PHILIPPINE BUSINESS BANK
a savings bank

19 May 2017

ATTY. JUSTINA F. CALLANGAN
Director
Corporate Governance and Finance Department
G/F Secretariat Building
PICC Complex, Roxas Boulevard
Pasay City, 1307

Securities and Exchange Commission
Electronic Records Management Division
RECEIVED
MAY 25 2017
BY:
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

Dear Atty. Callangan:

Pursuant to SEC Memorandum Circular No. 19, series of 2016, we hereby submit the revised Manual on Corporate Governance (MCG) of the Philippine Business Bank incorporating the provisions stated in the Code of Corporate Governance for Publicly Listed Companies.

Thank you and we hope you will find everything in order.

Very truly yours,

FRANCIS T. LEE
Chairman of the Board

AGUSTIN E. DINGLE, JR.
Chief Compliance Officer

PHILIPPINE BUSINESSBANK
a savings bank

MANUAL ON CORPORATE GOVERNANCE AND COMPLIANCE PROGRAM

As of 31 March 2017

The Board of Directors, Management and Staff, of **PHILIPPINE BUSINESS BANK, INC.** hereby commit ourselves to the principles and best practices contained in this Manual, and acknowledge that the same shall guide us in the attainment of our corporate goals.

A. OBJECTIVE

This Manual shall institutionalize the principles of good corporate governance in the entire organization.

The Board of Directors, Management and Staff and Shareholders of **PHILIPPINE BUSINESS BANK, INC. (PBB)** believe that corporate governance is an indispensable component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization as soon as possible.

PBB is committed, through its Corporate Governance and Compliance Program, to conform to the highest standards of ethics and corporate governance and to comply with all governing laws, rules and regulations and with established corporate policies and procedures, thereby maintaining excellence in all aspects of its operations.

B. PROGRAM COMPONENTS

The Corporate Governance and Compliance Program has the following components:

1. A written Manual on Corporate Governance defining the roles and responsibilities of the Board and its Directors and Committees, the Management Team and other officers and units involved in the governance process. This Manual is promulgated to adopt the principles and best practices of good governance serving as a guide in the attainment of the bank's corporate goals;

2. A written Code of Conduct governing the standards of proper conduct and behavior of the bank's growing number of employees in order to sustain and promote the highest level of integrity and professionalism in its business dealings and relationships;

3. The expanded responsibilities of the Corporate Governance/Nomination Committee to include oversight functions over the bank's compliance efforts and the review of programs designed to raise the culture of ethics and compliance within the bank;

4. The designation of a Chief Compliance Officer who shall have a rank of Senior Vice President or an equivalent position with adequate stature and authority in the bank and who shall monitor compliance with the provisions and requirements of the Corporate Governance and Compliance Program and provide assistance to the Corporate Governance/Nomination Committee in the performance of its functions;

5. A process of stakeholders' reporting, without fear of retaliation, instances of possible non-compliance with applicable laws, rules and regulations, as well as bank policies, procedures and standards of conduct; and

6. A process of investigation and correction of identified problems in the system, and the development of policy to address such problems.

C. DEFINITIONS

1. **Affiliate** – refers to 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.

2. **Board of Directors** – refers to the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties.

3. **Conglomerate** – a group of corporations that has diversified business activities in varied industries, whereby the operations of such businesses are controlled and managed by a parent corporate entity**.**

4. **Control** – this exists when the parent owns directly or indirectly through subsidiaries more than one-half of the voting power of an enterprise unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control may also exist even ownership is one-half or less of the voting power of an enterprise when there is:

   a. power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
   b. power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
   c. power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
   d. power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
   e. any other arrangement similar to any of the above.

5. **Corporate Governance** – The system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders.

   Corporate governance is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and senior management accountable for ensuring ethical behavior – reconciling long-term customer satisfaction with shareholder value – to the benefit of all stakeholders and society.

   Its purpose is to maximize the organization's long-term success, creating sustainable value for its shareholders, stakeholders and the nation.

6. **Directors** – Directors shall include:
   a. directors who are named as such in the articles of incorporation;
   b. directors duly elected in subsequent meetings of the stockholders; and
   c. those elected to fill vacancies in the board of directors.

7. **Enterprise Risk Management** – a process effected by an entity's Board of Directors, management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives.

8. **Exchange** – Refers to an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities.

9. **Executive Director** – refers to a director who has executive responsibility of day-to-day operations of a part or the whole of the organization.

10. **Independence** – refers to that environment which allows the person to carry out his/her work freely and objectively.

11. **Independent Director** shall refer to a person who is independent of management and the controlling shareholder, and is 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. Ideally, he: (a) is not or has not been a senior officer or employee of the Bank, unless there has been a change in the controlling ownership of the Bank, (b) is not, and has not been in the three years immediately preceding the election, a director of the Bank; director, officer, employee of the Bank's subsidiaries, associates, affiliates or related companies; or a director, officer, employee of the

Bank's substantial shareholders and its related companies, (c) has not been appointed in the Bank, its subsidiaries, associates, affiliates or related companies as Chairman Emeritus, Ex-Officio Director/Officer or Member of any Advisory Board or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three years immediately preceding his election, (d) is not an owner of more than two percent of the outstanding shares of the covered company, its subsidiaries, associates, affiliates or related companies, (e) is not a relative of a director, officer, or substantial shareholder of the Bank or any of its related companies or substantial shareholders, within second degree of relationship whether by affinity or consanguinity, (f) is not acting as nominee or representative of any of director of the Bank or its related companies, (g) is not securities broker-dealer[1] of listed companies and registered issuers of securities, (h) is not retained, either in the personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the Bank, any of its related companies or substantial shareholders, or is otherwise independent of Management and free from any business or other relationship within three years immediately preceding date of his election, (i) does not engage or has not engaged , whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with the Bank or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and could not materially interfere with or influence the exercise of his independent judgment, (j) is not affiliated with any non-profit organization that receives significant funding from the Bank or any of its related companies or substantial shareholders, and (k) is not employed as an executive officer of another company where of the Bank's executives serve as directors.

Independent directors shall serve for a maximum cumulative term of nine years. After which the independent director shall be perpetually barred from re-election as such in the same company, but may continue to qualify for nomination and election a non-independent director. In the event that the Bank wants to retain an independent director who has served for nine years, the Board shall provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.

12. **Internal Auditing** – refers to an independent, objective assurance and of consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

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[1] *Broker-dealer refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker dealer.*

13. **Internal Audit Department** – refers to a department, division, team of consultants, or other practitioner(s) that provide an independent, objective assurance and consulting services designed to add value and improve an organization's operations.

14. **Internal Auditor** – refers to the highest position within the organization responsible for internal audit activities. In a traditional internal audit activity, this would be the internal auditor. In the case where internal audit activities are obtained from outside service providers, the chief auditor is the person responsible for overseeing the service contract and the overall quality assurance of these activities, and follow-up of engagement results. The term also includes such titles as general auditor, chief internal auditor, chief audit executive, and inspector general.

15. **Internal Control** – refers to a process designed and effected by the Board of Directors, senior management and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information and compliance with applicable laws, regulations, and the organization's policies and procedures.

16. **Internal Control System** – refers to the framework under which internal controls are developed, implemented alone, or in concert with other policies or procedures, to manage and control a particular risk or business activity, or combination of risks or business activities, to which the company is exposed.

17. **Majority stockholder or majority shareholder** – means a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a bank.

18. **Management** – refers to a group of executives 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.

19. **Non-audit Work** - refers to other services offered by the external auditor to a corporation that are not directly related and relevant to its statutory audit function. Examples include accounting, payroll, bookkeeping, reconciliation, computer project management, data processing or information technology outsourcing services, internal auditing, and services that may compromise the independence and objectivity of the external audit.

20. **Non-executive Director** – refers to a director who has no executive responsibility and does not perform any work related to the operations of the corporation.

21. **Objectivity** – refers to unbiased mental attitude that requires the person to carry out his/her work in such a manner that he/she has an honest belief in his/her work product and that no significant quality compromises are made. Objectivity requires the person not to subordinate his/her judgment to that of others.

22. **Parent** – refers to a corporation, which has control over another corporation directly, or indirectly through one (1) or more intermediaries.

23. **Public Company** – refers to any corporation with a class of equity securities listed in an Exchange or with assets in excess of Fifty Million Pesos (Php50,000,000.00) and having two hundred (200) or more stockholders each holding at least one hundred (100) shares of a class of its securities.

