



# **CORPORATE GOVERNANCE (CG) MANUAL**

*Updated 19 March 2020*

PSBank Compliance Office  
17/F PSBank Center  
Paseo de Roxas-Sedeño Sts., Makati City  
Tel. No. 885-8208 Local 8468

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**INITIATION OF CHANGES/UPDATES**

<b>Role</b>	<b>Name</b>	<b>Signature</b>	<b>Date</b>
Prepared by	<b>MICHAEL C. NAVARRETE</b> Assistant General Compliance Officer	(Originally signed)	March 11, 2020
Prepared by	<b>MARIA AILEEN A. VILLARAMA</b> General Compliance Officer	(Originally signed)	March 11, 2020
Reviewed by	<b>GILBERT L. NUNAG</b> VP & Chief Compliance Officer	(Originally signed)	March 11, 2020

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

<b>Role</b>	<b>Name</b>	<b>Signature</b>	<b>Date</b>
Endorsed by	<b>EDUARDO A. SAHAGUN</b> Independent Director CGC Member	<b>ENDORSED</b>	March 19, 2020
Endorsed by	<b>SAMSON C. LIM</b> Independent Director CGC Member	<b>ENDORSED</b>	March 19, 2020
Endorsed by	<b>JOSE T. PARDO</b> Independent Director & Board Chairman - CGC Chairperson	<b>ENDORSED</b>	March 19, 2020

**BOARD OF DIRECTORS (BOD)  
APPROVAL**

Board Resolution Number: <b>2020-030</b>	Date: <b>March 19, 2020</b>
Please see attached Secretary's Certificate subject to replacement once notarized.	

## 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 March 19, 2020, at which a majority was present the following resolution was unanimously approved:

#### RESOLUTION NO. 2020 - 030

"RESOLVED, as it is hereby resolved, that the Board of Directors of Philippine Savings Bank hereby approves the Updated Corporate Governance (CG) Manual, as attached to 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 \_\_\_\_\_ this day of \_\_\_\_\_.

  
**POCHOLO V. DELA PEÑA**  
Corporate Secretary

SUBSCRIBED AND SWORN TO before me, this day of \_\_\_\_\_ at \_\_\_\_\_, affiant exhibiting to me his Passport No. P3958028B issued at DFA NCR East on November 25, 2019.

Doc. No. \_\_\_\_\_  
Page No. \_\_\_\_\_  
Book No. \_\_\_\_\_  
Series of 2020.

Notary Public

## SUMMARY OF CHANGES AND THEIR RATIONALE

Key changes effected to the previous **November 2018** Corporate Governance Manual (CGM) version are summarized, as follows:

#	Changes/Updates	Page(s)
1	<p>Changed all references on Corporation Code to the “Revised Corporation Code” (RA 11232 which took effect in February 2019) and incorporated its relevant provisions for consistency as follows:</p> <ul style="list-style-type: none"> <li>○ Report on elected/appointed directors and corporate officers and non-holding of election;</li> <li>○ Vacancies in the office of director or corporate officer; and</li> <li>○ Cessation from office of director or corporate officer</li> </ul>	<p><b>23</b></p> <p><b>31-32</b></p> <p><b>32</b></p>
2	<p>Realigned the following items with the pertinent provisions of the BSP’s latest Manual of Regulations for Banks (MORB) for consistency:</p> <ul style="list-style-type: none"> <li>○ Conduct of Board-level committee meetings;</li> <li>○ Definition of independent directors;</li> <li>○ Limits for independent and non-executive directors;</li> <li>○ Administrative cases involving bank directors and officers;</li> <li>○ Roles &amp; qualifications of the Board Chairman;</li> <li>○ Qualifications of an officer;</li> <li>○ Compliance risk management, compliance function, compliance program and Chief Compliance Officer;</li> <li>○ Risk management function and Chief Risk Officer; and</li> <li>○ Internal audit function and Chief Audit Executive.</li> </ul>	<p><b>20</b></p> <p><b>21-22</b></p> <p><b>22</b></p> <p><b>30</b></p> <p><b>36</b></p> <p><b>43</b></p> <p><b>47-49</b></p> <p><b>50-51</b></p> <p><b>52-53</b></p>
3	<p>Incorporated the following provisions:</p> <ul style="list-style-type: none"> <li>○ Scheduling of Board meetings before the start of the financial year pursuant to Principle 4 under SEC Memorandum Circular No. 19 s2016 (New CG Code for PLCs);</li> <li>○ Adoption of retirement policy for directors as patterned after that of parent-MBTC pursuant to Recommendation #2.4 under SEC Memorandum Circular No. 19 s2016 (New CG Code for PLCs);</li> <li>○ Compliance Office’s review of all Board-level committee charters pursuant to parent-MBTC’s Procedures Circular No. 052-2019 re: Standard Template for Board-level Committee Charters;</li> <li>○ Selection process for Senior Management;</li> <li>○ Succession planning for officers;</li> <li>○ Retirement policy for officers;</li> <li>○ Policy on engagement of advisers as aligned with MBTC’s;</li> <li>○ Sustainability reporting pursuant to SEC Memorandum Circular No. 4 s2019 re: Sustainability Reporting Guidelines for PLCs; and</li> <li>○ Process of updating of CG performance self-rating scorecards and resolution tracking of identified areas for improvement</li> </ul>	<p><b>20</b></p> <p><b>35</b></p> <p><b>40</b></p> <p><b>40</b></p> <p><b>47</b></p> <p><b>47</b></p> <p><b>57</b></p> <p><b>57-58 &amp; 61</b></p> <p><b>62</b></p>
4	<p>Effected the amended grounds of and procedures on the disqualification of directors and officers per BSP Circular No. 1076 dated 18 February 2020</p>	<p><b>24-30</b></p>
5	<p>Updated the following policy statements to be aligned with the Bank’s latest Annual Report:</p> <ul style="list-style-type: none"> <li>○ Remuneration policy; and</li> <li>○ Whistle-blowing policy.</li> </ul>	<p><b>54-55</b></p> <p><b>56</b></p>
6	<p>Reflected the recent requirement on the electronic submission of Bio-data per BSP Memorandum No. 2019-027</p>	<p><b>58</b></p>

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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 stakeholders<sup>1</sup> (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.<sup>2</sup>

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), **Republic Act (R.A.) No. 11232** re: **Revised Corporation Code of the Philippines** and other relevant references. This Manual also serves as the **Board Charter** and the **Board’s 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 matters<sup>3</sup>.

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.*

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<sup>1</sup> The term **“Stakeholders”** refers 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.

<sup>2</sup> **SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

<sup>3</sup> **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**<sup>4</sup>, 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.<sup>5</sup>

- 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**.<sup>6</sup>
- 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.<sup>7</sup>
- d. Non-Filipino citizens may become members of the Board to the extent of the foreign participation in the equity of the Bank.

##### 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

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<sup>4</sup> **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.

<sup>5</sup> **Recommendation #1.2 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

<sup>6</sup> **Recommendation #5.1 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

<sup>7</sup> **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 stakeholders 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.<sup>8</sup>

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 Board -**

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 President/Chief Executive Officer (CEO) 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 stakeholders<sup>9</sup>, 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.

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

<sup>9</sup> 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 policies<sup>10</sup>.
- 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:**

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<sup>10</sup> 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 remuneration<sup>11</sup>.
- (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 Chief Risk Officer (CRO) and the Chief Audit Executive (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;

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<sup>11</sup> **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 shall:
    - 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 and Corporate Governance Committees, without prior approval of the Monetary Board;

- 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 committees<sup>12</sup>;
    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 Chairman<sup>13</sup>.
    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.
    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 Compliance Officer or Internal Auditor may sit as resource persons in said committee.
- (c) The Board of Directors shall regularly review the structure, size and composition of the Board of Directors and Board-level

<sup>12</sup> Recommendation #3.2 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

<sup>13</sup> Recommendation #3.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

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 committees;
  - (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 decisions. The Board of Directors shall also ensure that independent views in meetings of the Board of Directors shall be given full consideration and all such meetings shall be duly minuted.
- (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 responsibilities;
  - (3) Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power;
  - (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 banking practice;

- (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 disadvantaged<sup>14</sup>. 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 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

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<sup>14</sup> This is separately covered and comprehensively set forth in the Bank's **RPT Policy** and **Material RPT Policy** pursuant to BSP Circular No. 895, Section 136 of the MORB re: Related Party Transactions and the **SEC Memorandum Circular No. 10 s2019** re: Rules on Material Related Party Transactions for Publicly-Listed Companies.

