

Revised Corporate Governance Manual
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I. Introduction

Rizal Commercial Banking Corporation (RCBC) believes that corporate governance is a necessary component of what constitutes sound strategic business management and shall therefore undertake every effort necessary to create awareness thereof within the organization. The Bank has promulgated and shall continue to promulgate policies that ensure good corporate governance, has structured itself to ensure that the men and women that comprise it adheres to the basic principles of the Bank, and has mandated compliance with laws as everyone else's primary responsibility.

The Bank adheres to the following basic principles of good governance:

- Transparency or the availability of information through expansion of public disclosure requirements. Consistent with the policy of transparency, all doubts or questions that may arise in the interpretation or application of the provisions of herein Corporate Governance Manual, shall be resolved in favor of promoting transparency, accountability and fairness to the stockholders and other stakeholders of the corporation.
- Accountability involves providing adequate incentives and instilling in the business environment the discipline to act in the best interest of the company.
- Fairness/equity implies that the rights of all concerned parties are protected. Directors shall not only promote the interest of stockholders but also that of other stakeholders which include among others, customers, employees, suppliers, financiers, government and community in which it operates.

The Bank also commits to continue establishing the following policies to ensure that business transactions are being implemented in accordance with the best practices and standards:

- on full and faithful compliance with laws, regulations, Bangko Sentral ng Pilipinas ("BSP") Circulars and other circulars released by other government regulatory agencies.
- on human resource development and personnel development system based on accountability, checks and balances, and a corporate Code of Ethics.
- to promote the good reputation of the Bank in dealings with depositors, borrowers and other parties that transact business with the Bank.
- sustain program of corporate social responsibility that enhances the good image of the Bank before the general public.

II. Composition of the Organization**Policy**

The Bank has structured itself to ensure that the men and women that comprise it adhere to the basic principles of good governance, which encompass transparency, accountability and fairness. The Board

of Directors shall insist on strict adherence to the Bank's Corporate Governance Manual, which shall guide all relations with the Bank's major and other stakeholders and with the general public.

Definition of Terms –¹

- 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 others, customers, employees, suppliers, financiers, government and community in which it operates;
- b. **Board of Directors** – the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties;
- c. **Directors** – they shall include:
 - (1) directors who are named as such in the articles of incorporation;
 - (2) directors duly elected in subsequent meetings of the stockholders; and
 - (3) those elected to fill vacancies in the board of directors.²
- d. **Exchange** – an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities.
- e. **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;
- f. **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;
- g. **Executive Director** – a director who is part of the day to day management of banking operations;
- h. **Non-Executive Director** – a director who is not part of the day to day management of banking operations and shall include independent directors;
- i. **Non-audit Work** – the other services offered by an external auditor to a corporation that are not directly related and relevant to its statutory audit functions, such as accounting, payroll, bookkeeping, reconciliation, computer project management, data processing, or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor;

¹ Article 1, id.; Bangko Sentral ng Pilipinas ("BSP") Circular No. 749, series of 2012.

² BSP Circular No. 749, series of 2012.

- j. **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 particular risk or business activity, or combination of risks or business activities, to which the corporation is exposed;
- k. **Internal Audit** – an independent and objective assurance activity designed to add value to and improve the corporation’s operations, and help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control and governance processes;
- l. **Internal Audit Department** – a department or unit of the corporation and its consultants, if any, that provide independent and objective assurance services in order to add value to and improve the corporation’s operations;
- m. **Internal Auditor** – the highest position in the corporation responsible for internal audit activities. If internal audit activities are performed by outside service providers, he is the person responsible for overseeing the service contract, the overall quality of these activities, and follow-up of engagement results.

Implementing Guidelines

A. Board Governance

The Board of Directors (the “Board”) is primarily responsible for the governance of the corporation. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide independent check on Management.³

1. Composition of the Board

- 1.1 The Board shall be composed of at least five (5), but not more than fifteen (15), members who are elected by the stockholders. At least three (3)⁴ of whom shall be independent directors or such number of independent directors that constitutes thirty percent (30%) of the members of the Board, whichever is lesser, but in no case less than three (3).
- 1.2 There shall be a balance of executive and non-executive directors, including independent non-executives, such that no individual or small group of individuals can dominate the Board’s decision-making.
- 1.3 Non-executive directors shall possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.
- 1.4 The Directors elected in the annual meeting of the stockholders shall serve a one-year term and until their successors are elected and qualified. Any vacancy in the Board occurring for any reason other than by removal of a Director by the stockholders or by the expiration of term may be filled by the vote of at least a majority of the remaining

³ Article 3, SEC Memorandum Circular No. 6, Series of 2009

⁴ Maharlika Board Listing and Disclosure Rules

Directors, if still constituting a quorum. A Director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor of office.

2. Roles of the Board of Directors

2.1 Powers and Authority of the Board of Directors

The corporate powers of the Bank shall be exercised, its business conducted and all its property shall be 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 act for the Bank in accordance with their sound and objective judgment for the best interest of the Bank.

2.2 General Responsibility of the Board of Directors

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

2.2.2 The Board shall formulate the Bank's vision, mission, strategic objectives, policies and procedures that shall guide and direct the activities of the bank and the means to obtain the same as well as the mechanism to effectively monitor Management's performance.

2.2.3 The Board has overall responsibility for the bank, including approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance and corporate values. The Board is also responsible for providing oversight of senior management.⁵

2.2.4 While the management of the day-to-day affairs of the Bank is the responsibility of the management team, the Board of Directors is, however, responsible for monitoring and overseeing senior management action. The Board of Directors shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities. It is vitally important that a number of board members be independent from management.

2.2.5 The Board shall identify the Bank's major and other stakeholders (e.g. shareholders, customers, employees, suppliers, financiers, government and community in which it operates) and formulate a clear policy on communicating or relating with them through an effective investor relations program. The Board shall be adequately transparent to its shareholders, and other stakeholders. The objective of transparency in the area of corporate governance is to provide these parties, consistent with national law and supervisory practice, with key information necessary to enable them to assess the effectiveness of the Board and senior management governing the Bank. The Board shall ensure the

⁵ Basel Committee on Banking Supervision Principles for Enhancing Corporate Governance

disclosure of relevant and useful information that supports the following key areas of corporate governance:

- (1) Board practices
- (2) Senior management
- (3) Risk management and internal controls
- (4) Compensation
- (5) Complex or opaque corporate structures
- (6) Disclosure and transparency

Such disclosure should be proportionate to the size, complexity, structure, economic significance and risk profile of the Bank.⁶

2.3 Duties and Functions of the Board of Directors⁷

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

- 2.3.1 Implement a process of selection from a broad pool of qualified candidates to ensure a mix of competent directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. The selection process shall ensure that a sufficient number of qualified non-executive members are elected to promote the independence of the board from the views of senior management.
- 2.3.2 Oversee the selection and performance of senior management. It is the primary responsibility of the Board 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.
 - (a) The Board shall 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. And because 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 institution. The Board shall replace

⁶

Id.

⁷

BSP Circular No. 749, Series of 2012

members of senior management, and have in place an appropriate plan of succession.

- (b) The Board shall 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. The performance standards shall be consistent with the bank's strategic objectives and business plans, taking into account the bank's long-term financial interests.
- (c) The Board shall regularly meet with senior management to engage in discussions, question and critically review the reports and information provided by the latter. The Board shall set the frequency of meeting with senior management, taking into account the size, complexity of operations and risk profile of the Bank.
- (d) The Board shall 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. The Board shall set the frequency of review taking into account the size, complexity of operations and risk profile of the bank.

The Board shall ensure that senior management's expertise and knowledge shall remain relevant given the Bank's strategic objectives, complexity of operations and risk profile.

- 2.3.3 Determine the Bank's purpose and review, together with senior management, its vision and mission and strategies to carry out its objectives.
- 2.3.4 Ensure that the Bank complies with all relevant laws, regulations and endeavors to adopt best business practices.
- 2.3.5 Approve and monitor management's implementation of strategic objectives. Consistent with the institution's strategic objectives, business plans shall be established for the Bank including its trust operations, and initiatives thereto shall be implemented with clearly defined responsibilities and accountabilities. These shall take into account the Bank's long-term financial interests, its level of risk tolerance and its ability to manage risks effectively.

The Board may create an internal self-rating system that can measure the performance of the Board and Management in accordance with the criteria provided for in the revised Code of Corporate Governance, as approved by the Securities and Exchange Commission ("SEC").⁸

⁸ Article 7, SEC Memorandum Circular No. 6, Series of 2009

The Board shall likewise ensure that the Bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.

- 2.3.6 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, subcommittee and such other groups for purposes of lending, investing or any other financial undertaking that exposes the bank to significant risks.

- 2.3.7 Approve and oversee the implementation of risk management policies. The Board 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:

- (a) a comprehensive risk management approach;
- (b) a detailed structure of limits, guidelines and other parameters used to govern risk-taking;
- (c) a clear delineation of lines of responsibility for managing risk;
- (d) an adequate system for measuring risk; and
- (e) 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 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.

