



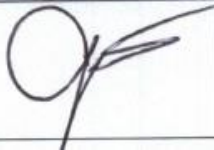
CORPORATE GOVERNANCE (CG) MANUAL

Updated 16 November 2018



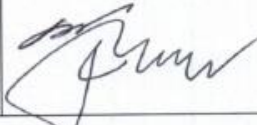
PSBank Compliance Office
17/F PSBank Center
Paseo de Roxas-Sedeño Sts., Makati City
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INITIATION OF CHANGES

Role	Name	Signature	Date
Prepared by	GILBERT L. NUNAG VP & Chief Compliance Officer		11/14/18

**CORPORATE GOVERNANCE COMMITTEE (CGC)
ENDORSEMENT SHEET**

Role	Name	Signature	Date
Endorsed by	EDUARDO A. SAHAGUN Independent Director CGC Member		11/16/18
Endorsed by	SAMSON C. LIM Independent Director CGC Member		11/14/18
Endorsed by	JOSE T. PARDO Independent Director & Board Chairman - CGC Chairperson		11/16/18

**BOARD OF DIRECTORS (BOD)
APPROVAL**

Board Resolution Number: 2018-173	Date: November 16, 2018
Please see attached duly notarized Secretary's Certificate.	

Secretary's Certificate

PHILIPPINE SAVINGS BANK

777 Paseo de Roxas Ave., corner Sedeño St., Makati City

SECRETARY'S CERTIFICATE

I, **POCHOLO V. DELA PEÑA**, of legal age, Filipino citizen, married with office address at Metrobank Plaza, Sen. Gil J. Puyat Avenue, Makati City, after having been sworn in accordance with law, depose and state:

1. That, I am the duly elected and qualified Corporate Secretary of Philippine Savings Bank, a banking institution duly organized and existing under and in accordance with the laws of the Philippines, with principal office at PSBank Center, 777 Paseo de Roxas Ave., corner Sedeño St., Makati City.

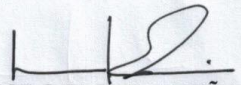
2. That, at the regular meeting of the Board of Directors of the said banking institution held on November 16, 2018, at which a majority was present the following resolution was unanimously approved:

RESOLUTION NO. 2018 - 173

"RESOLVED, That the Board of Directors of Philippine Savings Bank hereby approves the **Updated Corporate Governance (CG) Manual**, with details as stated in the pertinent Memorandum submitted to the Board;

3. That, said resolution is now in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand at MAKATI CITY this day of NOV 19 2018


POCHOLO V. DELA PEÑA
Corporate Secretary

SUBSCRIBED AND SWORN TO before me, this day of NOV 19 2018 at MAKATI CITY, affiant exhibiting to me his Passport No. EC3862298 issued at Department of Foreign Affairs, Manila on April 6, 2015.

Doc. No. 123
Page No. 26
Book No. 42
Series of 2018.

Notary Public
ATTY. ROMEO S. MASANGYA, JR.
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M-42 UNTIL DECEMBER 31, 2014
MCLE COMPLIANCE NO. V-0005774, SEPT. 25'14
IBP NO. 019696 . 01/05/18. MAKATI CITY
PTR NO. 6607056 . 01/05/18. MAKATI CITY
17TH FLR. PSBANK CENTER NO. 777 PASEO DE ROXAS
COR. SEDEÑO ST. MAKATI CITY
TEL NO. (02)511-8042
ROLL NO. 45164

SUMMARY OF CHANGES AND THEIR RATIONALE

Key changes effected to the previous **November 2017** Corporate Governance Manual (CGM) version are summarized, as follows:

#	Changes/Updates	Page(s)
1	Qualified the criteria for Independent Directors as having “ <i>not engaged within the last two (2) years whether by himself or xxx, in any transaction with the Bank or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and are immaterial</i> ”, among other conditions per SEC Memorandum Circular No. 7 s2018 dated 20 April 2018	23
2	Included the requirement of obtaining Board and BSP approvals for any changes of interlocking directorship-officership positions and of interlocking officership positions	30 & 44
3	Incorporated the notification procedures to be complied by directors before accepting directorships in other companies per Memorandum to the Board of Directors dated 24 May 2018 issued by the Board Chairman	32
4	Added the recently created Investment Committee as among the Bank’s Management-level committees	40 & 58
5	Incorporated the Board-delegated authority of the President to approve proposed changes/updates to Management-level committee charters except those of the Credit Committee and Retirement Committee per Board Resolution No. 2018-082 dated 21 May 2018	41
6	Replaced the SEC’s Annual Corporate Governance Report (ACGR) and its entailing requirements with the Integrated-Annual Corporate Governance Report (I-ACGR) per SEC Memorandum Circular No. 15 s2017 dated 15 December 2017	51 & 56
7	Incorporated the Board-delegated authority for the Corporate Governance Committee (CGC) to oversee the preparation of the Bank’s Annual Report in compliance with the requirements of BSP Circular No. 956 per Board Resolution No. 2018-047 dated 15 March 2018	55-56
8	Included the requirement for the Corporate Governance Committee (CGC) to conduct annual performance evaluation of directors and officers with multiple/interlocking positions to determine whether or not they are still able to and have been adequately carrying out their duties & responsibilities and to recommend changes to the Board, as necessary	57

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PART I - INTRODUCTION

Corporate Governance is the system of stewardship and control that guides the Bank in fulfilling its long-term economic, moral, legal and social obligations towards its stakeholders¹ (i.e. customers, creditors, employees, suppliers, investors/shareholders, as well as the government and community in which it operates). It is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and Senior Management accountable for ensuring ethical behavior - reconciling long-term customer satisfaction with shareholder value to the benefit of all stakeholders and society. Its purpose is to maximize the Bank's long-term success, creating sustainable value for its shareholders, stakeholders and the nation.²

This Manual shall be known as the “**PSBank Corporate Governance (CG) Manual**”.

It shall serve as the Bank’s reference or guide in the implementation of Bangko Sentral ng Pilipinas (BSP) **Circular No. 969** re: Enhanced Corporate Governance for BSP-Supervised Financial Institutions; the “New Code of Corporate Governance for Publicly Listed Companies” issued by the Securities and Exchange Commission (SEC) under SEC Memorandum Circular No. 19 s2016, applicable provisions in the BSP Manual of Regulations for Banks (MORB) and other relevant references. This Manual also serves as the **Board Charter** and Code of Conduct providing due guidance to all directors as to the proper discharge of their roles, duties & responsibilities and accountabilities, among other Board-related matters³.

The Board of Directors (the Board), Management, Officers and Staff of the Bank hereby commit themselves to the principles and practices contained in this Manual and acknowledge that the same will guide them in the development and achievement of the Bank’s corporate goals.

To enjoin Bank-wide compliance, this Manual is posted and available in the Bank’s InfoChannel specifically under Compliance for easy access of all employees, officers and directors of the Bank. This Manual is also posted in the Bank’s corporate website for ready access by all stakeholders of the Bank.

OUR GOVERNANCE CULTURE

We see our compliance with applicable laws, rules and regulations as a minimum requirement. Going beyond such minimum is the true essence of good corporate governance.

We always aim to continually build up the trust and confidence of our stakeholders by running our business in a prudent and sound manner, being fair and transparent in all our dealings, providing reliable and better service in response to the ever-growing expectations of our customers, and working with integrity and accountability.

¹ **Stakeholders** refer to any individual, organization or society at large who can either affect and/or be affected by the Bank's strategies, policies, business decisions and operations, in general.

² SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

³ Recommendation #2.12 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

PART II – GOVERNANCE STRUCTURE

SECTION 1. BOARD OVERSIGHT

A. Board of Directors

Compliance with the principles of good corporate governance shall start with the Board of Directors.

1. Composition of the Board

- a. Pursuant to Sec. 15 and 17 of R.A. 8791 “The General Banking Law of 2000”, there shall be at least five (5), and a maximum of fifteen (15) members of the Board. Provided, that in case of merger or consolidation, the number of directors may be increased up to the total number of the members of board of directors of the merging or consolidating entities as provided for in their respective articles of incorporation, but in no case to exceed twenty-one (21). The Board shall determine the appropriate number of its members to ensure that the number is commensurate with the size and complexity of the Bank’s operations.

To the extent practicable, the members of the Board shall be selected from a broad pool of qualified candidates. External databases of professional search firms (e.g., Institute of Corporate Directors) as well as recommendations from shareholders and existing directors shall be used for possible candidates as director. In order to promote independent oversight of management, the Board shall, to the extent practicable, be composed of a **majority of Non-Executive Directors**⁴, who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs, and to substantiate proper checks and balances. This is to ensure protection of the Bank's interest over the interest of the individual shareholders.⁵

- b. **At least three (3)** members of the Board or such number as may constitute **one-third (1/3)** of the members of the Board, whichever is higher, shall be **Independent Directors**.⁶
- c. 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.⁷
- d. Non-Filipino citizens may become members of the Board to the extent of the foreign participation in the equity of the Bank: Provided, That pursuant to Section 23 of the Corporation Code of the Philippines (BP Blg. 68), a majority of the directors must be residents of the Philippines.

2. Powers, Responsibilities and Duties of the Board

a. Powers of the Board -

The corporate powers of the Bank shall be exercised, its business conducted and all its resources controlled and held, by its Board. The powers of the

⁴ **Non-Executive Directors** refer to those who are not part of the day-to-day management of banking operations and/or have no executive responsibility/does not perform any work related to the operations of the Bank which include the *Independent Directors*. Conversely, **Executive Directors** refer to those who have executive responsibility of day-to-day operations of a part or the whole of the Bank.

⁵ Recommendation #1.2 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

⁶ Recommendation #5.1 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

⁷ Recommendation #1.4 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

Board as conferred by law are original and cannot be revoked by the stockholders. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the Bank.

b. General Responsibility of the Board -

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 stakeholder have the right to expect that the institution is being run in a prudent and sound manner.

It is the responsibility of the Board to foster the long-term success of the Bank and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders.⁸

The Board 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 is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day-to-day affairs of the Bank.

c. Specific Duties and Responsibilities of the Board⁹ -

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

To ensure a high standard of best practice for the Bank and its stockholders and other stakeholders¹⁰, the Board should conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

1) The Board of Directors shall define the Bank's corporate culture and values. It shall establish a code of conduct and ethical standards in the Bank and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the board of directors shall:

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

⁸ Principle No. 1 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

⁹ Sec. 4 BSP Cir. 969, s. 2017

¹⁰ SEC Memo Cir. 9, s2014

- (2) Consistently conduct the affairs of the Bank with a high degree of integrity and play a lead role in establishing the Bank's corporate culture and values. The Board of Directors shall establish, actively promote, and communicate a culture of strong governance in the Bank, through adopted policies and displayed practices. The Board of Directors shall ensure that the CEO and executive team champion the desired values and conduct, and that they face material consequences if there are persistent or high profile conduct and value breaches.
 - (3) Oversee the integrity, independence, and effectiveness of Bank's policies and procedures for whistleblowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the Board of Directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, Senior Management and/or the Board of Directors itself. It shall prevent the use of the facilities of the Bank in the furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.
 - (4) Ensure the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies¹¹.
- 2) The Board of Directors shall be responsible for approving the Bank's objectives and strategies and in overseeing management's implementation thereof. In this regard, the Board of Directors shall:**
- (1) Ensure that the Bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy;
 - (2) Approve the Bank's strategic objectives and business plans. These shall take into account the Bank's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the Board of Directors shall establish a system for measuring performance against plans;
 - (3) Actively engage in the affairs of the Bank and keep up with material changes in the Bank's business and regulatory environment as well as act in a timely manner to protect the long term interests of the Bank;
 - (4) Approve and oversee the implementation of policies governing major areas of the Bank 's operations. The Board of Directors shall regularly review these policies, as well as evaluate control functions (e.g., internal audit, risk management and compliance) with Senior Management to determine areas for improvement as well as to promptly identify and address significant risks and issues.
- 3) The Board of Directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel. In this regard, the Board of Directors shall:**

¹¹ Recommendation #7.2 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

- (1) Oversee selection of the CEO and other key personnel, including members of Senior Management and heads of control functions based on the application of fit and proper standards. Integrity, technical expertise, and experience in the Bank's business, either current or planned, shall be the key considerations in the selection process. Moreover, since mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the Bank;
- (2) Approve and oversee the implementation of performance standards as well as remuneration and other incentives policy. The policy should be consistent with the long-term strategic objectives and financial soundness of the Bank and should promote good performance, convey acceptable risk-taking behavior, and reinforce the Bank's operating and risk culture. In doing so, it should formulate and adopt a policy specifying the relationship between remuneration and performance. Further, no director should participate in discussions or deliberations involving his own remuneration¹².
- (3) Oversee the performance of Senior Management and heads of control functions:
 - (a) The Board of Directors shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards;
 - (b) The Board of Directors shall hold members of Senior Management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the Board of Directors' performance expectations. These expectations shall include adherence to the Bank's values, risk appetite and risk culture, under all circumstances;
 - (c) The Board of Directors shall regularly meet with Senior Management to engage in discussions, question, and critically review the reports and information provided by the latter;
 - (d) Non-executive board members shall meet regularly on *annual basis*, other than in meetings of the Audit, Risk Oversight, Corporate Governance, and Related Party Transactions Committees, in the absence of Senior Management, with the external auditor and heads of the internal audit, compliance and risk management functions. The Chief Compliance Officer (CCO) or his designated officer shall serve as Secretary to this session and shall therefore coordinate with the CRO and the CAE for the agenda/items for discussion and record such dialogues in minutes of meeting. This session aims to scrutinize Management's performance, particularly in meeting the Bank's goals and objectives and to determine the integrity of the Bank's internal control and effectiveness of risk management systems.
- (4) Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the Board of Directors shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions;

¹² Recommendation #2.5 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

- (5) Ensure that personnel's expertise and knowledge remain relevant. The Board of Directors shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibility;
- (6) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the Bank at all times, and that all transactions involving the pension fund are conducted at arm's length terms.