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.<sup>15</sup>

**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 Management.

**6) Identify the Bank's stakeholders in the community in which it operates or are directly affected by its operations and formulate a clear policy of accurate, timely and effective communication with them.<sup>16</sup>**

### **3. Shareholders' Rights and Protection of Minority Stockholders' Interests<sup>17</sup>**

a. The Board shall respect the rights of the shareholders as provided for in the Revised 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 Procedures:**

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 Revised 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***.

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<sup>16</sup> 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)

<sup>17</sup> SEC Memo Cir. 6, s2009 as amended by Recommendation #14.2 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

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 meeting*; and (6) *dissenting opinion on any agenda item that is considered significant in the discussion process*.<sup>18</sup>

- 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.

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<sup>18</sup> **Recommendation #13.3 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

**Dissenter's Right of Appraisal Procedures:**

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 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***<sup>19</sup>. 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.

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<sup>19</sup> Recommendation #13.2 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

- 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 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.<sup>20</sup>
- 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.<sup>21</sup> 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. Unless otherwise required in the Bank's By-laws, 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. Meetings of the Board may be held at any place within the Philippines.

The members of the Board should attend its regular and special meetings in person or through teleconferencing. Independent directors should always attend Board meetings.<sup>22</sup>

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

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<sup>20</sup> **Recommendation #13.5 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

<sup>21</sup> **Recommendation #13.4 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

<sup>22</sup> **SEC Memo Cir. No. 6 s2009** as amended by **Recommendation #4.1 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

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**.

Board-level committees shall meet as prescribed in their respective charters. Participation of committee members may likewise be in person or through modern technologies: *Provided*, that the attendance and participation of members in committee meetings shall be considered in the assessment of continuing fitness and propriety of each director as member of Board-level committees and the Board of Directors.

The Bank shall schedule its Board of Directors' meetings in advance before the start of the financial calendar year.<sup>23</sup>

As far as practicable, materials for the Board meeting should be provided *at least three (3) banking days* before the meeting<sup>24</sup>.

## **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.

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

An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the disqualifications.

A director shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications **within twenty (20) banking days from the date of election**. Non-submission of complete documentary requirements or their equivalent within the prescribed period shall be construed as his failure to establish his qualifications for the position and results in his removal from the board of directors.

The Bangko Sentral shall also consider its own records in determining the qualifications of a director.

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

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<sup>23</sup> **Optional Recommendation under Principle 4 of SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

<sup>24</sup> PSBank ASEAN Corporate Governance Scorecard (ACGS)

- 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 compliance: *Provided* that the following persons are exempted from attending said seminar:
- 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 and Associate Justices of the Philippine Supreme Court.

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

## **2. Independent Directors<sup>25</sup>**

An independent director shall refer to a person who:

- a. Is not or was not a director, officer or employee of the Bank, its subsidiaries, affiliates or related interests during the past three (3) years counted from the date of his election/appointment;
- b. Is not or was not a director, officer, or employee of the Bank's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;
- c. 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, or in any of its related companies or of its majority corporate shareholders;
- d. Is not a close family member of any director, officer or stockholder holding shares of stock sufficient to elect one (1) seat in the board of directors of the Bank or any of its related companies or of any of its substantial stockholders;
- e. Is not acting as a nominee or representative of any director or substantial shareholder of the Bank, any of its related companies or any of its substantial shareholders;
- f. Is not or was not retained as professional adviser, consultant, agent or counsel of the Bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election;
- g. Is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the Bank or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment;
- h. Was not appointed in the Bank, its subsidiaries, affiliates or related interests as Chairman "Emeritus", "Ex- Officio", Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;

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<sup>25</sup> **MORB Section 131.g** and **Recommendation #5.2 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

- i. 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
- j. 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 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 and Non-Executive Directors**<sup>26</sup>

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. In this regard, the following rules shall apply:

- a. A **non-executive director** may concurrently serve as director in a **maximum of five (5) publicly listed** companies. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the non-executive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement; and
- b. An **independent director** of the Bank may only serve as such for a **maximum cumulative term of nine (9) years**. After which, the independent director shall be perpetually barred from serving as independent director in the same Bank, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be **reckoned from 2012**. 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' Meeting<sup>27</sup>.

### 4. **Election of Directors**

The directors shall be elected by the vote of the holders of common stock of the Bank in accordance with Section 23 of the Revised Corporation Code or pertinent applicable law at the annual meeting of the stockholders.

#### a. **Nomination Procedures**<sup>28</sup>:

- 1) 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.
- 2) 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.

<sup>26</sup> SEC Memo Cir. No. 9 S2011, as amended by Recommendation #5.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

<sup>27</sup> Recommendation #5.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

<sup>28</sup> PSBank's Amended By-laws

- 3) 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.
- 4) Only nominees whose names appear in the Final List of Candidates shall be eligible for election as director.

**b. Report of Election/Appointment of Directors & Corporate Officers<sup>29</sup> and Non-holding of Election**

- 1) ***Within thirty (30) days after the election/appointment of the directors and corporate officers of the Bank***, the Corporate Secretary, or any other officer of the Bank, shall submit to the SEC, the names, nationalities, shareholdings, and residence addresses of the directors and corporate officers elected/appointed.
- 2) The non-holding of elections and the reasons therefore shall be reported to the SEC ***within thirty (30) days from the date of the scheduled election***. The report shall specify a new date for the election, which shall ***not be later than sixty (60) days from the scheduled date***.
- 3) If no new date has been designated, or if the rescheduled election is likewise not held, the SEC may, upon the application of a stockholder and after verification of the unjustified non-holding of the election, summarily order that an election be held. The SEC shall have the power to issue such orders as may be appropriate, including orders directing the issuance of a notice stating the time and place of the election, designated presiding officer, and the record date or dates for the determination of stockholders entitled to vote.
- 4) Notwithstanding any provision of the articles of incorporation or by-laws to the contrary, the shares of stock represented at such meeting and entitled to vote shall constitute a quorum for purposes of conducting an election under this section.

**5. Confirmation of Election of Directors**

The election of directors of the Bank shall be subject to ***confirmation by the Monetary Board (MB)***, provided, that the Bank shall report to the BSP, any succeeding resignation, retirement, or replacement of directors ***within 20 banking days after such resignation/retirement/replacement***.

As enumerated under **Part III-Reportorial Requirements** herein, the required certifications and other documentary proof of qualifications for the confirmation of the election of directors shall be submitted to the BSP within the set deadline under existing BSP rules & regulations. 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.

The election of directors shall be deemed to have ***been confirmed by the BSP***, if ***after sixty (60) banking days from receipt of the complete***

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<sup>29</sup> The term “**Corporate Officers**” refers to the President, Treasury, Corporate Secretary and other officers named in the By-laws.



**required reports**, the appropriate supervising department of the BSP does not advise the Bank against said election.

A director whose election 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 elected, pursuant to Section 16 of R.A. No. 8791.

MB confirmation 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, *Provided further*, that said director has had continuous service within the same bank or banking group. For this purpose, the term “**banking group**” shall refer to the parent-bank and its subsidiary banks, QBs, trust entities, and other NBFIs (other than stand-alone and trust corporations) as well as other banks, QBs, trust entities, and other NBFIs (other than stand-alone and trust corporations) over which the parent bank has the power to exercise “**control**”. This exemption shall apply to directors confirmed by the MB starting 01 January 2011.