- 2.3.8 Consistently conduct the affairs of the institution with a high degree of integrity. Since reputation is a very valuable asset, it is in the Bank's best interest that in dealings with the public, it observes a high standard of integrity. The Board 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 shall:

- (a) 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 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 exposure), such that relevant transactions that could pose material risk or potential abuse to the Bank and its stakeholders are captured.
- (b) 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. For this purpose, significant shall refer to transactions that would require board approval based on the Bank’s internal policies or as provided under existing regulations.⁹
- (c) 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.
- (d) Articulate policies that will prevent the use of the facilities of the Bank in furtherance of criminal or other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.
- (e) 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 shall regularly monitor and review the compensation scheme to ensure that it operates and achieves the objectives as intended.
- (f) 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 shall ensure that all transactions involving the pension fund are conducted at arm’s length terms.
- (g) Allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the Board or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal

⁹ Please see: Section 2.a)c Specific duties and responsibilities of the board of directors.(9)2nd par, (e).BSP Circular No. 749, Series of 2012

control function, an objective external party, senior management and/or the Board itself.

- (h) 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.

2.3.9 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, 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 as seen by both internal and external stakeholders.

- (a) The Board shall ensure that the Bank's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability, especially between the roles of the Chairman of the Board and Chief Executive Officer/President.
- (b) The Board shall maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities.
- (c) The Board shall 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 be duly minuted.
- (d) The Board shall conduct and maintain the affairs of the institution within the scope of its authority as prescribed in its charter and 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.
- (e) The Board shall 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.

- 2.3.10 Appoint a Compliance Officer who shall have the rank of at least Vice President. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.¹⁰
- 2.3.11 Adopt a procedure for directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, the cost of which shall be shouldered by the Bank.
- 2.3.12 Identify the Bank's stakeholders in the community in which it operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
- 2.3.13 Establish and maintain an alternative dispute resolution system that can amicably settle conflicts or differences between the Bank and its stockholders, the Bank and other stakeholders, including regulatory authorities, and the Bank and third parties.
- 2.3.14 Effectively utilize the work conducted by the internal audit, risk management and compliance functions and the external auditors. The Board 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 through-out the bank. This shall be displayed by undertaking timely and effective actions on issues identified.
- Further, non-executive board members shall meet regularly, other than in meetings of the audit and risk oversight committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.
- 2.3.15 As the Board of the parent Bank, exercise over-all responsibility for defining an appropriate governance framework that shall contribute to the effective oversight over entities in the group. Towards this end, the Board of the parent Bank shall ensure consistent adoption of corporate governance policies and systems across the group and shall carry-out the following duties and responsibilities:
- (a) define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account nature and complexity of operations, size and the types of risks to which the Bank and its subsidiaries are exposed. The Board shall also establish the means to ensure that such policies, practices and systems remain appropriate in the light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the

¹⁰ Article 3 (F)(2)(m), SEC Memorandum Circular No. 6, Series of 2009

policies include the commitment from the entities in the group to meet all governance requirements.

- (b) define the level of risk tolerance for the group, which shall be linked to the process of determining the adequacy of capital of the group.
- (c) ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems.
- (d) establish a system of monitoring compliance of each entity in the group with all applicable policies, practices and systems.
- (e) define and approve policies and clear strategies for the establishment of new structures.
- (f) understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company bank. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group's capital, risk profile and funding under normal and contingent circumstances.
- (g) develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.
- (h) require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the Board.
- (i) disclose to the BSP all entities in the group (e.g. owned directly or indirectly by the parent Bank and/or its subsidiaries/affiliates including special purpose entities (SPEs), and other entities that the Bank exerts control over or those that exert control over the Bank, or those that are related to the Bank and/or its subsidiaries/affiliates either through common ownership/directorship/officership as well as all significant transactions between entities in the group involving any BSP regulated entity. For this purpose, significant shall refer to transactions that would require board approval based on the Bank's internal policies or as provided under existing regulations: Provided, That the Bank shall continue to submit any report required under existing regulations covering transactions between companies within the group.

2.3.16 As the Board of the Bank is a subsidiary/affiliate of a non-BSP regulated parent company, the Board shall carry out the following duties and responsibilities:

- (a) ensure that the Bank complies with the governance policies, practices and systems of the parent company as well as meets the standards and requirements set forth under existing laws, rules and regulations.
- (b) define and approve policies and clear strategies for the establishment of new structures (e.g. subsidiaries/affiliate of the Bank). The Board shall also report to the BSP any plan to create additional group structures.
- (c) understand the roles, relationships or interactions of each entity in the group with one another and with the parent company. The Board shall understand the legal and operational implications of the group structure and how the various type of exposures affect the Bank's capital, risk profile and funding under normal and contingent circumstances.
- (d) require the risk management, compliance function and internal audit group of the Bank to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the Board approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the Board.
- (e) disclose to the BSP all entities in the group (e.g. parent company, entities owned directly or indirectly by the parent company and/or its subsidiaries/affiliates including special purpose entities (SPEs), and other entities that the Bank exerts control over or those that exert control over the Bank, or those that are related to the Bank and/or its subsidiaries/affiliates either through common ownership/directorship/officership as well as all significant transactions between entities in the group involving any BSP regulated entity. For this purpose, significant shall refer to transactions that would require board approval based on the Bank's internal policies or as provided under existing regulations: Provided, That the Bank shall continue to submit any report required under existing regulations covering transactions between companies within the group.

2.4 Maximum Board Seats

The Chief Executive Officer and other executive directors may submit themselves to an indicative limit on membership in other corporate Boards. The same limit may apply to independent, non-executive directors who serve as full-time executives in other corporations. In any case, the capacity of directors to serve with diligence and efficiency shall not be compromised.

Please refer to the section on Corporate Governance Committee of this manual for the guidelines on the determination of the number of directorships for the Board.

The board members shall dedicate sufficient time and attention to their functions in the bank. Directors shall limit their outside board seats to **five** unless there is good

justification for a greater number of outside board seats and these do not interfere with the amount and quality of time and attention of the director to the bank.

2.5 Adequate and Timely Information

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

2.5.2 Since reliance on information volunteered by Management would not be sufficient in all circumstances and further inquiries may have to be made by a member of the Board, the members shall be given independent access to Management and the Corporate Secretary. Such information may include the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

2.5.3 The members, either individually or as a Board, and in furtherance of their duties and responsibilities, shall have access to independent professional advice, the cost of which shall be shouldered by the Bank.

3. The Chairperson, Corporate Vice-Chairman, and Chief Executive Officer

3.1 The Chairperson and Chief Executive Officer (CEO)

3.1.1 The Chairperson shall assist in ensuring compliance with and performance of the corporate governance policies and practices.

3.1.2 In accordance with applicable regulations, the roles of Chairperson and the CEO shall, as practicable, be separate for an appropriate balance of power, increased accountability and better capacity for independent decision making by the Board. There shall be a delineation of functions between the Chairperson and the CEO.¹¹

3.1.3 If the positions of the Chairperson and the CEO are unified, the proper checks and balances shall be laid down to ensure that the Board gets the benefit of independent views and perspectives.

3.2 The Chairperson

The Chairperson shall have the following duties and responsibilities:

3.2.1 Mainly responsible for the proper governance of the Bank through the Board of Directors.

¹¹ Maharlika Board: The Chairman and CEO positions should be held separately by individuals who are not related to each other.

- 3.2.2 Provide leadership in the Board of directors. The Chairperson shall be responsible for the efficient functioning of the Board including maintaining a relationship of trust with the members of the Board. The Chairperson will decide on all matters to be included in the agenda and preside at meetings of the stockholders and Board of Directors.
- 3.2.3 Ensure that the Board takes an informed decision.
 - (a) Ensure active participation and sufficiently deep professional involvement of all members of the Board of Directors.
 - (b) Encourage and actively solicit views and opinions of other members of the Board in the process of arriving at a decision.
 - (c) Ensure that all members of the Board are given sufficient information and time to enable them to study carefully and responsibly issues that come up to the Board.
 - (d) Allow for, and even encourage, the expression of independent views that may be different from those proposed by top management.
- 3.2.4 Ensure that the meetings of the Board are held in accordance with the By-laws and annual schedule approved by the Board or as the Chairperson may deem necessary.
- 3.2.5 Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors.
- 3.2.6 Ensure and maintain quality and timely lines of communication and flow of information between the Board and Management.
- 3.2.7 Ensure that the Board has free access to people who can answer their questions, preventing the need for back channels.

3.3 The Corporate Vice-Chairman

The Corporate Vice-Chairman will have such powers and perform such duties as the Board of Directors may from time to time prescribe. In the absence or inability of the Chairman to act, the Corporate Vice-Chairman will act in his stead, and will exercise any and all such powers and perform any and all duties pertaining to the office of the Chairperson conferred upon it by the By-Laws.

