



CORPORATE GOVERNANCE MANUAL

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Corporate governance refers to the entirety of the legal and factual regulatory framework for managing and supervising a Corporation. It encompasses all the systems and mechanisms of shareholders and other stakeholders to ensure that Management enhances the value of a corporation as it competes in an increasingly global market place. The primary goal of corporate governance is thus to create and sustain increased value in the Corporation for all of its stakeholders. To achieve this goal, it is necessary – among other things – to clearly set forth the principles of appropriate supervision and good management, and thereby lay the groundwork for development and implementation of value-creating activities. Moreover, it is as important that these agreed principles of governance are made transparent to all stakeholders concerned, thereby safeguarding stakeholders' rights as well as promoting stakeholder participation in the corporate governance process.

The framework for Corporate Governance is not drawn from any single document. The Philippine Corporation Code lays down the basic legal framework for corporate governance of every Philippine corporation. It is supplemented by the Code of Corporate Governance (SEC Memorandum Circular No. 2, Series of 2002) and Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions (Circular 749 of the Bangko Sentral ng Pilipinas). All terms used herein are used with the meanings assigned to them by said laws and implementing rules and regulations.

The machinery for corporate governance of Bangko Kabayan Inc. (A Private Development Bank) ("BK" or the "Bank") is principally contained in the Corporation's Articles of Incorporation and By-Laws and their amendments. These constitutive documents lay down, among others, the basic structure of governance, minimum qualifications of directors, and the principal duties of the Board of Directors and officers of the Corporation. The function of this Manual of Corporate Governance is to supplement and complement the Corporation's Articles and By-Laws by setting forth principles of good and transparent governance.

The Board of Directors, Management, Officers and employees of Bangko Kabayan Inc. (A Private Development Bank) hereby commit themselves to the principles and best practices of governance contained in this Manual as a guide in the attainment of its corporate goals. The Corporation shall undertake to make a continuing effort to create awareness of good corporate governance within the organization.

1.1 VISION

With a God-centered united workforce, we will be the preferred financial institution of MSMEs in Region 4, delivering relevant financial services with excellence.

1.2 MISSION

Bangko Kabayan is committed to become the region's partner in economic development by providing quality financial products and services to MSMEs and individuals in the communities we serve. Through continuous growth, we will provide optimum returns to our shareholders as well as opportunities for our employees to develop themselves as fulfilled and holistic individuals, aware of the important role they play in the lives of others.

1.3 CORPORATE VALUES

These values are the anchor of our corporate existence:

Belief in Divine Providence that leads to a Culture of Giving	"Taus-puso tayong nagbabahagi sa kapwa sapagkat alam nating walang hanggan ang biyaya ng Diyos sa atin."
Integrity	Ginagawa natin ang tama sa lahat ng oras bagama't walang nakakakita."
Service Excellence	"Buong husay tayong naglilingkod sa pamamagitan ng paghahandog ng huwarang serbisyo at pagtugon sa pangangailangang pangkabuhayan ng ating kliyente."
Unity	"Iisa tayong pamilyang nagmamahalan at nagkakaisa sa lahat ng ating ginagawa."
Commitment to Community Development	"Ang pamantayan natin ng tagumpay ay ang pag-unlad ng mga komunidad na ating pinagsisilbihan."

1.4 DEFINITION OF TERMS

a. Corporate Governance – the framework of rules, systems and processes in the corporation that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to the stockholders and other stakeholders which include, among other, customers, employees, suppliers, financiers, government and community in which it operates

b. Board of Directors-shall include;

- (1) directors who are named as such in the articles of incorporation;
- (2) directors duly elected in subsequent meetings of the stockholders
- (3) those elected to fill vacancies in the board of directors.

- c. Independent director – a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director;
- d. Executive director – a director who is also the head of a department or unit of the corporation or performs any work related to its operation
- e. Non-executive directors-shall refer to those who are not part of the day to day management of operations and shall include the independent directors. However, not all non-executive directors are considered independent directors.
- f. Management- the body given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation;
- g. Officer-shall include the President/Chief Executive officer, executive vice president, senior vice president, vice president, manager, treasurer and other mentioned as officers of the bank or those defined in by-laws, or are generally known to be the officers of the bank either through announcement, representation, publication or any kind of communication made by the bank,
- h. Majority stockholder or majority shareholder -shall refer to a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a BSFI.
- i. Stockholder-shall refer to any stockholder of record in the books of the Bank, acting personally, or through an attorney -in- fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts.
- j. Risk appetite -statement shall refer to the articulation in written form of the aggregate level and types of risk that a Bank is willing to accept, or to avoid, in order to achieve its business objectives. It includes qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate.
- k. Risk governance- framework shall refer to the framework through which the board of directors and management establish the Bank's strategy; articulate and monitor adherence to risk appetite and risk limits; and identify, measure, and manage risks.
- l. Risk limits shall refer to the allocation of the Bank's risk appetite statement to: specific risk categories (e.g., credit, market, liquidity, operational); the business unit or platform level (e.g., retail, capital markets); lines of business or product level
- m. Internal control – the system established by the Board of Directors and Management for the accomplishment of the corporation's objectives, the efficient operation of its business, the reliability of its financial reporting, and faithful compliance with applicable laws, regulations and internal rules;
- n. Internal control system – the framework under which internal controls are developed and implemented (alone or in concert with other policies or procedures) to manage and control a particular risk or business activity, or combination of risks or business activities, to which the corporation is exposed

2. BOARD OVERSIGHT

2.1 BOARD OF DIRECTORS

The Board of Directors is the supreme authority in matters of governance and managing the regular and ordinary business of the Corporation. Within their chartered authority, the directors acting as a board have the fullest powers to regulate the concerns of the Corporation according to their best judgment.

2.1.1 Composition of the Board

a. Pursuant to Sections 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 of Directors. Provided, that in case of a bank merger or consolidation, the number of directors may be increased up to the total number of board of directors of the merging or consolidating bank as provided for in the Articles of Incorporation, but in no case shall exceed twenty-one (21). The Board of Directors shall determine the appropriate number of its member to ensure that the number thereof is commensurate to the size of the bank.

b. To the extent practicable, the member of the board of directors shall be selected from a broad pool of qualified candidates. External databases of professional firms as well as recommendations from shareholders and existing directors shall be used for possible candidates as director. In order to promote the independent oversight of management, the Board shall to the extent practicable, be composed of majority of Non-Executive Directors¹, 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 individual shareholders.

The bank recognizes the value of board diversity and as such strives to promote the same by non-discrimination on the basis of age, gender, religion, socio-political affiliation and status. Diversity in the composition of the members of the board is updated on a year on year basis in alignment with the fit and proper rule of the Bangko Sentral ng Pilipinas.

c. 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. Provided, that any fractional result from applying the required minimum proportion i.e, one third (1/3) shall be rounded up to the nearest whole number.

¹ Non-Executive Directores refers 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 operation the Bank

d. The Non-executive directors of the Board should not concurrently serve as directors to more than ten (10) public companies and/or registered issuers. However, the maximum concurrent directorship shall be five (5) public companies and/or registered issuers if the director also sits in at least three (3) publicly-listed companies.

e. Non-Filipino citizens may become members of the board of directors of a Bank to the extent of the foreign participation in the equity of said Bank;

2.1.2 Qualifications. A Director of the bank shall have the following qualifications:

2.1.2.1 Holder of at least (1) share of stock of the corporation.

2.1.2.2 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 sufficiency of time to fully carry out responsibilities; and concurrent positions in the same BSFI and interlocking positions in other entities that may pose conflict of interest.

2.1.2.3 He must have attended on corporate governance for board of directors. A director shall submit to the Bangko Sentral a certification of compliance with the Bangko Sentral-prescribed syllabus on corporate governance for first-time directors and documentary proof of such compliance:

Provided, That the following persons are exempted from complying with the aforementioned requirement:

a. Filipino citizens with recognized stature, influence and reputation in the banking community, including directors of publicly listed companies in the Philippines, and whose business practices stand as testimonies to good corporate governance. In this respect, the Bangko Sentral shall consider results of supervisory assessments in evaluating the eligibility of the candidate for the exemption.

b. Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies. For this purpose, senior officials in the Bangko Sentral shall refer to those who assumed Managing Director position or higher, including former Monetary Board members; or

c. 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.