24. **Related Party** – shall cover the company's subsidiaries, as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the company exerts direct or indirect control over or that exerts direct or indirect control over the company: the company's directors, officers, shareholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person or juridical entity whose interest may pose a potential conflict with the interest of the company.

25. **Related Party Transactions** – a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.

26. **Stakeholders** – any individual, organization or society at large who can either affect and/or be affected by the company's strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.

27. **Standard for the Professional Practice of Internal Auditing (SPPIA)** – refers to the criteria by which operations of an internal auditing department are evaluated and measured. They are intended to represent the practice of internal auditing as it should be, provide a framework for performing and promoting a broad range of value-added internal audit activities and foster improved organizational processes and operation.

28. **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 a bank.

29. **Substantial or major shareholder** – shall refer to 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 of directors of a bank or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

D. CORPORATE GOVERNANCE/NOMINATION COMMITTEE

1. TERMS OF REFERENCE

The Corporate Governance Committee (CGC) is a committee created by the Board of Directors of PBB to assist the Board in the performance of its corporate governance responsibilities.

2. FUNCTIONS

The committee is responsible for the development, implementation and review of the Bank's Corporate Governance and Compliance Program, which shall include a set of effective corporate governance policies and procedures applicable to its business. Its core responsibilities are as follows:

a. Oversees the implementation of the corporate governance framework and periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the corporation's size, complexity and business strategy, as well as its business and regulatory environments.

b. Oversees the periodic performance evaluation of the Board and its committees as well as executive management and conducts an annual self-evaluation of its performance. The attached Self-Evaluation Form (Annex B) shall be used for this purpose. The self-evaluation shall be conducted every year, the result of which shall be submitted to the Compliance Office for consolidation thirty (30) days prior to the date of yearly Stockholders' Meeting.

c. Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement.

d. Recommends continuing education/training programs for directors, assignment of tasks/projects to board committees, succession plan for the board members and senior officer, and remuneration packages for corporate and individual performance.

e. Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance.

f. Proposes and plans relevant trainings for the members of the Board.

g. Determines the nomination and election process for the bank's directors and has the special duty of defining the general profile of board members that the bank may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board.

h. Reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors.

i. Establishes a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the bank's culture and strategy as well as the business environment in which it operates.

j. Performs the following compliance functions:
   i. Oversees the bank's compliance efforts with respect to the Manual of Corporate Governance, Code of Conduct, "Whistle-Blowing" Program and Complaint Policy and related laws, rules and regulations as well as bank policies and procedures;

   ii. Meet with compliance officers to review programs designed to raise the culture of ethics and compliance within the bank, and install an enforcement mechanism to sanction non-compliance and unethical behavior while rewarding the deserving officials and employees;

   iii. Review the Bank's Code of Conduct, Manual of Corporate Governance. "Whistle–Blowing" Program and recommend any changes it deems necessary to the Board;

   iv. Ensure adherence to the Bank's Code of Conduct and faithful observance on the Manual of Corporate Governance;

v. Determine if there is any potential conflict of interest by a Director, and institute a process for handling these situations in accordance with existing law, rules and regulations and in line with global as well as ethical and other regulatory standards;

vi. Receive reports from the Chief Compliance Officer and other members of Management regarding compliance issues that may arise;

vii. Provide guidance and support to the relevant work of the Compliance Office; and

viii. Prepare and issue the report and evaluation required under the "Committee Reports."

3. **COMPOSITION OF THE CORPORATE GOVERNANCE / NOMINATIONS COMMITTEE**

The committee shall be composed of at least three (3) members of the Board of Directors, all of whom shall be independent directors, including the Chairman.

4. **TERM OF OFFICE**

The members of the Committee shall serve at the pleasure of the Board and for such term or terms as the Board may determine, or until their earlier resignation, death, or removal by the Board. Termination of members' term of office may be staggered to allow the retention of seasoned members and to ensure Committee's uninterrupted workflow.

The term of office of independent directors shall be subject to the requirements of SEC Memorandum Circular No. 19 series of 2016 dated 22 November 2016.

5. **CONDUCT OF MEETING**

The Committee shall meet every other month or as often as may be required by the Chairperson of the Committee, on such date and on such time as determined by the said Chairperson of the Committee.

The Secretary of the Committee shall confer with the Chairperson on the items to be included in the agenda for each meeting.

During each meeting, the Committee may require the attendance of relevant officer/s to address any query from its Members or to present specified reports.

6. **QUORUM**

The quorum shall be at least 51% of the regular members, one of which should be the Chairperson of the committee or in his absence the designated Vice-Chairperson who shall chair the meeting. Two-thirds (2/3) vote among the present shall be required to pass or defeat any resolution at the meeting.

7. **APPROVALS**

Approvals by the Committee may be made at or during its meetings or through circulation to all members of the Committee.

8. **COMMITTEE REPORTS**

The Committee shall render the following report and evaluation and provide them to the Board:

a. An annual report of Corporate Governance/Nomination Committee for inclusion in the agenda for annual stockholders meeting.

b. An annual performance evaluation of the Committee, which evaluation shall compare the performance of the Committee with the requirements of this charter. The performance evaluation shall also include a review of the adequacy of this charter and shall recommend to the Board any revisions the Committee deems necessary or desirable, although the Board shall have the sole authority to amend the Committee's charter. The performance evaluation shall be conducted in such manner, as the Committee deems appropriate.

E. CORPORATE COMPLIANCE SYSTEM

This consists of the organization, officers, functions, responsibilities and procedures established by the bank that would ensure compliance with this manual.

1. Chief Compliance Officer

a. To ensure adherence to corporate principles and best practices, the Board shall designate a Chief Compliance Officer who shall have a rank of Senior Vice President or an equivalent position with adequate stature and authority in the bank.

b. He shall have direct reporting responsibilities to the Board of Directors, through the Audit Committee and shall be directly under the administrative supervision of the President and CEO.

c. He is an independent and objective officer who reviews and evaluates compliance issues and concerns within the organization; assists the Board of Directors in ensuring that the rulings of regulatory bodies are complied with, that bank policies and procedures are being followed, and that behavior in the organization meets the Bank's Code of Conduct and other standards of ethics.

d. He shall perform the following duties:

   i. Ensures that the compliance system is designed to specifically identify and mitigate compliance/business risks, which may erode the franchise value of the bank.

   ii. Ensures that the compliance function shall have formal status within the bank, which shall be established by a charter duly approved by the Board of Directors that defines the compliance function's standing, authority and independence, and addresses the following issues:

      (a) Measures to ensure the independence of the compliance function from the business activities of the bank;

      (b) The organizational structure and responsibilities of the unit or department administering the compliance program;

      (c) The relationship of the Compliance Office with other functions or units of the organization, including the delineation of responsibilities and lines of cooperation;

      (d) The right of the Compliance Office to obtain access to information necessary to carry out its responsibilities;

      (e) The right of the Compliance Office to conduct investigations of possible breaches of the compliance policy;

      (f) The formal reporting relationships of the Compliance Office to Senior Management, the Board of Directors, and the appropriate board-level Committee; and

      (g) The right of the Compliance Office direct access to the Board of Directors and to the appropriate Committee level Committee.

iii. Is tasked in managing the implementation of the Corporate Governance and Compliance Program of the Bank, with the following specific duties and responsibilities:

(a) Ensures proper on-boarding of new directors (i.e., orientation on the bank's business, charter, articles of incorporation and by-laws, among others);

(b) Monitors, reviews, evaluates and ensures the compliance by the Bank, its officers and directors with the relevant laws, this Code, rules and regulations and all governance issuances of regulatory agencies;

(c) Reports the matter to the Board if violations are found and recommends the imposition of appropriate disciplinary action;

(d) Ensures the integrity and accuracy of all documentary submission to regulators;

(e) Appears before the SEC when summoned in relation to compliance with this Code;

(f) Collaborates with other departments to properly address compliance issues, which may be subject to investigation;

(g) Identifies possible areas of compliance issues and works towards the resolution of the same;

(h) Ensures the attendance of board members and key officers to relevant trainings;

(i) Performs such other duties and responsibilities as may be provided by the SEC;

(j) Manages the implementation, and periodic revision, of the Corporate Governance and Compliance Program; and

(k) Develops and recommends policies and programs to the Board of Directors, through the Corporate Governance Committee, which will encourage officers and employees to report suspected fraud and other improprieties without fear of retaliation.

e. The Chief Compliance Officer (CCO) and/or Compliance Officer (CO) for Corporate Governance may attend meetings of all committees of the Bank whose activities may relate to compliance with laws, rulings and regulations of regulatory agencies, bank policies and procedures, the bank's Code of Conduct and other standards of conduct as observer.

f. The CCO/CO for Corporate Governance may call on any of the Bank's Management and employees to seek assistance or solicit information necessary for the effective implementation of the Corporate Governance and Compliance Program.

g. Access and Resources

   i. The CCO/CO for Corporate Governance shall have access to all documents and information relevant to compliance activities; may seek advice from the Legal Services Center, whenever necessary.

   ii. He shall be provided with the resources necessary to discharge the duties and responsibilities of the position, that include the following:

      (a) Compliance Office Staff that will provide backstop technical and administrative support to the Corporate Governance Unit of the Compliance Office in administering the implementation of the Corporate Governance and Compliance Program. For this purpose, the Corporate Governance Unit shall maintain the approved plantilla positions as follows:

      One (1) Compliance Officer and one (1) Compliance Assistant/Staff

h. The appointment of the Chief Compliance Officer shall be disclosed immediately to the Securities and Exchange Commission on SEC Form 17-C. All correspondences relative to his functions shall be addressed to said officer.