3.4 The Chief Executive Officer (CEO)

The Chief Executive Officer (CEO) will be in-charge of and will exercise general management responsibilities over management development, public relations and

advertising relations with the BSP and other offices, agencies and instrumentalities on the Philippine government, relations with the Bankers' Association of the Philippines and other industry associations, and relations with other ASEAN countries. He will be a member of the Executive Committee and of all major management committees, and will exercise such other powers and perform such other duties as the Board of Directors may prescribe from time to time.

He shall ensure that, and be accountable for, the business and affairs of the Bank are managed in a sound and prudent manner and that operational, financial and internal control are adequate and effective to ensure reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, rules, regulations and contracts.

The CEO shall provide leadership for Management in developing and implementing business strategies, plans and budgets to the extent approved by the Board. He shall provide the Board with a balanced and understandable account of the Bank's performance, financial condition, results of operations prospects on a regular basis.

B. Directors

A director's office is one of trust and confidence. A director shall act in the best interest of the Bank in a manner characterized by transparency, accountability and fairness. He shall exercise his "duty of care" and "duty of loyalty" to the Bank under applicable law and regulation. He shall also exercise leadership, prudence and integrity in directing the Bank towards sustained progress.

1. Duties and Responsibilities of a Director

A director shall have the following duties and responsibilities:

- 1.1 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. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that the Bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training.
- 1.2 To conduct fair business transactions with the Bank and to ensure that his personal interest does not bias board decisions. Directors should, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the institution cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the institution than those offered to others. **Furthermore, dealings in the Bank's shares should be reported to the Bank within three (3) business days from the date of the transaction.** The basic principle to be observed is that a director should not use his position to make profit or to acquire benefit or advantage for himself

and/or his related interests. He should avoid situations that would compromise his impartiality.

- 1.3 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.. A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.
- 1.4 To devote time and attention necessary to properly and effectively discharge his duties and responsibilities. Directors should devote sufficient time to familiarize themselves with the institution's business. They must be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the board's work. They must attend and actively participate in the board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the board.
- 1.5 To act judiciously on matters brought before the Board, thoroughly evaluating the issues involved before making any decisions;
- 1.6 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.
- 1.7 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. Corollarily, he should support plans and ideas that he thinks will be beneficial to the institution.
- 1.8 To have a working knowledge of the statutory and regulatory requirements affecting the Bank and its operations, including the contents of its Articles of Incorporation and By-laws, the rules and regulations of the SEC and BSP, and where applicable, the requirements of other regulatory agencies having jurisdiction over the Bank, and keep abreast with industry developments and business trends.
- 1.9 To observe and safeguard confidentiality of non-public information acquired by reason of his position as a director. A director may not disclose said information to any other person without the authority of the Board.
- 1.10 To ensure the continuing soundness, effectiveness and adequacy of the Bank's control environment.

2. Qualifications of a Director

A director shall have the following minimum qualifications:

- 2.1 He shall own at least one (1) share of the capital stock of the Bank;
- 2.2 He shall be at least twenty-five (25) years of age at the time of his election or appointment;
- 2.3 He shall be at least a college graduate or have an equivalent academic degree;
- 2.4 He shall have a practical understanding of the business of the Bank;
- 2.5 He must be a member in good standing in relevant industry, business or professional organization;¹²
- 2.6 He must have previous business experience;¹³
- 2.7 He must attend the special seminar on corporate governance for board of directors conducted or accredited by the BSP within six (6) months after election, provided that the following persons are exempted from attending the said seminar:
 - i. Foreign nationals who have attended corporate governance training covering core topics in the BSP-recommended syllabus and certified by the Corporate Secretary as having been made aware of the general responsibility and specific duties and responsibilities of the board of directors and responsibilities of a director prescribed under the MORB;
 - ii. Filipino citizens with recognized stature, influence, and reputation in the banking community and whose business practices stand as testimonies to good corporate governance;
 - iii. Distinguished foreign and Filipino nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board members; or
 - iv. Former Chief Justices of the Philippine Supreme Court;¹⁴ and
- 2.8 He must be fit and proper for the position of a director of the Bank. In determining whether a person is fit and proper for the position of a director, the following matters must be considered:
 - integrity/probity;
 - physical/mental fitness
 - competence;

¹² Article 3 (D)(iii), SEC Memorandum Circular No. 6, Series of 2009

¹³ Article 3 (D)(iv), *id.*

¹⁴ BSP Circular No. 840, Series of 2014 .

- relevant education/financial literacy;
- diligence; and
- knowledge/experience/training.

The foregoing qualifications for directors shall be in addition to those required or prescribed under R.A. No. 8791 (General Banking Law) and other existing applicable laws and regulations.

- 2.9. Board members shall be and remain qualified, including through training, for their positions. They shall have a clear understanding of their role in corporate governance and be able to exercise sound and objective judgment about the affairs of the bank.¹⁵
- 2.10. The board collectively shall have adequate knowledge and experience relevant to each of the material financial activities the bank intends to pursue in order to enable effective governance and oversight.

3. Disqualification of Directors

The following are the grounds for the disqualification of a director:

3.1 Permanent Disqualification

The following are the grounds for the permanent disqualification of a director:¹⁶

- 3.1.1 Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that:
- a. involves the purchase or sale of securities, as defined in the Securities Regulation Code (“SRC”);
 - b. arises out of the person’s conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or
 - c. arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them.
- 3.1.2 Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC or any administrative body of competent jurisdiction from:
- a. acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker;

¹⁵ Basel Committee on Banking Supervision Principles for Enhancing Corporate Governance
¹⁶ Article 3, Section E.1, SEC Memorandum Circular No. 6, Series of 2009

- b. acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company;
- c. engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.

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

- 3.1.3 Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts.
- 3.1.4 Any person who has been adjudged by final judgment or order of the SEC, court or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, SRC or any other law administered by the SEC or BSP, or any of its rule, regulation or order.
- 3.1.5 Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation.
- 3.1.6 Any person judicially declared as insolvent.
- 3.1.7 Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in item nos. 3.1.1 to 3.1.4.
- 3.1.8 Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment.

3.2 Temporary Disqualification

The Board may provide for temporary disqualification of a director for any of the following reasons:

- 3.2.1 Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations. The disqualification shall be in effect as long as the refusal persists.
- 3.2.2 Absence or non-participation for whatever reasons in more than fifty (50%) of all regular and special meetings of the Board during his incumbency, and failure to physically attend for whatever reasons in at least twenty-five percent (25%) of all board meetings in any year, except that when a notarized certification executed by the corporate secretary has been submitted attesting that said directors were given the agenda materials prior to the meeting and that their comments/suggestions thereon were submitted for deliberation/discussion and were taken up in the actual board meeting, said directors shall be considered present in the board meeting. The disqualification shall apply for purposes of the succeeding election.¹⁷
- 3.2.3 Persons convicted for offenses involving dishonesty, breach of trust or violation of banking laws but whose conviction has not yet become final and executory.
- 3.2.4 Directors and officers of closed banks who have committed irregularity and those with pending complaints/cases. This disqualification applies upon approval of the Monetary Board until final resolution of their cases.
- 3.2.5 Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board on recommendation by the appropriate supervising and examining department of such director's election/reelection.
- 3.2.6 Directors who failed to attend the special seminar on corporate governance for board of directors required by the Bangko Sentral ng Pilipinas, unless said directors are exempted in accordance with the foregoing or applicable laws, rules and regulations. This disqualification applies until the director concerned had attended such seminar.
- 3.2.7 Dismissal or termination for cause as director of any corporation covered under SEC Memorandum Circular No. 6, Series of 2009 (or the revised Code of Corporate Governance). The disqualification shall be in effect until he has cleared himself from any involvement in the alleged irregularity.
- 3.2.8 If the beneficial equity ownership of an independent director in the Bank or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.¹⁸
- 3.2.9 Persons disseminated/terminated from employment for cause. This disqualification shall be in effect until:

¹⁷ §143.1.b.(2), 2010 Manual of Regulation for Banks vol. 1

¹⁸ Article 3(E)(2)(iv), SEC Memorandum Circular No. 6, Series of 2009

- a. they have cleared themselves of involvement in the alleged irregularity; or
- b. upon clearance, on their request, from the Monetary Board after showing good and justifiable reasons; or
- c. after the lapse of the five (5) years from the time they were officially advised by the appropriate department of BSP's Supervision and Examination Sector (SES) of their disqualification.

3.2.10 Those under preventive suspension (as in the case of an Executive Director).

3.2.11 Persons with derogatory records with the National Bureau of Investigation (NBI), court, police, Interpol and monetary authority (central bank) of other countries (for foreign directors and officers) involving violation of any law, rule or regulation of the Government or any of its instrumentalities adversely affecting the integrity and/or ability to discharge the duties of a bank officer. This disqualification applies until they have cleared themselves of involvement in the alleged irregularity.