4) The Board of Directors shall be responsible for approving and overseeing implementation of the Bank's corporate governance framework. In this regard, the Board of Directors shall:

- (1) Define appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed:
 - (a) The Board of Directors shall structure itself in a way, including in terms of size and frequency of meetings, so as to promote efficiency, critical discussion of issues, and thorough review of matters. The Board of Directors shall meet regularly to properly discharge its functions, and likewise have discussions on values, conduct, and behaviors;
 - (b) The Board of Directors shall create committees to increase efficiency and allow deeper focus in specific areas. The number and nature of board-level committees would depend on the size of the Bank and the Board of Directors, the Bank's complexity of operations, as well as the Board of Directors' long-term strategies and risk tolerance. The Board of Directors may delegate some of its functions, but not its responsibilities, to board-level committees. In this regard, the Board of Directors shall¹³:
 - i. Approve, review and update **at least annually** or whenever there are significant changes therein, the respective **Charters** of each of its committees or other documents that set out its mandate, scope and working procedures. Said documents shall articulate how the committee will report to the full board of directors, what is expected of the committee members, and tenure limits for serving on the committee. The Board of Directors shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective;
 - ii. Appoint members of the committees taking into account the optimal mix of skills and experience to allow the members to fully understand, be critical and objectively evaluate the issues. In order to promote objectivity, the Board, shall appoint independent directors and non-executive members of the Board to the greatest extent possible while ensuring that such mix will not impair the collective skills, experience, and effectiveness of the committees. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight

¹³ Sec. 5, BSP Circ. 969 s.2017

and Corporate Governance Committees, without prior approval of the Monetary Board;¹⁴

- iii. Ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions
- iv. Constitute, *at a minimum*, the following committees:
 1. **Audit Committee** - to enhance its oversight capability over the Bank's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. The committee should be composed of at least three (3) appropriately qualified non-executive directors, the majority of whom, including the Chairperson, should be independent. All of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance. The Chairperson of the Audit Committee should not be the Chairman of the Board or of any other committees¹⁵;
 2. **Corporate Governance Committee** - to assist the Board in the performance of its corporate governance responsibilities, including the functions that were formerly assigned to a Nomination and Remuneration Committee. It should be composed of at least three (3) members, all of whom should be independent directors, including the Chairman¹⁶.
 3. **Risk Oversight Committee** - to oversee the Bank's enterprise risk management system and ensure its functionality and effectiveness. This committee should be composed of at least three (3) members, majority of whom shall be Independent Directors including the Chairperson. The Chairperson of this committee should not be the Chairman of the Board or of any other committee. The committee shall possess a range of expertise and adequate knowledge on risk management issues and practices. It shall have access to independent experts to assist it in discharging its responsibilities.¹⁷
 4. **Related Party Transaction (RPT) Committee** - tasked with reviewing all material related party transactions of the Bank. This committee should be composed of at least three (3) non-executive directors, two (2) of whom should be independent, including the Chairperson. The committee shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members. In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction. The

¹⁵ Sec. 5 BSP Circ. 969 s.2017 and Recommendation #3.2 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

¹⁶ Recommendation #3.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

¹⁷ Sec. 5 BSP Circ. 969 s.2017

Compliance Officer or Internal Auditor may sit as resource persons in said committee¹⁸.

- (c) The Board of Directors shall regularly review the structure, size and composition of the Board of Directors and Board-level Committees with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation of the structure, size and composition of the Board of Directors and board-level committees shall be adopted which shall include, but not limited to, benchmark and peer group analysis. The results of assessment shall form part of the ongoing improvement efforts of the Board of Directors;
 - (d) The Board of Directors shall adopt policies aimed at ensuring that the members of the Board of Directors are able to commit to effectively discharge their responsibilities, which shall include policy on the number of directorship positions and/or other internal/external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the Bank's operations;
 - (e) The Board of Directors shall ensure that individual members of the Board of Directors and the shareholders are accurately and timely informed of a comprehensive and understandable assessment of the Bank 's performance, financial condition, and risk exposures. All members of the Board of Directors shall have reasonable access to any information about the Bank at all times. The Board of Directors shall also ensure that adequate and appropriate information flows internally and to the public;
 - (f) The Board of Directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the CEO, the individual directors, and the Bank itself, which may be facilitated by the Corporate Governance Committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each board member taking into account his or her performance in the Board of Directors and board-level committees¹⁹;
 - (g) The Board of Directors shall maintain appropriate records (e.g., meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions²⁰. The Board of Directors shall also ensure that independent views in meetings of the Board of Directors shall be given full consideration and all such meetings shall be duly minuted.
- (2) Develop a remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The Board of Directors shall ensure that the policy is consistent with the long-term interest of the Bank, does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities²¹;

¹⁸ Ibid

¹⁹ Sec. 4 BSP Circ. 969 s.2017

²⁰ Sec. 4 BSP Circ. 969 s.2017

²¹ Sec. 4 BSP Circ. 969 s.2017

- (3) Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power;²²
- (4) Conduct and maintain the affairs of the Bank within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound practice²³;
- (5) Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities. The Board of Directors shall ensure that the Bank's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability.
- (6) Oversee the development, approve, and monitor implementation of corporate governance policies. The Board of Directors shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.
- (7) Approve an overarching policy on the handling of Related Party Transactions (RPTs) to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged²⁴. In this regard:
 - (a) The Board of Directors shall approve all material RPTs, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the Board of Directors. All final decisions of the Board of Directors on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholder's

²² While Sec. 4 BSP Circ. 969, s.2017 and recommendation #2.4 under SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs) suggests for the adoption of a policy on retirement age, the Bank only applies the same policy to its employees (officers & staff). In the case of directors, however, the Bank does not have a similar retirement age policy due to the inviolability of shareholders' legal right to vote and be voted upon as directors. Rather, the primary consideration for the retention and replacement of directors is still their ability to diligently and effectively perform their duties and responsibilities which is also consistent with the removal of age as basis for selecting directors.

²² The Bank has in place a **Performance Appraisal & Development Program (PADP)** that is to be accomplished annually down the line to gauge and rate/assess performance of each PSBanker vis-a-vis his approved business & developmental goals. This annual performance exercise is supplemented by a **Mid-Year Performance Discussion (MYPD)** process aimed at keeping the achievement of such goals on track. These performance exercises are always tied up with key HR matters such as training and development, remuneration, job fitness/propriety assessment and succession planning.

²³ Sec. 4, BSP Cir. 969, s. 2017

²⁴ This is separately covered and comprehensively set forth in the Bank's **RPT Policy Manual** pursuant to BSP Circular No. 895 re: RPT Guidelines.

meetings and duly reflected in the minutes of Board of Directors and stockholders' meetings;

- (b) The Board of Directors shall delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the Board of Directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the Board of Directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings;
 - (c) The Board of Directors shall establish an effective system to:
 - (i) Determine, identify and monitor related parties and RPTs;
 - (ii) Continuously review and evaluate existing relationships between and among businesses and counterparties; and
 - (iii) Identify, measure, monitor and control risks arising from RPTs. The system should be able to define related parties' extent of relationship with the Bank; assess situations in which a nonrelated party (with whom the Bank has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulatory supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the BSP and audit functions for review. Any changes in the policies and procedures shall be approved by the Board of Directors.
 - (d) The Board of Directors shall maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the Bank is well-insulated from any going concern issue of related parties;
 - (e) The Board of Directors shall oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The Board of Directors should ensure that Senior Management addresses legitimate issues on RPT that are raised. The Board of Directors should take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals; and
 - (f) The Board of Directors shall articulate clear policy on the abstention of a director from participating in a meeting when related party transactions, self-dealings or any transactions or matters on which he/she has a material interest are taken up to ensure that he has no influence over the outcome of the deliberations.²⁵
- (8) Define an appropriate corporate governance framework for group structures, which shall facilitate effective oversight over entities in the

²⁵ Recommendation #5.6 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

group. The Board of Directors of the parent company shall ensure consistent adoption of corporate governance policies and systems across the group. In this regard:

- (a) The Board of Directors shall define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account nature and complexity of operations, size and the types of risks to which the Bank and its subsidiaries are exposed. The Board of Directors shall also establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements.
- (b) The Board of Directors shall define the risk appetite for the group, which shall be linked to the process of determining the adequacy of capital of the group.
- (c) The Board of Directors shall ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems.
- (d) The Board of Directors shall establish a system for monitoring compliance of each entity in the group with all applicable policies, practices and systems.
- (e) The Board of Directors shall define and approve policies and clear strategies for the establishment of new structures.
- (f) The Board of Directors shall understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company. The Board of Directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group's capital, risk profile and funding under normal and contingent circumstances. The Board of Directors shall ensure that the group's corporate governance framework includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions.
- (g) The Board of Directors shall develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.
- (h) The Board of Directors shall require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the Board of Directors approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the Board of Directors.
- (i) The Board of Directors shall disclose to the BSP all entities in the group (e.g., owned directly or indirectly by Bank and/or its subsidiaries/affiliates including special purpose entities (SPEs), and other entities that the Bank exerts control over or those that exert control over the Bank, or those that are related to the Bank and/or its subsidiaries/affiliates either through common ownership/ directorship/ officership) as well as all significant

transactions between entities in the group involving any BSP regulated entity. For this purpose, significant shall refer to transactions that would require Board approval based on the Bank's internal policies or as provided under existing regulations: Provided, that the Bank shall continue to submit any report required under existing regulations covering transactions between companies within the group.

In cases where the Bank is a subsidiary/affiliate of a non-BSP regulated parent company:

- (a) The Board of Directors shall define and approve policies and clear strategies for the establishment of new structures (e.g., subsidiaries/affiliate). The Board of Directors shall also report to the BSP any plan to create additional group structures.
- (b) The Board of Directors shall understand the roles, relationships or interactions of each entity in the group with one another and with the parent company. The Board of Directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the Bank's capital, risk profile and funding under normal and contingent circumstances.

5) The Board of Directors shall be responsible for approving Bank's risk governance framework and overseeing management's implementation thereof. In this regard, the Board of Directors shall:

- (1) Define the Bank's risk appetite. In setting the risk appetite, the Board of Directors shall take into account the business environment, regulatory landscape, and the Bank's long term interests and ability to manage risk;
- (2) Approve and oversee adherence to the risk appetite statement (RAS), risk policy, and risk limits;
- (3) Oversee the development of, approve, and oversee the implementation of policies and procedures relating to the management of risks throughout the Bank;
- (4) Define organizational responsibilities following the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions for the second line of defense, and the internal audit function for the third line of defense. In this regard:
 - (a) The Board of Directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.
 - (b) The Board of Directors shall ensure that non-executive board members meet regularly, with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees, in the absence of Senior Management²⁶.

6) Identify the Bank's stakeholders in the community in which it operates or are directly affected by its operations and formulate a

²⁶ Sec. 4 BSP Circ. 969 s.2017

clear policy of accurate, timely and effective communication with them.²⁷

3. Shareholders' Rights and Protection of Minority Stockholders' Interests²⁸

- a. The Board shall respect the rights of the shareholders as provided for in the Corporation Code, namely:
- 1) ***Right to vote on all matters that require their consent or approval.*** Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code. A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

Voting Procedures²⁹:

Every shareholder entitled to vote on a particular question or matter involved shall be entitled to one (1) vote for each share of stock in his name. Cumulative voting is allowed provided that the total votes cast by a shareholder shall not exceed the number of shares registered in his name as of the record date multiplied by the number of directors to be elected. Matters submitted to shareholders for the ratification shall be decided by the required vote of shareholders present in person or by proxy.

Majority vote is required for the following:

- Approval of the minutes of the Annual/Special Meeting of the Shareholders;
- Ratification of corporate acts i.e. confirmation of all acts of the Board of Directors, the Executive Committee and the Management;
- Election of a member of the Board of Directors – nominees receiving the highest number of votes shall be declared elected following the provisions of the Corporate Code; and
- Election of external auditors.

All votes shall be counted by the Corporate Secretary to be assisted by the Bank's stock & transfer agent.

The Board shall encourage active shareholder participation by making the result of the votes taken during the most recent Annual/Special Shareholders' Meeting publicly available the ***next working day***. Voting results include a breakdown of the approving and dissenting votes on the matters raised during the Annual/ Special Shareholders' Meeting. When a substantial number of votes have been cast against a proposal made by the Bank, it may make an analysis of the reasons for the same and consider having a dialogue with its shareholders. In addition, the Minutes of the Annual/Special Shareholders' Meeting should be available on the Bank's website ***within five (5) business days from the end of the meeting***. The Minutes of Meeting shall include the following matters: (1) a *description of the voting and the vote tabulation procedures used*; (2) the *opportunity given to shareholders to ask questions, as well as a record of the questions and the answers received*; (3) the *matters discussed and the resolutions reached*; (4) a *record of the voting results for each agenda item*; (5) a *list of the directors, officers and shareholders who attended the*

²⁷ SEC Memo Circular No. 9, s. 2014 as amended by Recommendation #14.1 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

²⁸ SEC Memo Cir. 6, s2009 as amended by Recommendation #14.2 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

²⁹ 2016 PSBank Definitive Information Statement (SEC Form 20-IS)

meeting; and (6) *dissenting opinion on any agenda item that is considered significant in the discussion process.*³⁰

- 2) ***Pre-emptive right to all stock issuances of the Bank.*** All shareholders 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 Bank. 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.
- 3) ***Right to inspect books and records of the Bank.*** 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.
- 4) ***Right to information.*** 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 Bank's shares, dealings with the Bank, relationships among directors and key officers, and the aggregate compensation of directors and officers.
- 5) ***Right to dividends.*** Shareholders shall have the right to receive dividends subject to the discretion of the Board. The Bank 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 expansion projects or programs approved by the Board or b) when the Bank 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, such as when there is a need for special reserve for probable contingencies.
- 6) ***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 effect of changing or restricting the rights of any shareholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
 - 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.