2.1.3 Disqualifications

2.1.3.1 **Permanent Disqualification.** The following persons are permanently disqualified from holding a director position:

- 2.1.3.1.1 Person 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. 3019 (Anti-Graft and Corrupt Practices Act), violation of R. A No. 9160, as amended (Anti-Money Laundering Act), and prohibition acts and transactions under Section 7 of RA No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees)
- 2.1.3.1.2 Person who have been convicted by final judgement of a court or other tribunal for violation of securities and banking laws, rules and regulation;;
- 2.1.3.1.3 Persons who have been convicted by final judgment for cases filed against for offenses under R.A No. 3591, as amended (PDIC Charter)
- 2.1.3.1.4 Persons who have been convicted by final judgment of a court for offenses which involves moral turpitude, or for offenses which they were sentence to serve a term of imprisonment of more than six (6) years;
- 2.1.3.1.5 Persons who have been judicially declared with finality as insolvent spendthrift or incapacitated to contract
- 2.1.3.1.6 Person who were found to be culpable for the banks closure, as determined by the Monetary Board;
- 2.1.3.1.7 Person found by 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;
- 2.1.3.1.8 Person found liable by any government agency/corporation, including government financial institution, for violation of any law, rule or regulations involving dishonesty, misconduct, or any other grave or less grave offenses 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.

2.1.3.2 **Temporary Disqualification.** The following are grounds for temporary disqualification of incumbent directors

- 2.1.3.2.1 Persons who have shown unwillingness to settle their financial obligation as evidence 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 and suspension of payments to adversely affects his/her fitness and propriety as director/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 obligation as herein contemplated shall include all borrowing obtained by:

- (i) A person for his/her own account or where he/she acts as guarantor, endorser or surety for loans
- (ii) The spouse, except when incurred after legal separation of properties or when the property regime governing the spouse 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 "b(1) of (person disqualified to become directors/officers;
- (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 individual/entities mentioned in the immediately preceding items "(i)", "(ii)", and "(iv)".

They shall remain temporarily disqualified until the financial obligation has been settled or satisfied.

- 2.1.3.2.2 Persons involved in the closure of banks pending their clearance by the Monetary Board;
- 2.1.3.2.3 Person 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 (d) exposed the safety, stability, liquidity or solvency of the bank to abnormal risk or danger;
- 2.1.3.2.4 Persons found to have been involved in any irregularity/violation which constitute 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;
- 2.1.3.2.5 Person 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;

- 2.1.3.2.6 Persons, other than those covered under item “2.1.3.2.8” of this Section (Person disqualified to become directors/officers), who after conduct of investigation by domestic financial or commercial regulatory 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 aforementioned 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.
- 2.1.3.2.7 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;
- 2.1.3.2.8 Person 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;
- 2.1.3.2.9 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;
- 2.1.3.2.10 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;
- 2.1.3.2.11 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; and
- 2.1.3.2.12 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.

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

2.1.4 Effect of non-possession of qualifications or possession of disqualifications/prohibitions

A director/officer elected/appointed who does not possess all the qualifications and/or has any of the disqualifications/prohibitions mentioned above shall not be confirmed by the Confirming authority and shall be removed from office even if he/she has assumed the position to which he/she was elected or appointed. A confirmed director/officer or officer not requiring confirmation found to possess any of the disqualifications, shall be subjected to the following disqualification procedures

2.1.4.1 Disqualification procedure's. All directors/officers who are considered disqualified shall be subject to the disqualification procedures provided herein. Disqualified person shall be included in BSP watchlist files.

A bank shall be responsible for determining the existence of the ground for disqualification of the person concerned and reporting the same to the appropriate supervising department of the BSP within ten (10) banking 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 BSP and, as such may be evaluated for watchlisting. The bank concerned shall conduct its own investigation, impose sanction/s if appropriate, and report the results thereof to the appropriate supervising department of the BSP within twenty (20) calendar days from the termination of the investigation.

2.1.5 Independent Directors

An independent directors shall refer to a person who

2.1.5.1 is not or has not been a member of the executive committee of the board of directors, an officer or employee of the bank, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his election;

2.1.5.2 is not a director or officer of the related companies of the institution's majority stockholder;

- 2.1.5.3 is not a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;
- 2.1.5.4 is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or a stockholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies;
(Note: Per MORB, for this purpose, relatives refers to the spouse, parent, child, brother, sister, parent in law, son-/daughter-in-law, and brother-/sister-in-law)
- 2.1.5.5 is not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders; and
- 2.1.5.6 is not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; is independent of management and free from any business or other relationship has not engaged and does not engage in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with 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 arms length and could not materially interfere with or influence the exercise of his judgment

An independent director of a Bank may only serve as such for a maximum cumulative term of nine (9) years. Provide, That in the case of cooperative banks, the maximum cumulative term for independent directors shall be eight (8) 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. director. The reckoning year for this term limit shall be set to 2012 in accordance to BSP Circular 969.

2.1.6 Interlocking Directorship

The Bangko Sentral recognizes that effective sharing of managerial and technical expertise across institutions promotes economies of scale and organizational synergies, as well as broadens perspectives in strategy formulation and risk management. In this regard, Bangko Sentral-supervised financial institutions (BSFIs) are expected to have an effective governance process in place to ensure that the benefits of having directors or officers with interlocking positions in other entities are

optimized, that the concerned directors or officer devote sufficient time and attention necessary to effectively carry out their duties and responsibilities, and that excessive concentration of economic power, unfair competitive advantage, abusive practices, and conflict of interest situations are prevented.

Except in cases involving banks belonging to the same category In this respect, interlocking directorships in banks belonging to the same category shall be allowed if the banks are;

- (i) part of the same banking group
- (ii) have different business models and are serving different markets

Director and his/her spouse (legitimate or common-law) shall be considered as one

2.1.7 Interlocking Directorship and Officership. Allowed provided that the positions do not post conflict of interest

2.1.8 Interlocking Officership. Shall not be allowed, except when held in the same capacity within a banking group, such as

- i. Corporate Secretary
- ii. Security Officer
- iii. Chief Risk Officer, Chief Compliance and Chief Audit Executive
- iv. other positions performing similar functions as those in I to iii

For CorSec or Asst CorSec between/among entities , which are not part of the same banking group

a. proof of disclosure to and consent from all of the involved entities on the interlocking officerships are obtained

b. positions do not pose conflict of interest and the officer will still be able to devote sufficient time and attention to effectively carry out his/her duties and responsibilities

2.1.9 Chairman of the board of directors

a. Roles of the Chairman of the board of directors

The Chairman shall preside at all meetings of the stockholders and the Board of Directors. The duties and responsibilities of the Chairman may include, among others, the following;

- 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 receives accurate, timely and relevant information

6. Ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors;

7. Ensure conduct of performance evaluation of the board of directors at least once a year.

b. Qualification of the Chairperson of the board of directors.

To promote checks and balances, as a general rule, the Chairperson of the board of directors shall be a non-executive director or an independent director.

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

The Chairperson must not have served as CEO of the Bank within the past three (3) years. In exceptional cases, former CEOs of the BSFIs shall be allowed to immediately assume the position of chairperson of the board of directors. Provided, That:

(1) This is consistent with the provisions of its succession plan; and

(2) There are no major supervisory concerns in the quality of the Bank's governance, risk management systems and internal controls and compliance system, and the Bank is not subject to escalated enforcement action.

2.1.10 **Board Meeting & Quorum Requirement**

2.1.10.1 Full board of directors meetings

Full board of directors meetings

The meetings of the board of directors may be conducted through modern technologies such as, but not limited to teleconferencing and video conferencing as long as the director who is taking part in said meetings can actively participate in the deliberations on matters taken up therein: Provided, That every member of the board of directors shall participate in at least fifty percent (50%) and shall physically attend at least twenty-five percent (25%) of all meetings of the board of directors every year: Provided, further, That the absence of a director in more than fifty percent (50%) of all regular and special meetings of the board of directors during his/her incumbency is a ground for disqualification in the succeeding election. [Provided, furthermore, that the twenty-five percent \(25%\) physical attendance requirement is lifted during periods of national emergencies, public health emergencies, and major disasters, among others, that affect mobility, activity and access to the Banks.](#)

2.1.10.2 Board-level committee meetings

Board-level committees shall meet as prescribed in their respective charter.