3.2.12 Persons who are delinquent in the payment of their obligations as defined hereunder¹⁹ :

- (a) Delinquency in the payment of obligations means that an obligation of a person with a bank/quasi-bank/trust entity where he/she is a director or officer, or at least two obligations with other banks/financial institution, under different credit lines or loan contracts, are past due pursuant to Sec. X306 of the BSP Manual of Regulations for Banks;
- (b) Obligations shall include all borrowings from a bank/quasi-bank obtained by:
 - i. A director or officer for his own account or as the representative or agent of others or where he/she acts as a guarantor, endorser, or surety for loans from such financial institutions;
 - ii. The spouse or child under the parental authority of the director or officer;
 - iii. Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director or officer;
 - iv. A partnership of which a director or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and

¹⁹

BSP Circular No. 296

- v. A corporation, association or firm wholly-owned or majority of the capital of which is owned by any or a group of persons mentioned in the foregoing Items (i), (ii), and (iv);

Note: The above disqualification shall be in effect as long as the delinquency persists.

3.2.13 If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

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

4. Qualification of Independent Directors²⁰

An Independent Director includes, among other persons, one who:

- 4.1 Is not or has not been an officer or employee of the bank, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his election;
- 4.2 Was not a regular director who resigned or whose term ended within the last two (2) years.
- 4.3 Was not appointed the Chairman “Emeritus”, “Ex-Officio” Directors/Officers or Members of any Executive Advisory Board, or otherwise, appointed in a capacity to assist the Board in the performance of its duties and responsibilities within the last one (1) year.
- 4.4 Is not a director or officer of the related companies of the Bank’s majority stockholder;
- 4.5 Is not a stockholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies;
- 4.6 Is not a relative, legitimate or common law of any director, officer or stockholder holding shares of stock sufficient to elect one seat in the Board of the Bank or any of its related companies. For this purpose, relatives refer to the spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister-in-law²¹;

²⁰ SEC Memorandum Circular No. 9, Series of 2009

²¹ BSP Circular No. 793, series of 2013 .

- 4.7 Is not acting as a nominee or representative of any director, officer or substantial shareholder of the Bank or any of its related companies or any of its substantial shareholders, pursuant to a deed of trust or under any contract or arrangement;
- 4.8 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 which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment; and
- 4.9 Is not a director, officer, principal stockholder, among others, of securities brokers-dealers. However, this does not apply to brokers-dealers of fixed income securities.

Effective 02 January 2012, the independent director may serve as such in accordance with the term limits prescribed in SEC Memorandum Circular No. 9. Series of 2011 re: Term Limits for Independent Directors.²²

The foregoing terms and phrases used in paragraphs 4.1 to 4.9 of this section shall have the following meaning:

- (a) Parent is a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries;
- (b) Subsidiary means a corporation more than fifty percent (50%) of the voting stock of which is owned or controlled directly or indirectly through one (1) or more intermediaries by the Bank;
- (c) Affiliate is a juridical person that directly or indirectly, through one (1) or more intermediaries, is controlled by, or is under common control with the Bank or its affiliates;
- (d) Related interests as defined under Sections 12 and 13 of R.A. No. 8791 shall mean individuals related to each other within the fourth degree of consanguinity or affinity, legitimate or common law, and two (2) or more corporations owned or controlled by a single individual or by the same family group or the same group of persons;
- (e) Control exists when the parent owns directly or indirectly through subsidiaries more than one-half of the voting power of an enterprise unless, in exceptional circumstance, it can be clearly demonstrated that such ownership does not constitute control. Control may also exist even when ownership is one-half or less of the voting power of an enterprise when there is:
- i. power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or

²² Annex "A" hereof.

- ii. power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
 - iii. power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
 - iv. power to case the majority votes at meetings of the board of directors or equivalent governing body; or
 - v. any other arrangement similar to any of the above.
- (f) Related company means another company which is: (a) its parent or holding company; (b) its subsidiary or affiliate; or (c) a corporation where a bank or its majority stockholder own such number of shares that will allow/enable him to elect at least one (1) member of the Board.
- (g) Substantial or major shareholder shall mean a person, whether natural or juridical, owning such number of shares that will allow him to elect at least one (1) member of the Board or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.
- (h) Majority stockholder or majority shareholder means a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of the Bank.

C. Board Meetings and Quorum Requirement

1. The Board shall schedule and hold regular meetings in accordance with its By-Laws and convene for special meetings when required by business exigencies. The notice and agenda of the meeting and other relevant meeting materials shall be furnished to the Directors prior to each meeting, which meeting must be duly minuted. In addition, the Board shall ensure that agenda topics are met.
2. The members of the Board shall attend its regular and special meetings in person or through teleconferencing and videoconferencing conducted in accordance with the rules and regulations of the SEC in such a manner that will allow the director who is taking part in said meetings to actively take part in the deliberations on matters taken up therein, except when justifiable causes prevent his attendance to ensure that the quorum requirement will be met. Justifiable causes include, but are not limited to, grave illness or death of an immediate family or serious accidents. The Bank shall ensure that teleconferencing facilities are available for this purpose.
3. Independent directors shall always attend Board meetings. Only in exceptional cases will Independent Directors be excused from attending meetings. At least a majority of Independent Directors shall be present in order to constitute a quorum. However, to promote transparency, there shall always be at least one independent director in all its meetings.
4. The Board shall hold executive sessions with the Independent directors and non-Executive Directors, excluding Executive directors, at least once a year and at such other times as the Board may deem necessary or appropriate. Such executive sessions shall be presided by the

Chairman of the Corporate Governance Committee, except if said Chairman is an Executive Director, in which case, by an Independent Director or non-Executive Director designated by the Board.

5. To monitor the directors' compliance with the attendance requirements, the Bank shall update the pertinent portion of the Annual Corporate Governance Report and file with the SEC an advisement letter on directors' attendance within five (5) days from the end of the company's fiscal year²³

D. Board Committees

The Board 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 Board shall appoint the members and chairman of each Board Committee following the annual meeting of stockholders at which the directors are elected. In case of any vacancy in the Committee, the Board shall appoint a replacement who will fill the vacancy at any meeting of the Board.

An independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight and Corporate Governance committees, without prior approval of the Monetary Board.²⁴

Each Board Committees shall have a charter which shall define and govern its (a) authority and composition (b) meeting attendance and notice (c) remuneration (d) voting (e) committee chair responsibilities and authority (f) evaluation which define and govern among other matters, its composition, purposes, duties and responsibilities.

The Charters of the Board Committees shall be approved by Board. Any amended, alteration or variation shall be duly approved by the Board. The Charters shall be reviewed and updated annually, or whenever there are significant changes therein.

The Board shall 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.

The Board of Directors shall constitute various committees to achieve the basic principles of good corporate governance such as, but not limited to, the following:

²³ SEC Memorandum Circular No. 1, series of 2014.

²⁴ BSP Circular 757, Series of 2012.

1. Executive Committee

1.1 Composition

The Executive Committee shall be composed of a Chairman, and **at least four (4)** members to be elected by the Board of Directors from among themselves.

1.2 Duties and Responsibilities

The Executive Committee shall have the power to act and pass upon such matters as the Board of Directors may entrust to it for action in between meetings of the said Board of Directors. Matters affecting general policy shall always be referred to the Board of Directors for decision. The Committee shall likewise have the power to review an asset or loan to ensure timely recognition and resolution of impaired assets.

2. Corporate Governance Committee

2.1 Composition

The Corporate Governance Committee shall be composed of at least three (3) members of the Board of Directors, two (2) of whom shall be independent directors including the chairperson. The committee shall have a written charter that describes the duties and responsibilities of its members. This charter shall be approved by the Board of Directors and reviewed and updated at least annually, or whenever there are significant changes therein.

2.2 Primary Purpose

The primary purposes of the Committee are to:

- 2.2.1 Oversee the development and implementation of corporate governance principles and policies;
- 2.2.2 Review and evaluate the qualifications of the persons nominated to the Board as well as those nominated for election to other positions requiring appointment by the Board;
- 2.2.3 Identify persons believed to be qualified to become members of the Board and/or the Board Committees;
- 2.2.4 Assist the Board in making an assessment of the Board's effectiveness in the process of replacing or appointing new members of the board and/or Board Committees;
- 2.2.5 Assist the Board in developing and implementing the Board's performance evaluation process and rating system that constitute a powerful and valuable

feedback mechanism to improve board effectiveness, maximize strengths and highlight areas for further development;

- 2.2.6 Provide guidance to and assist the Board in developing a compensation philosophy or policy consistent with the culture, strategy and control environment of the Company;
- 2.2.7 Oversee the development and administration of the Company's executive compensation programs, including long term incentive plans and equity based plans for Officers and Executives; and
- 2.2.8 Assist the Board in the performance evaluation of and succession planning for Officers including the CEO and in overseeing the development and implementation of professional development programs for Officers.