Dissenter's Right of Appraisal Procedures³¹:

On the above instances, the appraisal right may be exercised by any shareholder who shall have voted against the proposed corporate action by making a written demand on the corporation for payment of the fair value of his shares within thirty (30) days after the date on which the vote was taken: Provided, that failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed

³⁰ Recommendation #13.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

³¹ 2016 PSBank Definitive Information Statement (SEC Form 20-IS)

corporate action is implemented or effected, the corporation shall pay to such shareholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action. If within a period of sixty (60) days after the date the corporate action was approved by the shareholders, the withdrawing shareholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons one (1) of whom shall be named by the shareholder, another by the corporation and the third by the two thus chosen. The findings of the majority of the appraisers shall be final and their award shall be paid by the corporation within thirty (30) days after such award is made: Provided, that no payment shall be made to any dissenting shareholder unless the corporation has unrestricted retained earnings in its books to cover such payment: and Provided, further, that upon payment by the corporation of the agreed awarded price, the shareholder shall forthwith transfer his shares to the corporation.

- b. The Board shall be transparent and fair in the conduct of the annual and special shareholders' meetings of the Bank. It shall encourage active shareholder participation by sending and posting in the Bank's website the **Notice of Annual/Special Shareholders' Meeting** with sufficient and relevant information (i.e. date, location, meeting agenda and its rationale and explanation, and details of issues to be deliberated on and approved or ratified at the meeting, among others) **at least twenty-eight (28) days before the meeting**³². Shareholders are also encouraged to participate when given sufficient information prior to voting on fundamental corporate changes such as: (1) amendments to the Articles of Incorporation and By-Laws of the Bank; (2) the authorization on the increase in authorized capital stock; and (3) extraordinary transactions, including the transfer of all or substantially all assets that, in effect, results in the sale of the company. The Bank shall also encourage the shareholders to personally attend such meetings. If they cannot attend, they shall be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the By-Laws, the exercise of the right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the shareholder's favor.
- c. The Board shall promote the rights of the shareholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach 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.
- d. The Board shall make available to the shareholders accurate and timely information to enable the latter to make a sound judgment on all matters brought to their attention for consideration or approval.
- e. Although all shareholders should be treated equally or without discrimination, the Board should give minority shareholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the corporation. The Board shall also provide the minority shareholders access to any and all information relating

³² Recommendation #13.2 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

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 propose to include such matters in the agenda of shareholders' meeting, being within the definition of "legitimate purposes".

- f. Minority shareholders shall also be allowed to nominate candidates to the Board of Directors.
- g. The Bank's Corporate Affairs Division (CAD), as its **Investor Relations Office (IRO)**, is tasked to receive feedback, complaints and queries from shareholders in order to ensure constant engagement with its shareholders. For this matter, the designated officer of CAD/IRO should be present at every shareholders' meeting with his/her contact details (i.e. e-mail address and telephone number) also posted in the Bank's corporate website.³³
- h. The Board shall make available, at the option of a shareholder, an **Alternative Dispute Resolution (ADR)** mechanism to resolve intra-corporate disputes in an amicable and cost-effective manner.³⁴ ADR is a redress mechanism that is an alternative remedy for the infringement of shareholders' rights aimed at avoiding excessive litigation. It is a process or procedure used to resolve a dispute or controversy, other than by adjudication of a presiding judge of a court or an officer of a government agency, in which a neutral third party participates to assist in the resolution of issues, which includes arbitration, mediation, conciliation, early neutral evaluation, mini-trial, or any combination thereof.

4. Conduct of Board Meetings and Quorum Requirements

The directors shall act only as a Board, and the individual directors shall have no power as such. A **majority of the Board shall constitute a quorum** for the transaction of business and the vote of a majority of the quorum of the Board shall always be needed to decide any action. It shall meet regularly to properly discharge its functions. It shall also ensure that independent views in Board meetings shall be given full consideration and all such meetings shall be duly minuted.³⁵

The members of the Board should attend its regular and special meetings in person or through teleconferencing. Independent directors should always attend Board meetings.³⁶

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

Meetings of the Board may be held at any place within the Philippines.

As far as practicable, materials for the Board meeting should be provided *at least 3 banking days* before the meeting³⁷.

³³ Recommendation #13.5 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

³⁴ Recommendation #13.4 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

³⁵ Sec. 2 BSP Cir. No. 749

³⁶ SEC Memo Cir. No. 6 s2009 as amended by Recommendation #4.1 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

³⁷ PSBank ASEAN Corporate Governance Scorecard (ACGS)

B. Directors

1. Qualifications of a Director

A director shall have the following minimum qualifications:

- a. 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; relevant education/financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.
- b. He must have attended a special seminar on corporate governance for Board of Directors. A director shall submit to the BSP a Certification of Compliance with the BSP-prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance³⁸: *Provided further* that the following persons are exempted from attending said seminar³⁹:
 - 1) Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance;
 - 2) Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory bodies, including former Monetary Board members; or
 - 3) Former Chief Justices of the Philippine Supreme Court.

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

In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies⁴⁰.

The members of the Board shall possess the foregoing qualifications for directors in addition to those required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations.

An elected director has the burden to prove that he/she possesses all the foregoing minimum qualifications and none of the cases mentioned under Subsection X150.1. Non-submission of complete documentary requirements or their equivalent within the prescribed period (as herein enumerated under **Part III – Reportorial Requirements**) shall be construed as his/her failure to establish his/her qualifications for the position and result in his/her removal from the Board. The Bangko Sentral shall also consider its own records in determining the qualifications of a director.⁴¹

2. Independent Directors⁴²

An independent director shall refer to a person who, ideally:

³⁸ Sec. 4 BSP Circ. 969 s.2017

³⁹ BSP Cir. No. 840

⁴⁰ BSP Cir. No. 969 dated 22 August 2017

⁴¹ Sec. 2, BSP Cir. No. 969 s.2017

⁴² Sec. 2, BSP Cir. No. 969 s.2017 and Recommendation #5.2 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

- a. Is not, or has not been a senior officer or employee of the Bank unless there has been a change in the controlling ownership of the Bank;
- b. Is not, and has not been in the three (3) years immediately preceding the election, a director of the Bank; a director, officer, employee of the Bank's subsidiaries, associates, affiliates or related companies; or a director, officer, employee of the Bank's substantial shareholders and its related companies. *For this purpose, **related companies** refer to the Bank's holding/parent company, subsidiaries and subsidiaries of its holding/parent company;*
- c. Has not been appointed in the Bank, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus," "Ex-Officio" Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three (3) years immediately preceding his election;
- d. Is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the Board of Directors of the Bank, its subsidiaries, associates, affiliates or related companies;
- e. Is not a close family member of a director, officer, or substantial shareholder of the Bank or any of its related companies or of any of its substantial shareholders. *For this purpose, **close family member** shall refer to persons related to the Bank's directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother/sister-in-law, grandparent-in-law, and grandchild-in-law of the Bank's DOS;*
- f. Is not acting as a nominee or representative of any director or substantial shareholder of the Bank or any of its related companies or any of its substantial shareholder;
- g. Is not a securities broker-dealer of listed companies and registered issuers of securities. "Securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer;
- h. Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the Bank, any of its related companies or-substantial shareholder, or is otherwise independent of Management and free from any business or other relationship within the three (3) years immediately preceding the date of his election;
- i. Does not engage or has not engaged within the last two (2) years⁴³, whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with the Bank or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and are immaterial/could not materially interfere with or influence the exercise of, his independent judgment;
- j. Is not affiliated with any non-profit organization that receives significant funding from the Bank or any of its related companies or substantial shareholders; and
- k. Is not employed as an executive officer of another company where any of the Bank's executives serve as directors.

The Board, through the Corporate Secretary and the Corporate Governance Committee (CGC), should ensure that its independent directors meet the above conditions (without any disqualification/s for an independent director

⁴³ SEC Memorandum Circular No. 7 s2018 dated 20 April 2018.

to hold the position) and possess the necessary qualifications and stature that would enable them to effectively and objectively participate in the deliberations of the Board.

3. **Limits for Independent Directors⁴⁴**

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

- a. **Number.** There shall be no limit in the number of covered companies that a person may be elected as Independent Director (ID), except for the following general rules:
 - 1) Within business conglomerates wherein an ID can be elected as ID only **up to five (5) companies of the conglomerate**, i.e. parent company, subsidiary or affiliate; and
 - 2) When involving publicly-listed companies whereby an ID (being a non-executive director) can be elected as a director (whether executive, non-executive or ID) only **up to five (5) publicly-listed companies**, as herein discussed under “Multiple Board Seats”.
- b. **Term.** As a rule, IDs should serve for a **maximum cumulative term of nine (9) years reckoned starting 2012**, making sure however that the shareholders’ legal right to vote and be voted directors remains inviolable. After which, the ID shall be perpetually barred from re-election as such, but may continue to qualify for nomination and election as a non-independent/regular director. If the Bank wants to retain an ID who has already served for nine (9) years, the Board should provide meritorious justification/s and seek shareholders' approval during the Annual Shareholders' Meeting⁴⁵.

4. **Disqualifications of Directors⁴⁶**

Without prejudice to specific provisions of law prescribing disqualifications for directors, the following are disqualified from becoming directors:

a. **Permanent Disqualification**

- 1) Persons who have been convicted by final judgment of a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees);
- 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;
- 3) Persons who have been convicted by final judgment of the court for violation of banking laws, rules and regulations;
- 4) Persons who have been judicially declared insolvent, spendthrift or incapacitated to contract;
- 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;
- 6) Directors and officers of Banks found by the Monetary Board as administratively liable for violation of banking laws, rules and

⁴⁴ SEC Memo Cir. No. 9 S2011, as included in Sec. 1 BSP Cir. No. 749 and amended by Recommendation #5.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

⁴⁵ Recommendation #5.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; or

- 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.

The following are additional disqualifications under SEC Memorandum Cir. No. 19 s2016 re: New CG Code for PLCs:

- 1) Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant commodity trading advisor, or floor broker; (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as affiliated person of any of them;
- 2) Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC, BSP or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities. The disqualification shall also apply if (a) such person is currently the subject of an order of the SEC, BSP or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP, or (b) such person has otherwise been restrained to engage in any activity involving securities and banking; or (c) such person is currently the subject of an effective order or a self-regulatory organization or association with a member or participant of the organization.
- 3) Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forger, bribery, false affirmation, perjury or other fraudulent acts;
- 4) Any person who has been adjudged by final judgment or order of the SEC, BSP, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or produced the violation of any provision of the Corporation Code, Securities Regulation Code or any other law, rule, regulation or order administered by the SEC or BSP;
- 5) Any person found guilty by final judgment or order or a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated previously above;
- 6) Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the

- Corporation Code committed within five (5) years prior to the date of his election or appointment; and
- 7) Other grounds as the SEC may provide.

b. Temporary Disqualification

- 1) Persons who refuse to fully disclose the extent of their business interest or any material information to BSP when required pursuant to a provision of law or of a circular, memorandum, rule or regulation of the BSP. This disqualification shall be in effect as long as the refusal persists;
- 2) 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 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, 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/discussion and were taken up in the actual Board meeting, said directors shall be considered present in the Board meeting. This disqualification applies only for purposes of the immediately succeeding election;
- 3) Persons who are delinquent in the payment of their obligations as defined hereunder:
 - (a) Delinquency in the payment of obligations means that an obligation of a person with a Bank where he/she is a director or officer, or at least two (2) obligations with other Banks/FIs, under different credit lines or loan contracts, are past due pursuant to MORB Sec. X306;
 - (b) Obligations shall include all borrowings from a bank obtained by:
 - i. A director or officer for his own account or as the representative or agent of others or where he/she acts as a guarantor, endorser or surety for loans from such FIs;
 - ii. The spouse or child under the parental authority of the director or officer;
 - iii. Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director or officer;
 - iv. A partnership of which a director or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
 - v. A corporation, association or firm wholly-owned or majority of the capital of which is owned by any or a group of persons mentioned in the foregoing Items "i", "ii" and "iv".

This disqualification shall be in effect as long as the delinquency persists.

- 4) Persons who have been convicted by a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713, violation of banking laws, rules and regulations or those sentenced to serve a

- maximum term of imprisonment of more than six (6) years but whose conviction has not yet become final and executory;
- 5) Directors and officers of closed Banks pending their clearance by the Monetary Board;
 - 6) Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board;
 - 7) Directors who failed to attend the required special seminar on corporate governance for Board of directors conducted or accredited by BSP. This disqualification applies until the director concerned had attended such seminar;
 - 8) Persons dismissed/terminated from employment for cause. 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 SES of their disqualification;
 - 9) Those under preventive suspension;
 - 10) Persons with derogatory records as 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. 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;
 - 11) 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 which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court;
 - 12) 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 which finding of said government agency is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court; and
 - 13) 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. The disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid.