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

2.1.12 **General Responsibility of the Board of Directors.** The position of a bank director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the bank itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The board of directors is primarily responsible for approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the board of directors is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day to day affairs of the institution.

2.1.13 **Specific duties and responsibilities of the Board of Directors**

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

2.1.13.1 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.

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 employee 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 illegal activities, such but not limited to financial misreporting, money laundering fraud, bribery or corruption.

2.1.13.2 The Board of directors shall be responsible for approving Bank's objectives and strategies and in overseeing management's implementation thereof. In this regard, the board of directors shall;

a. Ensure that the Bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy;

b Approve the Bank Strategic objectives and business plans. These shall take into account the Bank's long term financial interest, its level of risk tolerance, and ability to manage risk effectively. In this respect, the board of directors shall establish a system for measuring performance against plans.

c. Actively engage in the affairs of the Bank and keep up with material changes in the Bank business and regulatory environment as well as act in a timely manner to protect the long term interest of the Bank;

d. 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 improvements as well as to promptly identify and address significant risks and issues.

2.1.13.3 The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for

the approval of a sound remuneration and other incentives policy for personnel, In this regard, the board of directors shall;

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

b. Approve and oversee the implementation of performance standards as well as remuneration and other incentive 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 operating and risk culture.

2.1.13.4 To approve and oversee the implementation of policies governing major areas of banking operations. The board shall approve policies on all major business activities, e.g., investments, loans, asset and liability management trust, business planning and budgeting. The board shall accordingly define the bank's level of risk tolerance in respect of said activities. A mechanism to ensure compliance with said policies shall also be provided.

The board shall set out matters and authorities reserved to it for decision, which include, among others major capital expenditures, equity investments and divestments. The board shall also establish the limits of the discretionary powers of each officer, committee, sub-committee and such other groups for purposes of lending, investing or any other financial undertaking that exposes the bank to significant risks.

2.1.13.5 To approve and oversee the implementation of risk management policies. The board of directors shall be responsible for defining the bank's level of risk tolerance and for the approval and oversight of the implementation of policies and procedures relating to the management of risks throughout the institution, including its trust operations. The risk management policy shall include:

2.1.13.5.1 a comprehensive risk management approach;

2.1.13.5.2 a detailed structure of limits, guidelines and other parameters used to govern risk-taking;

2.1.13.5.3 a clear delineation of lines of responsibilities for managing risk;

2.1.13.5.4 an adequate system for measuring risk; and

2.1.13.5.5 effective internal controls and a comprehensive risk-reporting process. The board of directors shall ensure that a robust internal

reporting system is in place that shall enable each employee to contribute to the appreciation of the bank's overall risk exposures.

The board of directors shall ensure that the risk management function is given adequate resources to enable it to effectively perform its functions. The risk management function shall be afforded with adequate personnel, access to information technology systems and systems development resources, and support and access to internal information.

2.1.13.6 To oversee selection and performance of senior management. It is the primary responsibility of the board of directors to appoint competent management team at all times, monitor and assess the performance of the management team based on established performance standards that are consistent with the bank's strategic objectives, and conduct regular review of bank's policies with the management team. The BOD shall:

2.1.13.6.1 Apply fit and proper standards on key personnel. Integrity, technical expertise and experience in the institution's business, either current or planned, shall be the key considerations in the selection process.

2.1.13.6.2 Regularly monitor the actions of senior management and ensure that these are consistent with the policies that it has approved. It shall put in place formal performance standards to be able to effectively assess the performance of senior management.

2.1.13.6.3 Regularly meet with senior management to engage in discussions, question and critically review the reports and information provided by the latter. The board of directors shall set the frequency of meeting with senior management taking into account the size, complexity of operations and risk profile of the bank.

2.1.13.6.4 Regularly review policies, internal controls and self-assessment 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.

2.1.13.7 To consistently conduct the affairs of the institution with a high degree of integrity. Since reputation is a very valuable asset, it is in the institution's best interest that in dealings with the public, it observes a high standard of integrity. The board of directors shall lead in establishing the tone of good governance from the top and in setting corporate values, codes of conduct

and other standards of appropriate behavior for itself, the senior management and other employees. The board of directors shall:

2.1.13.7.1 Articulate clear policies on the handling of any transaction with DOSRI and other related parties ensuring that there is effective compliance with existing laws, rules and regulations at all times and no stakeholder is unduly disadvantaged. In this regard, the board of directors shall define "related party transaction", which is expected to cover a wider definition than DOSRI under existing regulations and a broader spectrum of transactions (i.e., not limited to credit exposures), such that relevant transactions that could pose material risk or potential abuse to the bank and its stakeholders are captured.

2.1.13.7.2 Require the bank's stockholders to confirm by majority vote, in the annual stockholders' meeting, the bank's significant transactions with its DOSRI and other related parties.

2.1.13.7.3 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 institution, or unethical conduct.

2.1.13.7.4 Articulate policies that will prevent the use of the facilities of the bank in furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.

2.1.13.7.5 Explicitly discourage the taking of excessive risks as defined by internal policies and establish an employees' compensation scheme effectively aligned with prudent risk taking. The compensation scheme shall be adjusted for all types of risk and sensitive to the time horizon of risk. Further, the grant of compensation in forms other than cash shall be consistent with the overall risk alignment of the bank. The board of directors shall regularly monitor and review the compensation scheme to ensure that it operates and achieves the objectives as intended.

2.1.13.7.6 Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the bank at all times. Further, the board of directors shall ensure that all transactions involving the pension fund are conducted at arm's length terms.

2.1.13.7.7 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 itself.

2.1.13.7.8 Articulate policies in communicating corporate values, codes of conduct and other standards in the bank as well as the means to confidentially report concerns or violations to an appropriate body.

2.1.13.8 **To define appropriate governance policies and practices for the bank and for its own work and to establish means to ensure that such are followed and periodically reviewed for ongoing improvement.** The board of directors, through policies and its own practices, shall establish and actively promote, communicate and recognize sound governance principles and practices to reflect a culture of strong governance in the bank as seen by both internal and external stakeholders. The BOD shall:

2.1.13.8.1 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, especially between the roles of the Chairman of the board of directors and Chief Executive Officer /President.

2.1.13.8.2 Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities.

2.1.13.8.3 Structure itself in a way, including in terms of size, frequency of meetings and the use of committees, so as to promote efficiency, critical discussion of issues and thorough review of matters. 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.

2.1.13.8.4 Conduct and maintain the affairs of the institution within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound banking practice. The board shall appoint a compliance officer who shall be responsible

for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. The compliance officer shall be vested with appropriate authority and provided with appropriate support and resources.

2.1.13.8.5 Establish a system of checks and balances which applies in the first instance to the board itself. Among the members of the board, an effective system of checks and balances must exist. The system shall also provide a mechanism for effective check and control by the board over the chief executive officer and key managers and by the latter over the line officers of the bank. Checks and balances in the board shall be enhanced by appointing a chairperson who is a non-executive, whenever possible.

2.1.13.8.6 Assess at least annually its performance and effectiveness as a body, as well as its various committees, the chief executive officer, the individual directors, and the bank itself, which may be facilitated by the corporate governance committee or external facilitators. The composition of the board shall also be reviewed regularly with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation shall be adopted which shall include, but not limited to, the setting of benchmark and peer group analysis.

2.1.13.8.7 Ensure that *individual members of the board and the shareholders are accurately and timely informed*. It shall provide all its members and to the shareholders a comprehensive and understandable assessment of the bank's performance, financial condition and risk exposures. All members of the board shall have reasonable access to any information about the institution at all times. It shall also provide appropriate information that flows internally and to the public.

2.1.13.9 **To constitute committees to increase efficiency and allow deeper focus in specific areas.** The board of directors shall create committees, the number and nature of which would depend on the size of the bank and the board, the complexity of operations, long-term strategies and risk tolerance level of the bank. The BOD shall:

2.1.13.9.1 Approve, review and update at least annually or whenever there are significant changes therein, the respective charters of

each committee or other documents that set out its mandate, scope and working procedures.

2.1.13.9.2 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 of directors, 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.