## **6. Disqualification of Directors<sup>30</sup>**

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 (Anti-Bouncing Check Law), violation of R.A. No. 3019 (Anti-Graft and Corrupt Practices Act), violation of R.A. No. 9150, as amended (Anti-Money Laundering 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 for offenses which involves moral turpitude, or for offenses which they were sentenced to serve a term of imprisonment of more than six (6) years;
- 3) Persons who have been convicted by final judgment of a court or other tribunal for violation of securities and banking laws, rules and regulations;
- 4) Persons who have been convicted by final judgment for cases filed against them for offenses under R.A. No. 3591, as amended (PDIC Charter);
- 5) Persons who have been judicially declared with finality as insolvent, spendthrift or incapacitated to contract;

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<sup>30</sup> As amended by **BSP Circular No. 1076** dated 18 February 2020

- 6) Persons who were found to be culpable for the bank's closure, as determined by the Monetary Board;
- 7) Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the Bangko Sentral, where a penalty of removal from office is imposed, and which resolution of the Monetary Board has become final and executory; and
- 8) Persons found liable by any government agency/corporation, including government financial institution, for violation of any law, rule or regulation involving dishonesty, misconduct, or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affects their fitness and propriety as directors/officers, and which finding of said government institution 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 Revised 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, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- 4) Any person who has been adjudged by final judgment or order of the SEC, BSP, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or produced the violation of any provision of the Revised 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 of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated previously above;
- 6) Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Revised 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 have shown unwillingness to settle their financial obligations, as evidenced by, but not limited to, the following circumstances:
  - (a) the person has failed to satisfy any financial obligation that has been adjudicated by a court;
  - (b) the person has filed for insolvency or suspension of payments that adversely affects his/her fitness and propriety as director or officer; or
  - (c) a person who is delinquent in the payment of an obligation with a bank where he/she is a director or officer; or at least two (2) obligations with other banks/FIs.

Financial obligations as herein contemplated shall include all borrowings obtained by:

- (i) A person for his/her own account or where he/she acts as a guarantor, endorser or surety for loans;
- (ii) The spouse, except when incurred after legal separation of properties or when the property regime governing the spouses is absolute separation of properties or except when incurred prior to the marriage;
- (iii) Any debtor whose borrowings or loan proceeds were credited to the account of, or used for the benefit of, the person described under item "1)" above;
- (iv) A partnership of which a person, 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 individuals/entities mentioned in the immediately preceding items "(i)", "(ii)" and "(iv)".

They shall remain temporarily disqualified until the financial obligations have been settled or satisfied.

- 2) Persons with cases pending before a court or other tribunal, or those convicted by said court or tribunal but whose conviction has not become final and executory, for offenses involving: (a) 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 (Anti-Bouncing Check Law), violation of R.A. No. 3019 (Anti- Graft and Corrupt Practices Act), violation of R.A. No. 9160, as amended (Anti-Money Laundering 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); or (b)

violation of securities and banking laws, rules and regulations;

- 3) Persons involved in the closure of banks pending their clearance by the Monetary Board;
- 4) Persons confirmed by the Monetary Board to have committed acts or omissions, which include failure to observe/discharge their duties and responsibilities prescribed under existing regulations, that: (a) caused undue injury or disadvantage to the bank through manifest partiality, evident bad faith or gross inexcusable negligence; (b) caused or may have caused material loss or damage to the bank, its depositors, creditors, investors, stockholders, to the Bangko Sentral or to the public in general; or (c) exposed the safety, stability, liquidity or solvency of the bank to abnormal risk or danger;
- 5) Persons found to have been involved in any irregularity/violation which constitutes a just cause for dismissal/termination as defined under the Labor Code of the Philippines, as amended, regardless of any action taken by the bank;
- 6) Persons certified by, or in the official files of, foreign financial regulatory authorities, financial intelligence units, or similar agencies or authorities of foreign countries, as charged with commission of, or having committed, irregularities or violations of any law, rule or regulation, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his/her duties;
- 7) Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the Bangko Sentral, where a penalty of removal from office is imposed, and which resolution of the Monetary Board is on appeal, unless execution or enforcement thereof is restrained by the appellate court;
- 8) Persons against whom a formal charge has been filed or who are found liable by any government agency/corporation, including government financial institution, for violation of any law, rule or regulation involving dishonesty, misconduct or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affects their fitness and propriety as directors/officers, and which finding of said government institution is on appeal, unless execution or enforcement thereof is restrained by the appellate court;
- 9) Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the Bangko Sentral, where a penalty of suspension from office or fine is imposed, unless the finding is on appeal and the execution of enforcement thereof is restrained by the appellate court;
- 10) Persons, other than those covered under Item "b(11)" below, who after conduct of investigation by domestic financial or commercial regulatory authorities, financial intelligence units, or similar agencies or authorities such as the Securities and Exchange Commission (SEC), Anti-Money Laundering Council (AMLC), or the Philippine Deposit Insurance Corporation (PDIC), have complaints filed against them by the aforesaid authorities/units/agencies pending

before a court of law or quasi-judicial body, or convicted by said court or quasi-judicial body but whose conviction has not become final and executory, for offenses involving violation of laws, rules and regulations, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his/her duties;

- 11) Persons who have been convicted by a court for an offense involving moral turpitude, and persons who have been sentenced to serve a term of imprisonment of more than six (6) years for other crimes but whose conviction has not yet become final and executory; and
- 12) Persons with pending cases for offenses under R.A. No. 3591, as amended (PDIC Charter), or those who have been convicted for said cases but whose conviction has not yet become final and executory.

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.

Resignation or retirement from his/her office shall not exempt the person from being permanently or temporarily disqualified under this Section.

#### **7. Effect of Non-possession of Qualifications or Possession of Disqualification/Prohibitions**

A director elected who does not possess all the required qualifications and/or has any of the disqualification/prohibitions mentioned herein shall not be confirmed by the confirming authority of the BSP (i.e. Monetary Board and SES Committee) and shall be removed from office by the Bank even if he/she has assumed the position to which he/she was elected or appointed pursuant to Section 16 of R.A. No. 8791 (General Banking Law of 2000). A confirmed director found to possess any of the disqualifications, shall be subject to disqualification procedures.

#### **8. Disqualification, Delisting/Reclassification Procedures for Directors<sup>31</sup>**

All directors who are considered disqualified under this Section shall be subject to the disqualification procedures provided herein. Disqualified persons shall be included in the Bangko Sentral Watchlist Files.

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<sup>31</sup> As amended by **BSP Circular No. 1076** dated 18 February 2020

- a. The Bank shall be responsible for determining the existence of the ground for disqualification of the person concerned and for reporting the same to the appropriate supervising department of the Bangko Sentral ***within ten (10) calendar days from knowledge thereof***. The Bank shall ensure that the person concerned is informed that his/her offense was reported to the appropriate supervising department of the Bangko Sentral and, as such, may be evaluated for watchlisting. The Bank shall conduct its own investigation, impose sanction/s if appropriate, and report the results thereof to the appropriate supervising department of the Bangko Sentral ***within twenty (20) calendar days from the termination of investigation***.

This shall be without prejudice to the authority of the Monetary Board to disqualify a person from being elected as director in any BSP-supervised financial institution (BSFI) based on information on the existence of any ground for disqualification gathered or obtained from the Bangko Sentral, domestic financial regulatory authorities, financial intelligence units, and similar agencies or authorities of foreign countries, the courts and other quasi-judicial bodies, and other government agencies or the public.

- b. On the basis of knowledge and evidence on the existence of any of the grounds for disqualification mentioned in this Section, the person concerned shall be notified in writing either by personal service or through registered mail or courier at his/her last known address by the appropriate supervising department of the Bangko Sentral 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***, a sworn statement/explanation on why he/she should not be disqualified and his/her name not be included in the watchlist file, together with the evidence in support of his/her position. The head of said appropriate supervising department of the Bangko Sentral may allow an extension on meritorious ground.
- c. Upon receipt of the reply/explanation of the person concerned, the appropriate supervising department of the Bangko Sentral shall proceed to evaluate the case.
- d. The failure of the person to reply within the period provided under Item "b" above shall be deemed a waiver of opportunity to explain and the appropriate supervising department of the Bangko Sentral shall proceed to evaluate the case based on available records/evidence.
- e. If the person concerned was not served copy of the written notice to explain even after using available modes of service, i.e., personal service or registered mail or courier, the appropriate supervising department of the Bangko Sentral shall proceed to evaluate the case based on available records/evidence.
- f. Upon evaluation of the appropriate supervising department of the Bangko Sentral that a person is disqualified under any of the grounds listed herein, said appropriate supervising department of the Bangko Sentral shall elevate to the Monetary Board for approval of the person's disqualification and inclusion in the Bangko Sentral Watchlist Files.
- g. Upon approval by the Monetary Board, the person concerned shall be informed by the appropriate supervising department of the Bangko Sentral in writing either by personal service or through registered mail or courier, at his/her last known address of his/her disqualification from

being elected as director in any BSFI and of his/her inclusion in the masterlist of watchlisted persons so disqualified.