2.3 Duties and Responsibilities

- 2.3.1 The Corporate Governance Committee shall assist the Board of Directors in fulfilling its corporate governance responsibilities.
- 2.3.2 The committee shall be responsible for ensuring the Board's effectiveness and due observance of corporate governance principles and guidelines. It shall oversee the periodic performance evaluation of the Board and its committees and executive management; and shall also conduct an annual self-evaluation of its performance.
- 2.3.3 The committee shall also decide whether or not a director is able to and has been adequately carrying out his/her duties as director bearing in mind the director's contribution and performance (e.g. competence, candor, attendance, preparedness, and participation). Internal guidelines shall be adopted that address the competing time commitments that are faced when directors serve on multiple boards.
- 2.3.4 The committee shall make recommendations to the Board regarding the continuing education of directors, assignment to board committees, succession plan for the board members and senior officers, and their remuneration commensurate with corporate and individual performance.
- 2.3.5 The committee shall decide the manner by which the Board's performance may be evaluated and propose an objective performance criteria approved by the Board. Such performance indicators shall address how the Board has enhanced long term shareholder's value.
- 2.3.6 The committee shall monitor compliance of the submission of the Annual Corporate Governance Scorecard on the scope, nature and extent of the actions taken to meet the objectives of the SEC's Revised Code of Corporate Governance.

- 2.3.7 The committee shall be responsible for the amicable resolution of disputes and/or settle conflicts or differences between the Bank and its stockholders, the Bank and other stakeholders, including regulatory authorities, and the Bank and third parties.²⁵
- 2.3.8 On Executive Compensation and Remuneration:
- a. The committee shall 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.
 - b. It shall designate amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the company successfully.
 - c. The committee shall develop a form of Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired.
 - d. It shall disallow any director to decide his or her own remuneration.
 - e. It shall provide in the Bank's annual reports, information and proxy statements a clear, concise and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year.
 - f. It shall review the existing Human Resources Policy Manual or Personnel Handbook to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts.
 - g. Or in the absence of such Personnel Handbook, it shall cause the development of such, covering the same parameters of governance stated above.

²⁵ Article 3(F)(2)(j), SEC Memorandum Circular No. 6, Series of 2009

2.3.9 On Nominations to the Board of Directors:

- a. To the extent practicable, the members of the Board of Directors shall be selected from a broad pool of qualified candidates. The committee shall pre-screen and shortlist all candidates nominated to become a member of the Board of Directors in accordance with the qualifications and disqualifications enumerated under item nos. 2 and 3, respectively, of Section II-B in this manual. In selecting Independent Directors, the number and types of entities where the candidate is likewise elected as such shall be considered to ensure that he will be able to provide sufficient time to effectively carry out his duties and responsibilities. It shall also review and evaluate the qualifications of those persons nominated to other positions requiring appointment by the Board of Directors.
- b. In consultation with the executive or management committee/s, it shall re-define the role, duties and responsibilities of the Chief Executive Officer by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.
- c. The committee shall consider the following guidelines in the determination of the number of directorships of a nominee for the Board:
 - i. The nature of the business of the corporations where he is a director;
 - ii. Age of the Director;
 - iii. Number of directorships/active memberships and officerships in other corporations or organizations; and
 - iv. Possible conflict of interest.

The optimum number shall be related to the capacity of a director to perform his duties diligently in general.

3. Risk Oversight Committee

3.1 Composition

The Risk Oversight Committee shall be composed of at least three (3) members of the Board of Directors including at least one (1) independent director and a chairperson who is a non-executive member. The members 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. The 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 Risk Oversight Committee shall, where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and acquisitions.

3.2 Duties and Responsibilities:

3.2.1 In general, the Risk Oversight Committee shall be responsible for the development and oversight of the institution's risk management program. 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.

3.2.2 The core responsibilities of the Risk Oversight Committee include the following:

- a. Identify and evaluate exposures. The committee shall assess the probability of each risk, including reputational and compliance risks, becoming reality and shall estimate its possible effect and cost. Priority areas of concern are those risks that are most likely to occur and are costly when they happen.
- b. Develop risk management strategies. The Risk Oversight Committee shall develop a written plan defining the strategies for managing and controlling major risks. It shall identify practical strategies to reduce the chance of harm and failure or minimize losses if the risk becomes real.
- c. Oversee the implementation of the risk management plan. The Risk Oversight 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 assess how concerned units or offices reduced these risks.
- d. Review and revise the plan as needed. The committee shall evaluate the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The 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.

4. Audit Committee

4.1 Composition

The Audit Committee shall be composed of at least three (3) members of the Board of Directors, at least two (2) of whom shall be independent directors, including the Chairman, and another one with audit experience. The members shall be financially literate, and the Chairman shall be a financial expert preferably with accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank. To the greatest extent possible, the audit committee shall be composed of a sufficient number of independent and non-

executive board members. Furthermore, the Chief Executive Officer, Chief Financial Officer and/or treasurer, or officers holding equivalent positions, shall not be appointed as members of the audit committee.

4.2 Primary Purposes

The purposes of the Committee are to assist the Board of Directors in fulfilling its oversight responsibilities for:

- 4.2.1 the integrity of the bank's accounting and financial reporting, principles, policies and system of internal controls, including the integrity of the Bank's financial statements and the independent audit thereof;
- 4.2.2 the Bank's compliance with legal and regulatory requirements;
- 4.2.3 the Bank's assessment and management of enterprise risks including credit, market, liquidity, operational and legal risks; and
- 4.2.4 the Bank's Audit process and the performance of the bank's internal audit organization and external auditors, including the external auditors' qualifications and independence.

4.3 Duties and Responsibilities

The core responsibilities of the Audit Committee include the following:

- 4.3.1 Ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.
- 4.3.2 Review and approve the annual internal audit plan to ensure its conformity with the objectives of the Bank. The plan shall include the audit scope, frequency, resources and budget necessary to implement it.
- 4.3.3 Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.
- 4.3.4 Set up an internal audit department/division and consider the appointment of an independent internal auditor and the independent external auditor who shall both report directly to the Audit Committee as well as the terms and conditions of the external auditor's engagement and removal. In cases of appointment or dismissal of external auditors, it is encouraged that the decision be made only by independent and non-executive Audit Committee members.

- 4.3.5 Monitor and evaluate the adequacy and effectiveness of the Bank's internal control system, including financial reporting, operational and compliance controls, risk management, and information technology security at least annually.
- 4.3.6 Investigate any matter within its terms of reference, with 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.
- 4.3.7 Receive and review the reports submitted by the internal and external auditors and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.
- 4.3.8 Review the quarterly, half-year and annual financial statements before their submission to the Board, with particular focus on the following matters:
 - a. any change/s in accounting policies and practices;
 - b. major judgmental areas;
 - c. significant adjustments resulting from the audit;
 - d. going concern assumptions;
 - e. compliance with accounting standards;
 - f. compliance with tax, legal and regulatory requirements.
- 4.3.9 Coordinate, monitor and facilitate compliance laws, rules and regulations.
- 4.3.10 Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Bank's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, shall be disclosed in the Bank's annual report.
- 4.3.11 Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee. The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be independent and impartial from management and free from interference by outside parties.
- 4.3.12 Establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

5. The Corporate Secretary and Assistant Corporate Secretary
 - 5.1 The Corporate Secretary and Assistant Corporate Secretary shall be Filipino citizens and residents of the Philippines.
 - 5.2 They are officers of the Bank and perfection in performance and no surprises are expected of them. Likewise, their loyalty to the mission, vision and specific business objectives of the corporate entity come with their duties.
 - 5.3 They must possess administrative, legal and interpersonal skills, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities. He must also have some financial and accounting skills.
 - 5.4 They must have a working knowledge of the operations of the Bank.
 - 5.5 Duties and Responsibilities
 - 5.5.1 Responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board as well as the other official documents, records and other information essential to the conduct of his duties and responsibilities to the Bank.
 - 5.5.2 Inform the members of the Board of the schedule and agenda of their meetings and ensure that the members have before them complete and accurate information that will enable them to arrive at intelligent or informed decisions on matters that require their approval.
 - 5.5.3 Serve as an adviser of the Board, and assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations.
 - 5.5.4 Work fairly and objectively with the Board, Management, stockholders and other stakeholders.
 - 5.5.5 Attend all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him from doing so, and maintain record of the same.
 - 5.5.6 In all transactions which may lawfully come to the knowledge of the Corporate Secretary involving transfer of voting shares of stock or registration of voting trust agreements, or any form of agreement vesting the right to vote the voting shares of stock of the Bank, the Corporate Secretary shall:
 - a. Ascertain the identity and citizenship of the transferee, voting trustee, proxy or person vested with the right to vote, and his relation to existing stockholders, and for this purpose, he shall require the transferee, voting trustee, proxy or the person vested with the right to vote to submit proof of

citizenship, which may consist, in case of a corporation, of a certified true copy of the Articles of Incorporation, accompanied by the affidavit of the Corporate Secretary of the corporation, certifying to the correctness and accuracy of the list of stockholders, their citizenship, and the percentage of shares owned by them.