2.1.13.9.3 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

2.1.13.9.4 Constitute, at a minimum, the following committees:

- a) Audit Committee.
- b) Risk oversight committee
- c) Corporate governance committee

2.1.12.10 **To effectively utilize the work conducted by the internal audit, risk management and compliance functions and the external auditors.** The board of directors shall recognize and acknowledge the importance of the assessment of the independent, competent and qualified internal and external auditors as well as the risk and compliance officers in ensuring the safety and soundness of the operations of a bank on a going-concern basis and communicate the same throughout the bank. This shall be displayed by undertaking timely and effective actions on issues identified.

2.1.12.11 To promote Sustainable Finance on the long-term financial interest of the bank and ensure that it has beneficial influence on the economy, the board of Directors shall;

a. Institutionalize the adoption of sustainability principle, including those covering the E&S risk areas in the bank. By incorporating the same in the corporate governance and risk management frameworks as well as in the bank's strategic objectives and operation taking into account the bank's risk appetite and ability to manage risk;

b. Promote a culture that fosters environmentally and socially responsible business decisions. The board of directors shall ensure that sustainability implications are considered in the overall decision-making process.

- c. Approve the bank's ESRMS that is commensurate with the bank's size, nature, and complexity of operations and oversee its implementation. The board of directors shall ensure that the ESRMS is aligned with internationally recognized principles, standards and global practices and forms part of the enterprise-wide risk management (ERM) system.
- d. Ensure that sustainability objectives and policies are clearly communicated across the institution, and to its investors, clients and other stakeholders;
- e. Adopt an effective organizational structure to ensure attainment and continuing relevance of the bank's sustainability objectives. The board of directors or the designed board-level or management committee shall monitor the bank's progress in attaining sustainability objectives;
- f. Ensure that adequate resources are available to attain the bank's sustainability objectives. The Board of directors shall ensure that the members of the board, senior management and personnel are regularly apprised of the development on sustainability standards and practices;
- g. Ensure that the sustainability agenda is integrated in the Bank's performance appraisal system.

2.1.14 Specific Duties of Each Director

- 2.1.14.1 To 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.
- 2.1.14.2 *To conduct fair business transactions with the bank and to ensure that personal interest does not bias board decisions.*
- 2.1.14.3 *To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public.*
- 2.1.14.4 *To devote time and attention necessary to properly discharge their duties and responsibilities..*

- 2.1.14.5 *To act judiciously.* Before deciding on any matter brought before the BOD, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.
- 2.1.14.6 *To 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.
- 2.1.14.7 *To 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.
- 2.1.14.8 *To have a working knowledge of the statutory and regulatory requirements affecting the institution, 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 institution's competitiveness.
- 2.1.14.9 *To observe confidentiality.* Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They may not disclose said information to any other person without the authority of the board.

2.2 BOARD COMMITTEES

The board has established committees to assist in exercising its authority in monitoring performance of the Bank, within the limits allowed by law. These Board committees provide organized and focused means for the directors to achieve specific goals and address issues, including those related to governance.

The Board of Directors shall constitute, at a minimum, the following committees:

2.2.1 Audit Committee

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

adequate understanding of accounting and auditing principles in general and of the Corporation's financial management systems and environment in particular. The audit committee provides oversight of the institution's financial reporting and control and internal and external audit functions. It shall be responsible for the setting up of the internal audit department and for the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the audit committee. It shall monitor and evaluate the adequacy and effectiveness of the internal control system.

Upon setting up the audit committee, the board of directors shall draw up a written charter or terms of reference which clearly sets out the audit committee's authority and duties, as well as the reporting relationship with the board of directors. This charter shall be approved by the board of directors and reviewed and updated periodically.

The audit committee shall have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions.

The Audit Committee is expected, through the provision of checks and balances, to bring positive results in supervising and supporting the management of the bank. It shall have the following particular duties and responsibilities:

- 2.2.1.1 Check the financial statements and related disclosures and reports certified by the Chief Financial Officer and released to the public and/or submitted to the Bangko Sentral and Other Regulatory agencies for compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements;
- 2.2.1.2 Review and assess the adequacy of the bank's business risk management process, including the management of credit, market, liquidity, operational, legal and other risks, jointly with Management, the Independent Auditors and the Internal Auditors. This function shall include receiving from senior management periodic information on risk exposures and risk management activities;
- 2.2.1.3 Be responsible for setting up an internal audit department and consider the appointment of the chief audit executive; establish and identify the reporting line of the chief audit executive so that the reporting levels allow the internal audit activity to fulfill its responsibilities;
- 2.2.1.4 Ensure that internal auditors have free and full access to all the Corporation's records, properties and personnel relevant to and required

by its function and that the internal audit activity shall be free from interference in determining its scope, performing its work and communicating its results;

- 2.2.1.5 Provide oversight of the corporation's internal and Independent Auditors;
- 2.2.1.6 Approve the Annual Internal Audit Work Plan, ensuring that audit resources are allocated to the areas of highest risk. Pre-approve all audit plans, scope and frequency before the conduct of external audit;
- 2.2.1.7 Review the Independent Auditor's plans to understand the basis for their risk assessment and financial statement materiality;
- 2.2.1.8 Discuss with the Independent Auditor before the audit commences the nature and scope of the audit, and ensure cooperation where more than one audit firm is needed;
- 2.2.1.9 Elevate to international standards the accounting and auditing processes, practices and methodologies, and develop the following:
 - 2.2.1.9.1 a definitive timetable within which the accounting system of the Corporation will be International Accounting Standards (IAS) Compliant.
 - 2.2.1.9.2 an accountability statement that will specifically identify officers and/or personnel directly responsible for the accomplishment of such task.
- 2.2.1.10 Ensure that a transparent financial management system, supported by a procedures and policies handbook that will be used by the entire organization, is established to assure the integrity of internal control activities throughout the Corporation;
- 2.2.1.11 Receive and review reports of internal and Independent Auditors and regulatory agencies, where applicable, and ensure that management is taking appropriate corrective actions in a timely manner in addressing control and compliance functions with regulatory agencies;
- 2.2.1.12 Review the quarterly, half-year and annual financial statements before submission to the Board, focusing on changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit, going concern assumptions, compliance with accounting standards, and compliance with tax, legal and stock exchange requirements;

2.2.1.13 Recommend and review the appointment of Independent Auditors and their remuneration

2.2.1.14 Meet with the External Auditors and the Internal Auditors in executive session at least annually to discuss pertinent matters, including the quality of management, financial and accounting controls.

The Internal Audit group of the Corporation shall support the Audit Committee in the rendition of its functions.

2.2.2 Risk Management Committee

Risk management committee. The risk management committee shall be responsible for the development and oversight of the institution's risk management program. The committee shall be composed of at least three (3) members of the board of directors who shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached. The risk management committee shall have a written charter that defines the duties and responsibilities of its members. The charter shall be approved by the board of directors and reviewed and refined periodically. The core responsibilities of the risk management committee are:

2.2.2.1 Identify and evaluate exposures. The committee shall assess the probability of each risk becoming reality and shall estimate its possible effect and cost. Priority areas of concern are those risks that are the most likely to occur and are costly when they happen.

2.2.2.2 Develop risk management strategies. The risk management committee shall develop a written plan defining the strategies for managing and controlling the major risks. It shall identify practical strategies to reduce the chance of harm and failure or minimize losses if the risk becomes real.

2.2.2.3 Implement the risk management plan. The risk management committee shall communicate the risk management plan and loss control procedures to affected parties. The committee shall conduct regular discussions on the institution's current risk exposure based on regular management reports and direct concerned units or offices on how to reduce these risks.

2.2.2.4 Review and revise the plan as needed. The committee shall evaluate the risk management plan to ensure its continued relevancy, comprehensiveness, and

effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The committee shall report regularly to the board of directors the entity's over-all risk exposure, actions taken to reduce the risks, and recommend further action or plans as necessary.

2.2.3 Corporate Governance Committee

The Corporate Governance Committee shall assist the Board in discharging its governance responsibility by ensuring that the Bank has a Corporate Governance Framework in place which guides every decision and action of the Board, management and staff. The Committee shall be composed of at least three (3) members of the Board who shall all be non-executive directors, majority of whom must be independent directors, including the chairperson.