2. **Plan of Compliance**

a. Board Governance

The Board of Directors (Board) is primarily responsible for the governance of the Bank. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management. As such, it is vitally important that a number of board members be independent from management.

i. Composition of the Board

The Board shall be composed of at least five (5), but not more than (15), members who are elected by the stockholders, a majority of whom are non-executive directors who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances, and at least three (3) of whom are independent directors, or such number as to constitute at least one-third (1/3) of the members of the Board;

The Board shall encourage diversity in its composition, such as gender, age, ethnicity, culture, skills, competence and knowledge.

ii. Competence of the Board

The Board shall have collective working knowledge, experience or expertise that is relevant to banking and/or finance. The Board shall always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction. For this purpose, the Board shall set qualification standards for its members to facilitate the selection of potential nominees for board seats, and to serve as a benchmark for the evaluation of its performance.

iii. Powers of the Board of Directors

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

iv. General Responsibilities of the Board

(a) The board of directors is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the board of directors is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day-to-day affairs of the institution.

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

(c) The Board shall formulate the Bank's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor Management's performance.

v. Roles and Responsibilities of the Board of Directors

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, among others, the following duties and responsibilities:

(a) Acts on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Bank and all shareholders.

(b) Oversees the development of, and approve the Bank's business and monitor their implementation, in order to sustain the Bank's long-term viability and strength.

The Board shall review and guide corporate strategy, major plans of action, risk management policies and procedures, annual budgets and business plans; set performance objectives; monitor implementation and corporate performance; and oversee major capital expenditures, acquisitions and divestitures. Sound strategic policies and objectives translate to the Bank's proper identification and prioritization of its goals and guidance on how best to achieve them. This creates optimal value to the Bank.

Ensures and adopts an effective succession planning program for directors, key officers and management to ensure growth and a continued increase in the shareholders' value.

For this purpose, the Board shall adopt a policy on the retirement age for directors and key officers as part of management succession and to promote dynamism in the Bank.

(c) Aligns the remuneration of key officers and board members with the long-term interests of the Bank. In doing so, it shall formulate and adopt a policy specifying the relationship between remuneration and performance. For this purpose, a director shall not participate in the discussions or deliberations involving his own remuneration.

(d) Adopts and disclose in its Manual on Corporate Governance a formal and transparent board nomination and election policy which shall include policy on acceptance of nominations from minority shareholders and review of nominated candidates, which shall further include an assessment of the effectiveness of the Board's processes and procedures in the nomination, election or replacement of a director. The process of identifying the quality of directors shall be aligned with the strategic direction of the Bank.

(e) Responsible in ensuring that there is a group-wide policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions, particularly those which pass certain thresholds of materiality.

(f) Responsible for approving the selection and assessing the performance of the Management led by the Chief Executive Officer (CEO), and control functions led by the respective heads (Chief Risk Officer, Chief Compliance Officer, and Chief Audit Executive/Internal Auditor). For this purpose, it shall appoint a 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 a regular review of the Bank's policies with the management team. In the selection process, fit and proper standards are to be applied on key personnel and due consideration is given to integrity, technical expertise and experience in the institution's business, either current or planned.

(g) Establishes an effective performance management framework that will ensure that the Management, including the Chief Executive Officer, and personnel's performance is at par with the standards set by the Board and Senior Management. Results of performance evaluation shall be linked to other human resource activities such as training and development, remuneration, and succession planning. These should likewise form part of the assessment of the continuing fitness and propriety of management, including the Chief Executive Officer, and personnel in carrying out their respective duties and responsibilities.

(h) Oversees that an appropriate internal control system is in place, including setting up a mechanism for monitoring and managing potential conflicts of interest of Management, board members, and shareholders. The Board shall also approve the Internal Audit Charter. In the performance of its oversight responsibility, the minimum internal control mechanisms shall include overseeing the implementation of the key control functions, such as risk management, compliance and internal audit, and reviewing the corporation's human resource policies, conflict of interest situations, compensation program for employees and management succession plan.

(i) Oversees that a sound enterprise risk management (ERM) framework is in place to effectively identify, monitor, assess and manage key business risks. The risk management framework shall guide the Board in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.

Risk management policy shall be part and parcel of the Bank's corporate strategy. Hence, the Board shall be responsible for defining the Bank's level of risk tolerance and providing oversight over its risk management policies and procedures.

(j) The Board shall draw up its charter to formalize and clearly state its roles, responsibilities and accountabilities in carrying out its fiduciary duties. The charter shall serve as guide to the directors in the performance of their functions and should be publicly available and posted on the Bank's website.

(k) The Board shall conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees. Every three (3) years, the assessment should be supported by an external facilitator.

(l) The Board shall put in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, the individual directors, committees and such system should allow for a feedback mechanism from the shareholders.

(m) The Board shall adopt a Code of Business Conduct and Ethics, which would provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings. The Code should be properly disseminated to the Board, senior management and employees. It should be disclosed and made available to the public through the Bank's website.

(n) The Board shall ensure the proper and efficient implementation and monitoring of compliance with Code of Business Conduct and Ethics and internal policies.

vi. Internal Control Responsibilities of the Board

The control environment of the Bank consists of (a) the Board which ensures that the Bank is properly and effectively managed and supervised; (b) a Management that actively manages and operates the Bank in a sound and prudent manner; (c) the organizational and procedural controls supported by effective management information and risk management reporting system; and (d) an independent audit mechanism to monitor the adequacy and effectiveness of the Bank's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.

(a) The minimum internal control mechanism for the performance of the Board's oversight responsibility may include:

(i) Definition of the duties and responsibilities of the CEO who is ultimately accountable for the Bank's organizational and operational controls;

(ii) Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO;

(iii) Evaluation and selection of proposed senior management appointments through the Corporate Governance/Nomination Committee; and

(iv) Review of the Bank's human resource policies, conflict of interest situations, compensation program for employees, and management succession plan.

(b) The scope and particulars of the systems of effective organizational and operational controls shall depend on, among others, the following factors: nature and complexity of the business and the business culture; volume, size and complexity of transactions; degree of risks involved; degree of centralization and delegation of authority; extent and effectiveness of information technology; and extent of regulatory compliance.

(c) The Bank shall establish an internal audit system that can reasonably assure the Board, Management and stockholders that the key organizational and operational controls are faithfully complied with. The Board shall appoint an Internal Auditor to perform the audit function, and may require him to report to a level in the organization that allows the internal audit activity to fulfil its mandate. The Internal Auditor shall be guided by the International Standards on Professional Practice of Internal Auditing.

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

(i) Provides an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in (1) promoting the right values and ethics (2) ensuring effective performance management and accounting in the organization (3) communicating risk and control information, and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;

(ii) Performs regular and special audit as contained in the annual audit plan and/or based on the Bank's risk assessment;

(iii) Performs consulting and advisory services related to governance and control as appropriate for the organization;

(iv) Performs compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;

(v) Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the bank;

(vi) Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;

(vii) Evaluates specific operations at the request of the Board or Management, as appropriate; and

(viii) Monitors and evaluates governance processes.

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

vii. Directors

Duties and Responsibilities of a Director

A Director shall have the following duties and responsibilities:

(a) Devotes time and attention necessary to properly and effectively discharge their duties and responsibilities, including sufficient time to be familiar with the corporation's business.

