Balanced Fund | | Deposit Liabilities | 37 |
| | | Interest expense | 1 |
| First Metro Save and Learn Equity Fund | | Deposit Liabilities | 931 |
| | | Interest expense | 7,141 |
| First Metro Save and Learn Fixed Income Fund | | Deposit Liabilities | 32 |
| Orix Rental Corp | | Deposit Liabilities | 139 |
| Philippine Axa Life Insurance Corp. | | Deposit liabilities | 897,076 |
| | | Accrued other expense payable | 3,231 |
| | | Insurance expense | 11,431 |
| Orix Metro Leasing & Finance Corp. | | Deposit liabilities | 14,728 |
| | | Interest income | 502 |
| | | Interest expense | 2 |
| First Metro Investment Corp. | | Trading and securities gain | 2,590 |
| | | Interest expense | 1,220 |
| | | Outright purchases | 650,000 |
| | | Outright sales | 650,000 |
| Horizon Land Property Dev. Corp. | | Miscellaneous assets | 949 |
| | | Rent expense | 1,910 |

| | | | |
|---------------------------------------|--------------------------|---------------------|-----------|
| SMBC Metro Investment Corp. | | Deposit liabilities | 288,003 |
| | | Interest expense | 3,756 |
| Taal Land, Inc. | Other Related Party | Deposit liabilities | 47,990 |
| Toyota Cubao Inc. | | Interest expense | 825 |
| Toyota Financial Services Phils Corp. | | Interest Expense | 4 |
| | | Deposit liabilities | 3,869 |
| | | Interest expense | 17 |
| Toyota Manila Bay | Other Related Party | Deposit Liabilities | 5,710 |
| | | Interest Expense | 19 |
| Toyota Motor Phils Corp. | Other Related Party | Deposit Liabilities | 4,773,990 |
| | | Interest Expense | 130,015 |
| Toyota San Fernando Pampanga, Inc. | Other Related Party | Deposit Liabilities | 22,169 |
| | | Interest Expense | 104 |
| Uy, Jonathan George | Other Related Party | Outstanding Loan | 1,714 |
| Villanueva, Ma. Cynthia Matias | | Outstanding Loan | 178 |
| Key Management Personnel | Key Management Personnel | Outstanding Loan | 13,807 |
| | | Interest income | 814 |

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?

- Please refer to the Bank's policies & procedures in the handling of RPTs as earlier discussed in item B. 4) (a).

J. RIGHTS OF STOCKHOLDERS

1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

(a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

| | |
|------------------------|---|
| Quorum Required | Under Sec. 5.04 of the Amended Code of By-Laws, the quorum at any meeting of the stockholders as of record shall consist of the majority of stock entitled to vote represented in person or by proxy; less than a quorum may adjourn any meeting from time to time, and the meeting may be continued as adjourned without further notice; unless there be a quorum at such meeting no business may be transacted. |
|------------------------|---|

(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

| | |
|--------------------|---|
| System Used | Under Sec. 5.05 of the Amended Code of By-Laws, at any stockholders' meeting, voting shall be by shares of stock and not "per capita" unless the law provides otherwise. Cumulative voting shall be used in the election of the members of the Board of Directors and in ratifying corporate acts. |
| Description | <p>Voting Procedures:</p> <ol style="list-style-type: none"> 1) Majority vote is required for the approval of the Minutes of the Annual Meeting of Stockholders and confirmation of all acts of the Board of Directors, the Executive Committee and the Management. 2) Majority vote is required for the election of a member of the Board of Directors. Cumulative voting is allowed provided that the total votes cast by a stockholder shall not exceed that number of shares registered in his name in the books of the bank as of the record date multiplied by the whole number of directors elected. 3) Every stockholder entitled to vote on the particular question or matter involved shall be entitled to one vote (1) vote for each share of stock in his name. Voting shall be made <i>viva voce</i>, through the raising of hands, and counted manually by the Corporate Secretary, unless there is a motion duly made and seconded for voting to be made via balloting. |

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

| Stockholders' Rights under The Corporation Code | Stockholders' Rights <u>not</u> in The Corporation Code |
|---|---|
| None | None |

Dividends

| Quarterly Dividends | Declaration Date | Record Date | Payment Date |
|---------------------|------------------|--------------|---------------|
| 4Q2015 | Jan 19, 2016 | Feb. 1, 2016 | Feb. 19, 2016 |
| 1Q2016 | April 26, 2016 | May 11, 2016 | May 26, 2016 |
| 2Q2016 | July 22, 2016 | Aug. 8, 2016 | Aug. 22, 2016 |
| 3Q2016 | Oct 21, 2016 | Nov. 9, 2016 | Nov. 21, 2016 |