The corporate governance committee shall assist the board of directors in fulfilling its corporate governance responsibilities. In this regard, the corporate governance committee shall:

2.2.3.1 Formulate, for Board approval, a Corporate Governance Framework and ensure compliance by the Board, management and staff.

2.2.3.2 Review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board.

2.2.3.3 The committee shall establish and ensure effective implementation of policy for onboarding/orientation program for first time directors and annual continuing education for all directors.

For this purpose, the orientation program for first time directors shall be for at least eight (8) hours, while the annual continuing training shall be at least for four (4) hours. The training programs should cover topics relevant in carrying out their duties and responsibilities as directors.

2.2.3.4 Make recommendations to the Board regarding the continuing education of directors, assignment to Board-level committees, succession plan for the Board member and senior officers, and their remuneration commensurate with corporate and individual performance.

2.2.3.5 Oversee the periodic evaluation of contribution and performance of the Board, Board-level committees, and senior management based on the approved criteria. Such criteria shall address how the Board has enhanced long term shareholders' value.

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

2.2.3.7 Conduct oversight functions over the Compliance and Anti-Money Laundering Office of the Bank through regular reporting of matters taken during its meetings.

2.2.3.8 Conduct an evaluation of the function of the Chief Compliance Officer on an annual basis.

2.2.3.9 Review its Charter on annual basis and recommend updates or amendments thereto if necessary.

2.2.3.10 Responsibilities as RPT Committee

2.2.3.11 Oversight on AML Committee

2.2.4 IT Committee

The IT Committee shall be composed of at least three (2) members of the Board of Directors, preferably with at least one (1) member with knowledge and experience in Information Technology management. The Chief Operation Officer and the Chief Information Officer shall also be designated as members of the IT Committee, while the Risk Officer may be required to attend the regular IT Committee meetings in an advisory capacity.

The IT Committee is ultimately responsible for understanding the IT risk confronted by the bank and ensuring that they are properly managed through institution of policies and procedures.

They have overall responsibility for establishing and maintaining an independent, competent and effective IT audit function commensurate with the scope, complexity and sophistication of its environment.

2.3 Stockholders Meetings and Quorum Requirement

2.3.1 Annual Meeting

All meetings of stockholders shall be held at the principal office of the Corporation, or at any place designated by the Board of Directors in the City or Municipality where the principal office of the corporation is located.

The annual meeting of the stockholders shall be held on the third Sunday of the month of March of each year.

Notice of such meeting shall be delivered personally, mailed, postage prepaid, at least fifteen (15) days prior to date thereof, addressed to each stockholder at his address appearing on the books of the Corporation. In such notice there shall appear, in addition to the date, hour and place of such meeting, a statement of the matters to be taken up at such meeting.

Any stockholder shall be allowed to vote either in person or by proxy duly executed in writing signed by the person represented and presented to the Secretary before the meeting commences.

2.3.2 A quorum at any meeting, whether regular or special, shall consist of stockholders owning majority of the subscribed capital stock, represented in person or by proxy. Except as otherwise provided by law a majority of such quorum shall decide any question that may come before the meeting.

2.4 Board Performance Assessment Policy

2.4.1 Purpose

The Board Assessment process is undertaken to measure board efficiency through a balanced and objective platform against the goals that the board has set at the beginning of the year, roles and responsibilities as mandated by the various regulatory agencies as well as this Manual of Corporate Governance. Further, the assessment provides, the Board and its committees valuable information that can be used as a guiding tool in succession planning, objective setting as well as analysis of whether they have accomplished the purpose for which they were established and act to address any concern emanating therefrom.

2.4.2 Scope of the Assessment:

The assessments are categorized as follows:

1. Board as a collegial body
2. Board Committees as a collegial body
3. Individual members of the Board of Directors (through Self-Assessment)
4. Assessment of Chairman of the Board

2.4.3 Frequency of the assessment

This exercise is to be conducted on an annual basis covering a defined twelve-month period. A summary of the results of the assessment shall be presented by Corporate Governance Committee to the Board.

2.4.4 Components of the Assessment

a) Board Performance

This part contains varying statements base on the role, functions and responsibilities of the Board found under the Bank's Manual of Corporate Governance.

Respondents: All members of the Board of Directors

Facilitator: Compliance Office

b) Committee-level Self Assessment

This part contains questions and affirmative statements relating to the duties of different Committees of the Board of Directors and the Management based on the Bank's By-Laws, Revised Manual on Corporate Governance and other leading corporate governance practices.

Respondents: All Board Committee members

Facilitator: Compliance Office

c). Individual Self-Assessment

This part contains specific duties of a member of the Board of Directors as provided in the Bangko Sentral ng Pilipinas' Maual of Regulations for Banks

Respondents: All members of the Board of Directors

Facilitator: Compliance Office

Process:

The assessment focus on a different evaluator's perspective to ascertain the integrity of the evaluation process. Directors are expected to give honest, unbiased and sensible rating base on their objective understanding of the item raised.

BOARD Assessment as a Collegial Body

Step 1: The Chief Compliance Officer (CCO) upload the Assessment form on the google drive and send the link to all Board of Directors.

Step 2: Directors access the link and rate the Board as collegial body, and submit the same electronically

The form comprise of the following sections;

- Board Structure
- Leadership Function
- Governance
- Stakeholders Relations
- Controls
- Meeting and facilities

The members of the Board are to use the following categories in qualifying their answers to each statement presented in the questionnaire: Agree, Neutral and Disagree. Each category will be assigned a numeric point to allow summation for the final, weighted score. The category "Agree" shall be awarded one (1) point while the remaining categories shall be awarded 2, and 3, respectively.

Committee Level Self-Assessment

Step 1: The Chief Compliance Officer (CCO) upload the Assessment form on the google drive and send the link to all Directors who are member of committees.

Step 2: Directors access the link and rate their respective Committee, and submit the same electronically.

The comprise of the following sections;

- Committee Structure
- Committee Meetings
- Duties and Responsibilities

The members of the Board are to use the following categories in qualifying their answers to each statement presented in the questionnaire: Strongly Agree, Agree, Disagree, Strongly Disagree and Undecided. Each category will be assigned a numeric point to allow summation for the final, weighted score. The category "Strongly Agree" shall be awarded five (5) points while the remaining categories shall be awarded 4, 3, 2, and 1, respectively.

Individual Member Assessment

Step 1: The Chief Compliance Officer (CCO) upload the Self-Assessment form on the google drive and send the link to all Directors.

Step 2: Directors are to rate their performance as individual member of the board.

The form comprise of the following sections;

- Policies
- Board Structure
- Leadership Function
- Governance
- Stakeholders Relations
- Controls
- Meeting and facilities

The directors will use the following categories for the rating, Strongly Agree, Agree, Disagree, Strongly Disagree and Undecided. Each category will be assigned a numeric point to allow summation for the final, weighted score. The category “Strongly Agree” shall be awarded five (5) points while the remaining categories shall be awarded 4, 3, 2, and 1, respectively.

Assessment of Chairman of the Board

Step 1: The Chief Compliance Officer (CCO) upload the Assessment form on the google drive and send the link to all Directors.

Step 2: Directors are to rate the performance of the Chairman of the Board.
The form comprise of the following sections;

- Board Meetings
- Board Leadership
- Board Education and Review

The directors will use the following categories for the rating, Strongly Agree, Agree, Disagree, Strongly Disagree and Undecided. Each category will be assigned a numeric point to allow summation for the final, weighted score. The category “Strongly Agree” shall be awarded five (5) points while the remaining categories shall be awarded 4, 3, 2, and 1, respectively.

Consolidation and Reporting of the Result of assessment

Upon completion and submission of the form, the Compliance unit shall gather and analyze the answer. The result is presented by CCO to CGC and to the board.

Confidentiality

The forms shall remain confidential and safeguarding its confidentiality shall be the task of the Compliance Office.

Review and Revisions:

A periodic review of the forms and this method of performance assessment shall be conducted by the Compliance and Corporate Governance Unit to maintain its relevance every three (3) years unless significant changes take place thus prompting the immediate review. The Bank also has an option to assign the review and evaluation process of the Board and this policy to an independent third party.