(i) They shall attend and actively participate in all meetings of the board, Committees and Shareholders in person or through tele-/video-conferencing conducted in accordance with the rules and regulations of the SEC, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent them from doing so. In Board and Committee meetings, the director shall review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.

A director's commitment to the Bank is evident in the amount of time he dedicates to performing his duties and responsibilities which includes his presence in all meetings of the Board, Committees and shareholders. In this way, the director is able to effectively perform his/her duty to the Bank and its shareholders.

The absence of a director in more than fifty percent (50%) of all regular and special meetings of the Board during his/her incumbency is a ground for disqualification in the succeeding election unless the absence is due to illness, death in the immediate family, serious accident or other unforeseen or fortuitous events.

(ii) The non-executive directors of the Board shall concurrently serve as directors to a maximum of five publicly listed companies to ensure that they have sufficient time to fully prepare for meetings, challenge Management's proposals/views, and oversee the long-term strategy of the Bank.

The non-executive directors (NEDs) shall hold separate periodic meeting with the external auditor and heads of the internal audit, compliance and risk functions, without any executive directors present to ensure that proper checks and balances are in place within the Bank. The meeting shall be held at least once a year, the date and time of which shall be determined by its Chairperson who shall be the Chairperson of the Corporate Governance Committee.

NEDs shall to scrutinize Management's performance, particularly in meeting the companies' goals and objectives. Further, they shall satisfy themselves on the integrity of the corporation's internal control and effectiveness of the risk management systems. This role can be better performed by the NEDs if they are provided access to the external auditor and heads of the internal audit, compliance and risk functions, as well as to other key officers of the Bank without any executive directors present. The lead independent director should lead and preside over the meeting.

(iii) A Bank's Director shall notify the Board before accepting a directorship in another company.

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

(c) Acts honestly and in good faith, with loyalty and in the best interest of the Bank, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public. A director must always act in good faith, with the care that an ordinary 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 interest of other stakeholders.

(d) Acts judiciously. Before deciding on any matter brought before the board of directors, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

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

(f) Possesses a working knowledge of the statutory and regulatory requirements affecting the Bank, including the content of its articles of incorporation and by-laws, the requirements of the Bangko Sentral ng Pilipinas, and where applicable, the requirements of other regulatory agencies. A Director should also keep himself informed of the industry developments and business trends in order to safeguard the Bank's competitiveness.

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

(h) Contributes 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.

Qualifications of a Director

(a) Holder of at least one (1) share of stock of the bank;
(b) At least a college graduate or have at least five (5) years experience in managing a business;
(c) He shall be at least twenty-five (25) years of age at the time of his election or appointment;
(d) He must have attended a special seminar on corporate governance for board of directors conducted or accredited by the Bangko Sentral: Provided, That incumbent directors as well as those elected after 17 September 2001 must attend said seminar on or before 30 June 2003 or within a period of six (6) months from date of election for those elected after 30 June 2003, as the case may be, Provided further that the following persons are exempted from attending said seminar:[2]

[2] *BSP Circular No. 840 dated 7 July 2014*

(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 specific duties and responsibilities of a director prescribed under Items "b", "c" and "d" of Subsection X141.3;

(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 Filipino and foreign 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.

(e) An elected director has the burden to prove that he/she possesses all the foregoing minimum qualifications and none of the disqualifications by submitting the documentary requirements listed in Appendix 98. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position and result in his/her removal from the Board.[3]

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

(f) He must be fit and proper for the position of a director of the Bank. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness, competence, relevant education/ financial literacy/ training, diligence and knowledge/ experience;

(g) Practical understanding of the business of the Bank; and

(h) Membership in good standing in relevant industry, business or professional organizations.

[3] *BSP Circular No. 887 dated 7 Oct 2015*

Disqualification of Director

The following may be considered as grounds for the permanent disqualification:

(a) Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that:
   (i) involves the purchase or sale of securities, as defined in the Securities Regulation Code;
   (ii) 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
   (iii) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them.

(b) Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC, BSP or any court or administrative body of competent jurisdiction from:
   (i) Acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker;
   (ii) Acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company;
   (iii) 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 disqualifications shall also apply if:
   (i) Such person is the subject of an order of the SEC, BSP or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the Commission or BSP;
   (ii) Such person has otherwise been restrained to engage in any activity involving securities and banking; or
   (iii) Such person is 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;

(c) 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;

(d) Any person who has been adjudged by final judgment or order of the SEC, BSP, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law, rule, regulation or order administered by the SEC or BSP;

(e) Any person judicially declared as insolvent;

(f) Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated previously;

(g) Conviction by final judgment of an offense punishable by imprisonment for more than six years, or a violation of the Corporation Code committed within five years prior to the date of his election or appointment; and

(h) Other grounds as the SEC may provide.

In addition, the following may be grounds for temporary disqualification of a director:

(a) Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any 12-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualifications should apply for purposes of the succeeding election;

(b) Dismissal or termination for cause as director of any publicly-listed company, public company, registered issuer of securities and holder of a secondary license from the Commission. The disqualification should be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;

(c) If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with;

(d) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final; and

(e) Those under preventive suspension by the Bank.

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.

viii. Adequate and Timely Information

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

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 to enable him to properly perform his duties and responsibilities. Hence, the members should be given independent access to Management and the Corporate Secretary.

The information may include the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

The members, either individually or as a Board, and in furtherance of their duties and responsibilities, should have access to independent professional advice at Bank's expense.

ix. Board Meetings and Quorum Requirement

The members of the Board should attend its regular and special meetings in person or through teleconferencing conducted in accordance with the internal rules of the Bank and the rules and regulations of the Securities and Exchange Commission.

Independent directors should always attend Board meetings. Unless otherwise provided in the by-laws, their absence shall not affect the quorum requirement. However, the Board may, to promote transparency, require the presence of at least one independent director in all its meetings.

x. Board Committees

To aid in the optimal performance of its roles and responsibilities, the Board shall constitute Committees, as follow:

(a) Manpower, Compensation and Remuneration Committee
The Manpower, Compensation and Remuneration Committee shall be composed of at least three (3) members from the Board of Directors and one of whom should be an independent director.

Functions:

(i) 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.

(ii) Designate amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the Bank successfully.

(iii) Develop a form on 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.

(iv) Disallow any director to decide his or her own remuneration.

(v) Provide in the Bank's annual reports, information and proxy statements a clear, concise and understandable disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors, and top four (4) management officers for the previous fiscal year and the ensuing year.

(vi) Review of the existing Human Resources Development 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.

(b) Audit Committee

The committee shall be composed of at least three appropriately qualified non-executive directors, the majority of whom, including the Chairman, should be independent. All of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance. The Chairman of the Audit Committee shall not be the chairman of the Board or of any other committees.

The Audit Committee is responsible for overseeing the senior management in establishing and maintaining an adequate, effective, and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring, compliance with laws, regulations and internal policies, efficiency and effectiveness of operations and safeguarding of assets.

Functions

(i) Recommends the approval of the Internal Audit Charter (IA Charter), which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the IA Charter.

(ii) Through the Internal Audit (IA) Center, monitors and evaluates the adequacy and effectiveness of the corporation's internal control system, integrity of financial reporting and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances should be in place in order to:
- Safeguard the Bank's resources and ensure their effective utilization;
- Prevent occurrence of fraud and other irregularities;
- Protect the accuracy and reliability of the Bank's financial data; and
- Ensure compliance with applicable laws and regulations.

(iii) Oversees the Internal Audit Center and recommends the appointment and/or grounds for approval of an internal audit head or Chief Audit Executive (CAE). The Audit Committee should also approve the terms and conditions for outsourcing internal audit services.

(iv) Establishes and identifies the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. For this purpose, he should directly report to the Audit Committee.

(v) Reviews and monitors Management's responsiveness to the Internal Auditor's findings and recommendations.

(vi) Prior to the commencement of the audit, discusses with the External Auditor the nature, scope and expenses of the audit, and ensures the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.

(vii) Evaluates and determines the non-audit work, if any of the External Auditor, and periodically reviews the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the corporation's overall consultancy expenses. The committee should 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, should be disclosed in the corporation's Annual Report and Annual Corporate Governance Report.

(viii) Reviews and approves the Interim and Annual Financial Statements before their submission to the Board with particular focus on the following matters:

- Any change/s in accounting policies and practices;
- Areas where a significant amount of judgment has been exercised;
- Significant adjustments resulting from the audit;
- Going concern assumptions;
- Compliance with accounting standards; and
- Compliance with tax, legal and regulatory requirements.