The following are additional temporary disqualifications under SEC Memorandum Cir. No. 19 s2016 re: New CG Code for PLCs:

- 1) Absence in more than fifty (50) percent of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless absence is due to

- illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election;
- 2) Dismissal or termination for cause as director of any publicly-listed company, registered issuer of securities and holder of secondary license from the SEC. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;
 - 3) If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. This disqualification from being elected as an independent director shall be lifted if the limit is later complied with; and
 - 4) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

5. Disqualification Procedures for Directors⁴⁷

- a. The Board and Management shall be responsible for determining the existence of the ground for disqualification of a director and for reporting the same to 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. Grounds for disqualification made known to the Bank, shall be reported to the appropriate department of the SES within seventy-two (72) hours from knowledge thereof.
- b. 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 BSP 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 explanation on why he/she should not be disqualified and included in the watch-listed file, together with the evidence in support of his/her position. BSP may allow an extension on meritorious ground.
- c. Upon receipt of the reply explanation of the director concerned, BSP shall proceed to evaluate the case. The director concerned shall be afforded the opportunity to defend/clear himself/herself.
- d. If no reply has been received from the director concerned upon the expiration of the period prescribed under Item “b” above, said failure to reply shall be deemed a waiver and BSP shall proceed to evaluate the case based on available records/evidence.
- e. 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 watch-listed file, before the evaluation on his disqualification and watch-listing is elevated to the Monetary Board.
- f. If the disqualification is based on dismissal for cause, BSP 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

⁴⁷ Sec. X143.4 BSP MORB

of the entity concerned. BSP 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 concerned does not warrant disqualification.

- g. All other cases of disqualification, whether permanent or temporary shall be elevated to the Monetary Board for approval and shall be subject to the procedures provided in Items “a”, “b”, “c” and “d” above.
- h. Upon approval by the Monetary Board, the concerned director shall be informed by BSP 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 financial institution under the supervision of BSP and/or of his/her inclusion in the masterlist of watch-listed persons so disqualified.
- i. The Board shall be immediately informed of cases of disqualification approved by the Monetary Board and shall be directed to act thereon not later than the following Board meeting. Within seventy two (72) hours thereafter, the corporate secretary shall report to the BSP Governor the action taken by the Board on the director involved.
- j. 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.
- k. Whenever a director is cleared in the process mentioned under Item “c” 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. It shall be the responsibility of BSP to elevate to the Monetary Board the lifting of the disqualification of the concerned director/officer and his/her delisting from the masterlist of watch-listed persons.

6. Removal Procedures for Directors⁴⁸

- a. A director may be removed from office by a vote of the stockholders holding or representing at least two-thirds (2/3) of the outstanding capital stock.
- b. The removal shall take place either at the regular stockholder’s meeting or at a special meeting called for the purpose, and in either case, after previous notice to stockholders of the intention to propose such removal at the meeting.
- c. The Corporate Secretary shall call a special meeting, on order of the President or on the written demand of the stockholders representing or holding at least a majority of the outstanding capital stock for the purpose of removal of a director. Should the Corporate Secretary fail or refuse to call the special meeting upon such demand or fail or refuse to give the notice, or if there is no secretary, the call for the meeting shall be addressed directly to the stockholders by any stockholder signing the demand. Notice of the time and place of such meeting, as well as of the intention to propose such removal, must be given by publication or by written notice prescribed in the Corporation Code of the Philippines. Removal may be with or without cause: provided that removal without cause may not be used to deprive minority stockholders the right of

⁴⁸ Sec. 28 of the Corporation Code of the Philippines

representation to which they may be entitled under Section 24 of the Corporation Code of the Philippines.

- d. A director removed from office is not eligible to seek re-election and/or be reappointed to the Board unless a written consent is obtained from stockholders holding or representing at least two thirds (2/3) of the outstanding capital stock.

7. Vacancies in the Office of the Board of Director⁴⁹

Any vacancy occurring in the board of directors other than by removal by the stockholders or members or by expiration of term, may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, said vacancies must be filled by the stockholders in a regular or special meeting called for that purpose. A director so elected to fill a vacancy shall be elected only for the unexpired term of his predecessor in office.

A directorship to be filled by reason of an increase in the number of directors shall be filled only by an election at a regular or at a special meeting of stockholders duly called for the purpose, or in the same meeting authorizing the increase of directors if so stated in the notice of the meeting.

8. Interlocking Directorships⁵⁰

There shall be no concurrent directorships between Banks or between a Bank and a Quasi-Banks (QB) or a non-Bank financial institutions (NBFI), except as may be authorized by the Monetary Board.

Without the need for prior approval of the Monetary Board, concurrent directorships between entities not involving an investment house shall be allowed in the following cases:

- a. Banks not belonging to the same category: *Provided*, That not more than one (1) Bank shall have quasi-banking functions;
- b. A Bank and an NBFI;
- c. A Bank without quasi-banking functions and a QB; and
- d. A Bank and one (1) or more of its subsidiary Bank/s, QB/s and NBFI/s.

For purposes of the foregoing, a husband and his wife shall be considered as one (1) person.

9. Interlocking directorships and officerships⁵¹

Except as may be authorized by the Monetary Board or as otherwise provided hereunder, there shall be no concurrent directorship and officership between Banks or between a Bank and a QB or an NBFI.

Should there be a change in the position of an officer (e.g. from CFO to Treasurer) with an existing Board and BSP-approved concurrent directorship with another bank/QB/NBFI which is not a subsidiary of the Bank, prior Board and BSP approvals on such change on interlocking directorship-officership position shall be obtained again in order to re-evaluate their new officer positions vis-à-vis their existing concurrent directorships.

Without the need for prior approval of the Monetary Board, concurrent directorship and officership between a Bank and one (1) or more of its subsidiary Bank/s, QB/s and NBFI/s, other than investment house/s, shall be allowed.

⁴⁹ Sec. 29 of the Corporation Code

⁵⁰ MORB Sec. x145

⁵¹ MORB Sec. x145

10. Election of Directors

The directors shall be elected by the vote of the holders of common stock of the Bank in accordance with Section 24 of the Corporation Code or pertinent applicable law at the annual meeting of the stockholders.

Nomination Procedures⁵²:

- a. Any stockholder may submit nominations for directorial positions to the **Corporate Governance Committee (CGCom)**. The use of professional search firms or external sources may be resorted to when searching for candidates to the Board.
- b. The nominating stockholder shall submit his proposed nomination in writing to the CGCom, together with the Bio-data, acceptance and conformity of the would-be nominee. In the case of a nominee for the position of an independent director, the would-be nominee is also required to submit a Certification that he/she has all the qualifications and none of the disqualifications to become an independent director.
- c. The CGCom shall screen all persons nominated to the Board prior to the submission of the Definitive Information Statement (DIS) and in coming up with a Final List of Candidates. This process includes the review and evaluation of their qualifications (including the determination of any grounds for disqualification) and whether the candidates (1) possess the knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in light of the Bank's business and risk profile; (2) have a record of integrity and good repute; (3) have sufficient time to carry out their responsibilities; and (4) have the ability to promote a smooth interaction between board members.
- d. Only nominees whose names appear in the Final List of Candidates shall be eligible for election as director.

11. Confirmation of Election of Directors

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The election of directors of the Bank shall be subject to confirmation by the Monetary Board. Confirmation by the Monetary Board shall not be required in the following cases:

- a. Re-election of a director (as a director) in the same bank or election of the same director in another bank, QB, NBFIs with trust authority or trust corporation within a banking group; and
- b. Re-election of an independent director (as an independent director or not) in the same bank or election of the same director (as an independent director or not) in another bank, QB, NBFIs with trust authority or trust corporation within a banking group.

Provided, that the director concerned has been previously confirmed or his/her re-election requires the same level of confirming authority as provided: provided, further, that said director has had continuous service within the same bank or banking group.

The election shall be deemed to have been confirmed by BSP, if after sixty (60) banking days from receipt of the complete required reports (as herein enumerated under **Part III – Reportorial Requirements**), no advice against said election has been received by the Bank.

A director whose election was not confirmed for failure to submit the complete documentary requirements shall be deemed removed from office

⁵² PSBank's Amended By-laws

⁵³ BSP Cir. No. 758

after due notice to the board of directors of the bank, even if he/she has assumed the position to which he/she was elected, pursuant to Section 16 of R.A. No. 8791⁵⁴.

12. Multiple Board Seats

As a general rule, 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 Bank⁵⁵. 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 compromised⁵⁶.

Hence, a director should notify his/her incumbent Board before accepting a directorship in another company, whether publicly-listed or not. This is for the Board to be able to assess if his/her present responsibilities and commitment to the Bank will be affected and if the director can still adequately provide what is expected of him/her.⁵⁷ For this matter, the following procedures shall be observed⁵⁸:

- Notification shall be submitted by the concerned director via e-mail to the Bank's Chief Compliance Officer (CCO);
- The CCO shall then forward the same notification to the Corporate Governance Committee (CGC) members, cc: the Corporate Secretary and the Corporate Affairs Division Head, for the committee's assessment/inclusion in the CGC Agenda which shall be duly recorded in the Minutes of its next meeting; and
- The CCO shall likewise include the same in his reports to the Board in its next regular meeting which shall be duly recorded in the Minutes of the Board of Directors' Meeting. Inasmuch as the requirement is not approval of the Board of Directors but rather just a notification, the same shall be deemed acceptable by the Board unless otherwise majority of the directors dissented.

13. Specific Duties and Responsibilities of a Director⁵⁹

a. Remain fit and proper for the position for the duration of his term

A director is expected to remain fit and proper for the position for the duration of his term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat Board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and

⁵⁴ BSP Cir. No. 887 dated 07 October 2015

⁵⁵ Recommendation #4.2 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

⁵⁶ SEC Memo. Cir. No. 6 S2009

⁵⁷ Recommendation #4.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

⁵⁸ Per Memorandum to the Board of Directors dated 24 May 2018 issued by the Board Chairman.

⁵⁹ Sec. 2 BSP Cir. No. 749

continuously seek to enhance his skills, knowledge and understanding of the activities that the Bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training.

b. Conduct fair business transactions with the Bank and to ensure that personal interest does not bias Board decisions

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

c. Act honestly and in good faith, with loyalty and in the best interest of the Bank, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public

A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.

d. Devote time and attention necessary to properly discharge their duties and responsibilities

Directors should devote sufficient time to familiarize themselves with the Bank's business. They must be constantly aware of the Bank's condition and be knowledgeable enough to contribute meaningfully to the Board's work. They must attend and actively participate in Board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the Bank, he should neither accept his nomination nor run for election as member of the Board.

e. Act judiciously

Before deciding on any matter brought before the Board, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

f. Contribute significantly to the decision-making process of the Board

Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such Board.

g. Exercise independent judgment

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

h. Have a working knowledge of the statutory and regulatory requirements affecting the Bank, including the content of its articles of incorporation and by-laws, the requirements of the BSP and where applicable, the requirements of other regulatory agencies

A director should also keep himself informed of the industry developments and business trends in order to safeguard the Bank's competitiveness.

i. Observe confidentiality

Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They may not disclose said information to any other person without the authority of the Board.

14. Orientation and Continuing Education

a. Orientation for First-Time Director

It is critical that new directors receive the training they need in order to be an effective member of the Board and help lead the Bank in the right direction. Orientation for first-time directors will begin immediately after they are selected and before their first Board meeting. In compliance with BSP Circular No. 969, the Bank shall furnish all its first-time directors with a copy of the general responsibility and specific duties and responsibilities of the Board of Directors and of a director. The Bank must keep on file and submit the said Certification under oath of the directors concerned that they have received copies of such general responsibility and specific duties and responsibilities and that they fully understand and accept the same. They shall also attend a CG seminar re: Orientation Program for 1st-time Directors to be conducted by SEC and BSP-accredited training providers which should be held for **at least eight (8) hours**⁶⁰. The Bank shall keep on file and submit the certification to the appropriate department of the BSP-Supervision and Examination Sector, together with a copy of Certificate of Attendance in said Corporate Governance (CG) seminar⁶¹.

b. Annual Continuing Education Program

The Board as a group and as individual directors should have sufficient knowledge relevant to the Bank's activities to provide effective governance and oversight. The Corporate Governance Committee (CGC) is mandated, among others, to make recommendations to the Board regarding the continuing education of directors. In this regard, the Chief Compliance Officer (CCO) shall liaise with internal and/or external training providers for the training and seminars of directors. Unless otherwise exempted by existing regulations, all Directors and Key Officers are required to attend for a **minimum of four (4) hours of training every year**, a program on Corporate Governance conducted by training providers duly accredited by the SEC or through an SEC-approved in-house corporate governance training, covering all the mandated topics including financial reporting and auditing. Key Officers, for purposes of this requirement, refer to all officers with the rank of Senior Vice President (SVP) & up (Principal Officers) and those officers named in the Bank's By-Laws, the Chief Audit Executive (CAE) and the Chief Compliance Officer (CCO).

C. Chairman of the Board, Vice-Chairman, President and the Corporate Secretary

The roles of the Chairman of the Board, Vice-Chairman and the President shall be separate to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board. Their respective powers and duties are delineated in the Bank's By-Laws.⁶²

⁶⁰ Recommendation #1.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

⁶¹ Sec. 4, BSP Circ. 969 s.2017

⁶² SEC Memo. Cir. 6, s2009

1. Chairman of the Board⁶³

To promote checks and balances, the Chairman of the Board of Directors, shall have the following qualifications:

- He shall be a non-executive director or an independent director; and
- He must not have served as CEO of the Bank within the past three (3) years.

The positions of Chairperson and CEO shall not be held by one person. In exceptional cases where the position of Chairperson of the Board of Directors and CEO is allowed to be held by one (1) person as approved by the Monetary Board, a lead independent director shall be appointed.