(d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

| Measures Adopted | Communication Procedure |
|------------------|--|
| Open Forum | Right after the presentation of the annual report to the stockholders, the President opens the |

| | |
|--|---|
| | floor and invites the stockholders for an open discussion on any issues / concerns / comments / feedbacks they want to raise to the Board / top management. |
|--|---|

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:

a. Amendments to the company's constitution –

- All amendments to the Bank's By-Laws are either approved during the ASM or through a Special Stockholders meeting organized for the purpose of discussing the proposed amendments. Per Article XVI of the Bank's By-Laws, the By-Laws may be amended or repealed, or new By-Laws adopted by majority vote of the Board of Directors and the owners of at least a majority of the outstanding capital stock, at a regular or special meeting duly called for the purpose. The owners of two-thirds (2/3) of the outstanding capital stock, however, may delegate this power to the Board of Directors.

b. Authorization of additional shares –

- same as item a.

c. Transfer of all or substantially all assets, which in effect results in the sale of the company – same as item a. –

- same as item a.

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?

- Yes

a. Date of sending out notices:

- 22 March 2016

b. Date of the Annual/Special Stockholders' Meeting:

- 26 April 2016

4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

Questions and Answers at the 2016 ASM

After the President's Report, stockholder Philip Turner commended the bank on the consistency of its performance as one of the best banks in the Philippines. He noted that with the changing banking industry, especially in the area of money laundering, branch heads are allowed to do many things easily on their own. He asked the PSBank President Vicente R. Cuna Jr, how the bank is controlling this aspect of its operations.

Mr. Cuna responded by saying that many banks, including PSBank, are reviewing their AMLC procedures due to the recent heist involving USD 81 million. He said that the bank has to take a good look at how it does things. For PSBank, this means that branches need to escalate their transactions up to a certain limit including incoming remittances. He explained that PSBank has limits in terms of amounts that branches can approve without referring them to the Head Office. In the case of the USD 81 million heist, he said that a transaction like that would have been referred to head office.

Mr. Turner also asked how controls are implemented within the bank especially in cases where alarms should have gone off or requests for stop payments should have been issued.

Mr. Cuna explained that even with the best controls and systems in place, banks still depend on people to process transactions. He further said that the bank will always take the risk of potential negligence or even outright fraud. In this particular case, there may even be collusion. He noted that while it is difficult to have a 100% full-proof system in place, there are usual maker and checker functions and controls are available to stop items that are out of the ordinary.

Lastly, Mr. Turner asked about auditors that visit branches to checks on branch operations.

Mr. Cuna said that PSBank has an independent internal audit team that checks branches. Its external auditor, on the other hand, conducts random checks on branches.

5. Result of Annual/Special Stockholders' Meeting's Resolutions

| Resolutions (2016) | Approving | Dissenting | Abstaining |
|---|-----------|------------|------------|
| Approval of Minutes of ASM held last April 28, 2015 | 77.65% | 0.00% | 0.00% |
| Report to the Stockholders | 77.65% | 0.00% | 0.00% |
| Confirmation of all Acts of the Board, Executive Committee and Management | 77.65% | 0.00% | 0.00% |
| Election of Directors | 77.65% | 0.00% | 0.00% |
| Appointment of the External Auditor | 77.65% | 0.00% | 0.00% |

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

- 26 April 2016 via PSE Edge and 28 April 2015 via PSE Edge

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

| Modifications | Reason for Modification |
|---------------|-------------------------|
| None | N/A |

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

| Type of Meeting | Names of Board members / Officers present | Date of Meeting | Voting Procedure (by poll, show of | % of SH Attending in | % of SH in Proxy | Total % of SH attendance |
|-----------------|---|-----------------|------------------------------------|----------------------|------------------|--------------------------|
|-----------------|---|-----------------|------------------------------------|----------------------|------------------|--------------------------|

| | | | hands, etc.) | Person | | |
|--------|---|---------------|-------------------|--------|--------|--------|
| Annual | 1. Jose T. Pardo 2. Arthur V. Ty 3. Vicente R. Cuna Jr. 4. Samson C. Lim 5. Jeanne Frances T. Chua 6. Amelia B. Cabal 7. Jose Vicente L. Alde 8. Benedicto Jose R. Arcinas 9. All PSBank officers with a rank of AVP and up | 26 April 2016 | Cumulative Voting | 77.65% | 0.003% | 77.65% |

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs? –

- The Bank uses Cumulative Voting in the ASM.