(ix) Reviews the disposition of the recommendations in the External Auditor's management letter.

(x) Performs oversight functions over the corporation's Internal and External Auditors. It ensures the independence of Internal and External Auditors and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.

(xi) Coordinates, monitors and facilitates compliance with laws, rules and regulations.

(xii) Recommends to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Commission, who undertakes an independent audit of the corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders.

(xiii) In case the Bank does not have a Board Risk Oversight Committee and/or Related Party Transactions Committee, performs the functions of said committees as provided under Recommendations 3.4 and 3.5.

The Audit Committee meets with the Board at least every quarter without the presence of the CEO or other management team members and periodically meets with the head of the internal audit.

(c) Related Party Transactions Committee

The Related Party Transaction (RPT) Committee shall be tasked with reviewing all material related party transactions of the Bank and should be composed of at least three (3) non-executive directors, two of whom should be independent, including the Chairman.

Functions

(i) Evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors;

(ii) Evaluates all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee takes into account among others, the following:

- The related party's relationship to the Bank and interest in the transaction;
- The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
- The benefits to the corporation of the proposed RPT;
- The availability of other sources of comparable products or services; and
- An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Bank should have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs.

(iii) Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Bank's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Bank's affiliation or transactions with other related parties;

(iv) Reports to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;

(v) Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process; and

(vi) Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs including a periodic review of RPT policies and procedures.

A director with a material interest in any transaction affecting the Bank shall abstain from taking part in the deliberations for the same.

The abstention of a director from participating in a meeting when related party transactions, self-dealings or any transactions or matters on which he/she has a material interest are taken up ensures that he has no influence over the outcome of the deliberations. The fundamental principle to be observed is that a director does not use his position to profit or gain some benefit or advantage for himself and/or his/her related interests.

(d) Trust Committee

The Trust Committee shall be composed of at least five (5) members including the (1) President OR ANY SENIOR OFFICER OF THE BANK AND (2) the trust officer. The remaining committee members, including the Chairperson, may be any of the following: (1) non-executive directors or independent directors who are both not part of the Audit Committee; or (2) those considered as qualified "INDEPENDENT PROFESSIONALS": Provided, that, in case of more than five (5) Trust Committee memberships, majority shall be composed of qualified non-executive members.

The Trust Committee is a special committee which reports directly to the Board of Directors and is primarily responsible for overseeing the fiduciary activities of the Bank.

Functions

(i) Ensure that fiduciary activities are conducted in accordance with applicable laws, rules and regulations, and prudent practices.

(ii) Ensure that policies and procedures that translate the Board's objectives and risk tolerance into prudent operating standards are in place and continue to be relevant, comprehensive and effective.

(iii) Oversee the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities.

(iv) Adopt an appropriate organizational structure/ staffing pattern and operating budgets that shall enable the Trust and Investment Center to effectively carry out its functions.

(v) Oversee and evaluate performance of the Trust Officer.

(vi) Conduct regular meetings at least once every quarter, or as often as necessary and keep minutes of its actions and make periodic reports thereon to the Board.

(vii) Report regularly to the BOD on matters arising from fiduciary activities.

(viii) Ensure that the responsibilities vested to the Trust Officer are properly performed. These include, but not limited, to the following:

- Administration of trust and other fiduciary accounts;
- Implementation of policies and instructions of the Board and the Trust Committee;
- Maintenance of necessary control measures to protect assets under their custody and held in trust or other fiduciary capacity;
- Performance of investment and other fiduciary activities in accordance with client's agreements and parameters set by the Trust Committee as approved by the Board;
- Submission of reports on matters that require the attention of the Trust Committee and the Board;
- Maintenance of adequate books, records and files for each trust and other fiduciary accounts; and
- Submission of periodic reports to regulatory agencies on the conduct of the trust operations.

(e) Executive Committee

The Board of Directors shall delegate some of its powers and responsibilities to the Executive Committee as provided for in the by-laws, including but not limited to the supervision of other board committees and subject to the limitations and restrictions as may be imposed by the Board of Directors. The Executive Committee shall have at least three (3) members from the Board of Directors.

(f) Risk Oversight Committee

The Risk Oversight Committee (ROC) shall be responsible for the oversight of a Bank's Enterprise Risk Management system to ensure its functionality and effectiveness. The ROC should be composed of at least three (3) members, the majority of whom should be independent directors, including the Chairman. The Chairman should not be the Chairman of the Board or of any other committee. At least one member of the committee must have relevant thorough knowledge and experience on risk and risk management.

Enterprise risk management is integral to an effective corporate governance process and the achievement of a bank's value creation objectives. Thus, the ROC has the responsibility to assist the Board in ensuring that there is an effective and integrated risk management process in place. With an integrated approach, the Board and top management will be in a confident position to make well-informed decisions, having taken into consideration risks related to significant business activities, plans and opportunities.

Functions

(i) Develops a formal enterprise risk management plan which contains the following elements: (a) common language or register of risks, (b) well-defined risk management goals, objectives and oversight, (c) uniform processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes and measures;

(ii) Conducts regular discussions on the Bank's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;

(iii) Evaluates the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The ROC revisits defined risk management strategies, looks for emerging or changing material exposures, and stays abreast of significant developments that seriously impact the likelihood of harm or loss;

(iv) Advises the Board on its risk appetite levels and risk tolerance limits;

(v) Reviews at least annually the Bank's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Bank;

(vi) Assesses the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the corporation and its stakeholders;

(vii) Provides oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the corporation. This function includes regularly receiving information and on risk exposures and risk management activities from Management; and

(viii) Reports to the Board on a regular basis, or as deemed necessary, the Bank's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

For committees with members in even numbers, a casting vote may be exercised by the chairperson/presiding officer of the committee, to resolve a deadlock and which can be exercised only when such a deadlock exists.

xi. The Management Team

(a) Chairman of the Board
The Chairman of the Board of Directors shall preside at the meetings of the directors and the stockholders. He shall also exercise such powers and perform such duties as the Board may assign to him. The following are the duties and responsibilities of the chairperson of the board of directors:

(i) Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations.

(ii) Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions.

(iii) Facilitates discussions on key issues by fostering and environment conducive for constructive debate and leveraging on the skills and expertise of individual directors.

(iv) Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management.

(v) Assures the availability of proper orientation for first-time directors and continuing training opportunities for all directors.

(vi) Makes sure that performance of the Board is evaluated at least once a year and discussed/followed upon.

The Chairman shall not be at the same time the Chief Executive Officer of the Bank.

(b) Vice Chairman of the Board

The Vice Chairman shall preside at the meetings of the Board of Directors in the absence of the Chairman of the Board. He shall perform such other duties incidental to his office or are entrusted to him by the Board of Directors.

(c) President and Chief Executive Officer (CEO)

The President, who shall be a director, shall be the Chief Executive Officer who shall handle the administration and direction of the day-to-day business affairs of the Bank. He shall exercise the following roles and responsibilities:

(i) Determines the corporation's strategic direction and formulates and implements its strategic plan on the direction of the business;

(ii) Communicates and implements the corporation's vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same;

(iii) Oversees the operations of the corporation and manages human and financial resources in accordance with the strategic plan;

(iv) Has a good working knowledge of the corporation's industry and market and keeps up-to-date with its core business purpose;

(v) Directs, evaluates and guides the work of the key officers of the corporation;

(vi) Manages the corporation's resources prudently and ensures a proper balance of the same;

(vii) Provides the Board with timely information and interfaces between the Board and the employees;

(viii) Builds the corporate culture and motivates the employees of the corporation; and

(ix) Serves as the link between internal operations and external stakeholders.

(d) Corporate Secretary
The Corporate Secretary must be a resident, citizen of the Philippines and an officer of the Bank. He shall be the custodian of and shall maintain corporate books and record and shall be the recorder of the Bank's formal actions and transactions. He is primarily responsible to the corporation and its shareholders, and has, among others, the following duties and responsibilities:

(i) Assists the Board and the board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar and assisting the chairs of the Board and its committees to set agendas for those meetings;

(ii) Safe keeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the corporation;

(iii) Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the corporation, and advises the Board and the Chairman on all relevant issues as they arise;

(iv) Works fairly and objectively with the Board, Management and stockholders and contributes to the flow of information between the Board and management, the Board and its committees, and the Board and its stakeholders, including shareholders;

(v) Advises on the establishment of board committees and their terms of reference;

(vi) Informs members of the Board, in accordance with the by-laws, of the agenda of their meetings at least five working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decision on matters that require their approval;

(vii) Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;

(viii) Performs required administrative functions;

(ix) Oversees the drafting of the by-laws and ensures that they conform with regulatory requirement; and

(x) Performs such other duties and responsibilities as may be provided by the SEC.