The Board of Directors shall ensure that the lead independent director functions in an environment that allows him to effectively challenge the CEO as circumstances may warrant. The lead independent director shall perform a more enhanced function over the other independent directors and shall: (1) lead the independent directors at Board of Directors meetings in raising queries and pursuing matters; and (2) lead meetings of independent directors, without the presence of the executive directors.

The Board should be headed by a competent and qualified chairperson who shall have general duties and responsibilities:

- a. **To provide leadership in the Board of Directors.** The Chairman of the Board shall ensure effective functioning of the Board, including maintaining a relationship of trust with Board members.
- b. **To ensure that the Board takes an informed decision.** The Chairman of the Board shall ensure a sound decision-making process and he/she should encourage and promote critical discussions and ensure that dissenting views can be expressed and discussed within the decision-making process.⁶⁴

Without prejudice to the specific powers, duties and responsibilities of the Chairman of the Board as embodied in the Bank's By-Laws, the following are his specific roles:

- a. Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the Bank, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;
- b. Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;
- c. Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
- d. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- e. Assures the availability of proper orientation for first-time directors and continuing training opportunities for all directors; and
- f. Makes sure that performance of the Board is evaluated, at least once a year and discussed/ followed up on.⁶⁵

2. Vice-Chairman

In the absence of the Chairman, the Vice-Chairman designated by the Board shall act in his stead and shall perform any and all such duties pertaining to the office of the Chairman. The Vice-Chairman shall also perform such duties as the Board may prescribe.

⁶³ Sec. 3 BSP Cir. No. 969

⁶⁴ Sec. 3 BSP Cir. No 749

⁶⁵ Recommendation #2.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

3. President

The President, on the other hand, shall be the Chief Executive Officer (CEO) 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. He is ultimately responsible for managing and implementing the Bank's business strategies and day-to-day operations. While his detailed powers, duties and responsibilities are outlined in the Bank's By-Laws, the following are his roles & responsibilities, among others:

- a. Determines the Bank's strategic direction and formulates and implements its strategic plan on the direction of the business;
- b. Communicates and implements the Bank's vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same;
- c. Oversees the operations of the Bank and manages human and financial resources in accordance with the strategic plan;
- d. Has a good working knowledge of the Bank's industry and market and keeps up-to-date with its core business purpose;
- e. Directs, evaluates and guides the work of the key officers of the Bank;
- f. Manages the Bank's resources prudently and ensures a proper balance of the same;
- g. Provides the Board with timely information and interface between the Board and the employees;
- h. Builds the Bank's corporate culture and motivates the employees; and
- i. Serves as the link between internal operations and external stakeholders.⁶⁶

4. Corporate Secretary

The Corporate Secretary should be a separate individual from the Chief Compliance Officer (CCO). He should not be a member of the Board of Directors and should annually attend a training on corporate governance. He shall be primarily responsible to the Bank and its shareholders, and not to the Chairman or President.

In addition to and without prejudice to the duties of the Corporate Secretary as stated in the Bank's By-laws, he shall have the following roles & responsibilities, among others:

- a. Assists the Board and the board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its committees to set agendas for those meetings;
- b. Safekeeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the Bank;
- c. Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the Bank, and advises the Board and the Chairman on all relevant issues as they arise;
- d. Works fairly and objectively with the Board, Management and stockholders and contributes to the flow of information between the Board and management, the Board and its committees, and the Board and its stakeholders, including shareholders;
- e. Advises on the establishment of board committees and their terms of reference;
- f. Informs members of the Board, in accordance with the by-laws, of the agenda of their meetings **at least five (5) working days in advance**, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;

⁶⁶ Recommendation #5.4 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

- g. Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
- h. Performs required administrative functions;
- i. Oversees the drafting of the by-laws and ensures that they conform with regulatory requirements; and
- j. Performs such other duties and responsibilities as may be provided by the SEC and other regulators.⁶⁷

D. Board Committees

To aid the Board in its various tasks, increase efficiency and provide greater focus in its oversight and other functions on different key areas, the following Board-level committees, among others, have been created:

1. Executive Committee (ExCom)

This committee regularly reviews and approves credit proposals within its limits. It recommends additional conditions and requirements on loan applications for Board approval. It may also act, by majority vote of all its member-directors, on such other specific matters within the competence of the Board as may be delegated to it in the Bank's By-Laws or by a majority vote of the Board except for matters exclusive to the Board.

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **ExCom Charter** that is being maintained by the Bank's **Credit Administration Group (CAG)**.

2. Audit Committee (AuditCom)

This committee provides independent oversight of internal controls and financial reporting, risk management, ethical environment, compliance with laws and regulations, and the internal and external audit activities. This is the Board-level committee reporting line of the Bank's Internal Audit Group (IAG) headed by the Chief Audit Executive (CAE).

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **AuditCom Charter** that is being maintained by the Bank's **Internal Audit Group (IAG)**.

3. Risk Oversight Committee (ROC)

This committee is responsible for the development and oversight of the Bank and its trust unit's *Risk Management Program*. It oversees a system of limits to discretionary authority that the Board delegates to management, ensures that the system remains effective, the limits are observed and immediate corrective actions are taken whenever limits are breached. This is the Board-level committee reporting line of the Bank's Risk Management Office (RMO) headed by the Chief Risk Officer (CRO).

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **ROC Charter** that is being maintained by the Bank's **Risk Management Office (RMO)**.

4. Corporate Governance Committee (CGC)

This committee assists the Board in fulfilling its duties and responsibilities, monitoring the Bank's adherence to the corporate governance principles and guidelines set forth in this Manual, and overseeing the development and effective implementation of the Bank's *Compliance System*. This committee also reviews, evaluates/pre-screens and shortlists all candidates nominated to become a member of the Board in accordance with the required minimum qualifications and disqualifications. It shall likewise establish, review, maintain and oversee a formal and transparent procedure for developing a policy on

⁶⁷ Recommendation #1.5 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

executive remuneration and for fixing the remuneration packages of the Bank's directors, senior management and other key personnel consistent with the Bank's corporate culture, strategy and control environment. This is the Board-level committee reporting line of the Bank's Compliance Office (CO) headed by the Chief Compliance Officer (CCO).

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **CGC Charter** that is being maintained by the Bank's **Compliance Office (CO)**.

5. Related Party Transactions Committee (RPTC)

This committee assists the Board in reviewing and ensuring that transactions with related parties are conducted at arms-length, appropriate restrictions are followed, and corporate resources are judiciously used.

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **RPTC Charter** that is being maintained by the Bank's **Compliance Office (CO)**.

6. Trust Committee (TrustCom)

This is a special committee that reports directly to the Board and is primarily responsible for overseeing the operations of trust and other fiduciary and investment management activities of the Bank. It shall ensure an appropriate degree of independence between the activities of the Bank proper and its Trust Division.⁶⁸

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the Bank's **Trust Manual** and in the **TrustCom Charter** that are being maintained by the Bank's **Trust Division (TD)**.

7. Anti-Money Laundering Oversight Committee (AMLOC)

This committee is tasked to 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.

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **AMLOC Charter** that is being maintained by the Bank's **Compliance Office (CO)**.

The Board of Directors shall approve, review, and update, **at least annually** or whenever there are significant changes therein, the respective charters of each of the above Board-level committees. The Board shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.

SECTION 2. SENIOR MANAGEMENT OVERSIGHT

A. Senior Management

Senior Management, headed by the President, consists of a core group of senior officers responsible for overseeing the Bank's day-to-day operations. They have the necessary skills to manage businesses under their supervision, as well as impose appropriate control over key individuals in these areas. They contribute to good governance by supervising line managers in specific business areas consistent with Board-approved policies and procedures.

⁶⁸ BSP Cir. No. 766

B. Management Committees

To assist Senior Management in overseeing the Bank's day-to-day operations, increase efficiency and provide greater focus on various key areas of operations, the following Management-level committees, among others, have been created by the Board:

1. Assets and Liabilities Committee (ALCO)

This committee is tasked to manage the Bank's assets and liabilities consistent with the Bank's liquidity, capital adequacy, growth, risk tolerance & appetite and profitability goals.

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **ALCO Charter** that is being maintained by the Bank's **Treasury Group (TG)**.

2. Credit Committee (CreCom)

This committee regularly reviews and approves credit proposals within the authority and limits provided by the Board to it to decide on consumer or commercial loan proposals. In addition to such limits, these approvers shall be given authority to decide on certain exceptions to standard product parameters or policy criteria.

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **CreCom Charter** that is being maintained by the Bank's **Credit Administration Group (CAG)**.

3. Anti-Money Laundering Compliance Committee (AMLCC)

This committee is designated by the Board to receive, evaluate and decide whether or not a Suspicious Transaction Report (STR) and/or Report on Crimes and Losses (RCL) shall be filed with the Anti-Money Laundering Council Secretariat (AMLCS) and/or with Bangko Sentral ng Pilipinas (BSP) for cases/incidents elevated/reported by various business/operating units of the Bank. It also provides support to the Bank's Compliance Office in terms of AML policy review/development and addressing AML deficiencies/adverse findings.

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **AMLCC Charter** that is being maintained by the Bank's **Compliance Office (CO)**.

4. Outsourcing Oversight Committee (OOC)

This committee is tasked to oversee the accreditation of service providers, performance monitoring, post-implementation reviews and contract renewals.

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the Bank's Outsourcing Policy & Procedures and the **OOC Charter** that is being maintained by the Bank's **General Services Division (GSD)**.

5. IT Steering Committee (ITSC)⁶⁹

This committee is tasked to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. It is accountable for designing and implementing the Board-approved Information Technology Risk Management System (ITRMS).

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **ITSC Charter** that is being maintained by the Bank's **Information Technology Division (ITD)**.

⁶⁹ BSP Cir. No. 808

6. Emergency Committee (EMCOM)

This committee is tasked to manage and monitor the effective implementation of the Bank's Business Continuity Plan (BCP). It aims to provide the Bank the capability to continue its critical functions and processes by identifying, assessing and managing emergency scenarios and other business interruptions.

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the Bank's **BCP General Guidelines** and **EMCOM Charter** that are being maintained by the Bank's **Process Management Division (PMD)/EMCOM Secretariat**.

7. Policy Committee (POLCOM)

This committee is tasked to resolve policy-related issues which require escalation or cross-functional discussion for resolution.

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the Bank's **Process Management Policy** and **POLCOM Charter** that are being maintained by the Bank's **Process Management Division (PMD)**.

8. Personnel Committee (PERCOM)

This committee is tasked to assist Senior Management in evaluating the performance and career growth/advancement of the Bank's employees, deciding on grave/major employee offenses/administrative cases, reviewing employee benefits other than those in the CBA and maintaining personnel policies and procedures including the Bank's Code of Conduct.

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **PERCOM Charter** that is being maintained by the Bank's **Human Resources Group (HRG)**.

9. Retirement Committee (RETCOM)

This committee is exclusively tasked to administer the Bank's Gratuity and Retirement Benefit Plan for its employees.

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **RETCOM Charter** that is being maintained by the Bank's **Trust Division (TD)**.

10. Related Party Transactions Management Committee (RPTMC)

This committee shall assist the *Board-level* RPTC and the Board of Directors in ensuring that transactions with related parties, with respect to those considered as "**Non-material**" (i.e. below/within the set transaction materiality thresholds), are conducted at fair/arms-length terms and that corporate or business resources of the Bank are not misappropriated or misapplied.

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **RPTMC Charter** that is being maintained by the Bank's **Compliance Office (CO)**.

11. Investment Committee (INCOM)

This committee is tasked to establish investment guidelines and oversee the investment activities of the Bank. It monitors and reports the overall investment results and reviews compliance with investment objectives and guidelines.

Its membership composition, standing/authority, specific duties and responsibilities are embodied in the **INCOM Charter** that is being maintained by the Bank's **Treasury Group**.

Except for the charters of the Credit Committee (CreCom)⁷⁰ and Retirement Committee (RETCOM)⁷¹ whereby any proposed updates/revisions to be effected thereto are subject to approval of the Board of Directors, updates/revisions effected to the rest of the Management-level committee charters are subject to approval of the President as delegated by the Board of Directors⁷².

C. Officers

The Bank's By-Laws enumerated the various officers of the Bank and defined their respective duties and responsibilities. Other officers may be appointed and their duties defined by the Board as the exigencies of the service may require.

Each officer shall contribute his share in the pursuit of good corporate governance. His service shall be characterized by honesty and integrity, diligence and dedication, efficiency and effectiveness, loyalty and fidelity, adherence to sound banking practices and the rule of law, as well as fairness and equity to all depositors and clients constituting the banking public; his peers and colleagues in the Bank and the banking community, the Board and senior officers, and the public in general.

1. Qualifications of an Officer⁷³

An officer shall have the following minimum qualifications:

- a. He shall be at least twenty-one (21) years of age; and
- b. He shall be at least a college graduate, or have at least five (5) years experience in banking or trust operations or related activities or in a field related to his position and responsibilities, or have undergone training in banking or trust operations acceptable to the appropriate department of the SES: *Provided, however,* That trust officers shall possess any of the following:
 - o At least five (5) years of actual experience (as officer or as member of Trust Committee) in trust operations; or
 - o At least three (3) years of actual experience in trust operations and must have completed at least ninety (90) training hours in trust, other fiduciary business or investment management activities acceptable to the BSP or completed a relevant global or local professional certification program; or
 - o At least five (5) years of actual experience as officer of a Bank and must have completed at least ninety (90) training hours in trust, other fiduciary business or investment management activities acceptable to the BSP or completed a relevant global or local professional certification program; and
- c. He must be fit and proper for the position he is being proposed/appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered: integrity/probity and possession of competencies relevant to the function such as knowledge and experience, skills and diligence.