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares. –

- Yes.

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

| | Company's Policies |
|-------------------------------------|---|
| Execution and acceptance of proxies | At all meetings of stockholders, a stockholder may vote by proxy executed in writing by the stockholder or by his duly authorized attorney-in-fact, on forms prescribed by the Board of Directors and sealed with the corporate seal, at his request, shall be furnished by the Secretary of the Bank |
| Notary | Not required |
| Submission of Proxy | Shall be filed with the Secretary before or at the time of the meeting. |
| Several Proxies | Last submission shall be recognized. |
| Validity of Proxy | Proxies should be acknowledged before the Secretary of the Bank or a notary public |
| Proxies executed abroad | At all meetings of stockholders, a stockholder may vote by proxy executed in writing by the stockholder or by his duly authorized attorney-in-fact, on forms prescribed by the Board of Directors and sealed with the corporate seal, at his request, shall be furnished by the Secretary of the Bank |
| Invalidated Proxy | These may be unsigned proxies or those with incomplete information. |

| | |
|---------------------|--|
| Validation of Proxy | The Presiding Officer shall not be required to recognize the proxies executed on forms not furnished by the Secretary unless he is satisfied of the authenticity. His decision is final. |
| Violation of Proxy | None noted. |

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

| Policies | Procedure |
|--|---|
| Given by courier service and registered mail, at least 5 days before such meeting and shall be considered complete upon deposit in the post office, postage pre-paid, addressed to each stockholder as his last known place of residence appearing on the book of the Bank of a sealed envelope containing written or printed notice stating the date, hour, and place of such meeting | Sending out of DIS copies to all stockholders as of the record date no less than 21 days prior to the ASM |

(i) Definitive Information Statements and Management Report

| | |
|---|---|
| Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials | 1,531 for 2016 |
| Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners | 22 March 2016 for 2016 25 March 2015 for 2015; |
| Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders | 22 March 2016 for 2016 25 March 2015 for 2015; |
| State whether CD format or hard copies were distributed | CD format and Hard copies |
| If yes, indicate whether requesting stockholders were provided hard copies | Yes |

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

| | |
|---|-----|
| Each resolution to be taken up deals with only one item. | Yes |
| Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election. | Yes |
| The auditors to be appointed or re-appointed. | Yes |
| An explanation of the dividend policy, if any dividend is to be declared. | Yes |
| The amount payable for final dividends. | Yes |
| Documents required for proxy vote. | Yes |

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

| Policies | Implementation |
|--|----------------|
| <p>Under Section 6 (Shareholders' Benefit) of the Bank's Manual on Corporate Governance, the Bank recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors. Therefore the following provisions are issued for the guidance of all internal and external parties concerned, as governance covenant between the company and all its investors:</p> <p>6.1 INVESTORS' RIGHTS AND PROTECTION</p> <p>6.1.1 Rights of Investors/Minority Interests stockholders:</p> <p>6.1.2 Voting Right</p> <p>6.1.2.1 Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.</p> <p>6.1.2.2 Cumulative voting shall be used in the election of directors.</p> <p>6.1.2.3 A director shall not be removed without cause if it will deny minority shareholders representation in the Board.</p> <p>6.1.3 Pre-emptive Right</p> <p>All stockholders shall have pre-emptive rights, unless the same is denied in the articles of incorporation or an amendment thereto. They shall have the right to subscribe to the capital stock of the Corporation. The Articles of Incorporation shall lay down the specific rights and powers of shareholders with respect to the particular shares they hold, all of which shall be protected by law so long as they shall not be in conflict with the Corporation Code.</p> <p>6.1.4 Power of Inspection</p> <p>All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.</p> <p>6.1.5 Right to Information</p> <p>6.1.5.1 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 of the company's shares, dealings with the company, relationships among directors and key officers, and the aggregate compensation of directors and officers.</p> <p>6.1.5.2 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.</p> <p>6.1.5.3 The minority shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management shall include such information and, if not included, then the minority shareholders shall be allowed to</p> | |

propose to then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".

6.1.6 Right to Dividends

6.1.6.1 Shareholders shall have the right to receive dividends subject to the discretion of the Board.

6.1.6.2 The company shall be compelled to declare dividends when its retained earnings shall be 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.

6.1.7 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 Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:

- In case any amendment to the articles of incorporation has the In case any amendment to the articles of incorporation has the 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;
- 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
- In case of merger or consolidation.