- h. The determination of the Monetary Board shall become final and executory ***within fifteen (15) calendar days from receipt of the resolution***, unless a motion for reconsideration has been filed.
- i. In case the subject of disqualification is an incumbent director, the Board of Directors shall be immediately informed of such disqualification approved by the Monetary Board and shall be directed to act thereon not later than the following Board meeting. ***Within three (3) banking days after the Board meeting***, the Corporate Secretary shall report to the Bangko Sentral through the appropriate supervising department of the Bangko Sentral the action taken by the Board on the person involved.
- j. In cases initiated by the Bangko Sentral which resulted in conviction by final judgment of a court for violation of banking laws, rules and regulations, the BSP-Office of the General Counsel and Legal Services (OGCLS) shall recommend to the Monetary Board the permanent disqualification of said person and his/her name shall be included in the Disqualification File "A" (Permanent) upon approval of the Monetary Board.
- k. In administrative complaints against directors filed with the Bangko Sentral which resulted in the imposition of administrative penalties for violation of banking laws, rules and regulations, the BSP-OGCLS shall recommend to the Monetary Board the disqualification of said person, if warranted according to the severity of the offense, and his/her name shall be included in the Disqualification File "A" (Permanent) or "B" (Temporary), as the case may be, upon approval of the Monetary Board.
- l. All delistings shall be approved by the Monetary Board upon the recommendation of the appropriate supervising department of the Bangko Sentral except in cases of persons known to be dead where delisting shall be automatic upon proof of death.

A person concerned may request delisting ***only after the lapse of five (5) years from the date of his/her receipt of notice of disqualification, except when a case against a director is decided in his/her favor or upon clearance by the appropriate body***, e.g., the judiciary, quasi-judicial bodies and domestic financial regulatory authorities and similar agencies or authorities of foreign countries where the person concerned has a derogatory record. The Monetary Board may consider the time already served under watchlisting by the person concerned.

- m. Reclassification from Disqualification File "B" (Temporary) to Disqualification File "A" (Permanent) may be approved by the Monetary Board when the pertinent case/s becomes final and executory.

#### **9. Administrative Cases Involving Bank's Directors and Officers**

For administrative cases filed with the BSP-Office of Special Investigation (OSI) involving the Bank's directors and officers of BSP-supervised financial institutions in relation to Section 37 of Republic Act No. 7653 (The New Central Bank Act) and Section 16 of Republic Act No. 8791- (The General Banking Law of 2000) as well as those arising out of the fact-finding investigation conducted by OSI, the BSP's **"Revised Rules of Procedure on Administrative Cases Involving Directors and Officers of BSFIs"**<sup>32</sup> shall be applied.

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<sup>32</sup> Per **BSP Circular No. 1012** dated 12 September 2018

## 10. Removal Procedures for Directors<sup>33</sup>

- 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 Revised 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 representation to which they may be entitled under Section 23 of the Revised Corporation Code of the Philippines.

## 11. Vacancies in the Office of Director<sup>34</sup> and Succession Planning

Any vacancy occurring in the Board of directors other than by removal by the stockholders 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.

When the vacancy is due to term expiration, the election shall be held no later than the day of such expiration at a meeting called for that purpose. When the vacancy arises as a result of removal by the stockholders, the election may be held on the same day of the meeting authorizing the removal and this fact must be so stated in the agenda and notice of said meeting. In all other cases, the election must be held **no later than forty-five (45) days from the time the vacancy arose**. A director elected to fill a vacancy shall be referred to as replacement director and shall serve only for the unexpired term of the predecessor in office.

However, when the vacancy prevents the remaining directors from constituting a quorum and emergency action is required to prevent grave, substantial, and irreparable loss or damage to the Bank, the vacancy may be temporarily filled from among the officers of the Bank by unanimous vote of the remaining directors. The action by the designated director shall be limited to the emergency action necessary, and the term shall cease within a reasonable time from the termination of the emergency or upon election of the replacement director, whichever comes earlier. The Bank must notify the SEC **within three (3) days from the creation of the emergency Board**, stating therein the reason for its creation.

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

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<sup>33</sup> Sec. 27 of the Revised Corporation Code

<sup>34</sup> Sec. 28 of the Revised Corporation Code



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.

At least on an annual basis, the Corporate Governance Committee (CGC) shall review the status of the Board and consider if the criteria set forth (i.e. composition of the Board, qualifications of directors, limits, etc.) are being met. It shall determine if there is reason to believe that one or more director slots shall become vacant within the remaining term and if any, shall report the same including its recommendation(s) to the Board. When searching for candidates to fill in a vacancy(ies) in the Board, the use of professional search firms or external sources may be resorted to.

In all elections to fill vacancies, the procedure set forth in Sections 23 and 25 of the Revised Corporation Code shall apply.

**12. Cessation from Office of Director or Corporate Officer**

Should a director or corporate officer (i.e. President, Treasurer, Corporate Secretary and other officers named in the By-laws) die, resign or in any manner cease to hold office, the Corporate Secretary, or a director or officer of the Bank, shall, ***within seven (7) days from knowledge thereof***, report in writing such fact to the SEC.

**13. Interlocking Directorships**

While concurrent directorship may be the least prejudicial of the various interlocking position relationships to the interests of the FIs involved, certain measures are still necessary to safeguard against the disadvantages that could result from indiscriminate concurrent directorship. As such, the following rules shall be observed:

- a. There shall be no concurrent directorships between banks or between a bank and a Quasi-Bank (QB) or a Non-Bank Financial Institution (NBFI), except as may be authorized by the Monetary Board.
- b. 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:
  - 1) Banks not belonging to the same category: *Provided*, that not more than one (1) bank shall have quasi-banking functions;
  - 2) A bank and an NBFI;
  - 3) A bank without quasi-banking functions and a QB; and
  - 4) 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.

**14. Interlocking Directorships and Officerships**

In order to prevent any conflict of interest resulting from the exercise of directorship coupled with the reinforcing influence of an officer's decision-making and implementing powers, the following rules shall be observed:

- a. 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.
- b. 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.

- c. 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.

## 15. 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 Bank<sup>35</sup>. Nonetheless, the ability of such directors to diligently and effectively perform their duties & responsibilities, the nature and kind of corporations they may also be directors of as well as the limitations on concurrent/interlocking directorship between Banks or between a Bank and a quasi-Bank under existing BSP regulations should always be taken due consideration.

The President and other executive directors may be covered by a lower indicative limit for membership in other Boards. A similar limit may apply to independent or non-executive directors who, at the same time, serve as full-time executives in other corporations. In any case, the capacity of the directors to diligently and efficiently perform their duties and responsibilities of the Boards they serve shall not be compromised<sup>36</sup>.

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.<sup>37</sup> For this matter, the following procedures shall be observed<sup>38</sup>:

- o Notification shall be submitted by the concerned director via e-mail to the Bank's Chief Compliance Officer (CCO);
- o 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
- o 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.

## 16. Specific Duties and Responsibilities of a Director

### 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

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<sup>35</sup> Recommendation #4.2 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

<sup>36</sup> SEC Memo. Cir. No. 6 S2009

<sup>37</sup> Recommendation #4.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

<sup>38</sup> Per Memorandum to the Board of Directors dated 24 May 2018 issued by the Board Chairman.

of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that the Bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training.

**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.

**17. 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. 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 1<sup>st</sup>-time Directors to be conducted by SEC and BSP-accredited training providers which should be held for **at least eight (8) hours**<sup>39</sup>. 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) seminar.

**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).

**18. Retirement Policy for Directors**

Except for certain persons such as Filipino citizens with recognized stature, influence and reputation in the banking and business community and whose business practices stand as testimonies to good corporate governance, the Bank observes an age limit of **seventy-five (75) years old** as a general rule for directors. As such, a director may be elected or re-elected until the calendar year in which he/she turns 75 years of age. Upon the recommendation of the Corporate Governance Committee, however, said age limit for directors may be waived by the Board of Directors if such a waiver is deemed to be for the best interest of the Bank.<sup>40</sup>

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<sup>39</sup> **Recommendation #1.3 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

<sup>40</sup> **Recommendation #2.4 under SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs) re: adoption of a policy on retirement age.

## **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.<sup>41</sup>

### **1. Chairman of the Board**

- a. **Roles of the Chairman of the Board.** The Chairman of the board of directors shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors.