3.1 GENERAL RESPONSIBILITIES OF MANAGEMENT

Management stands as the locus of decision-making for the day-to-day affairs of the Bank. It determines the Bank's activities by putting its targets in concrete terms and by formulating the basic strategies for achieving these targets. It also puts in place the infrastructure for the Corporation's success by establishing the following mechanisms in its organization:

- 3.1.1** purposeful legal and organizational structures that work effectively and efficiently in attaining the goals of the Corporation;
- 3.1.2** useful planning, control, and risk management systems that assess risks on an integrated cross-functional approach;
- 3.1.3** Information systems that are defined and aligned with IT strategy and the business goals of the bank;
- 3.1.4** a plan of succession that formalizes the process of identifying, training and selection of successors in key positions in the Corporation.
- 3.1.5** The senior management shall be responsible to the overall implementation of the board-approved strategies and policies in relation to the sustainability objectives of the bank. It shall;
 - a. Assess on a periodic basis the continuing relevance of said policies considering the development in the business environment
 - b. Facilitate the identification, assessment, monitoring and mitigation of E&S risk. The Senior management shall ensure that the bank takes a holistic approach in managing these risk aligned with the strategic objectives set by the board of directors;
 - c. Assess consistency of operations and performance of personnel with the bank's sustainability objectives.
 - d. Apprise the board of directors on a regular basis on the bank's exposure to E&S risks which shall include potential issues associated with both internal and external activities of the bank and the activities of its clients that may have material impact on the bank's portfolio or reputation. Moreover, the senior management shall report its progress in implementing the bank's sustainability policies and ESRMS.

Management is primarily accountable to the Board for the operations of the Corporation. As part of its accountability, it is also obligated to provide the Board with complete, adequate information on the operations and affairs of the Corporation in a timely manner

3.2 QUALIFICATION 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 shall be considered;

- a. integrity/probity
- b. education/training
- c. possession of competencies relevant to the function such as knowledge and experience.
- d. skills and diligence
- e. concurrent position in the same bank and interlocking positions in other entities that may pose conflict of interest.

3.3 EXECUTIVE OFFICERS OF THE CORPORATION

The Executive Officers of the Bank are the President, Vice Presidents, Corporate Secretary, Chief Operating Officers, Chief Finance Officer, Chief Compliance Officer, Internal Auditor. The Executive Officers shall be appointed by the Board of Directors. In addition

- The Board of Directors shall appoint an Executive Vice-President, and such other officers, and employees as provided for in the Corporation's By-Laws.
- The Board of Directors shall elect a Vice-Chairman of the Board from among its members.

3.3.1 President/CEO

The President/CEO shall be the over-all-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/She 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. In addition to the duties imposed on the President/CEO by the Board of Directors, the President/CEO shall

- 3.3.1.1** Develop and recommend strategic plan to the Board that ensure the Bank's profitable growth and achievement of its objectives;
- 3.3.1.2** Successfully implement the strategic plans approved by the Board;
- 3.3.1.3** Review and report regularly to the Board on the Bank's overall progress against its business and financial plans and objectives
- 3.3.1.4** Ensure effective disclosure control, internal controls and management information system are in place;
- 3.3.1.5** Manage and oversee the required disclosure and other communications between the Corporation, shareholders, and stakeholders and the public
- 3.3.1.6** Ensure that the Bank maintains high standards of ethics, corporate citizenship and social responsibility;

3.3.1.7 Such other duties and responsibilities as may be impose on the CEO by the Board of Directors;

3.3.2 Chief Operating Officer (COO)

The Chief Operating Officer is the corporate executive who oversee the business operations within the company. He reports to the President and usually second-on-command within the bank and responsible for the efficiency of the business. He shall have the following functions;

3.2.4.1 develop in collaboration with the President and the Chief Financial Officer (CFO), an annual operating plan that supports the Corporation's long term operations strategy;

3.2.4.2 assist the President/CEO and the CFO in developing and overseeing the long term business strategies of the Corporation;

3.2.4.3 assist the President/CEO in overseeing the Corporation's achievement and maintenance of a satisfactory competitive position within its industry

3.2.4.4 keep the President/CEO fully informed in a timely and candid manner of the conduct of the day-to-day operations of the Corporation towards the achievement of its established goals and of all material deviations from the goals or objectives and policies established by the Board.

3.2.4.5 as requested by the Board, attend meetings of the Board and its Committees and present the information necessary or relevant to the Board or such Committee for discharging its duties

3.3.3 Chief Finance Officer (CFO)

The Chief Finance Officer shall be appointed by the Board of Directors.

3.3.3.1 provide management with accurate, relevant, and timely operating and financial reports and analysis necessary for financial planning and strategy formulation, and monitor actual implementation of budgets, plans and programs towards the achievement of corporate goals;

3.3.3.2 maintain the integrity of accounting records as the basis of financial statements and reports provided to management for decision-making and government regulatory bodies in compliance with statutory requirements;

3.3.3.3 promote investor confidence in the Corporation by addressing the various information requirements of the investing public and ensuring that all other legal reportorial obligations to various entities are complied with.

3.3.3.4 certify all financial reports for the review of the Audit Committee;

3.3.3.5 strengthen internal controls by monitoring compliance with policies; recommend to management appropriate actions and changes in systems and procedures as necessitated by circumstances.

The Chief Finance Officer shall have such other responsibilities as the Board of Directors may impose upon him.

3.3.4 Corporate Secretary

The Corporate Secretary shall be a resident and citizen of the Philippines. Considering his varied functions and responsibilities, he must possess organizational and interpersonal skills, and the legal skills of a chief legal officer. He must also have some financial and accounting knowledge.

The Corporate Secretary shall have the following functions:

3.3.4.1 serve as an adviser to the directors on their responsibilities and obligations;

3.3.4.2 keep the minutes of meetings of the stockholders, and the Board of Directors, in a book or books kept for that purpose, and shall furnish copies thereof to the Chairman, the President/CEO and other members of the Board as appropriate;

3.3.4.3 keep in safe custody the seal of the Corporation and affix it to any instrument requiring the same;

3.3.4.4 have in-charge of the stock certificate book and such other books and papers as the Board may direct;

3.3.4.5 attend to the giving and serving of notices of Board and shareholder meetings;

3.3.4.6 be fully informed and be part of the scheduling process of other activities of the Board;

3.3.4.7 prepare an annual schedule of board meetings and the regular agendas of meetings, and put the Board on notice of such agenda at every meeting;

3.3.4.8 oversee the adequate flow of information to the Board prior to meetings;

The Corporate Secretary shall have such other responsibilities as the Board of Directors may impose upon him. The Board shall have separate and independent access to the Corporate Secretary.

3.2.8 Chief Compliance Officer

The Chief Compliance Officer shall see to it that the Bank complies and implement all orders and regulations prescribed by the Monetary Board of the Bangko Sentral ng Pilipinas as well as from those other regulatory agencies that has bearing on the smooth and proper operations of the bank particularly in the field of corporate governance.

3.2.9 Chief Audit Executive

The Chief Audit Executive shall

3.2.9.1 Conduct examination and evaluation of the adequacy and effectiveness of the internal control systems;

3.2.9.2 Review the application and effectiveness of risk management procedures and assessment methodologies

3.2.9.3 Conduct review of the management and financial information systems, including the electronic information system and electronic banking services;

3.2.9.4 Conduct assessment of the accuracy and reliability of the accounting system and of the resulting financial reports;

3.2.9.5 Conduct review of the systems and procedures of safeguarding assets;

3.2.9.6 Conduct review of the system of assessing capital in relation to the estimate of organizational risk;

3.2.9.7 Conduct transaction testing and assessment of specific internal control procedures

3.2.9.8 Conduct review of the compliance system and the implementation of established policies and procedures

The Chief Audit Executive shall likewise conduct an annual audit of all branches sets an audit conference after each audit and submits report to the Board of Directors on the audit findings.

3.2.10 Persons prohibited to become officers

a. The spouses or relatives within the second degree of consanguinity or affinity 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.i., 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;
- (6) Compliance function, e.g., chief compliance officer; and
- (7) Internal audit function, e.g., chief audit executive.

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 a 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.

b. Any appointive or elective 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.

3.2.11 A specific management committees addressing key risk like credit, financial markets and liquidity, operations, support operating management to ensure that all major risk are identified, measured, controlled through the imposition of appropriate limits. These management committees include a) Executive Committee; b) Executive Credit Committee, for loan portfolio management c) Assets and Liabilities Committee, for financial marker and liquidity risks; d) Personnel Committee, for human resource management.