6.1.8 It shall be the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative 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.

(b) Do minority stockholders have a right to nominate candidates for board of directors?

- Yes. Voting procedures allow minority stockholders to influence Board composition i.e. nominate candidates to the Board.

K. INVESTORS RELATIONS PROGRAM

1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

- The Bank's external and internal communications policy is contained in the Corporate Communications Manual. The contents of the manual are periodically reviewed and are now due for updating / revision. Major company announcements are reviewed and approved by the SVP/Chief Finance Officer and the President.

- 2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

| | Details |
|---------------------------------|---|
| (1) Objectives | To continually build up the trust and confidence of stakeholders; being fair and transparent in all dealings; provide reliable and better service in response to the ever-growing expectations of customers; and working with integrity and accountability. |
| (2) Principles | Striving for higher standards and pursue new approaches ensure greater transparency and integrity in all endeavors. |
| (3) Modes of Communications | PSE Odisy, Media Releases, Annual Report, Corporate Website, Mails |
| (4) Investors Relations Officer | Perfecto Ramon Z. Dimayuga Jr. |

- 3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

- The Bank conducts due diligence for extraordinary transactions and may engage the services of the financial advisor in the process. The emphasis is always in areas of possible synergy and benefits to the institution, while maintaining strict adherence to regulatory rules and regulations. The Bank also looks into the long-term prospects of a prospective investment or transaction, and the compliance of the new venture to regulations in its own industry.

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price. –

- The appointment of third parties is dependent on the requirements of the transaction. Among the firms that PSBank has engaged in past transactions include KPMG and ING Bank. However, the transactions ultimately did not push through due to reasons beyond the control of the Bank.

L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Discuss any initiative undertaken or proposed to be undertaken by the company.

| Initiative | Beneficiary |
|--|--|
| <p>PSBank Educational Assistance Program</p> <p>For years now, PSBank has been providing educational grants to 51 less privileged but deserving students of Chiang Kai Shek College (CKSC) and Association of Chinese Filipino Schools in the Phils (ACFSP) under the PSBank Educational Assistance Program. Each ACFSP scholar receives a PhP10,000 grant every school year while every CKSC scholar is given PhP10,000/semester. The college scholars are enrolled in Accountancy, IT, Marketing or Nursing programs. They also get priority hiring status in PSBank upon graduation, provided they pass the reasonable qualification requirements and standards set by PSBank. They will also be given preferential accommodation to take their on-the-job training in</p> | <p>Association of Chinese-Filipino Schools in the Philippines (ACFSP)</p> <p>Chiang Kai Shek College</p> |

| | |
|---|--|
| PSBank as part of their compliance with their course requirements. To date, 22 scholars have graduated from college. | |
| <p>Save It Forward scholars</p> <p>Under the Save It Forward program, PSBank awarded scholarships to benefit children from non-profit organizations such as World Vision and Resources for the Blind. Since the program started, we have been sending these scholars to school until they complete their elementary or high school education. To date, 61 scholars have graduated. World Vision provides opportunities for generous donors to send a less-fortunate child to school for only PhP600/month or PhP20/day. The sponsorship makes sure that the child is in good health and goes to school. It also empowers the community by providing them with livelihood to improve their economic status. Resources for the Blind, on the other hand, makes a difference in the lives of visually impaired children by providing special education with the aim of community integration.</p> | World Vision, Resources for the Blind |
| <p>Annual support to child-friendly agencies</p> <p>Aside from our scholarship programs, we also sustained our annual financial assistance to three child-friendly organizations: World Vision, Resources for the Blind, and the Chosen Children Village Foundation. This would go a long way in taking care of children who are special, abandoned or orphaned.</p> <p>Country's Outstanding Police Officers in Service (COPS)</p> <p>To honor the best men and women in uniform and further promote community partnership in preventing and solving crimes, the Metrobank Foundation, Rotary Club of New Manila East, the Philippine National Police and PSBank hold the Annual Search for the Country's Outstanding Police Officers in Service (COPS). On its ^{14th} year, 10 more awardees were added to the roster of outstanding police officers and each received PhP500,000 in cash prize, a trophy, and a Metrobank Foundation medallion.</p> | <p>World Vision, Resources for the Blind and Chosen Children Village Foundation</p> <p>The program is an initiative of Metrobank Foundation and PSBank is a program partner, together with Rotary Club of New Manila East and PNP.</p> |