He shall:

- 1) Ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- 2) Ensure a sound decision-making process;
- 3) Encourage and promote critical discussion;
- 4) Ensure that dissenting views can be expressed and discussed within the decision-making process;
- 5) Ensure that members of the board of directors receive accurate, timely, and relevant information;
- 6) Ensure the conduct of proper orientation for first-time directors and provide training opportunities for all directors; and
- 7) Ensure conduct of performance evaluation of the board of directors at least once a year.

- b. **Qualifications of the Chairman of the Board.** To promote checks and balances:

- 1) Chairman of the board of directors shall be a non-executive director or an independent director, and must not have served as the Chief Executive Officer (CEO) of the Bank within the past three (3) years.
- 2) The positions of Chairman and CEO shall not be held by one (1) person.
- 3) In exceptional cases where the position of chairperson of the board of directors and CEO is allowed to be held by one (1) person as approved by the Monetary Board, a lead independent director shall be appointed.

For this purpose, the board of directors shall define the responsibilities of the lead independent director, which shall be documented in this CG Manual. The board of directors shall ensure that the lead independent director functions in an environment that allows him to effectively challenge the CEO as circumstances may warrant. The lead independent director shall perform a more enhanced function over the other independent directors and shall: (1) lead the independent directors at board of director's meetings in raising queries and pursuing matters; and (2) lead meetings of independent directors, without the presence of the executive directors.

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;

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<sup>41</sup> SEC Memo. Cir. 6, s2009

- 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.<sup>42</sup>

## **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.

## **3. President/Chief Executive Officer (CEO)**

The President/CEO shall be the overall-in-charge for the management of the business and affairs of the Bank governed by the strategic direction and risk appetite approved by the Board of Directors. He shall be primarily accountable to the Board of Directors in championing the desired conduct and behavior, implementing strategies, and in promoting the long-term interest 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.<sup>43</sup>

## **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.

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<sup>42</sup> **Recommendation #2.3 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

<sup>43</sup> **Recommendation #5.4 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

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;
- 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.<sup>44</sup>

### **3. 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).

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<sup>44</sup> **Recommendation #1.5 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)  
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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 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.

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.

The creation and updating/revision of Board-level committee charters shall be subject to the following procedures<sup>45</sup>:

1. All such new and annual review/updating (including proposed changes, if any) of existing Board-level committee charters shall initially pass through Compliance Office (CO) for review in terms of adherence to said standard charter template;
2. Upon CO's clearance, the respective committee secretariats shall submit them to the Board of Directors for approval after securing the endorsement of their respective Board-level committees; and
3. Once approved by the Board of Directors, the respective committee secretariats shall then convert the approved charters to PDF format with proper standard document classification and cause the uploading of the same to the InfoChannel and corporate website with the assistance of the CO.

## **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.

### **B. Selection Process for Senior Management**

The Bank shall have pre-defined Job Descriptions (JDs) for its Senior Management positions (i.e. those to be held by officers ranking at least an Assistant Vice President) whereby the qualifications of any internal and/or external candidates to any such available roles are to be assessed on. Each candidate shall undergo a series of interview by the Line Head, Customer Experience and Human Resources Group Head and the President. Any hiring or appointment to the role shall be endorsed by the *Management-level* Personnel Committee (PERCOM) for approval of the President and the Board of Directors.

### **C. 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:

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<sup>45</sup> Pursuant to **parent-MBTC's Procedures Circular No. 052-2019**, re: "Standard Template for Board-level Committee Charters".

**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 **Head Office Operations Division**.

**5. IT Steering Committee (ITSC)**

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)**.

**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 **Support and General Services Sector/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 Optimization Division (POD)**.

#### **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 **Customer Experience Human Resources Group (CXHRG)**.

#### **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)<sup>46</sup> and Retirement Committee (RETCOM)<sup>47</sup> whereby any proposed updates/revisions to be effected

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<sup>46</sup> CreCom's approving authorities emanate from the Board of Directors via the Board-approved credit approval delegations.

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 Directors<sup>48</sup>.

#### **D. 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 Officer**

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

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

An appointed officer has the burden to prove that he possesses all the foregoing minimum qualifications and none of the disqualifications/prohibitions.

An officer shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications ***within twenty (20) banking days*** from the date of meeting of the board of directors in which the officer is appointed/promoted. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position and results to his/her removal therefrom.

The Bangko Sentral shall also consider its own records in determining the qualifications of an officer.

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

##### **2. Disqualifications of Officers or Persons Prohibited to Become Officers<sup>49</sup>**

- a. The disqualifications for directors and disqualification procedures for directors shall likewise apply to officers.

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<sup>47</sup> 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.

<sup>48</sup> **PSBank Board Resolution No. 2018-082** dated 21 May 2018.

<sup>49</sup> **Section 137 of the MORB**, as amended by **BSP Circular No. 1076** dated 18 February 2020

- 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., President/Chief Executive Officer (CEO), Chief Operating Officer (COO), General Manager, and Chief Financial Officer (CFO);
  - 2) Treasury function, e.g., Treasurer or Treasury Head;
  - 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 (CRO);
  - 6) Compliance function, e.g., Chief Compliance Officer (CCO); and
  - 7) Internal audit function, e.g., Chief Audit Executive (CAE).
- c. 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 branch-lite unit of the Bank or their respective equivalent positions is prohibited from holding or being appointed to any of said positions in the same branch or branch-lite unit.
- d. Any appointive or elective public official, whether full time or part time, except in cases where such service is incidental to the financial assistance provided by the government or government owned or -controlled corporations (GOCCs) or in cases allowed under existing laws.

### **3. Interlocking Officerships**

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 NBFi.

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 NBFi/s, other than investment house/s; or
- b. Between a bank and not more than two (2) of its subsidiary QB/s and NBFi/s; or
- c. Between two (2) banks, or between a bank and a QB or an NBFi, 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, or between bank/s, QB/s and NBFIs, 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, 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.
  - 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.

For purposes of the above, members of a group or committee, including sub-groups or sub-committees, whose duties include functions of management such as those ordinarily performed by regular officers, shall likewise be considered as officers.

#### **4. Secondment**

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. The Bank 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 Officers**

The appointment of the Bank's ***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*** shall be subject to confirmation by the ***BSP-SES Committee***, *provided*, that the Bank shall report to the BSP, any succeeding resignation, retirement, or replacement of directors ***within 20 banking days after such resignation/retirement/replacement*** thereof.

As enumerated under **Part III-Reportorial Requirements** herein, the required certifications and other documentary proof of qualifications for the confirmation of the appointment of said officers shall be submitted to the BSP within the set deadline under existing BSP rules & regulations. 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.

The appointment of above officers shall be deemed to have ***been confirmed by the BSP***, if ***after sixty (60) banking days from receipt of the complete required reports***, the appropriate supervising department of the BSP does not advise the Bank against said appointment.

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. 8791.

BSP-SES Committee confirmation shall not be required in the following cases:

- a. Promotion of an officer, other than to that which requires:
  - 1) Prior Monetary Board approval, or
  - 2) A different set of minimum qualifications, or
  - 3) A different level of confirming authority in the same bank or appointment/transfer to another bank, QB, trust corporation, and NBFi with trust authority within a banking group.
- b. The appointment of officers below the rank of SVP other than the Treasurer, Chief Compliance Officer (CCO), Chief Audit Executive (CAE), Chief Risk Officer (CRO) and Trust Officer.

*Provided*, that the officer concerned has been previously confirmed, his/her promotion/transfer requires the same level of confirming authority, *provided further*, that said officer has had continuous service within the same bank or banking group. For this purpose, the term **“banking group”** shall refer to the parent-bank and its subsidiary banks, QBs, trust entities, and other NBFIs (other than stand-alone and trust corporations) as well as other banks, QBs, trust entities, and other NBFIs (other than stand-alone and trust corporations) over which the parent bank has the power to exercise **“control”**. This exemption shall apply to directors confirmed by the MB starting 01 January 2011.

## **6. Duties and Responsibilities of Officers**

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 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 management system 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.