The following are the Management Committee

3.2.11.1 Management Committee

The executive committee provides a mechanism to engage within the limits set by board, in decision making, relating to the transaction routine, administrative matters, oversight and communication of important organizational matters. The primary function is to exercise powers delegated by the Board of Directors in the management of the business and the affairs of the Bank during the intervals between meetings of the Board of Directors.

3.2.11.2 Executive Credit Committee

The Executive Credit Committee ensure continues relevance and effectiveness of credit evaluation and approval process. The committee evaluate and approve loans within its credit approval authority and review loan product performance.

The credit risk limit breached is discussed with the Risk board committee, for action and resolution.

3.2.11.3 Assets and Liabilities Committee

The Asset/Liability Committee (ALCO) has been established to assess the adequacy and monitoring the implementation, of the Bank and Company's Asset/Liability Management policy and related procedures. The ALCO will oversee the implementation of an effective process for managing the Bank's interest rate, liquidity, and similar market risks relating to the Bank's balance sheet and associated activities, including the adoption from time to time of policies, risk limits and capital levels.

3.2.11.4 Personnel Committee

The Personnel Committee directs and ensures the development and implementation of long term Human Resources (HR) Strategy/Plan based on the Board's vision of the organization..

The purpose is to provide direction and decision-making for employee policies, compensation and benefits, legal compliance, staff evaluation and trainings. The Personnel Committee ensure that all employees have the training and tools to perform their jobs, ae held accountable for achieving goals, and are compensated appropriately for their efforts.

Article IV. CODE OF BUSINESS CONDUCT & ETHICS

4.1 Code of Conduct

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;

- Roles and responsibilities of Officers and staff
- Constructive Procedures
- Implementation of Constructive Action
- Grievance Machinery
- Cleansing of Offense
- Habitual Violation of Company Rules and Regulations

The personal interest of directors and officers should never prevail over the interest of the bank. They are required to be loyal to the organization so much so that they may not directly or indirectly derive any personal profit or advantage by reason of their position in the bank. They must promote the common interest of all shareholders and the bank without regard to their own personal and selfish interests.

4.2 Conflict of Interest Policy

4.2.1 A conflict of interest exists when a director or an officer of the bank–

- a. Supplies or is attempting or applying to supply goods or services to the bank;
- b. Supplies or is attempting to supply goods, services or information to an entity in competition with the bank;
- c. By virtue of his office, acquires or is attempting to acquire for himself a business opportunity which should belong to the bank;
- d. Is offered or receives consideration for delivering the bank's business to a third party;
- e. Is engaged or is attempting to engage in a business or activity which competes with or works contrary to the best interests of the bank.

If an actual or potential conflict of interest should arise on the part of directors, it should be fully disclosed and the concerned director should not participate in the decision making. A director who has a continuing conflict of interest of a material nature should either resign or, if the Board deems appropriate, be removed from the Board.

4.2.2 A contract of the bank with one or more of its directors or officers is voidable, at the option of the bank, unless all the following conditions are present:

- a. The presence of such director in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting;
- b. The vote of such director or trustee was not necessary for the approval of the contract;
- c. The contract is fair and reasonable under the circumstances;
- d. In case of an officer, the contract has been previously approved by the Board of Directors.

Where any of the first two conditions set forth in the preceding paragraph is absent, in the case of a contract with a director, such contract may be ratified by the vote of stockholders representing two-thirds (2/3) of the outstanding capital stock in a meeting called for that purpose; provided that full disclosure of the adverse interest of the director involved is made at such meeting; and provided further that the contract is fair and reasonable under the circumstances.

4.2.3 Where a director, by virtue of his office, acquires for himself a business opportunity which should belong to the bank, thereby obtaining profits to the prejudice of the bank, the director must account to the latter for all such profits by refunding the same, unless his act has been ratified by a vote of the stockholders owning or representing at least two-thirds (2/3) of the outstanding capital stock. This provision shall be applicable notwithstanding the fact that the director risked his own funds in the venture.

The foregoing is without prejudice to the bank's existing Rules on Conflict of Interest for its officers, employees and staff.

4.2.4 A Director or Officer shall not disclose, reveal, or share, by whatever means or method, to any person or entity, any information especially all vital and/or confidential information it has learned, obtained, or acquired in any manner by reason of, and in the course of performing the whole or any portion of his obligation and duties as Director or Officer of BPI without the prior written consent of the Bank.

4.3 Related Party Transaction Policy

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may also be individuals or corporate entities.

Because transactions with related parties can be abused, the terms of such transactions are of vital interest to majority and minority shareholders alike, i.e., the interests of shareholders, as a whole, and of all stakeholders must be fully protected.

The Related Party Transactions Policy guards against internal conflicts of interest between the company and/or its group and their directors, officers and significant shareholders and ensures that transactions such as loans and advances, deposit arrangements, trading of government securities and commercial papers, sale of assets, lease of bank premises, investment advisory/management, service arrangements and advances for operating expenses are made in the normal course of banking activities with terms and conditions that are generally comparable to those offered to non-related parties or to similar transactions in the market.

The Related Party Transactions are subject for board approval to assess material agreements of any kind with a related party in determining whether to approve, ratify, disapprove or reject a Related Party Transaction. The board takes into account whether or not the RPT is entered into on terms or less favorable to the Bank than terms generally available to an unaffiliated third-party under the same or similar circumstances.

4.4 Whistleblower Policy

The Whistleblowing policy provides a formal mechanism for all employees to submit confidential reports without fear of retaliation regarding misconduct in the workplace and other improper activities perpetrated by the company's employees or officers that violate the company's ethical standards. This policy is meant to provide method of properly addressing valid concerns of individuals within the bank while ensuring protection from harassment and/or retaliation.

Reporting

Any person who has knowledge of or reason to believe that there is suspected improper activity who cannot report through the regular reporting procedures covered by the policy on incident reporting has the duty to report and disclose this information by:

(1) Calling / sending a text message to the designated Whistleblower Hotline at **0917-5002251**

(2) Sending an e-mail to the Strategic Support Head

(4) or he/she may use his own or other email address of his choice.

All disclosures will be received and viewed exclusively by the Strategic Support Head as Chairperson of the Personnel Committee.

The whistleblower shall receive an acknowledgment that his report has been received, and maybe further contacted as the investigation progresses.

Once validated, the report will be forwarded to the Investigating Body composed of the

Strategic Support Head, Chief Audit Executive and Risk Officer reporting directly to the President, to formally begin the investigation proceedings.

4.5 Dissemination of the Code

The bank's policies on conflict-of-interest, whistleblowers, related party transactions and other guidelines embodied in this Corporate Governance Manual and included as well in the Banks Human Resource manual and Related Party Policy, each of which is recorded in electronic databases readily accessible for guidance of Bank employees. Aside from availability on these databases, policies are regularly announced via internal email-facility to ensure constant top-of-mind awareness of the need to comply with these policies.

4.6 Compliance with the Code

All directors, officers and employees of the Bank are given proper instruction on their respective duties as mandated in the Corporate Governance Manual and internal mechanisms are in place to ensure such compliance with the Bank's policies on conflict-of interest, whistleblowers, related party transactions and other guidelines embodied in this manual as well as guidelines in the Bank's Human Resource manual and loans Manual.

5.1 INTERNAL AUDITOR

The Bank shall have in place an independent internal audit function which shall be performed by an Chief Audit Executive or a group of Internal Auditors, through which the Board of the Bank and its subsidiaries, their respective senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.

5.1.1 The Chief Audit Executive shall report to the Audit Committee.

5.1.2 The minimum internal control mechanism for management's operational responsibility shall center on the CEO, being ultimately accountable for the company's organizational and procedural controls.

5.1.3 The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: The nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.

5.1.4 The Internal Audit Group shall be headed by Chief Audit Executive. The Chief Audit Executive shall preferably be a Certified Public Accountant and/or a Certified Internal Auditor and shall report to the Audit Committee of the Board of Directors.

5.1.5 The Chief Audit Executive shall report that their activities are conducted in accordance with the Standards for the Professional Practice of Internal Audit. Otherwise, the Chief Audit Executive shall disclose to the Board and Management that it has not yet achieved full compliance with the standards for the professional practice of internal auditing.