In assessing an officer's integrity/probity, consideration shall be given to the officer's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies⁷⁴.

⁷⁰ CreCom's approving authorities emanate from the Board of Directors via the Board-approved credit approval delegations.

⁷¹ The power to appoint the members of the RETCOM rests with the Board of Directors and because the administration of the Employees' Retirement Fund is beyond the scope of the Bank Proper.

⁷² Per Board Resolution No. **2018-082** dated 21 May 2018.

⁷³ MORB Sec. x142.2

⁷⁴ BSP Cir. No. 889 dated 02 November 2015

The foregoing qualifications for officers shall be in addition to those required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations.

An appointed officer has the burden to prove that he/she possesses all the foregoing minimum qualifications and none of the disqualifications by submitting the documentary requirements. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position and result in his/her removal therefrom⁷⁵.

The Bank must submit to BSP a certification under oath of the officer with rank of senior vice president and above, and officers whose appointment requires prior Monetary Board approval, that he/she has all the prescribed qualifications and none of the disqualifications within twenty (20)⁷⁶ banking days from the date of meeting of the Board in which the officers are appointed/promoted.⁷⁷

2. Disqualifications of Officers⁷⁸

- a. The disqualifications for directors and disqualification procedures for directors shall likewise apply to officers, except those stated in items “b.(2)” and “b.(7)”.
- b. The spouses or relatives within the second degree of consanguinity or affinity are prohibited from holding officership positions across the following functional categories within a Bank:
 - 1) Decision making and senior management function, e.g., chairman, president, chief executive officer (CEO), chief operating officer (COO), general manager, and chief financial officer (CFO) other than the treasurer or controller;
 - 2) Treasury function, e.g., Treasurer and Vice President – Treasury;
 - 3) Recordkeeping and financial reporting functions, e.g., controller and chief accountant;
 - 4) Safekeeping of assets, e.g., chief cashier;
 - 5) Risk management function, e.g., chief risk officer;
 - 6) Compliance function, e.g., compliance officer; and
 - 7) Internal audit function, e.g., internal auditor.

The spouse or a relative within the second degree of consanguinity or affinity of any person holding the position of manager, cashier, or accountant of a branch or extension office of a Bank or their respective equivalent positions is disqualified from holding or being appointed to any of said positions in the same branch or extension office.

- c. Any appointive or elective public official, whether full time or part time, except in cases where such service is incident to financial assistance provided by the government or government owned or -controlled corporations (GOCCs) or in cases allowed under existing law, cannot be an officer or employee of the Bank.
- d. Except as may otherwise be allowed under Commonwealth Act No. 108, otherwise known as “The Anti-Dummy Law”, as amended, foreigners cannot be officers or employees of the Bank.

⁷⁵ BSP Cir. No. 887 dated 07 October 2015

⁷⁶ As amended by BSP Cir. No. 887 dated 07 October 2015

⁷⁷ Sec. 2 BSP Cir. No. 758

⁷⁸ MORB Sec. x143.2

3. Interlocking Officerships⁷⁹

A concurrent officership in different financial institutions may present more serious problems of self-dealing and conflict of interest. Multiple positions may result in poor governance or unfair competitive advantage. Considering the full-time nature of officer positions, the difficulties of serving two (2) offices at the same time, and the need for effective and efficient management, the following rules shall be observed:

As a general rule, there shall be no concurrent officerships between Banks or, between a Bank and a QB or an NBFIs.

However, subject to prior approval of the Monetary Board, concurrent officerships may be allowed in the following cases:

- a. Between a Bank and not more than two (2) of its subsidiary Bank/s, QB/s, and NBFIs/s, other than investment house/s; or
- b. Between a Bank and not more than two (2) of its subsidiary QB/s and NBFIs/s; or
- c. Between two (2) Banks, or between a Bank and a QB or an NBFIs, other than an investment house: *Provided*, That at least twenty percent (20%) of the equity of each of the Banks, QBs or NBFIs is owned by a holding company or a Bank/QB and the interlocking arrangement is necessary for the holding company or the Bank/QB to provide technical expertise or managerial assistance to its subsidiaries/affiliates.

Aforementioned concurrent officerships may be allowed, subject to the following conditions:

- 1) that the positions do not involve any functional conflict of interests;
 - 2) that any officer holding the positions of president, chief executive officer, chief operating officer or chief financial officer or their equivalent may not be concurrently appointed to any of said positions or their equivalent;
 - 3) that the officer involved, or his spouse or any of his relatives within the first degree of consanguinity or affinity or by legal adoption, or a corporation, association or firm wholly- or majority-owned or controlled by such officer or his relatives enumerated above, does not own in his/its own capacity more than twenty percent (20%) of the subscribed capital stock of the entities in which the Bank has equity investments; and
 - 4) that where any of the positions involved is held on full-time basis, adequate justification shall be submitted to the Monetary Board; or
- d. Concurrent officership positions in the same capacity which do not involve management functions, i.e., internal auditor, corporate secretary, assistant corporate secretary and security officer, between a Bank and one or more of its subsidiary QB/s and NBFIs/s, or between Bank/s, QB/s and NBFIs/s, other than investment house/s: *Provided*, That at least twenty percent (20%) of the equity of each of the Banks, QBs and NBFIs is owned by a holding company or by any of the Banks/ QBs within the group.
 - e. Concurrent officership positions as corporate secretary or assistant corporate secretary between bank/s, QB/s and NBFIs/s, other than investment house/s, outside of those covered under Item *d* above: *Provided*, That proof of disclosure to and consent from all of the involved FIs, on the concurrent officership positions, shall be submitted to the Bangko Sentral.⁸⁰

⁷⁹ Sec. 9, BSP Circ. 969 s.2017

⁸⁰ BSP Cir. No. 851

- f. Should there be a change in the position of an officer with an existing Board and BSP-approved interlocking officership with another related bank/QB/NBFI, prior Board and BSP approvals on such change on interlocking officership position shall be obtained again in order to re-evaluate their new officership positions vis-à-vis their existing concurrent/interlocking officerships with such other related institutions.

4. Secondment⁸¹

The Bank may second or transfer its employee to another entity for temporary assignment: *Provided*, That it has a board-approved policy on secondment and that the transfer of the employee is approved by the appropriate authority of the Bank; *Provided, further*, That the secondee or the transferred employee shall relinquish all his duties, responsibilities, and authorities in the Bank, and shall receive remuneration and other incentives from the host entity. Bank's shall submit a notice within ten (10) banking days from the approval of secondments of employees to the appropriate supervising department of the BSP-SES.

5. Confirmation of Appointment of Officers⁸²

The appointment of Treasurer, Chief Compliance Officer (CCO), Chief Audit Executive (CAE), Chief Risk Officer (CRO), Trust Officer and other officers with rank of **Senior Vice President (SVP) & up** of the Bank shall be subject to confirmation by the BSP SES Committee, *Provided*, that the Bank shall report any succeeding resignation, retirement or replacement within 20 banking days after.

Confirmation shall not be required in cases of promotion, other than to that which requires (i) prior Monetary Board approval or (ii) a different set of minimum qualifications or (iii) a different level of confirming authority as provided, in the same bank or appointment/transfer to another bank, QB, NBFI with trust authority or trust corporation within a banking group, *Provided*, that: the officer concerned has been previously confirmed, his/her promotion/transfer requires the same level of confirming authority as provided: *provided, further*, that said officer has had continuous service within the same bank or banking group.

The appointment of officers below the rank of SVP other than the Treasurer, Trust Officer and the Chief Compliance Officer (CCO), Chief Audit Executive (CAE) and Chief Risk Officer (CRO), regardless of rank, shall not be subject to confirmation.

The appointment shall be deemed to have been confirmed by BSP, if after sixty (60) banking days from receipt of the complete required reports(as herein enumerated under **Part III – Reportorial Requirements**), no advice against said appointment has been received by the Bank.

An officer whose appointment was not confirmed for failure to submit the complete documentary requirements shall be deemed removed from office after due notice to the board of directors of the bank, even if he/she has assumed the position to which he/she was appointed, pursuant to Section 16 of R.A. No. 8791⁸³.

6. Duties and Responsibilities of Officers⁸⁴

Duties and responsibilities of officers shall include among others the following:

- a. ***To set the tone the good governance from the top.*** Bank officers shall promote the good governance practices within the Bank by ensuring that

⁸¹ Sec. 9, BSP Cir. No. 969 s.2017

⁸² Sec. 9, BSP Cir. No. 969 s.2017

⁸³ BSP Cir. No. 887 dated 07 October 2015

⁸⁴ Sec. 4 BSP Cir. No. 749

policies on governance as approved by the Board are consistently adopted across the Bank.

- b. **To oversee the day-to-day management of the Bank.** Bank officers shall ensure that Bank's activities and operations are consistent with the Bank's strategic objectives, risk strategy, corporate values and policies as approved by the Board. They shall establish a Bank-wide characterized by strategically aligned and mutually reinforcing performance standards across the organization.
- c. **To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency.** Bank officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each Bank personnel. Bank officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the Board for the performance of the Bank.
- d. **To promote and strengthen checks and balances systems in the Bank.** Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.

SECTION 3. COMPLIANCE SYSTEM, RISK MANAGEMENT AND INDEPENDENT ASSURANCE

A. Compliance System⁸⁵

1. Bank Compliance Program

The Board shall ensure that a **Bank Compliance Program**, which is being maintained by the Bank's Compliance Office, is defined for the Bank and that compliance issues are resolved expeditiously.

- a. The Compliance Program shall be distinguished from the Risk Program and the Internal Audit Program.
- b. The Compliance Program shall take into account the size and complexity of operations of the Bank. It must clearly identify the avenues through which business risks may occur and correspondingly, compliance of the Bank in order to mitigate said business risks shall be institutionalized.
- c. An appropriate organizational structure must be in place to manage the Compliance Program. The compliance function shall be manned by full-time officers/ staff either embedded in operating departments, or in a department operating on its own. Coordination with the respective department heads shall be the responsibility of the Compliance Officer.
- d. In addition to the organizational structure, the duties and responsibilities of the Compliance Officer and other personnel involved in the compliance function must be defined explicitly.
- e. A compliance system which does not consistently ensure the integrity and the accuracy of documentary submissions shall be deemed as a basis to assess a Bank as involved in unsafe and unsound practices.

The President and the Compliance Officer shall execute an affidavit, under oath, that the compliance system has been approved by the Board and that the Compliance Program reflects said approved system.

The program shall be updated at least annually to incorporate changing responses to evolving internal and external conditions.

⁸⁵ BSP Cir. No. 747

2. Chief Compliance Officer (CCO)

The Board shall appoint a full-time Chief Compliance Officer to manage the Compliance Program. Given the importance of the compliance function, the Chief Compliance Officer is a senior officer with a rank of *at least a Vice President (VP)*⁸⁶ functionally reporting to the Corporate Governance Committee and to the Board. Such appointment/designation shall require prior approval of the Monetary Board.

The Compliance Officer is a member of the Bank's management team and is the lead senior officer for purposes of administering the Compliance Program and interacting with the regulatory agencies on compliance-related issues. The principal function of the Compliance Officer is to oversee the design of an appropriate compliance system, promote its effective implementation and address breaches that may arise. He/she shall also be responsible for ensuring the integrity and accuracy of all documentary submissions to BSP.

Similar to the Corporate Secretary, the CCO is primarily liable to the Bank and its shareholders, and not to the Chairman or President of the Bank. He/she has, among other, the following duties and responsibilities:

- a. Ensures proper on-boarding of new directors (i.e., orientation on the Bank's business, charter, articles of incorporation and by-laws, among others);
- b. Monitors, reviews, evaluates and ensures the compliance by the Bank, its officers and directors with the relevant laws, this CG Manual, rules and regulations and all governance issuances of regulatory agencies;
- c. Reports the matter to the Board if violations are found and recommends the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation;
- d. Reports to the President and the Board through the Corporate Governance Committee (CGC), significant compliance issues, the general status of Bank's level of compliance and also the relevant regulations, updates & other compliance matters
- e. Ensures the integrity and accuracy of all documentary submissions to regulators;
- f. Appears before the SEC when summoned in relation to compliance with this CG Manual;
- g. Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
- h. Identifies possible areas of compliance issues and works towards the resolution of the same;
- i. Ensures the attendance of board members and key officers to relevant trainings; and
- j. Performs such other duties and responsibilities as may be provided by the SEC, BSP and other regulatory bodies.⁸⁷

3. Compliance Charter

This **Compliance Charter**, which is being maintained by the Bank's Compliance Office, establishes and sets forth the fundamental principles of the Bank's Compliance Function and defines the standing, authority, independence, duties and responsibilities of the Compliance Office as promulgated by the Board of Directors in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas (BSP). This Charter is being maintained by the Bank's **Compliance Office (CO)**.

The Bank's Compliance Function, through its Compliance Office, also exercises specific statutory responsibility e.g. compliance with Anti-Money Laundering

⁸⁶ Notwithstanding SEC's recommendation #1.6 per SEC Memo. Cir. No. 19 s2016 re: SVP rank for the CCO position, the CCO has adequate stature and authority in the Bank necessary to effectively carry out his duties & responsibilities in implementing the Bank's compliance program.

⁸⁷ Recommendation #1.6 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

laws, rules & regulations as defined in the Bank's Money Laundering & Terrorism Financing Prevention Program (MLTFPP).

B. Risk Management⁸⁸

1. Risk Management Function⁸⁹

The Bank should have a separate risk management function to identify, assess and monitor key risk exposures.