#### **7. Succession Planning for Officers**

The Bank's succession planning program aims to ensure continuity and viability of its business. Under this program, officer positions that are considered critical for business continuity shall be determined and next-in-line officers shall be identified and evaluated as "**Ready Now**" and "**Ready Later**" replacements, which process shall be reviewed regularly. Potential successors shall be subjected to Individual Development Plans, which is a combination of classroom training, cross postings, immersions, and developmental assignments. Further, strategic workforce planning shall also be pursued to ensure that critical positions are filled up and that Talent Acquisition is ready to provide external talents if deemed necessary.

#### **8. Retirement Policy for Officers**

The compulsory retirement age for the Bank's regular employees (officers and staff) is at **fifty-five (55) years old**. Such has been established in the Bank's Retirement and Gratuity Plan, duly approved by the Bureau of Internal Revenue (BIR). To aid in workforce planning, the Bank shall review the roster of its employees who shall be reaching the compulsory retirement age before the end of the applicable year. Appropriate notification shall be arranged and deferential treatment shall be accorded to the retired employee ensure that they receive the compensations for their loyal service within thirty (30) days after their effective date of retirement.

### **SECTION 3. COMPLIANCE SYSTEM, RISK MANAGEMENT AND INDEPENDENT ASSURANCE**

#### **A. Compliance System**

##### **1. Compliance Risk Management**

The Bank shall establish a dynamic and responsive compliance risk management system. The compliance risk management system shall be designed to specifically identify and mitigate risks that may erode the franchise value of the Bank such as risks of legal or regulatory sanctions, material financial loss, or loss to reputation, the Bank may suffer as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities. Said risk may also arise from failure to manage conflict of interest, treat customers fairly, or effectively manage risks arising from money laundering and terrorist financing activities. Compliance risk management should be an integral part of the culture and risk governance framework of the Bank. In this respect, it shall be the responsibility and shared accountability of all personnel, officers, and the Board of Directors of the Bank.

##### **2. Compliance Function**

The Bank's compliance function shall have a formal status within the organization. It shall be established by a **Compliance Charter** approved by the Board of Directors that defines the compliance function's standing, authority and independence. It shall have the right to obtain access to information necessary to carry out its responsibilities, conduct investigations of possible breaches of the compliance policy, and shall directly report to and have direct access to the board of directors or appropriate board-level committee.

The compliance function shall facilitate effective management of compliance risk by:



- 1) Advising the Board of Directors and Senior Management on relevant laws, rules and standards, including keeping them informed on developments in the area;
- 2) Apprising Bank personnel on compliance issues, and acting as a contact point within the Bank for compliance queries from Bank personnel;
- 3) Establishing written guidance to staff on the appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines;
- 4) Identifying, documenting and assessing the compliance risks associated with the Bank's business activities, including new products and business units;
- 5) Assessing the appropriateness of the Bank's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments;
- 6) Monitoring and testing compliance by performing sufficient and representative compliance testing; and
- 7) Maintaining a constructive working relationship with the Bangko Sentral and other regulators.

### **3. Bank Compliance Program**

The **Bank Compliance Program (BCOP)**, which is being maintained by the Bank's Compliance Office (CO), shall set out the planned activities of the compliance function, such as the review and implementation of specific policies and procedures; compliance risk assessment; compliance testing; educating staff on compliance matters; monitoring compliance risk exposures; and reporting to the Board of Directors and Board-level committee(s). The program shall espouse a risk-based approach and shall have appropriate coverage across businesses and units.

The Board of Directors, through its Corporate Governance Committee, shall oversee and ensure that the defined BCOP is effectively implemented and that compliance issues are resolved expeditiously. It shall ensure that Bank personnel adhere to the pre-defined compliance standards.

The implementation of the BCOP rests collectively with Senior Management, of which the Chief Compliance Officer (CCO) is the lead operating officer on compliance. Senior Management, through the CCO, should periodically report to the Board of Directors or its Corporate Governance Committee matters that affect the design and implementation of the BCOP. Any changes, updates and amendments to the BCOP must be approved by the Board of Directors upon the Corporate Governance Committee's endorsement. However, any material breaches shall be reported to and promptly addressed by the CCO within the mechanisms defined by the BCOP. A compliance system found to be materially inadequate shall be construed as unsafe or unsound banking.

The compliance program shall be updated on a regular basis or **at least annually**.

### **4. Chief Compliance Officer (CCO)**

The Board shall appoint a full-time Chief Compliance Officer (CCO) to manage the Compliance Program. Given the importance of the compliance function, the CCO is a senior officer with a rank of *at least a Vice President (VP)*<sup>50</sup> functionally reporting to the Corporate Governance Committee and to the Board of Directors. Such an appointment/designation shall require **confirmation of the BSP-SES Committee**.

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<sup>50</sup> Notwithstanding SEC's Recommendation #1.6 per SEC Memo. Cir. No. 19 s2016 re: at least 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.

The CCO should have the necessary qualifications, experience, and professional background and should have a sound understanding of relevant laws and regulations and their potential impact on the Bank's operations. The CCO should be up-to-date with the developments in laws, rules and standards maintained through continuous training.

The CCO shall oversee the identification and management of the Bank's compliance risk and shall supervise the compliance function staff. He is expected to liaise with the Bangko Sentral and other regulatory bodies on compliance-related issues and shall also be responsible for ensuring the integrity and accuracy of all regulatory documentary submissions. He shall functionally meet/report to the Board of Directors or Corporate Governance Committee (CGC) and such meetings shall be duly minuted and adequately documented. In this regard, the Board of Directors/CGC shall review and approve the performance and compensation of the CCO, as well as the budget of the compliance function.

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.<sup>51</sup>

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

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<sup>51</sup> **Recommendation #1.6 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)  
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## B. Risk Management

### 1. Risk Management Function<sup>52</sup>

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

The risk management function shall be responsible for identifying, measuring, monitoring and reporting risk on an enterprise-wide basis as part of the second line of defense. It shall be responsible for overseeing the risk-taking activities across the Bank, as well as in evaluating whether these remain consistent with the Bank's risk appetite and strategic direction. It shall ensure that the risk governance framework remain appropriate relative to the complexity of risk taking activities of the Bank.

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 (ROC);
- j. Monitoring and evaluating the effectiveness of the Bank's risk management processes; and
- k. Reporting on a regular basis to senior management, Risk Oversight Committee (ROC) and 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. Such an appointment/designation shall require **confirmation of the BSP-SES Committee**. The appointment, dismissal and other changes to the CRO shall have prior approval of the Board of Directors. In cases, when the CRO will be replaced, the Bank shall report the same to the

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<sup>52</sup> Recommendation #12.4 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

appropriate supervising department of the Bangko Sentral ***within five (5) days*** from the time it has been approved by the Board of Directors.

The CRO shall have sufficient stature, authority, and seniority within the Bank. He/she shall have access to such information as he/she deems necessary to form his/her judgment. The CRO shall have direct access to the Board of Directors and the Risk Oversight Committee (ROC) without any impediment. The CRO shall serve on a full-time basis and shall functionally meet/report to the Board of Directors or ROC and such meetings shall be duly minuted and adequately documented. In this regard, the Board of Directors/ROC shall review and approve the performance and compensation of the CRO, and budget of the risk management function.

The CRO should have the knowledge and skills necessary to oversee the Bank's risk management activities. This will be assessed based on the ability of the CRO to influence decisions that affect the Bank's exposure to risk. The CRO should have the ability to interpret and articulate risk in a clear and understandable manner and, without compromising his/her independence, can engage in a constructive dialogue with the Board of Directors, President/Chief Executive Officer, and other Senior Officers on key risk issues.

The CRO shall be responsible for overseeing the risk management function and shall support the Board of Directors in the development of the risk appetite and risk appetite statement of the Bank and for translating the risk appetite into a risk limits structure. The CRO shall likewise propose enhancements to risk management policies, processes, and systems to ensure that the Banks risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

The CRO has the following functions, among others:<sup>53</sup>

- 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:
  - o Risk management processes are performing as intended;
  - o Risk measures reported are continuously reviewed by risk owners for effectiveness; and
  - o 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.<sup>54</sup>

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<sup>53</sup> **Recommendation #12.5 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

<sup>54</sup> **SEC Memo Cir. 9, s2014** as amended by **SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

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 Function<sup>55</sup>**

An effective and efficient internal audit function constitutes the third line of defense in the system of internal control.

The Bank should have in place an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes, which helps management and the Board of Directors in protecting the Bank and its reputation. The internal audit function shall both assess and complement operational management, risk management, compliance and other control functions. In this respect, internal audit shall be conducted in frequencies commensurate with the assessed levels of risk in specific banking areas.