5.2 EXTERNAL AUDIT

5.2.1 An external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the Bank, and its subsidiaries. Upon approval by the stockholders, the authority to appoint the Bank's external auditor shall be delegated to the Board of Directors. The Board shall consult the Audit Committee in appointing external auditors. Selected auditing firm must be included in the BSP list of approved auditors. In case of resignation, removal or termination of engagement of the external auditor, the Board shall, as soon as practicable, select and appoint a replacement. The external auditor of UBP shall also be the external auditor for its wholly owned subsidiaries.

- 5.2.2 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 (*i.e.* SEC Form 17-A, SEC Form 17-Q) to the SEC. Said report shall include a discussion of any disagreement between said former external auditor and the corporation on any matter of accounting principles or practices, financial disclosures or audit procedures which they failed to resolve satisfactorily.
- 5.2.3 The external auditor of the Bank shall not, at the same time, provide the internal audit services to the corporation. Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.
- 5.2.4 The Bank's external auditor shall be rotated or the handling partner shall be changed every five (5) years or as required by law.
- 5.2.5 If an external auditor believes that the statements made in the Bank's annual report, information statement or any report filed with the Commission or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said reports.

5.3 COMPLIANCE SYSTEM

To insure adherence to corporate principles and best practices, the board of directors shall ensure that a compliance program is defined and that compliance issues are resolved expeditiously. For this purpose, the corporate governance committee shall oversee the compliance program. Implementation of the compliance program rest collectively with senior management, of which the Chief Compliance Officer (CCO) is the lead operating officer on compliance. Senior management, through the CCO periodically report to Corporate Governance Committee matter that affect the design and implementation of the compliance program. Any changes, updates and amendments to the compliance program must be approved by the board of directors.

The Chief Compliance Officer shall perform the following duties:

- 5.3.1 Operationalize this Manual, and monitor compliance with the provisions and requirements of this Manual;
- 5.3.2 Appear before the Bangko Sentral ng Pilipinas and/or the Securities and Exchange Commission upon summon on similar matters that need to be clarified by the same;
- 5.3.3 Determine violation/s of the Manual and recommend penalty for violation thereof for further review and approval of the Board;
- 5.3.4 Identify, monitor and control compliance risks;

5.3.5 Determine violations of this Manual and create a system for according due notice, hearing, and due process for dealing with violations of the Manual;

5.3.6 Recommend the penalties for violations of the manual, for further review and approval of the Board.

The appointment of the Chief Compliance Officer shall be immediately disclosed to the Bangko Sentral Ng Pilipinas. All correspondence relative to his/her functions as such shall be addressed to said Officer.

6.1 MANAGEMENT'S RESPONSIBILITY FOR INFORMATION

6.1.1 Management is primarily responsible to the Board for financial reporting and control, and to this extent, shall:

6.1.1.1 Present a balanced and understandable assessment of the BK's position and prospects. This extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements;

6.1.1.2 Explain their responsibility for preparing the accounts, for which there should be a statement by the auditors about their reporting responsibilities;

6.1.1.3 Report that the business is going concern, with supporting assumptions or qualifications, if necessary;

6.1.1.4 Maintain a sound system of internal control to safeguard stakeholders' investment and the Corporation's assets;

6.1.1.5 Based on the approved audit plans, scope and frequency of audits, ensure that internal audit examinations cover, at least, the evaluation of adequacy and effectiveness of controls encompassing the organization's governance, operations, information systems, to include reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations, and contracts;

6.1.1.6 Require the Internal Auditor to render to the Audit Committee an annual report on the internal audit department's activity, purpose, authority, responsibility and performance relative to the audit plans and strategies approved by the Audit Committee of the Board. Such annual report should include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the Board and senior management.

6.1.2 Management shall be primarily responsible for the adequate flow of information to the Board. This information may include the background or explanatory information relating to matters to be brought before the Board, copies of disclosure statements and documents, budgets, forecasts and monthly internal financial statements. Any variance between projections and actual results should also be disclosed and explained by Management to the Board.

The bank's comprehensive risk management framework, integrates the management of all its financial and non-financial risk exposures. The framework conform with the risk management process to ensure that the Bank has adequate liquidity and capital to mitigate risks.

7.1 Risk Management Unit

BK Risk Management Unit, headed by the Risk Officer, takes the lead in the formulation of risk management policies and methodologies in alignment with the overall strategy of the bank, ensuring that risks are prudently and rationally undertaken and within the Bank's risk appetite, as well as commensurate and disciplined to maximize returns on capital.

7.2 Enterprise Risk Management

BK Board of Directors fulfills its risk management function through its Risk Management Committee. The Risk Management Committee convenes regularly every quarter to monitor the BK management of risk exposure to credit, market, operational and IT, reputational, strategic and other risk areas.

The Risk Officer regularly monitor key risk indicators and reports exposure against carefully-established credit, market and operational and IT risk metrics and limits approved by the Risk Management Committee. Finally independent reviews are regularly conducted by the bank's Internal Audit Department, regulatory examiners and external auditors to ensure that risk controls and mitigants are in place and functioning effectively as intended.

**Article VIII. STOCKHOLDERS' RIGHTS & PROTECTION OF MINORITY
STOCKHOLDERS' INTERESTS**

8.1 SHAREHOLDER RIGHTS

The Board shall be committed to respect the following rights of the stockholders:

8.1.1 Voting Right Shareholders have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code. Cumulative voting shall be used in the election of directors. Directors may be removed with or without cause, but directors shall not be removed without cause if it will deny minority shareholders representation in the Board. Removal of directors requires an affirmative vote of two-thirds (2/3) of the outstanding capital of the Corporation.

8.1.2 Pre-emptive Right All stockholders have pre-emptive rights as set out in the Corporation Code and the Articles of Incorporation, unless there is a specific denial of this right in the Articles of Incorporation or an amendment thereto. They shall have the right to subscribe to the capital stock of the BK. The Articles of Incorporation may lay down the specific rights and powers of shareholders with respect to the particular shares they hold, all of which are protected by law so long as they are not in conflict with the Corporation Code.

8.1.3 Right of Inspection Shareholders shall be allowed to inspect corporate books and records including minutes of Board meeting and stock registries in accordance with the Corporation Code and shall be provided an annual report, including financial statements, without cost or restrictions.

8.1.4 Right to Information Upon request and for a legitimate purpose, a shareholder 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 Corporation's shares, dealings with the Corporation, relationships among directors and key officers, and the aggregate compensation of directors and officers. The minority shareholders shall have the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes. In accordance with existing law and jurisprudence, minority shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management should include such information and, if not included, then the minority shareholders can propose to include such matters in the agenda of stockholders' meeting provided always that this right of access is conditioned upon the requesting shareholder's having a legitimate purpose for such access.

8.1.5 Right to Dividends Shareholders have the right to receive dividends subject to the discretion of the Board. However, the Bangko Sentral ng Pilipinas and/or the Securities and Exchange Commission may direct the corporation to declare dividends when its retained earnings is in excess of 100% of its paid-in capital stock, except:

8.1.5.1 when justified by definite corporate expansion projects or programs approved by the Board or

8.1.5.2 when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or

8.1.5.3 when it can be clearly shown that such retention is necessary under special circumstances obtaining in the BK, such as when there is a need for special reserve for probable contingencies.

8.1.6 Appraisal Right In accordance with the Corporation Code, shareholders may exercise appraisal rights under the following circumstances:

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

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

8.1.6.3 In case of merger or consolidation.

8.2 DUTY OF DIRECTORS TO PROMOTE SHAREHOLDERS' RIGHTS

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

To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed after notice and hearing, on the Corporation's directors, officers, staff, in case of violation of any of the provisions of this Manual:

- In case of first violation, the subject person shall be suspended from office. The duration shall be at the reasonable discretion of the Board, depending on the gravity of the violation.
- A second violation shall be sufficient cause for removal from directorship in accordance with the Corporation Code.

The foregoing is without prejudice (a) to the right of the Board to immediately suspend and/or remove a Director for fraudulent acts or where necessary to protect the interests of the Corporation; and (b) to the right of the Corporation and/or the Board to take any other legal action permitted by law in order to seek relief against the acts of the director including, where appropriate, injunctive action.