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

- a. Defining a risk management strategy;
- b. Identifying the key risk exposures and assessing and measuring the extent of risk exposures of the Bank and its trust operations;
- c. Identifying and analyzing key risk exposures relating to economic, environmental, social and governance (EESG) factors and the achievement of the Bank's strategic objectives;
- d. Evaluating and categorizing each identified risk using the Bank's predefined risk categories and parameters;
- e. Establishing a risk register with clearly defined, prioritized and residual risks;
- f. Developing a risk mitigation plan for the most important risks to the Bank, as defined by the risk management strategy;
- g. Monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the Bank's internal capital adequacy assessment on an on-going basis;
- h. Monitoring and assessing decisions to accept particular risks whether these are consistent with Board-approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures;
- i. Communicating and reporting significant risk exposures including business risks (e.g, strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Risk Oversight Committee;
- j. Monitoring and evaluating the effectiveness of the Bank's risk management processes; and
- k. Reporting on a regular basis to senior management and to the board of directors of the results of assessment and monitoring.

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

2. Chief Risk Officer (CRO)

The Board shall appoint a Chief Risk Officer (CRO) who shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions. Without any impediment, the CRO shall have direct access to the Board and the Risk Oversight Committee (ROC). As the CRO's direct reporting line, the ROC shall be the one to rate his performance.

The CRO, who is the ultimate champion of the Bank's Enterprise Risk Management (ERM), shall have sufficient stature, authority and seniority within the Bank. This will be assessed based on the ability of the CRO to influence decisions that affect the Bank's exposure to risk. The CRO shall have the ability, without compromising his independence, to engage in discussions with the Board, President and other senior management on key risk issues and to access such information as he deems necessary to form his or her judgment.

⁸⁸ Sec. 5 BSP Cir. No. 749

⁸⁹ Recommendation #12.4 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

The CRO shall meet with the Board/Risk Oversight Committee on a regular basis and such meetings shall be duly minuted and adequately documented.

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

The CRO has the following functions, among others:⁹⁰

- a. Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;
- b. Communicates top risks and the status of the implementation of risk management strategies and action plans to the Risk Oversight Committee;
- c. Collaborates with the President/CEO in updating and making recommendations to the Risk Oversight Committee;
- d. Suggests ERM policies and related guidance, as may be needed; and
- e. Provide insights on the following:
 - Risk management processes are performing as intended;
 - Risk measures reported are continuously reviewed by risk owners for effectiveness; and
 - Established risk policies and procedures are being complied with.

There should be clear communication between the Risk Oversight Committee and the CRO.

C. Internal Controls and Independent Assurance

1. Internal Control System

The minimum internal control mechanisms for Management's operational responsibility shall center on the President being ultimately accountable for the Bank's organizational and procedural controls. The Bank should have an effective system of internal control that will ensure the integrity of its financial reports and protection of its assets for the benefit of all stockholders and other stakeholders.⁹¹

The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors:

- Nature and complexity of business and the business culture;
- Volume, size and complexity of transactions;
- Degree of risk;
- Degree of centralization and delegation of authority;
- Extent and effectiveness of information technology;
- Extent and effectiveness of information technology; and
- Extent of regulatory compliance.

2. Independent Assurance by Internal Audit Function⁹²

An effective and efficient internal audit function constitutes the third line of defense in the system of internal control.⁹³ The Bank should have in place an independent internal audit function that provides independent and objective assurance, and consulting services designed to add value and improve the Bank's operations. It aims to help the Bank accomplish its objectives by bringing a systematic and disciplined approach in evaluating and improving the effectiveness of the Bank's governance, risk management and control functions.

The following are the functions of the internal audit, among others:

⁹⁰ Recommendation #12.5 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

⁹¹ SEC Memo Cir. 9, s2014 as amended by SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

⁹² Recommendation #12.2 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

⁹³ Sec. 10 BSP Cir. 969 s.2017

- a. Provides an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of governance and control processes in (1) promoting the right values and ethics; (2) ensuring effective performance management and accounting in the organization; (3) communicating risk and control information; and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;
- b. Performs regular and special audit as contained in the annual audit plan and/or based on the Bank's risk assessment;
- c. Performs consulting and advisory services related to governance and control as appropriate for the Bank;
- d. Perform compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the Bank;
- e. Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the Bank;
- f. Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
- g. Evaluates specific operations at the request of the Board or Management, as appropriate; and
- h. Monitors and evaluates governance processes.

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

3. Chief Audit Executive (CAE)⁹⁴

The Bank's Internal Audit Group (IAG) shall be headed by the Chief Audit Executive (CAE) who is a senior officer appointed by the Board. The CAE shall oversee and be responsible for the internal audit activity of the Bank, including any portion that is outsourced to a third party service provider. In case of a fully outsourced internal audit activity, a qualified independent executive or Senior Management personnel should be assigned the responsibility for managing the fully outsourced internal audit activity.

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

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

D. External Auditor

An independent External Auditor shall be selected and appointed by the stockholders upon the recommendation of the Audit Committee. The External

⁹⁴ Recommendation #12.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

Auditor shall not at the same time provide the services of an internal auditor to the same client. The Bank shall ensure that other non-audit work shall not be in conflict with the functions of the External Auditor.

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

If an external auditor believes that the statements made in the Bank's annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall present his views in said reports.

The reason/s for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the Bank's annual and current reports. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

SECTION 4. CODE OF BUSINESS CONDUCT & ETHICS

The Bank's **Code of Conduct** defines standards that the Bank's officers and staff must follow in all their business dealings and relationships with the various stakeholders of the Bank.

The Code includes the following provisions:

- Disciplinary process;
- General policies to establish a professional working environment and secure a favorable reputation for our Bank;
- Corrective measures for unacceptable behavior or failure to comply with our rules, such as on Financial Consumer Protection (FCP)⁹⁵ and on Anti-Money Laundering/Terrorism Financing, policies and procedures;
- Schedule of penalties for attendance and punctuality, required corporate attire, conduct and behavior, dishonesty, health, safety and security, reporting of violations, and information security; and
- Provisions on management of personal finances, conflict of interest, anti-sexual harassment, non-disclosure of information and insider information.

In addition, the Bank has also instituted its **Treasury Group's Code of Conduct & Ethical Standards** to ensure that the Bank's treasury activities are conducted with a high degree of integrity and are compliant with market conduct rules and relevant requirements of regulatory bodies.⁹⁶

SECTION 5. REMUNERATION POLICY

The Bank aims to provide the Board and its officers with an industry-competitive compensation package to attract, motivate and retain highly qualified people.

The salary scales of its officers are generally based on their positions and ranks. These are reviewed annually and adjusted as needed, based on performance. The Bank also grants bonuses including a 13th-month pay, in accordance with law. The Board sees to it that this remuneration strategy is regularly reviewed. This ensures that the policy is commensurate with corporate and individual performance, aligned with the Bank's long-term interests and benchmarked against the Bank's industry peers and other market considerations while also maintaining internal equity.

Each director receives a monthly professional fee and reasonable per diems for attending Board and committee meetings. This is also in consideration of their valuable contributions in the formulation of the Bank's overall strategy.

⁹⁵ Pursuant to the Bank's FCP Framework in accordance with **BSP Circular No. 857** re: BSP Regulations on Financial Consumer Protection that aims to address the core consumer protection principles of disclosure & transparency, protection of client information, fair treatment, effective recourse and financial education & awareness.

⁹⁶ In compliance with **BSP Circular No. 889** re: Treasury Activities of BSP-supervised FIs

SECTION 6. DISCLOSURE & TRANSPARENCY

The essence of corporate governance is transparency. It is therefore essential that all material information about the Bank which could adversely affect its viability or the interests of the stockholders and other stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of assets⁹⁷, off balance sheet transactions, related party transactions, relevant and material information on individual Board members and key executives⁹⁸ and policies and procedure for setting Board and executive/management remuneration as well as the level and mix of the same, including termination and retirement provisions in the Integrated-Annual Corporate Governance Report (I-ACGR)⁹⁹.

The Board shall therefore commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the SEC for the interest of its stockholders and other stakeholders¹⁰⁰. All disclosure/transparency requirements of the BSP and other regulatory authorities should also be complied with.

Likewise, the minimum information required to be posted on the company's website, arranged under SEC-recommended topic headings, shall be retained for a period of five (5) years. Any items in the required website template prescribed by the SEC could be added or removed any time as the need arises¹⁰¹.

The Bank shall include media and analysts' briefings as channels of communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.¹⁰²

The Bank shall also maintain an open communication line and use feedback from its various stakeholders to develop better policies, products, and services as well as to accommodate requests for information on the management of the Bank, shareholders rights, or any other Bank-related matters, while remaining mindful of the disclosure limitations under existing laws on the secrecy of bank deposits and data privacy. For this matter, stakeholder engagement touch-points (i.e. via hotlines and other contact details) of **Customer Experience (CX)** shall be maintained for customer-related concerns and of **Corporate Affairs Division (CAD)/Investor Relations Office (IRO)/Corporate Communications Division (CCD)** for all other concerns.¹⁰³

SECTION 7. DIVIDENDS POLICY

In line with upholding the shareholders' right to receive dividends, the Bank commits to regularly and timely declare and pay out dividends provided that they are declared and paid out of the Bank's unrestricted retained earnings and that the pertinent rules and regulations of the SEC, the PSE and the BSP based on applicable laws are duly

⁹⁷ Pursuant to SEC recommendation # 8.6 per SEC Memorandum Circular No. 19 s2016 (New CG Code for PLCs), the Bank shall make a full, fair, accurate and timely disclosure to the public of every material fact or event that occurs, *particularly on the acquisition or disposal of significant assets*, which could adversely affect the viability or the interest of its stakeholders. Further, the Board shall appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.

⁹⁸ Recommendation #8.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs) to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment (e.g. directors and key officers' qualifications, share ownership in the company, membership of other boards, other executive positions, continuous trainings attended and identification of independent directors).

⁹⁹ Recommendation #8.4 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

¹⁰⁰ SEC Memo Cir. No. 9, s2014 as amended by SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

¹⁰¹ SEC Memo Cir. No. 11, s2014

¹⁰² Recommendation #11.1 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

¹⁰³ Recommendation #14.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

complied with and in accordance with the Bank's *Board-approved Dividend Policy*. Unless approved via *majority vote* of the Board of Directors at a different rate or otherwise restricted/prohibited from declaring/paying dividends, the Bank shall regularly declare and pay cash dividends at a rate of **Seventy-Five Centavos (PhP0.75) per share** on a *quarterly basis*.

SECTION 8. WHISTLE-BLOWING POLICY

The Bank requires all its employees to immediately report any noted impropriety or malpractice committed by a co-employee(s) to their Group Heads or directly to the Human Resources Group Head or to the Chief Audit Executive/Internal Audit Group Head for investigation purposes, the concealment or non-reporting of which is considered as an impropriety or malpractice in itself. The policy likewise requires the due protection of informants, i.e., employees reporting such incidents in good faith from any form of harassment and thus considers any attempt to determine their identities as a breach of confidentiality subject to disciplinary sanctions.

SECTION 9. RELATED PARTY TRANSACTIONS (RPT) POLICY

The Bank's **RPT Policy** provides for specific guidelines and handling procedures to ensure that dealings with related parties are made in the regular course of business upon terms not less favorable to the Bank than those offered to others, Bank's resources are not misappropriated and disclosure requirements on significant RPTs, among others. This policy is primarily driven by the Bank's *Board-level* Related Party Transactions Committee (RPTC) and *Management-level* Related Party Transactions Management Committee (RPTMC) which help ensure that transactions with related parties are conducted at arm's length and in accordance with Board-approved specific RPT guidelines and handling procedures vis-à-vis the set transaction materiality thresholds, exposure limits and certain restrictions & conditions.

SECTION 10. POLICY AGAINST INSIDER TRADING

Under this policy, reporting insiders (i.e. directors and officers) are required to disclose their and their associates' initial beneficial ownership in the Bank's shares and any changes thereof within two (2) trading days after their election/appointment in office and from date of said changes, respectively. They are likewise prohibited from selling or buying Bank's shares during "black-out periods" i.e. upon obtaining material non-public information up to two (2) trading days after such information is disclosed.

SECTION 11. CONFLICT OF INTEREST POLICY

To ensure that the Bank's interests are duly safeguarded, this policy requires all employees to make sure that their personal interests and those of their affiliates do not conflict with the duties which they perform for the Bank or with the duties which the Bank perform for its clients. This policy prohibits employees from venturing into certain conflict of interest situations and mandates disclosure procedures in case of possible/potential conflict of interest scenarios.

SECTION 12. LEARNING & DEVELOPMENT POLICY

The Bank maintains a policy on the continuous learning and development of its employees as it aims to continuously improve the products and services it offers and provides to its customers. As such, the Bank provides for certain training and development programs.

SECTION 13. EMPLOYEE HEALTH, SAFETY AND WELFARE POLICY

The Bank advocates a work environment free of work hazards and conducive to the well-being and professional development of its employees. As such, the Bank has instituted certain programs and policies pertaining to employees' health/wellness and family welfare as well as occupational health and safety. The Bank also complies with relevant laws & regulations on the protection of rights in the workplace and the control of infectious diseases.