The Corporate Secretary shall also have the following specific powers and duties:

(i) Keeps the corporate seal and affix it to all papers and documents requiring a seal, and to attest by his signature all corporate documents requiring the same;

(ii) Attends to the giving and serving of all notices of the Bank required by law or by-laws;

(iii) Provides the rationale and explanation for each agenda item in the Notice of Annual Stockholders' Meeting/ circulars/ accompanying statement. The Notice of ASM shall contain the following information:

- Profile of candidates to the board, i.e., age, work experience directorships in other listed companies, date of first appointment (at least month and year) and academic qualifications.
- Dividend policy.
- Proxy documents which shall be attached to the Notice of ASM or downloadable in the Bank website.

(iv) Certifies to such corporate acts, countersign corporate documents or certificates, and make reports or statements as may be required of him by law or by government rules and regulations;

(v) Acts as the inspector during shareholders' meeting and, as such, determine the number of shares of stock outstanding and entitled to vote, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and to receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote. The Secretary may assign the exercise or performance of any or all of the foregoing duties, powers and functions to any other person or persons, subject always to his supervision and control;

(vi) 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:

- Disclose the ultimate beneficial owners of Bank shares held in the name of Philippine Central Depository (PCD) Nominee Corporation;

- 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 Bank, certifying to the correctness and accuracy of the list of stockholder and percentage of shares owned by them;

- 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, 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;

- Require the transferee to execute an affidavit per BSP sample format 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;

- 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 arrangement, 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;

- Promptly inform the stockholders who have reached any of the ceilings imposed by law, of their ineligibility to own or control more than the applicable ceiling; and

- Perform such other duties incidental to his office or as may be assigned to him by the Board of Directors or President.

(vii) Be loyal to the mission, vision and objectives of the Bank;

(viii) Have appropriate administrative and interpersonal skills;

(ix) If he is not at the same time the Bank's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;

(x) Have a working knowledge of the operations of the Bank; and

(xi) Ensure that all Board procedures, rules and regulations are strictly followed by the members.

(e) Treasurer

The Treasurer of the Bank shall be its chief fiscal officer and the custodian of its funds, securities and properties. Its duties / responsibilities are as follows:

(i) In-charge of over-all fund management activities of the Bank and responsible for the liquidity and reserve management operations of the Bank;

(ii) Reports to management covering information on Market developments and bank's treasury transactions; recommends investment outlets and sourcing of funds;

(iii) Develops business relationships with other banks, as well as exchange of market views with other treasurers as well as with clients;

(iv) Introduces/develops new treasury products to complement Bank's sources and utilization of funds;

(v) Directly involved in Asset Liability Management where Bank would minimize costs and maximize profit and assures liquidity at any given time; and

(vi) Exercise such authority and perform such other duties and functions as may be assigned to the position.

(f) Internal Auditor/Chief Audit Executive (CAE)

The Internal Auditor/CAE shall oversee and be responsible for the internal audit activity of the organization, including that portion that is outsourced to a third party service provider. In case of a fully outsourced internal audit activity, a qualified independent executive or senior management personnel should be assigned the responsibility for managing the fully outsourced internal audit activity.

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

(i) Periodically reviews the internal audit charter and presents it to senior management and the Board Audit Committee for approval;

(ii) Establishes a risk-based internal audit plan, including policies and procedures to determine the priorities of the internal audit activity, consistent with the organization's goals;

(iii) Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval;

(iv) Spearheads the performance of the internal audit activity to ensure it adds value to the organization;

(v) Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and

(vi) Presents findings and recommendations to the Audit Committee and gives advice to Senior Management and the Board on how to improve internal processes.

xii. External Auditor

The Board, after consultations with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the Commission, who shall undertake an independent audit of the Bank, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders. The external auditor shall not, at the same time, provide internal audit services to the Bank. Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.

If the external auditor resigns, is dismissed or ceases to perform his services, the reason/s for and the effective date of such action shall be reported in the Bank's annual and current reports. The report shall include a discussion of any disagreement between him and the Bank on accounting principles or practices, financial disclosures or audit procedures which the former auditor and the Bank failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the Bank to the external auditor before its submission.

If the external auditor believes that any statement made in an annual report, information statement or any report filed with the Commission or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said reports.

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

xiii. Risk Management

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

(a) Defining a risk management strategy;

(b) Identifying and analyzing key risks exposure relating to economic, environmental, social and governance (EESG) factors and the achievement of the organization's strategic objectives;

(c) Evaluating and categorizing each identified risk using the Bank's predefined risk categories and parameters;

(d) Establishing a risk register with clearly defined, prioritized and residual risks;

(e) Developing a risk mitigation plan for the most important risks to the Bank as defined by the risk management strategy;

(f) Communicating and reporting significant risk exposures including business risks (i.e. strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Board Risk Oversight Committee; and

(g) Monitoring and evaluating the effectiveness of the organization's risk management processes.

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

The Chief Risk Officer (CRO) is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources and support to fulfill his/her responsibilities, subject to a Bank's size, risk profile and complexity of operations.

The CRO shall have the following functions, among others:

(a) Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;

(b) Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board Risk Oversight Committee;

(c) Collaborates with the CEO in updating and making recommendations to the Board Risk Oversight Committee;

(d) Suggest ERM policies and related guidance, as may be needed; and

(e) Provides insights on the following:

 (i) Risk management processes are performing as intended;
 (ii) Risk measures reported are continuously reviewed by risk owners for effectiveness; and
 (iii) Established risk policies and procedures are being complied with.

(f) The CRO shall have the ability, without compromising his independence, to engage in discussions with the board of directors, chief executive officer and other senior management on key risk issues and to access such information as he deems necessary to form his or her judgment;

(g) The CRO shall meet with the board of directors/risk oversight com on a regular basis and such meetings shall be duly minuted and adequately documented; and

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

xiv. Duties and Responsibilities of Bank Officers

The following are the duties and responsibilities of the bank officers:

(a) 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 of directors are consistently adopted across the Bank.

(b) 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 strategy, corporate values and policies approved by the board of directors. They shall establish a bank-wide management system characterized by strategically aligned and mutually reinforcing performance standards across the organization.

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

(d) To promote and strengthen checks and balances systems in the Bank. Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions.

Further, they shall ensure that they give due recognition to the importance of internal audit, compliance and external audit functions.

(e) All employees of PBB are responsible for complying with the PBB Corporate Governance and Compliance Program. The effective implementation of this Program represents a shared undertaking on the part of all employees, from the highest levels of Management down to the lowest levels of the junior staff.

xv. Duties and Responsibilities of Staff Employees

Each employee shall be responsible for:

(a) Contributing to the realization of PBB's commitment to integrity;

(b) Complying with the bank-wide standards of conduct and raising questions if the employee is concerned that the standards are not being met; and

(c) Requesting a conflict of interest determination for any activity or personal interest that might interfere with the employee's objectivity in performing his duties and responsibilities.

xvi. Duties and Responsibilities of Unit Heads/Branch Heads

Each Unit/Branch Officer shall be responsible for:

(a) Being familiar with, and behaving according to, the bank-wide standards of conduct being required of all PBB Officers and employees. This includes being knowledgeable concerning the resources available to assist him and his subordinates in resolving compliance concerns, issues or questions;

(b) Promoting compliance with the standards of conduct established by the Bank and applicable laws. This includes ensuring that employees under his/her supervision are aware of these standards and the legal requirements relevant to their work;

(c) Maintaining a work environment that encourages open communication regarding ethics, business conduct and legal/policy issues and concerns; and

(d) Promptly forwarding to the Compliance Office or Internal Audit Center or communicating through the Telephone Hotline any matter received that the Manager regards as a significant potential compliance issue.

xvii. Duties and Responsibilities of Group Heads/Region Heads

Each Group Heads/Region Heads has the overall responsibility for ensuring his Group's compliance with PBB standards of conduct, policies and procedures, and with the applicable laws, rules and regulations, including the following:

(a) Supporting the implementation of the Corporate Governance Compliance Program in his particular Group/Region;

(b) Ensuring the conduct of adequate compliance education programs;

(c) Maintaining mechanisms for monitoring compliance with the Bank's policies and procedures and applicable laws; and

(d) Taking appropriate corrective action against identified violations.