The following are the functions of the internal audit, among others as provided in the Manual of Regulations for Banks:

- 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.

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<sup>55</sup> **Recommendation #12.2 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

### 3. Chief Audit Executive (CAE)<sup>56</sup>

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 must have an unassailable integrity, relevant education/experience/training, and has an understanding of the risk exposures of the bank, as well as competence to audit all areas of its operations. For the Bank as a complex thrift bank, the CAE must be, as a minimum requirement, a graduate of any accounting, business, finance or economics course with technical proficiency on the conduct of internal audit and must have at least five (5) years experience in the regular audit (internal or external) of a thrift bank, national coop bank or, at least three (3) years experience in the regular audit (internal or external) of a UB/KB. The CAE's appointment/designation shall require **confirmation of the BSP-SES Committee**.

The CAE shall be appointed or re-appointed or replaced with prior approval of the Bank's Audit Committee. In cases when the CAE will be replaced, the Bank shall report the same and the corresponding reason for replacement to the appropriate supervising department of the BSP **within five (5) days** from the time it has been approved by the Board of Directors.

The CAE, in order to achieve the necessary independence to fulfill his/her responsibilities, directly reports functionally to the Board of Directors or the Audit Committee and such, meetings shall be duly minuted and adequately documented. In this regard, the Board of Directors/Audit Committee shall review and approve the performance and compensation of the CAE, and budget of the internal audit function.

The following are the responsibilities of the CAE, among others as provided in the Manual of Regulations for Banks:

- 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 Auditor shall not at the same time provide the services of an internal auditor to

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<sup>56</sup> Recommendation #12.3 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

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), Anti-Money Laundering/Combating Financing of Terrorism, Information Security, Data Privacy, 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.<sup>57</sup>

#### **SECTION 5. REMUNERATION POLICY**

The Bank's directors and officers shall be provided with an industry competitive compensation package to attract, motivate, and retain highly qualified people. The salary scales of its officers shall be generally based on the nature of their jobs, positions, and ranks. These shall be reviewed yearly vis-à-vis annual performance scorecards so structured to achieve business objectives. Consistent with the philosophy of meritocracy, the Bank's compensation and rewards programs shall be geared towards providing incentives to employees who have contributed to the success of the Bank.

The Bank's compensation package for its non-officers/rank & file employees shall be in accordance with the labor law requirements and shall be linked to both performance and the Bank's contractual obligation under a Collective Bargaining Agreement (CBA) which include loyalty bonuses to reward loyal employees.

The Bank shall grant fixed bonuses, including a 13th-month pay in accordance with law and may also provide performance bonus (non-guaranteed) based on the Bank's overall performance, individual performance and market conditions.

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<sup>57</sup> In compliance with **BSP Circular No. 889** re: Treasury Activities of BSP-supervised FIs

The Board of Directors, through its Corporate Governance Committee, shall ensure that this remuneration strategy is regularly reviewed to ensure that the policy is commensurate with corporate and individual performance, aligned with the Bank's operating and risk culture, long-term interests, compliant with labor laws & regulations, and benchmarked against our industry peers and other market considerations, while also maintaining internal equity.

Except for the President/Chief Executive Officer, each director shall receive a monthly professional fee for attending Board and committee meetings. This is also in consideration of their valuable contributions in the formulation of the Bank's overall strategy.

## **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 assets<sup>58</sup>, off balance sheet transactions, related party transactions, relevant and material information on individual Board members and key executives<sup>59</sup> 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)<sup>60</sup>.

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 stakeholders<sup>61</sup>. 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 arises<sup>62</sup>.

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.<sup>63</sup>

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, shareholder's rights, or any other Bank-related matters, while remaining mindful of the disclosure

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<sup>58</sup> Pursuant to **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.

<sup>59</sup> **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).

<sup>60</sup> **Recommendation #8.4 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

<sup>61</sup> SEC Memo Cir. No. 9, s2014 as amended by SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

<sup>62</sup> **SEC Memo Cir. No. 11, s2014**

<sup>63</sup> **Recommendation #11.1 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)



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)/Public Relations and Corporate Communications Division (PRCCD)** for all other concerns.<sup>64</sup>

#### **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 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**.

Circumstances which could restrict the payment of cash dividends include, but are not limited to, when the Bank undertakes major projects and developments requiring substantial cash expenditures or when it is restricted from paying cash dividends by its loan covenants.

#### **SECTION 8. WHISTLE-BLOWING POLICY**

The Bank's whistleblower policy requires all its employees to report any impropriety or malpractice committed by co-employee/s or third party or parties to their Group Heads or to the Customer Experience & Human Resources Group Head, the Fraud Management Group Head/Division Heads, or the Chief Audit Executive/ Internal Audit Group Head for evaluation if it would warrant an investigation. Under the Bank's Code of Conduct, concealment or non-reporting of which is considered as an impropriety or malpractice in itself. The whistleblower shall be protected from any form of harassment as a result of any disclosure which was made in good faith believing the disclosure to be true and was not made maliciously or for personal gain. The policy also considers any attempt to determine the whistleblower's identities as a breach of confidentiality which is 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 are complied with, 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.

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<sup>64</sup> **Recommendation #14.3 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

## **SECTION 11. POLICY ON ENGAGEMENT OF ADVISERS<sup>65</sup>**

Advisers are individuals who possess specialized knowledge, skills, work experience and expertise and are engaged by the Bank to provide expert and professional advice and make non-binding recommendations to the Bank's Board of Directors, the President and Management with respect to matters within the areas of their experience and expertise. Their role shall be purely advisory only. As such, they have no influence on the Board and the Bank and have no voting rights. They are only expected to enhance discussions by serving as trusted advisors and industry experts.

An appointed adviser must be fit and proper for the position. In selecting advisers, the following must be considered by the Board, among others: 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; sufficiency of time to fully carry out responsibilities; and recognized stature, influence and reputation in the banking community and/or other relevant field of expertise.

Advisers shall be appointed/re-appointed by the Board of Directors on an annual basis. The Board shall have the sole authority and discretion to appoint/re-appoint an adviser and in such number as it may deem necessary and to remove any adviser any time for any reason with or without cause.

## **SECTION 12. 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 13. 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 14. 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 15. 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.

## **SECTION 16. SUSTAINABILITY REPORTING**

More than just its participation to CSR activities, the Bank aims to be socially responsible in all its dealings with the communities where it operates. As such, it shall ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development. It shall ensure that its value chain is environmentally friendly and is

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<sup>65</sup> As aligned with that of parent-MBTC

consistent with promoting sustainable development. It shall exert efforts to interact positively with the communities in which it operates.<sup>66</sup>

Guided by SEC and BSP rules & regulations and standards, the Bank shall have a clear and focused policy on the disclosure of material and reportable non-financial information, with emphasis on the management of **Economic, Environmental, Social and Governance (EESG)** issues of its business, which underpin sustainability. For this matter, the Bank adopts a globally recognized standard and framework in reporting sustainability and non-financial issues.<sup>67</sup>

### **PART III- REPORTORIAL REQUIREMENTS**

The following regulatory reportorial requirements shall be complied with:

#			
<b>A.</b>	<b>FOR MB/BSP-SES COMMITTEE CONFIRMATION OF DIRECTORS &amp; OFFICERS - <i>Within twenty (20) banking days</i> from the date of election/re-election of the directors or meeting of the Board in which the officers are appointed/promoted</b>		
	<b>Requiring BSP Conf.</b>		<b>Not Requiring BSP Conf.</b>
	<b>Directors</b>	<b>President/CEO, Treasurer, CCO, CAE, CRO, Trust Officer and Other Officers Ranking SVP &amp; up</b>	<b>Officers below the rank of SVP requiring a different set of minimum qualifications e.g. Security Officer</b>
1	<b><u>Letter-request for BSP confirmation</u></b> signed by the President/CEO with an affirmative statement that the Bank has conducted a fit and proper test on the Director(s) concerned	<b><u>Letter-request for BSP confirmation</u></b> signed by President/CEO (or by the CG Committee or Board Chairman in case of the appointment of President/CEO) with an affirmative statement that the Bank has conducted a fit and proper test on the officer(s) concerned	N/A
2	<b><u>Secretary's Certificate</u></b> attesting to the resolution of the Stockholders or Board of Directors approving the election	<b><u>Secretary's Certificate</u></b> attesting to the resolution of the Board of Directors approving the appointment	N/A
3	<b><u>Bio-data with a photograph (2" x 2")</u></b> taken within the last six (6) months <sup>68 69</sup>		
4	<b><u>Certification Under Oath</u></b> of the director	<b><u>Certification Under Oath</u></b> of the officer concerned	N/A

<sup>66</sup> Recommendation #16.1 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs)

<sup>67</sup> Pursuant to Recommendation #10.1 per SEC Memorandum Cir. No. 19 s2016 (New CG Code for PLCs) and SEC Memorandum Cir. No. 4 s2019 re: "Sustainability Reporting Guidelines for PLCs"

<sup>68</sup> The Bio-data shall be updated and submitted to the BSP in cases of change of name due to **change in civil status** and **change in residential address within twenty (20) banking days** from the date the change occurred and in cases of requests for prior MB approval of interlocks. For other officers below the rank of SVP (other than the Treasurer, CCO, CAE, CRO and Trust Officer, regardless of rank), the Bank shall not be required to submit their Bio-data to BSP. The Bank shall, however, 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 and offsite verification by the BSP.