- b. Require the transferee, voting trustee, proxy or person vested with the right to vote, at the time of the receipt of the request for transfer or registration, or at any time thereafter, to disclose all information with respect to persons related to the transferee, voting trustee, proxy or person vested with the right to vote, within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, as well as corporations, partnerships or associations where the transferee, voting trustee, proxy or person vested with the right to vote has controlling interest, and the extent thereof.
- c. Require the transferee to execute an affidavit stating, among other things, that the transferee is a bona fide owner of shares of stock and that he acknowledges full awareness of the requirements of the law and the prohibitions against exceeding ownership of voting stocks beyond the prescribed limitations.
- d. If the request for transfer or the arrangement sought to be registered will patently cause the voting stocks of a person or a corporation, to exceed the limits prescribed by law, the Corporate Secretary shall deny the transfer or registration and forthwith inform the parties to the transaction in writing. Simultaneous with the notice to the parties, the Corporate Secretary shall submit a written report to the Governor of the BSP of the attempted illegal transfer or arrangements, together with the names, addresses of parties and other pertinent data with respect to the particular stock transaction.

In the event the Corporate Secretary has reason to doubt the legality of the transfer or of the arrangement sought to be registered, he may commence an action before the appropriate body.

- e. Promptly inform stockholders who have reached any of the ceilings imposed by law, of their ineligibility to own or control more than the applicable ceiling.
- 5.5.7 Ensure that all Board procedures, rules and regulations are strictly followed by the members.²⁶

E. Remuneration of the Members of the Board and Officers

²⁶ Article 3(L)(ix), SEC Memorandum Circular No. 6, Series of 2009

1. The Bank shall avoid paying more than what is necessary for purposes of running the Bank successfully.
2. A proportion of the executive directors' remuneration shall be structured so as to link reward to corporate and individual performance.
3. The compensation of the CEO and other Officers shall be subject to review and approval by the Corporate Governance Committee. Equity based plans and long-term incentive plans for Officers which the Committee may recommend shall be subject to review and approval by the Board and, as applicable, by the stockholders.
4. The Bank shall establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors, if any, and officers. No director shall be involved in deciding his/her own remuneration.
5. The Bank's annual reports and information and proxy statements shall include a clear, concise and understandable disclosure of all fixed and variable compensation that may be paid, directly and indirectly, to its directors and top four (4) management officers during the preceding fiscal year.
6. **Directors' Fees**

A per diem, as may be determined from time to time by stockholders owning or representing a majority of the subscribed capital stock at any regular or special meeting, shall be paid to each director for attendance at any meeting of the Board of Directors for each day of session; provided, however, that nothing herein contained shall be construed to preclude any director from serving in any other capacity and receiving compensation therefore.
7. To protect the funds of the Bank, the SEC may, in exceptional cases, e.g., when the Bank is under receivership or rehabilitation, regulate the payment of the compensation, allowances, fees, and fringe benefits to its directors and officers.

F. Officers

The selection of Bank Officers shall be in accordance with the qualifications and disqualifications set by the Bank and the prevailing BSP regulations.

1. Duties and responsibilities of officers:²⁷
 - 1.1 To set the tone of good governance from the top. Bank officers shall promote the good governance practices within the Bank by ensuring that policies on governance as approved by the Board are consistently adopted across the Bank.
 - 1.2 To oversee the day-to-day management of the Bank. Bank officers shall ensure that the Bank's activities and operations are consistent with the Bank's strategic objectives, risk

²⁷ BSP Circular No. 749, Series of 2012

strategy, corporate values and policies as approved by the Board. They shall establish a bank-wide management system characterized by strategically aligned and mutually reinforcing performance standards across the organization.

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

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

G. Performance Evaluation

1. The Board of Directors shall undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.
2. Individual evaluation of directors shall aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties). The Chairman shall act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of the board, identifying individual and collective development needs and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors.
3. The Independent Director shall conduct an annual performance evaluation of the Chairman, and report this to the Corporate Governance Committee. As part of this process, the Independent Director should convene a meeting of the Non-Executive Directors.
4. The Chairman shall conduct annual performance evaluations of the other executive directors, in relation to their role as members of the Board and report this to the Corporate Governance Committee. A summary of the agreed outcome will be reported to the Board.
5. The Chairman shall determine the individual and collective development needs of the Board as a result of the performance evaluations set out above, and put appropriate development programs in place.

III. Compliance Program

Policy

The Bank shall have in place adequate and effective controls encompassing the Bank's governance, operations, information systems (including reliability and integrity of financial and operational information). To ensure adherence to the said corporate governance/principles, a compliance program must be clearly defined/set to further identify, monitor and control compliance and operational risks.

Implementing Guidelines**A. Compliance Office****1. Compliance Officer**

- 1.1 To ensure adherence to sound corporate principles and best practices, the Chairman of the Board shall designate a Compliance Officer who shall hold the position of at least a Vice President or its equivalent and shall have direct reporting responsibilities to the Chairman of the Board. A Compliance Office shall be established to assist the Compliance Officer in the discharge of his/her functions and responsibilities. The Compliance Office he/she will head shall, like the Internal Audit, have free and full access to records, and be independent.

Relative thereto, the appointment/designation of a Compliance Officer shall be immediately disclosed to the SEC on SEC Form 17-C. All correspondences relative to his/her functions as such shall be addressed to the said Officer.

- 1.2 The Compliance Officer shall perform the following duties:

1.2.1 Monitor compliance with the provisions and requirements of this Manual and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Chairman and Corporate Governance Committee and recommend the imposition of the appropriate disciplinary action for such violation and the adoption of measures to prevent a repetition of the violation, subject to review and approval by the Board.

1.2.2 Identify, monitor, control and assess, if any, compliance risks and how such risks can be mitigated.

1.2.3 Appear before the SEC when summoned in relation to compliance with the Revised Code of Corporate Governance.

1.2.4 Assist the Board and the Corporate Governance Committee in the performance of their governance functions, including their duties to oversee the formulation or review, and implementation of the corporate governance structure and policies of the Bank, and to assist in the conduct of a self-assessment of the performance and effectiveness of the Board, the Board Committee and individual Board members in carrying out their functions as set out in this Manual and the respective charters of the Board Committees.

B. Accountability and Audit

1. The Board is primarily accountable to the stockholders who shall be provided with a balanced and comprehensible assessment of the Bank's performance, position and prospects on a quarterly

- basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.
2. Management shall provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders.
 3. Management shall formulate policies and procedures on risk management and governance process. Further, Management, shall formulate rules and procedures on financial reporting and internal control in accordance with the following:
 - 3.1 The extent of Management's responsibility in the preparation of the financial statements of the Bank, with the corresponding delineation of the responsibilities that pertain to the external auditor, shall be clearly explained.
 - 3.2 An effective internal control system that will ensure the integrity of the financial reports and protection of the assets of the Bank for the benefit of all stockholders and other stakeholders shall be maintained.
 - 3.3 The Bank shall consistently comply with the financial reporting requirements of the SEC.
 4. Internal Audit Function
 - 4.1 The Bank shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors who shall conduct independent and objective internal audit activities designed to add value to and improve the Bank's operations and to help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control and governance processes through which the Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are appropriate, adequate, effective and complied with.
 - 4.2 The minimum risk management and internal control mechanisms for Management's operational responsibility shall center on the CEO, being ultimately accountable for the Bank's organizational and procedural controls.
 - 4.3 The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors:
 - 4.3.1 the nature and complexity of business and the business culture;
 - 4.3.2 the volume, size and complexity of transactions;
 - 4.3.3 the degree of risk;
 - 4.3.4 the degree of centralization and delegation of authority;
 - 4.3.5 the extent and effectiveness of information technology; and

- 4.3.6 the extent of regulatory compliance.
- 4.4 The internal audit examinations shall cover at least the following:
 - 4.4.1 evaluation of significant risk exposures and adequacy of risk management process.
 - 4.4.2 the evaluation of the adequacy and effectiveness of controls encompassing the organization's governance, operations, information systems (including the reliability and integrity of financial and operational information);
 - 4.4.3 effectiveness and efficiency of operations;
 - 4.4.4 safeguarding of assets; and
 - 4.4.5 compliance with laws, rules, regulations and contracts.
- 4.5 The audit reports shall summarize risk exposures, control issues, recommendations, status of committed actions, officers responsible and implementation dates.
- 4.6 The internal auditors shall have free and full access to all the Bank's records, properties, and personnel relevant to the internal audit activity.
- 4.7 Head of Internal Audit
 - 4.7.1 The Head of Internal Audit shall functionally report to the Audit Committee.
 - 4.7.2 He shall submit to the Audit Committee and Senior Management an annual report on the Internal Audit Division's activities, purpose, authority, responsibility, and performance relative to audit plans and strategies approved by the Audit Committee. The annual report shall include significant risk exposure, control issues and such other matters as may be needed or requested by the Board and Management.
 - 4.7.3 He shall certify that internal audit activities are conducted in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.
- 5. External Auditor
 - 5.1 An external auditor accredited by the BSP and SEC shall be selected and appointed by the stockholders upon recommendation of the Audit Committee.
 - 5.2 The external auditor shall enable an environment of sound corporate governance as reflected in the financial records and reports of the Bank. He shall provide an objective assurance on the manner by which the financial statements have been prepared and

presented to the stockholders. If he believes that the statements made in the Bank's annual report, information statement or proxy statement filed with the SEC or any regulatory body during the period of his engagement is incorrect or incomplete, he shall present his views on the matter in the said reports.