SECTION 14. CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Bank recognizes and places an importance on the interdependence between its business and society and promotes a mutually beneficial relationship that allows it to

grow its business, while contributing to the advancement of the society where it operates as a way of sharing its success with the community through its various CSR partners. As such, the Bank continually and actively participates in various CSR activities such as educational, medical and environmental causes, promotion of integrity and other interactive outreach programs.¹⁰⁴

PART III- REPORTORIAL REQUIREMENTS

#	Reportorial Requirements	To	Deadline
A.	Certifications¹⁰⁵		
	1. Certification under oath of the <i>1st-time/newly-elected</i> directors concerned that they have <i>received copies of such general responsibility and specific duties and responsibilities</i> and that they fully understand and accept the same	BSP	Within twenty (20) banking days from date of election
	2. Certification under oath of the directors and CEO/President whose appointment <i>requires Monetary Board confirmation</i> , and officers such as the Treasurer, Trust Officer, Chief Compliance Officer, Chief Audit Executive and Chief Risk Officer and other officers with rank of SVP & up whose appointment <i>requires BSP-SES Committee confirmation</i> , that he/she <i>has all the prescribed qualifications and none of the disqualifications</i> .	BSP	Within twenty (20) banking days from the date of election/re-election of the directors/meeting of the Board in which the officers are appointed/promoted
	3. Certification by an Independent Director¹⁰⁶ under oath that he/she is an independent director as defined under the regulations and that all the information he supplied are true and correct – accompanying his/her Bio-Data.	BSP	Within twenty (20) banking days from date of election/re-election of the directors
	4. Certification of Independent Director¹⁰⁷ - in SEC-prescribed form which includes disclosure of any pending criminal/administrative investigation or proceedings, positions held in GOCCs and written consent/permission of head of gov't department/agency	SEC	Together with the submission of Information Statements (SEC Form 20-IS)
B.	Bio-Data¹⁰⁸ - with ID picture of the (i) directors and CEO/President whose appointment requires MB confirmation (ii) officers below the rank of SVP requiring a different set of minimum qualifications or (iii) Treasurer, CCO, Trust Officer, Chief Audit Executive and Chief Risk Officer and other officers with	BSP	Within twenty (20) banking days from date of election/re-election of the directors/meeting of the Board in which the officers are appointed/promoted

¹⁰⁴ Recommendation #16.1 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

¹⁰⁵ Circular Nos. 969 dated 22 August 2017

¹⁰⁶ MORB Sec. x144, as amended by BSP Cir. No. 758

¹⁰⁷ SEC Memorandum Cir. No. 5 s2017 dated 10 March 2017

¹⁰⁸ Sec. 6 BSP Cir. No. 758

	<p>the rank of SVP & up whose appointment requires SES Committee confirmation, upon every election/re-election/appointment/promotion in a prescribed form.</p> <p>The bio-data shall be updated and submitted (i) in case of change of name due to change in civil status, within ten (10) banking days from the date of change occurred and (ii) in cases of requests for prior Monetary Board approval of interlocks.</p> <p>For other officers below the rank of SVP, the Bank shall not be required to submit their bio-data to BSP. The Bank shall keep a complete record of the bio-data of all its directors and officers and shall maintain a system of updating said records which shall be made available during on-site examination or when required by the BSP for submission for offsite examination.</p>		
C.	Certificate of <i>1st-time/newly elected director's Attendance to Corporate Governance (CG) Seminar</i> held by BSP-accredited CG training provider	BSP	Within twenty (20) banking days from date of election
D.	Notarized Authorization Form to Query in BSP Watch-list File¹⁰⁹ - duly notarized for <i>1st-time directors, President/CEO whose appointment requires MB confirmation/ 1st-time officers appointed as Treasurer, Trust Officer, CCO, CAE, CRO and such other officers with rank of SVP & up subject to SES Committee confirmation</i>	BSP	Within twenty (20) banking days from date of election of director/s or meeting of the Board in which the officers are appointed/promoted
E.	Election/Appointment of Directors, President/CEO, Treasurer, Trust Officer, CCO, CAE, CRO and other Officers with rank of SVP & up¹¹⁰ – In addition to the required items under “A”, “B”, “C” and “D” above, the following shall likewise be submitted:		
	1. Letter to BSP of Bank's <i>Elected Directors and CEO/President, Treasurer, CCO and Trust Officer; Chief Audit Executive and Chief Risk Officer and other officers with rank of SVP & up; Request for MB Confirmation of Newly Elected Director(s) and CEO/President; Request for SES Committee Confirmation of Treasurer, CCO and Trust Officer; Chief Audit Executive and Chief Risk Officer and other officers with rank of SVP & up and Affirmative Statement</i> as regards the	BSP	Within twenty (20) banking days from date of election/re-election of the directors/Annual Stockholders' Meeting (ASM) or meeting of the Board in which the officers are appointed/promoted

¹⁰⁹ BSP Cir. 969, s. 2017

¹¹⁰ BSP Cir. 969, s. 2017

	conduct of Fit & Proper test on the director, President/CEO, and officers concerned signed by the President (or the Chairman in the case of the President's election/appointment)		
	2. List of incumbent Directors¹¹¹ and Officers - duly notarized list of the incumbent members of the Board and officers after the annual election of the Board as provided in the By-laws.	BSP	Within twenty (20) banking days from the annual election of the Board of Directors/Annual Stockholders' Meeting (ASM)
	3. Brief Description of Duties and Responsibilities - for President/CEO, Treasurer, Trust Officer, CCO, CAE, CRO and such other officers with rank of SVP & up and other officers whose appointment requires BSP-SES Committee confirmation	BSP	Within twenty (20) banking days from date of meeting of the Board in which the officers are appointed/promoted
	4. Secretary's Certificates:		
	(a) Attesting to the resolution of the Stockholders/Board of Directors approving the election of directors and President/CEO requiring MB confirmation and appointment/promotion of Treasurer, CCO and Trust Officer; Chief Audit Executive and Chief Risk Officer and other officers with rank of SVP & up requiring SES Committee confirmation; and	BSP	Within twenty (20) banking days from date of election/re-election of the directors/Annual Stockholders' Meeting (ASM) or meeting of the Board in which the officers are appointed/promoted
	(b) On the attendance by the Director(s) concerned to the Board meetings held for the last 12 months covering the term of service indicating percentage of attendance to Board meetings for re-elected directors only.	BSP	Within twenty (20) banking days from date of re-election of the directors/Annual Stockholders' Meeting (ASM)
F.	Report on Group Structures¹¹²		
	1. Annual Report disclosing all entities in the group structure where the Bank belongs either as a parent company bank or subsidiary/affiliate company	BSP thru MBTC	Within 30 calendar days after the end of every calendar year starting with the year ending 31 December 2011
	2. Quarterly Report on significant transactions between entities in the group and involving any-BSP regulated entity	BSP thru MBTC	Within 20 calendar days after the end of the reference quarter starting with the quarter ending 31 March 2012
G.	Annual Report (AR) and accompanying Annual Report Assessment Checklist (ARAC)¹¹³ – the function of overseeing the preparation of the Bank's Annual Report (AR) has been delegated by the Board of Directors	BSP	Within 180 calendar days after the close of the year or on or before June 30

¹¹¹ Sec. 6 BSP Cir. No. 758

¹¹² Sec. 6 BSP Cir. No. 749, as amended by Cir. 757

¹¹³ BSP Memo. No. M-2014-007 as amended by BSP Cir. 956 dated 17 April 2017.

	to the Corporate Governance Committee (CGC) ¹¹⁴		
H.	Integrated-Annual Corporate Governance Report (I-ACGR)¹¹⁵		
	1. Filing with the SEC of at least one (1) complete and duly notarized hardcopy copy bearing original and manual signatures of the Chairman of the Board, the President, all Independent Directors, the Chief Compliance Officer and the Corporate Secretary	SEC	Annually Not Later Than May 30 of the following year
	2. Posting in the Bank's website		Within five (5) banking days after hardcopy submission/filing with the SEC
I.	PSE CG Guidelines Disclosure Template	PSE	On or before March 31 of every year
J.	Certificate of Attendance to CG Trainings¹¹⁶ – for all key officers and members of the Board of PLCs to attend at least annually a program on corporate governance conducted by training providers duly accredited by the SEC	SEC	Within 10 days from the completion of CG training program
K.	Annual Report on Chinese Wall Policy – as prescribed under Rule 34.11.4 of the 2015 SRC IRR ¹¹⁷	SEC	Not later than every March 15 covering the immediately preceding calendar year beginning March 15, 2017 covering the Y2016
L.	Other Reportorial or Disclosure Requirements - It is likewise essential that all material information about the Bank which could adversely affect its viability or the interest of its stockholders and other stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of assets, off-balance sheet transactions, related party transactions and direct and indirect remuneration of members of the Board and Management. The Board shall therefore commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate exchange mechanisms and submission of required reports to the SEC (e.g. SEC Forms 20-IS, 17-C, 17-Q, 17-A, etc.) for the interest of its stockholders and other stakeholders. ¹¹⁸	SEC & PSE	Within the submission deadline set forth under existing PSE and SEC rules and regulations

¹¹⁴ Per Board Resolution No. 2018-047 dated 15 March 2018.

¹¹⁵ SEC Memo Cir. 5 & 9, S2013

¹¹⁶ SEC Memo Cir. 19, S2016

¹¹⁷ SEC Notice dated 01 April 2016

¹¹⁸ SEC Memo Cir. 9, s2014 as amended by SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

PART IV- PERFORMANCE EVALUATION

A. Annual Performance Self-Assessment

The Board shall perform an internal performance evaluation to determine and measure compliance with this Manual by the Board as a body, each of its directors and its committees, the Chairman, the President, the various management committees, the Chief Risk Officer, the Chief Audit Executive, the Chief Compliance Officer and the entire Bank itself¹¹⁹.

These exercises shall be conducted on an annual basis **within the first quarter of the following year** for which results shall be submitted to the Bank's Compliance Office for the Corporate Governance Committee's review and endorsement to the Board for notation during the following month's Board Meeting.

1. Board of Directors

The Board, each of its directors and its respective committees shall conduct an annual performance evaluation/assessment to check their compliance with this Manual and determine areas of improvements for the following¹²⁰:

- a. **Board as a Body** - c/o Corporate Governance Committee
- b. **Each of the Directors** – individual self-rating
- c. **Each of the Board's Committees** – committee self-rating, as follows:
 - **Risk Oversight Committee**
 - **Related Party Transactions Committee**
 - **Trust Committee**
 - **Audit Committee**
 - **Corporate Governance Committee**
 - **Anti-Money Laundering Oversight Committee**
 - **Executive Committee**
- d. **Chairman of the Board** - c/o the Board of Directors¹²¹
- e. **Directors & Officers with Multiple/Interlocking Positions** - c/o the Corporate Governance Committee¹²²

2. Management

A similar annual performance evaluation system shall likewise be undertaken to also gauge the performance and effectiveness of all Management-level committees vis-à-vis set performance standards that are consistent with the Bank's strategic objectives and business plans, as follows:

- a. **President** - c/o the Corporate Governance Committee
- b. **Management Committees** – committee self-rating
 - **Assets and Liabilities Committee**
 - **Credit Committee**
 - **Anti-Money Laundering Compliance Committee**
 - **Outsourcing Oversight Committee**
 - **IT Steering Committee**
 - **Emergency Committee**
 - **Policy Committee**
 - **Personnel Committee**

¹¹⁹ Sec. 4 BSP Cir. 969, s. 2017

¹²⁰ Per SEC recommendation #6.1, the Bank may hire the services of an external/independent facilitator (e.g. consulting firm, academic institution or professional organization) to support these Board performance assessments every three (3) years starting 2017.

¹²¹ SEC recommendation #6.1 also requires the Board to conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees

¹²² As required under the MORB, the CGCom shall conduct an annual performance evaluation of such directors and officers with multiple/interlocking positions to determine whether or not they are still able to and have been adequately carrying out their duties & responsibilities and to recommend changes to the Board, as necessary.

- **Retirement Committee**
- **Related Party Transactions Management Committee**
- **Investment Committee**
- c. **Lead Control Officers**¹²³
 - **Chief Risk Officer** – c/o the Risk Oversight Committee
 - **Chief Audit Executive** – c/o the Audit Committee
 - **Chief Compliance Officer** – c/o the CG Committee

3. Entire Bank – c/o the Corporate Governance Committee

Items subject to rating are the pertinent standards that are consistent with the Bank’s strategic objectives and business plans designed to continuously create value to all our stakeholders, as well as their duties and responsibilities, under a 3-point rating scale, to wit: **“3”-Meets Standards (MS)**, **“2”-Needs Improvement (NI)**, and **“1”-Not Observed (NO)**, with an enjoinder to provide suggestions on how to address the deficiencies/improve performance on items rated either “1” or “2”.

B. Other Corporate Governance Scorecards

The SEC may require the Bank to accomplish annually a scorecard. Additionally, BSP, PSE and other institutions such as the Institute of Corporate Directors (ICD), may require the Bank to participate in their own corporate governance survey through a scorecard for Banks.

PART V – COMPLIANCE MONITORING AND SANCTIONS

The Bank’s Chief Compliance Officer (CCO) shall monitor compliance with this Manual and related laws, rules & regulations of the SEC, PSE and BSP. If any significant or major violations are found, he/she shall report the matter to the Corporate Governance Committee (CGC) for evaluation. The CGC shall, if deemed proper after due process of notice and hearing, recommend to the Chairman of the Board the imposable penalty/appropriate disciplinary action(s) on the responsible parties including the adoption of measures to prevent recurrence, for further review and approval of the Board of Directors.

PART VI – POLICY REVIEW AND UPDATING

This Manual shall be reviewed by the Bank’s Chief Compliance Officer (CCO) **at least annually** and as soon as necessary to incorporate relevant regulatory updates and industry best practices. Any further changes to be effected herein in line with said review or updating shall be subject to the review and endorsement of the **Corporate Governance Committee (CGC)** for approval of the **Board of Directors (BOD)**.

¹²³ Recommendation #2.8 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)