<sup>69</sup> Bio-data shall be electronically submitted to the BSP using the prescribed template and control prooflist in accordance with **BSP Memorandum No. 2019-027** dated 15 November 2019.

	concerned that he/she possesses all the <b>qualifications and none of the disqualifications to become a director</b>	that he/she possesses all the <b>qualifications and none of the disqualifications to become an officer</b>	
5	<b>Duly Notarized List of incumbent Directors and Officers</b> – using the BSP-prescribed format		
For 1 <sup>st</sup> -time directors in a particular bank/banking group and for 1 <sup>st</sup> -time officers to be subject to BSP confirmation in a particular bank with trust authority/trust corporation/banking group:			
6	<b>Certification Under Oath</b> of compliance with <b>BSP-prescribed syllabus on on-boarding/orientation program</b> <sup>70</sup>	N/A	N/A
7	<b>Certification Under Oath</b> that the director has received copies of the <b>general responsibility and specific duties and responsibilities</b> of the Board of Directors and of a director that he/she fully understands and accepts the same	N/A	N/A
8	<b>Duly Accomplished and Notarized Authorization Form</b> for <b>querying the BSP watch-list file</b> from the director concerned	<b>Duly Accomplished and Notarized Authorization Form</b> for <b>querying the BSP watch-list file</b> from the officer concerned	N/A
9	N/A	<b>Brief Description</b> of his/her duties and responsibilities	<b>Brief Description</b> of his/her duties and responsibilities
10	N/A	<b>Alien Employment Permit</b> issued by the Department of Labor and Employment for <b>foreigners appointed as officers</b>	<b>Alien Employment Permit</b> issued by the Department of Labor and Employment for <b>foreigners appointed as officers</b>
For independent directors only:			
11	<b>Certification Under Oath</b> that he/she is an <b>independent director as defined in BSP regulations</b>	N/A	N/A
For re-elected directors:			
12	<b>Secretary's Certificate</b> on the <b>attendance by the director concerned to the Board meetings held for the last twelve (12) months</b> covering the term of service, indicating percentage of	N/A	N/A

<sup>70</sup> Preferably accompanied by **Certificate of Attendance to Corporate Governance (CG) Seminar** held by BSP-accredited CG training provider.

	attendance to board meetings		
<b>B. OTHER REGULATORY REPORTS</b>			
	<b>Other Reports</b>	<b>Regulator</b>	<b>Deadline</b>
1	<b>Annual Report on Conglomerate Structures</b> 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
2	<b>Quarterly Report on Material or Significant Related Party Transactions</b> 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
3	<b>Annual Report (AR)</b> and accompanying <b>Annual Report Assessment Checklist (ARAC)</b> <sup>71</sup> – the function of overseeing the preparation of the Bank’s Annual Report (AR) has been delegated by the Board of Directors to the Corporate Governance Committee (CGC) <sup>72</sup>	BSP	Within 180 calendar days after the close of the calendar year
4	<b>Integrated-Annual Corporate Governance Report (I-ACGR)</b> <sup>73</sup>	SEC	Annually Not Later Than May 30 of the following year
	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 Posting in the Bank’s website		Within five (5) banking days after hardcopy submission/filing with the SEC
5	<b>Certificate of Attendance to CG Trainings</b> <sup>74</sup> – 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
6	<b>Annual Report on Chinese Wall Policy</b> – as prescribed under Rule 34.11.4 of the 2015 SRC IRR <sup>75</sup>	SEC	Not later than every March 15 covering the immediately preceding calendar year beginning March 15, 2017 covering the Y2016
7	<b>Certification of Independent Director</b> <sup>76</sup> - 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 government department/agency	SEC	Together with the submission of Information Statements (SEC Form 20-IS)

<sup>71</sup> **BSP Memo. No. M-2014-007** as amended by **BSP Cir. 956** dated 17 April 2017.

<sup>72</sup> **PSBank Board Resolution No. 2018-047** dated 15 March 2018.

<sup>73</sup> **SEC Memo Cir. 5 & 9, S2013**

<sup>74</sup> **SEC Memo Cir. 19, S2016**

<sup>75</sup> **SEC Notice dated 01 April 2016**

<sup>76</sup> **SEC Memorandum Cir. No. 5 s2017** dated 10 March 2017

8	<p><b>Other SEC &amp; PSE Reportorial or Disclosure Requirements</b> – such as SEC Forms 20-IS, 17-C, 17-Q, 17-A, etc. for the interest of its stockholders and other stakeholders.<sup>77</sup></p> <p>Unless already incorporated in the SEC Form 17-A re: Annual Report, the required Sustainability Reporting (SR) for PLCs using the SEC-prescribed reporting template shall be attached thereto. The first SR reporting shall be submitted in 2020 covering the calendar year ended Dec. 31, 2019.</p>	SEC & PSE	Within the submission deadlines set forth under existing SEC and PSE rules and regulations
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## **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 itself.

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 tabulation and 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 following<sup>78</sup>:

- 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:
  - 1) Risk Oversight Committee**
  - 2) Related Party Transactions Committee**
  - 3) Trust Committee**
  - 4) Audit Committee**
  - 5) Corporate Governance Committee**
  - 6) Anti-Money Laundering Oversight Committee**
  - 7) Executive Committee**
- d. Chairman of the Board** - c/o the Board of Directors<sup>79</sup>

<sup>77</sup> **SEC Memo Cir. 9, s2014** as amended by **SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)

<sup>78</sup> Per **Recommendation #6.1** under **SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs), 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**.

<sup>79</sup> **Recommendation #6.1** under **SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs) also requires the Board to conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees

- e. **Directors & Officers with Multiple/Interlocking Positions** - c/o the Corporate Governance Committee<sup>80</sup>

## 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

- 1) **Assets and Liabilities Committee**
- 2) **Credit Committee**
- 3) **Anti-Money Laundering Compliance Committee**
- 4) **Outsourcing Oversight Committee**
- 5) **IT Steering Committee**
- 6) **Emergency Committee**
- 7) **Policy Committee**
- 8) **Personnel Committee**
- 9) **Retirement Committee**
- 10) **Related Party Transactions Management Committee**
- 11) **Investment Committee**

- c. **Lead Control Officers**<sup>81</sup>

- 1) **Chief Risk Officer** – c/o the Risk Oversight Committee
- 2) **Chief Audit Executive** – c/o the Audit Committee
- 3) **Chief Compliance Officer** – c/o the CG Committee

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

The respective secretariats of the above *Board-level* and *Management-level* committees shall ensure that their respective CG performance self-rating scorecards are likewise updated and aligned to ensure consistency with their latest committee charters.

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. Determining Areas for Improvement & Tracking Resolution

Based on the results of the annual CG performance self-rating exercises above, items rated “1” and “2” shall be addressed with recommended action plans and corresponding timelines which shall be regularly tracked, monitored and reported to the Corporate Governance Committee until resolved.

### C. 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.

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<sup>80</sup> 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.

<sup>81</sup> **Recommendation #2.8 per SEC Memorandum Cir. No. 19 s2016** (New CG Code for PLCs)  
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## **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)**.