F. SHAREHOLDERS' BENEFITS

The Bank recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors. For this purpose, the Bank acknowledges the following rights of its shareholders and shall protect and facilitate the exercise of such rights and shall treat them fairly and equitably:

1. Investor's Right and Protection

a. Rights of Investors/Minority Interests

The Board is committed to respect the following rights of the Shareholders:

i. Voting Right/Right to nominate candidates to the Board of Directors

(a) Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
(b) Cumulative voting shall be used in the election of directors.

A director shall not be removed without just cause if it will deny minority shareholders' representation in the Board.

Further, all shareholders shall be given the opportunity to nominate candidates to the Board of Directors in accordance with the existing laws. The procedures of the nomination process are expected to be discussed clearly by the Board. The Bank is encouraged to fully and promptly disclose all information regarding the experience and background of the candidates to enable the shareholders to study and conduct their own background check as to the candidates' qualification and credibility.

ii. Pre-emptive Rights

iii. Power of Inspection

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

iv. Right to Information

(a) The shareholders shall be provided, upon request, with periodic reports, which disclose personal and professional information about the directors and officers and certain other matters such as their holdings with the Bank's shares, dealings with the Bank, relationship among directors and key officers, and the aggregate compensation of directors and officers.

(b) The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting; provided the items are for legitimate business purposes.

(c) The minority shareholders shall have access to any and all information relating to matters for which the management is accountable for, except for matters covered by confidentiality agreements.

v. Right to Dividends

(a) Shareholders shall have the right to receive dividends subject to the discretion of the Board.

(b) The Bank shall declare dividends when its retained earnings is in excess of 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve for probable contingencies.

vi. Appraisal Right
The shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Sec. 82 of the Corporation Code of the Philippines, under any of the following circumstances:

(a) 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;

(b) 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

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

vii. Right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting. However, to prevent the abuse of this right, the Bank may require that the proposal be made by shareholders holding a specified percentage of the shares or voting rights. On the other hand, to ensure that minority shareholders are not effectively prevented from exercising this right, the degree of ownership concentration is considered in determining the threshold.

G. STOCKHOLDERS' MEETING

1. The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the Bank. It shall encourage active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least 28 days before the meeting and posted on the Bank website. Required information in the Notice include, among others, the date, location, meeting agenda and its rationale and explanation, and details of issues to be deliberated on and approved or ratified at the meeting. Sending the Notice in a timely manner allows shareholders to plan their participation in the meetings.

2. The Board shall encourage active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day. In addition, the Minutes of the Annual and Special Shareholders' Meeting should be available on the Bank website within five business days from the end of the meeting.

   Voting results shall include a breakdown of the approving and dissenting votes on the matters raised during the Annual or Special Stockholders' Meeting. When a substantial number of votes have been cast against a proposal made by the Bank, it may make an analysis of the reasons for the same and consider having a dialogue with its shareholders.

   The minutes of Meeting include the following matters: (1) A description of the voting and the vote tabulation procedures used; (2) the opportunity given to shareholders to ask questions, as well as a record of the questions and the answers received; (3) the matters discussed and the resolutions reached; (4) a record of the voting results for each agenda item; (5) a list of the directors, officers and shareholders who attended the meeting; and (6) dissenting opinion on any agenda item that is considered significant in the discussion process.

H. The Board shall make available, at the option of a shareholder, an alternative dispute mechanism to resolve intra-corporate disputes in amicable and effective manner.

It is important for the shareholders to be well-informed of the bank's processes and procedures when seeking to redress the violation of their rights. Putting in place proper safeguards ensures suitable remedies for the infringement of shareholders' rights and prevents excessive litigation. The Bank may also consider adopting in its Manual on Corporate Governance established Alternative Dispute Resolution (ADR) procedures.

I. The Board shall establish an Investor Relations Officer (IRO) to ensure constant engagement with its shareholders. The IRO should be present at every shareholders' meeting.

Setting up an avenue to receive feedback, complaints and queries from shareholders assure their active participation with regard to activities and policies of the Bank. The IRO has a designated investor relations officer, email address and telephone number. Further, creating an Investor Relations Program ensures that all information regarding the activities of the Bank is properly and timely communicated to shareholders.

J. DUTIES TO STAKEHOLDERS

1. Respecting rights of stakeholders and effective redress for violation of stakeholder's rights.

The rights of stakeholders established by law, by contractual relations and through voluntary commitments must be respected. Where stakeholders' rights and/or interests are at stake, stakeholders should have the opportunity to obtain prompt effective redress for the violation of their rights. For this purpose, the Board of Directors shall:

a. Identify the Bank's various stakeholders and promote cooperation between them and the Bank in creating wealth, growth and sustainability.

   Stakeholders in corporate governance include, but are not limited to customers, employees, suppliers, shareholders, investors, creditors, the community the Bank operates in society, the government, regulators, competitors, external auditors, etc. In formulating the Bank's strategic and operational decisions affecting its wealth, growth and sustainability due consideration is given to those who have an interest in the Bank and are directly affected by its operations.

b. The Board should establish clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.

   In instances when stakeholders' interests are not legislated, companies' voluntary commitments ensure the protection of the stakeholders' rights. The Bank's Code of Conduct ideally includes provisions on the Bank's policies and procedures on dealing with various stakeholders. The Bank's stakeholders include its customers resource providers, creditors and the community in which it operates. Fair, professional and objective dealings as well as clear, timely and regular communication with the various stakeholders ensure their fair treatment and better protection of their rights.

c. The Board shall adopt a transparent framework and process that allow stakeholders to communicate with the Bank and to obtain redress for the violation of their rights.

The Bank's stakeholders play a role in its growth and long-term viability. As such, it is crucial for the Bank to maintain open and easy communication with its stakeholders. This can be done through stakeholder engagement touch points in the Bank, such as the Investor Relations Office, Office of the Corporate Secretary, Customer Relations Office, and Corporate Communications Group.

2. Encouraging employees' participation

A mechanism for employee participation shall be developed to create a symbiotic environment, realize the Bank's goals and participate in its corporate governance processes.

a. The Board should establish policies, programs and procedures that encourage employees to actively participate in the realization of the Bank's goals and in its governance.

The establishment of policies and programs covering among others, the following: (1) health, safety and welfare; (2) training and development; and (3) reward/compensation for employees, encourages employees to perform better and motivates them to take a more dynamic role in the corporation. Active participation is further fostered when the Bank recognizes the firm-specific skills of its employees and their potential contribution in corporate governance. The employees' viewpoint in certain key decisions may also be considered in governance processes through work councils or employee representation in the board.

b. The Board shall set the tone and make a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Conduct. Further, the Board should disseminate the policy and program to employees across the organization through trainings to embed them in the Bank's culture.

The adoption of an anti-corruption policy and program endeavors to mitigate corrupt practices such as, but not limited to, bribery, fraud, extortion, collusion, conflict of interest and money laundering. This encourages employees to report corrupt practices and outlines procedures on how to combat, resist and stop these corrupt practices. Anti-corruption programs are more effective when the Board sets the tone and leads the Bank in their execution.

c. The Board shall establish a suitable framework for whistleblowing that allows employees to freely communicate their concerns about illegal or unethical practices without fear of retaliation and to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns. The Board should be conscientious in establishing the framework, as well as in supervising and ensuring its enforcement.

   A suitable whistleblowing framework sets up the procedures and safe-harbors for complaints of employees, either personally or through their representative bodies concerning illegal and unethical behavior. One essential aspect of the framework is the inclusion of safeguards to secure the confidentiality of the informer and to ensure protection from retaliation. Further, part of the framework is granting individuals or representative bodies confidential direct access to either an independent director or a unit designed to deal with whistleblowing concerns. Companies may opt to establish an ombudsman to deal with complaints and/or established confidential phone and e-mail facilities to receive allegations.

3. Encouraging sustainability and social responsibility

The Bank shall be socially responsible in all its dealings with the communities where it operates. It should ensure that its interaction serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.

a. The Bank shall recognize and place an importance on the interdependence between business and society, and promote a mutually beneficial relationship that allows the Bank to grow its business, while contributing to the advancement of the society where it operates.