- 5.3 The external auditor of the Bank shall not, at the same time, provide internal audit services to the Bank. The Bank shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor.
- 5.4 The Bank's external auditor shall be rotated, or the signing partner of the external auditor assigned to the Bank shall be changed, every five (5) years or earlier.
- 5.5 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. The report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure. A preliminary copy of the said report shall be given by the Bank to the external auditor before its submission.

C. Risk Management and Internal Controls

1. The Bank recognizes that risk is an inherent part of its activities, and that Banking is essentially a business of managing risks. The Bank views risk management as a value proposition imbued with the mission of achieving sustainable growth in profitability and shareholder value through an optimum balance of risk and return.
2. The risk management infrastructure of the Bank follows a top-down approach, whereby the Board takes ultimate accountability for the risks taken, the tolerance for these risks, business strategies, operating budget, policies, and overall risk philosophy.
3. The board and senior management shall know and understand the bank's operational structure and the risks that it poses (ie "know-your-structure").²⁸
4. The Bank shall have an effective internal controls system and a risk management function (including a chief risk officer or equivalent) with sufficient authority, stature, independence, resources and access to the board.²⁹
5. The Corporate Risk Management Services Group (CRISMS) shall implement the risk management process in the parent company, and additionally consolidates the risk MIS from the various subsidiary risk units for a unified risk profile and eventual disposition.
6. Risks shall be identified and monitored on an ongoing firm-wide and individual entity basis, and the sophistication of the bank's risk management and internal control infrastructures shall keep pace with any changes to the bank's risk profile (including its growth), and to the external risk landscape.³⁰

²⁸ Basel Committee on Banking Supervision Principles for Enhancing Corporate Governance

²⁹ *id.*

³⁰ *id.*

7. The risk process adopted by the Bank is not designed to eliminate risks, but rather to mitigate and manage them so as to arrive at an optimum risk-reward mix.
8. The bank monitors risk levels to ensure timely review of risk positions and exceptions versus established limits and ensure effectiveness of risk controls using appropriate monitoring systems.
9. The Bank has an effective risk management that s robust internal communication within the bank about risk, both across the organization and through reporting to the board and senior management.³¹
10. The board and senior management shall effectively utilize the work conducted by internal audit functions, external auditors and internal control functions.³² The Internal Audit shall evaluate the effectiveness of controls and adequacy of the risk management function.
11. The board and senior management shall know and understand the bank's operational structure and the risks that it poses (ie "know-your-structure").³³

D. Management

1. Senior Management Committee

1.1 Composition

The Senior Management Committee shall be composed of a group of senior officers. This group shall include also the Chief Financial Officer, all Group Heads and the Head of Internal Audit.

1.2 Functions of the Senior Management:

- 1.2.1 Plan, organize and direct in such a manner to provide reasonable assurance that established objectives and goals will be achieved.
- 1.2.2 Require the establishment and effective implementation of a system of internal control to mitigate the risks identified.
- 1.2.3 Review and approve all cross-functional policies and issues (e.g., HR-related, administrative, operations policies, new products and services, new projects, financials, etc.) including programs/projects that affect the whole organization.
- 1.2.4 Supply necessary or relevant information to the Board for the latter's information and/or decision-making purposes.

³¹ *id.*
³² *id.*
³³ *id.*

2. Duties and Responsibilities of Management
- 2.1 Under the direction of the Board, Management shall ensure that the Bank’s activities are consistent with the business strategy, risk tolerance and appetite, and policies approved by the Board.³⁴
- 2.2 Senior management is responsible and shall be held accountable for overseeing the day-to-day management of the Bank. They shall have the necessary experience, competencies and integrity to manage the businesses under their supervision as well as have appropriate control over the key individuals in these areas.³⁵
- 2.3 Management shall provide the Directors with adequate and timely information about the matters to be taken up in their Board meetings and, upon the request of any Director, make presentations on specific topics and respond to further inquiries thereto during Board meetings. The Directors shall have independent access to management.
- 2.4 Management shall formulate, under the oversight of the Audit Committee, financial reporting and internal control system, rules and procedures in accordance with the following guidelines:
- 2.4.1 The extent of management’s responsibility in the preparation of the financial statements of the Bank, with the corresponding delineation of the responsibilities that pertain to the External Auditor, shall be clearly explained;
- 2.4.2 An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Bank shall be maintained;
- 2.4.3 On the basis of the approved audit plans, internal audit examinations shall cover, at the minimum, the evaluation of the adequacy and effectiveness of risk management and controls that cover the Bank’s governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;
- 2.4.4 The Bank shall consistently comply with the financial reporting requirements of the BSP and the SEC and other regulatory agencies;
- 2.4.5 The Head of Internal Audit shall submit to the Audit Committee and Management an annual report on the internal audit department’s activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual report shall include significant risk exposures, control issues and such other matters as may be needed or requested by the Board/Audit Committee and Management.

³⁴ *id.*
³⁵ *id.*

3. Code of Conduct

- 3.1 The Bank must set a Code of Conduct and personnel policies to be strictly observed and followed by all associates. The said Code and policies shall form part of the Employee Handbook and shall be made available and readily accessible by all associates online through the intranet service of the Bank. Any updates therein must be also disseminated.
- 3.2 Each officer and employee of the Bank holds a position of trust. Thus, officers and employees must avoid situations where their personal interest may conflict or appear to conflict with the interests of the Bank or its clients. In addition, officers and employees must have an obligation to RCBC and the public on the proper and responsible handling of confidential information.

4. Strategy Setting and Planning

- 4.1 The Bank has an overall organizational plan, which is supported by a business plan, budgets and marketing plan (if necessary).
- 4.2 It has clearly defined performance measures (operational and financial) that are incorporated into the plans.
- 4.3 The Board approves the budget set by management and revisions thereto.

5. Financial and Operational Reporting

- 5.1 The Bank's financial and operational reports shall contain performance measures, which enable the efficiency and effectiveness of the organization to be assessed. The Bank shall ensure the set-up of control measures in the handling of such reports. Transactions with related parties shall likewise be appropriately and adequately disclosed in said reports.
- 5.2 The reports shall be prepared depending on the particular levels of responsibilities and shall :
 - 5.2.1 efficiently and effectively communicate key financial data;
 - 5.2.2 show a comparison between year-to-date budget, last year-to-date and full year data;
 - 5.2.3 be supported with explanations of significant variations.

Note: The Board of Directors shall be provided with a copy of the financial reports prior to Board meetings. However, the Chief Executive Officer shall be provided with a periodic financial report showing at least the monthly status.

E. Communication Process

1. This manual shall be available for inspection by any stockholder of the Bank at reasonable hours on business days.
2. All directors, executives, division and department heads are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.

F. Training Process

1. A newly appointed director shall be required to attend a special seminar on corporate governance to be conducted by a duly recognized private or government institution duly accredited by the Bangko Sentral ng Pilipinas within six (6) months after appointment, subject to exceptions as provided herein.
2. The Board of Directors and key officers of the Bank shall also attend, at least once a year, a program on corporate governance conducted by training providers that are duly accredited by the SEC.³⁶
3. The Bank shall also implement an appropriate communication and professional training and development program for officers and employees as well as a succession plan for senior management.
2. If necessary, funds shall be allocated by the CFO or its equivalent officer for the purpose of conducting an orientation program or workshop to effectively implement this Manual.

G. Transparency/Commitment to Disclose Material Information

1. The Board shall commit at all times to fully disclose material information dealings. It shall cause the timely filing of all required information for the interest of its shareholders and other stakeholders. The reports or disclosures required under this Manual shall be prepared and submitted to the SEC and Philippine Stock Exchange (PSE) by the responsible committee or officer through the Bank's Compliance Officer. Material information emanating from the Board of Directors shall be disclosed and the responsibility of the Corporate Secretariat. Disclosure of financial information and other material information about the Bank shall be the responsibility of the Corporate Information Officer (CIO). The CIO shall be responsible for efficiently providing information and addressing concerns of its shareholders and other stakeholders through the Bank webpage which provides complete information about the Bank in a form that is user-friendly³⁷.
2. Transactions between related parties shall be disclosed to include the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.
3. All material information about the Bank, i.e., anything that could adversely affect share price, shall be publicly disclosed. Such information and/or transactions shall include, among others, earnings

³⁶ SEC Memorandum Circular No. 20, series of 2013.
³⁷ Maharlika Board on Listing and Disclosure Rules

results, acquisition or disposal of significant assets, related party transactions, board membership changes, shareholdings of directors and officers and any changes thereto, and such material events or information which are required to be disclosed pursuant to the SRC and its Implementing Rules and Regulations.