M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

| Process | Criteria |
|---------|----------|
|---------|----------|

| | | |
|----------------------|--|---|
| Board of Directors | Annual performance evaluation of the Board as a Body is handled by the Corporate Governance Committee (CGC) using a checklist scorecard accomplished by each of the CGC members whereby ratings are averaged to get the overall performance ratings. Results are then reported to the Board of Directors. | Ratings ranging from 1 – 3 (with “1” being Not Observed (NO) , “2” being Needs Improvement and the highest “3” being Meets Standards (MS)) in the following component areas: <ul style="list-style-type: none"> ○ Composition & Skills ○ Independence ○ Roles & General Responsibilities ○ Specific Duties & Responsibilities ○ Resources ○ Performance ○ Board Committees |
| Board Committees | Annual performance evaluation of each of the Board Committees is handled by the concerned committees using a checklist scorecard accomplished by each of the committee members whereby ratings are averaged to get the overall performance ratings and reviewed by the CGC. Results are then reported to the Board of Directors. | Ratings ranging from 1 – 3 (with 1 as the lowest and 3 as the highest) in different component areas applicable to each of the Board Committees |
| Individual Directors | Annual performance evaluation of the individual directors is handled on a self-rating basis using a checklist scorecard accomplished by each of the directors whereby ratings are averaged to get the overall performance ratings and reviewed by the CGC. Results are then reported to the Board of Directors. | Ratings ranging from 1 –3 (with 1 as the lowest and 3 as the highest) in the following component areas: <ul style="list-style-type: none"> ○ Duty of Obedience ○ Duty of Diligence ○ Duty of Loyalty |
| CEO/President | As provided in the Corporate Governance (CG) Committee Charter, the CEO appraisal is being done by the CG Committee. | |

N. INTERNAL BREACHES AND SANCTIONS

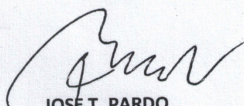
Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

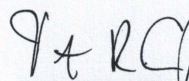
| Violations | Sanctions |
|---|--|
| Violations by directors, officers, management and employees on any of the provisions of the Bank's Corporate Governance Manual. | <p>The following penalties shall be imposed after notice and hearing:</p> <ul style="list-style-type: none"> • In case of first violation, the subject person shall be reprimanded. • Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation. • For third violation, the maximum penalty of |

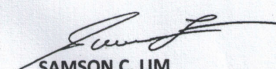
| | |
|--|--|
| | <p>removal from office shall be imposed and payment of penalties that maybe imposed by concerned regulating bodies.</p> <p>The commission of a third violation against the Bank's CG Manual by any member of the Board or officer shall be a sufficient cause for removal from directorship or officership.</p> <p>The Corporate Governance Committee shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.</p> |
|--|--|

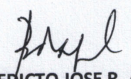
Pursuant to the requirements of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly submitted in the City of _____ on _____, 2017.

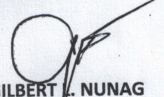
SIGNATURES


JOSE T. PARDO
Chairman of the Board


VICENTE R. CUNA, JR.
President/Chief Executive Officer


SAMSON C. LIM
Independent Director

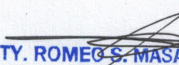

BENEDICTO JOSE R. ARCINAS
Independent Director


GILBERT L. NUNAG
Chief Compliance Officer

SUBSCRIBED AND SWORN to before me this 26 MAY 2017 day of _____, 2017, affiants exhibiting to me their passports as follows:

| NAME | Passport No. | Date of Issue |
|---------------------------|--------------|--------------------|
| JOSE T. PARDO | P1032165A | November 29, 2016 |
| SAMSON C. LIM | EB8993451 | August 28, 2013 |
| BENEDICTO JOSE R. ARCINAS | EC2758975 | November 18, 2014 |
| VICENTE R. CUNA, JR. | EC7752811 | May 19, 2016 |
| GILBERT L. NUNAG | EC5279539 | September 10, 2015 |

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Book No. 33
Series of 2017.


ATTY. ROMEO S. MASANGYA, JR.
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M-42 UNTIL DECEMBER 31, 2017
MCLE COMPLIANCE NO. V-0003774, SEPT. 25 '16
IBP NO. 1044224, 10/26/16, MAKATI CITY
PTR NO. 5909064, 01/03/17, MAKATI CITY
17TH FLR. PSBANK CENTER NO. 777 PASEO DE ROXAS
COR. SEDENO ST., MAKATI CITY
TEL NO. (02)511-8042
ROLL NO. 45164