4. Other information that shall always be disclosed includes remuneration (including stock options) of all directors and senior management, corporate strategy, and off balance sheet transactions.
5. All disclosed information shall be released via the approved and established stock exchange procedure for corporate announcements as well as through the annual report.
6. The governance of the bank shall be adequately transparent to its shareholders and other stakeholders.³⁸
7. The Bank shall designate authorized signatories and alternates for disclosures. All disclosures or information state or relayed by the authorized signatory shall be presumed to have been made with the approval of the Chairman of the board, and principal officers of the Bank. The officers, including the signatories and their alternates, shall be responsible and liable for the truthfulness of the disclosures³⁹.

H. Stockholders' Rights and Protection of Minority Stockholders' Interests

1. The Board shall respect the rights of the stockholders as provided for in the Corporation Code; namely:
 - 1.1 Right to vote on all matters that require their consent or approval;
 - 1.2 Right to inspect the books and records of the Bank;
 - 1.3 Right to information;
 - 1.4 Right to dividends; and
 - 1.5 Appraisal right.
2. It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.⁴⁰
3. Voting Right
 - 3.1 The Board shall be transparent and fair in the conduct of the annual and special stockholders' meetings of the Bank. The stockholders shall be encouraged to personally attend such meetings.
 - 3.2 In case the stockholders cannot attend the annual and special stockholders' meetings, they shall be apprised ahead of time of their right to appoint a proxy. Subject to the

³⁸ Basel Committee on Banking Supervision Principles for enhancing corporate governance

³⁹ Maharlika Board (Exposure Draft dtd 29 April 2010) on Listing and Disclosure Rules

⁴⁰ *Id.*: Any shareholder or group of shareholders with at least five percent (5%) share of the total outstanding shares of the company shall be allowed to propose any relevant item for inclusion in the agenda for the meeting.

requirements of the by-laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy shall be resolved in the stockholders' favor.

- 3.3 The Board shall take the appropriate steps to remove excessive costs and other administrative impediments to the stockholders' participation in meetings, whether in person or by proxy. Accurate and timely information shall be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.
- 3.4 Stockholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
- 3.5 Cumulative voting shall be used in the election of directors.
- 3.6 A director shall not be removed without cause if it shall deny minority stockholders representation in the Board.

4. Right to Inspection

All stockholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.

5. Right to Information

- 5.1 The stockholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of the Bank's shares, dealing with the Bank, relationships among directors and key officers, and the aggregate compensation of directors and officers.
- 5.2 The minority stockholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.
- 5.3 The minority stockholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management shall include such information and, if not included, then the minority stockholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".

6. Right to Dividends

The Bank shall declare dividends in accordance with the requirements of the Bangko Sentral ng Pilipinas.

7. Appraisal Right

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

- 7.1 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;
- 7.2 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
- 7.3 In case of merger or consolidation.

8. Grievance Procedure

The stockholder may file his/her complaints in writing and submit the same to the Corporate Secretary for purposes of endorsement to the Corporate Governance Committee.

The Bank hereby adopts an arbitration system to resolve any dispute, controversy or claim arising out of, or relating to, the Bank's relations with its shareholders, and other intra-corporate matters under applicable law and regulations, in accordance with the Philippine Dispute Resolution Center, Inc. (PDRCI) Arbitration Rules in accordance with The Arbitration Law and R.A. No. 9285, otherwise known as The Alternative Dispute Resolution Act of 2004⁴¹.

9. Disclosure of Material Non-Public Information

The Bank is prohibited to communicate material non-public information to any person, unless the Bank is ready to simultaneously disclose the material non-public information to the Philippine Stock Exchange (PSE). However, this rule shall not apply if the disclosure is made to the following:

- 9.1 A person who is bound by duty to maintain trust and confidence to the Bank such as but not limited to its auditors, legal counsels, investment bankers, financial advisers; and
- 9.2 A person who agrees in writing to maintain in strict confidence the disclosed material information and will not take advantage of it for his personal gain.

Any disclosure of material non-public information to securities analysts, institutional investors or other third parties who do not fall under items 10.1 and 10.2 above, ahead of the disclosure to be made to the PSE and the general public, shall be considered as a violation of this rule.

⁴¹ Maharlika Board (Exposure Draft dtd 29 April 2010) on Listing and Disclosure Rules

Material information means any information about or involving the bank's affairs, events and conditions that has a significant impact in the Company's operations such as, but not limited to, those relating to the Bank's financial condition, prospects and development projects which, when brought to the attention of the public, is reasonably expected to induce or otherwise materially affect the market activity and the market price of the Bank's shares.

The Board shall ensure that internal controls are established that will ensure that the Bank, its Directors, officers, and employees and any other person who is privy to the Bank's material non-public information shall comply with the requirement of this rule.

I. Monitoring and Assessment

1. Each Board committee shall report regularly and submit, at least once a year, a report of its accomplishments and self-assessment of its performance to the Board of Directors.
2. The Corporate Governance Committee shall establish the appropriate evaluation system to monitor and assess compliance with this Manual. Any violation thereof shall subject the responsible officer or employee to the penalties provided under the Bank's Human Resources Policy Manual.
3. The Chairman of the Corporate Governance Committee shall discuss the effectiveness and performance of Directors immediately before they make themselves available for reappointment.
4. The Chairman of the Corporate Governance Committee shall act on the results of performance evaluation, strengths and weaknesses of the board, proposing new members, and seeking the resignation of directors.
5. The independent director shall appraise the Chairman's performance.
6. The establishment of such evaluation system, including the features thereof, shall be disclosed in the Bank's annual report (SEC Form 17-A). The adoption of such performance evaluation system must be covered by a Board approval.
7. This Manual shall be subject to annual review unless the same frequency is amended by the Board.
8. All business processes and practices being performed within any unit/branch of the Bank that are not consistent with any portion of this Manual shall be revoked unless upgraded to the extent compliant.

J. Regular Review of the Code and the Scorecard

To monitor Bank's compliance with the SEC's Revised Code of Corporate Governance as implemented by this Manual, the Bank, through its Compliance Office, shall accomplish annually a scorecard on the scope, nature, and extent of the actions taken to meet the objectives of SEC Code.

K. Reportorial Requirements

1. Reports pertaining to group structures under Paragraphs II.A.2.3.15-2.3.16 shall be submitted to the BSP Central Point of Contact Department 1 as follows:
 - (a) The report disclosing all entities in the group structure where the Bank belongs either as a parent company Bank or subsidiary/affiliate company shall be submitted to the BSP within thirty (30) calendar days after the end of every calendar year starting with the year ending 31 December 2011.
 - (b) The report on significant transactions between entities in the group and involving any BSP-regulated entity shall be submitted within twenty (20) calendar days after the end of the reference quarter starting with the quarter ending 31 March 2012.

Under BSP Circular No. 749, Series of 2012, these reports are considered as Category A-1 reports.⁴²

L. Sanctions

1. Internal Sanctions
 - 1.1 Non-compliance with any of the provisions in this Manual by the Bank's directors, officers, staff, subsidiaries, and affiliates and their respective directors, officers and staff shall subject erring associate/s, after due notice and hearing, to sanctions as provided for under the following sections of the Bank's Human Resources Policy Manual:
 - 1.1.1 Jurisdiction Over Administrative Disciplinary Actions
 - 1.1.2 Code of Discipline
 - 1.2 It shall be the duty of the Compliance Officer to determine any violation of the principles and best practices contained in this Manual through notice and hearing.
 - 1.3 The Compliance Officer shall likewise recommend to the Chairman and the Corporate Governance Committee the penalty to be imposed for such violation. The said recommendation shall be further reviewed and approved by the Board of Directors.

⁴² MORB §X192.1. b.(1) Category A-1 reports shall be signed by the bank's chief executive officer, or in his absence, by the executive vice president, and by the comptroller or, in his absence, by the chief accountant, or officers holding equivalent positions. The designated signatories of *Categories A-1, A-2, A-3 and B* reports including their specimen signatures shall be contained in a resolution approved by the board of directors. A copy of the board resolution covering the initial designation and subsequent change(s) in signatories as well as specimen signatures of the signatories and alternates, shall be submitted to the appropriate department of the SES in such frequency and within the deadline indicated in *Appendix 6.; Section 103. Fines and Penalties* 1. The following schedule of fines for delayed submission of reports and/or incomplete/erroneous reporting shall apply: A. For Category A-1, A-2, and A-3 reports:

- a. UBs/KBs : PHP 1,200 per calendar day

2. Sanctions Imposed by the BSP

Any director of the Bank who violates or fails to observe and/or perform any of the duties and responsibilities stated in this Manual shall, for each violation or offense, be penalized in accordance with the Bangko Sentral ng Pilipinas guidelines.

3. Sanctions Imposed by the SEC

A fine of not more than Two Hundred Thousand Pesos (P200,000.00) shall, after due notice and hearing, be imposed for every year that a covered corporation violates the provisions of the Revised Code of Corporate Governance, without prejudice to other sanctions that the SEC may be authorized to impose under the law, provided, however, that any violation of the Securities Regulation Code punishable by a specific penalty shall be assessed separately and shall not be covered by the abovementioned fine.