   The Bank’s value chain consists of inputs to the production process, the production process itself and the resulting output. Sustainable development means that the Bank not only complies with existing regulations, but also voluntarily employs value chain processes that take into consideration economic, environmental, social and governance issues and concerns. In considering sustainability concerns, the Bank plays an indispensable role alongside the government and civil society in contributing solutions to complex global challenges like poverty, inequality, unemployment and climate change.

K. DISCLOSURE AND TRANSPARENCY

The Bank shall establish corporate disclosure policies and procedures that are practical and in accordance with best practices and regulatory expectations.

1. The Board shall establish corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders that give a fair and complete picture of a bank's financial condition, results and business operations.

   Setting up clear policies and procedures on corporate disclosure that comply with the disclosure requirement as provided in Rule 68 of the Securities Regulation Code (SRC), Philippine Stock Exchange Listing and Disclosure Rules and other regulations such as those required by the Bangko Sentral ng Pilipinas, is essential for comprehensive and timely reporting.

2. The Bank shall have a policy requiring all directors and officers to disclose/report to the Bank any dealings in the Bank's shares within three (3) business days.

   Directors often have access to material inside information on the Bank. Hence, to reduce the risk that the directors might take advantage of this information, it is crucial for companies to have a policy requiring directors to timely disclose to the Bank any dealings with the Bank shares. It is crucial for companies to have a policy requiring directors to timely disclose to the company any dealings with the company shares. It is emphasized that the policy is on internal disclosure to the Bank of any dealings by the director in company shares. This supplements the requirement of Rules 18 and 23 of the Securities Regulation Code.

3. The Board shall fully disclose all relevant and material information on individual board members and key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.

   A disclosure on the board members and key executives' information is prescribed under Rule 12 Annex C of the SRC. According to best practices and standards, proper disclosure includes directors and key officers' qualifications, share ownership in the Bank, membership of other boards, other executive positions, continuous trainings attended and identification of independent directors.

4. The Bank shall provide a clear disclosure of its policies and procedures for setting Board and executive remuneration, as well as the level and mix of the same in the Annual Corporate Governance Report. Also, companies should disclose the remuneration on an individual basis, including termination and retirement provisions.

   Disclosure of remuneration policies and procedure enables investors to understand the link between the remuneration paid to directors and key management personnel and the Bank's performance.

   The Revised Code of Corporate Governance requires only a disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors and top four (4) management officers during the preceding fiscal year. However, disclosure on board and executive remuneration on an individual basis (including termination and retirement provisions) is increasingly regarded as good practice and is now mandated in many countries.

5. The Bank shall make a full, fair, accurate and timely disclosure to the public of every material fact or event that occurs, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders. Moreover, the Board of the offeree bank shall appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.

   The disclosure on the acquisition or disposal of significant assets includes, among others, the rationale effect on operations and approval at board meetings with independent directors present to establish transparency and independence on the transaction. The independent evaluation of the fairness of the transparent price ensures the protection of the right of shareholders.

The essence of corporate governance is transparency. The more transparent the internal workings of the Bank are, the more difficult it will be for Management and dominant stockholders to mismanage the Bank or misappropriate its assets.

It is therefore essential that all material information about the Bank which could adversely affect its viability or the interests of its stockholders and other stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.

The Board shall therefore commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the Commission for the interest of its stockholders and other stakeholders.

L. INCREASING FOCUS ON NON-FINANCIAL AND SUSTAINABILITY REPORTING

The Bank should ensure that the material and reportable non-financial and sustainability issues are disclosed.

1. The Board shall have a clear and focused policy on the disclosure of non-financial information with emphasis on the management of economic, environmental, social and governance (EESG) issues of its business, which underpin sustainability. The Bank shall adopt a globally recognized standard/framework in reporting sustainability and non-financial issues.

   As external pressures including resource scarcity, globalization, and access to information continue to increase, the way corporations respond to sustainability challenges, in addition to financial challenges, determines their long-term viability and competitiveness. One way to respond to sustainability challenges is disclosure to all shareholders and other stakeholders of the Bank's strategic (long-term goals) and operational objectives (short-term goals), as well as the impact of a wide range of sustainability issues.

M. PROMOTING A COMPREHENSIVE AND COST-EFFICIENT ACCESS TO RELEVANT INFORMATION

The Bank should maintain a comprehensive and cost-efficient communication channel for disseminating relevant information. This channel is crucial for informed decision-making by investors, stakeholders and other interested users.

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

The manner of disseminating relevant information to its intended users is as important as the content of the information itself. Hence, it is essential for the Bank to have a strategic and well-organized channel for reporting. These communication channels can provide timely and up-to-date information relevant to investors' decision-making, as well as to other interested stakeholders.

N. STRENGTHENING THE INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK

To ensure the integrity, transparency and proper governance in the conduct of its affairs, the Bank shall have a strong and effective internal control system and enterprise-wide risk management framework.

1. The Bank shall have an adequate and effective internal control system and an enterprise risk management framework in the conduct of its business, taking into account its size, risk profile and complexity of operations.

   An adequate and effective internal control system and an enterprise risk management framework help sustain safe and sound operations as well as implement management policies to attain corporate goals. An effective internal control system embodies management oversight and control culture; risk recognition and assessment; control activities; information and communication; monitoring activities and correcting deficiencies. Moreover, an effective enterprise risk management framework typically includes such activities as the identification, sourcing, measurement, evaluation, mitigation and monitoring of risk.

O. COMMUNICATION PROCESS

1. Communication Protocol

   a. PBB adheres to an "open door policy" of encouraging its employees to discuss any issues, concerns, problems or suggestions with their immediate supervisor, Unit/Group/Region/Branch Heads or other officer(s) concerned, or the Chief Compliance Officer, without fear of retaliation and with the assurance that the matter will be kept as confidential as possible.

   b. Officers or employees who report possible compliance issues shall not be subjected to retaliation or harassment as a result of reporting a violation, misconduct or impropriety. No official or employee will suffer any penalty or retribution for reporting in good faith of any suspected violation, misconduct or impropriety.

   c. All officers and employees of PBB shall abide by the Corporate Governance Compliance Program. In addition, all supervisory personnel are responsible for compliance by those they supervise.

d. Any individual who is aware of, or suspects any violations of applicable laws, rules and regulations or bank policies, procedures and standards of conduct, can make an appointment with the Chief Compliance Officer to discuss the matter or he may notify his supervisor of the concern. Such supervisor will be responsible for bringing the complaint or report to the attention of the Chief Compliance Officer who will determine whether probable cause exist for further investigation or action on the matter.

e. In case of violation, an officer or employee may submit a complaint or report following the guidelines set forth below:

   i. He should contact his supervisor (if that person is not involved in the matter of concern) immediately either personally, by telephone or in writing to request assistance or to report suspected improper activities or practices;

   ii. If the supervisor does not resolve the officer's or employee's concern or is involved in the matter of concern, said officer or employee must contact the Chief Compliance Officer or the Internal Audit Center Hotline telephone number.

   iii. The supervisor or the Chief Compliance Officer, as the case may be, will respond promptly to every report or complaint received and may seek the legal advice from Legal Services Center or may direct the officer or employee to discuss the issue or concern directly to with the Bank's legal services or any appropriate officer of PBB.

   iv. Report of violation, misconduct or impropriety may be made directly to the Compliance Office.

   All complaints or reports of violation, misconduct or impropriety whether internal or external will be treated confidentially.

2. "Whistle-Blowing" Program and Complaint Policy

   a. PBB has established a "Whistle-Blowing" Program and Complaint Policy incorporated in the Bank's revised Manual of Corporate Governance by which employees can convey any concerns or suspicions that may arise in the course of performing their jobs.

   b. The term "Whistle-Blowing" refers to the process whereby employees are encouraged to report suspected violations, complaints or concerns involving financial disclosure, accounting, and internal control, code of conduct and ethics or policies. "Whistle-Blowing" encourages employees to bring unethical or illegal practices to the forefront and addressing them before they become fatal to the organization. "Whistle-Blowing" is a key defense against override of internal controls and thus, can help improve corporate governance.

c. Under this established policy, the Internal Audit Center maintains a telephone hotline that can be accessed from 8:30 AM to 5:30 PM Mondays through Fridays, except non-working holidays. Any officer or employee may call the confidential hotline using the direct line (**02) 363-7905**, to report non-compliant conduct or improper action, or to ask questions about ethical or legal conduct, or to seek compliance information or advice. The hotline serves the following purposes:

   i. Allow callers to promptly report concerns without fear of retaliation or retribution.

   ii. Provide an alternative reporting mechanism to report information about non-compliance when the person concerned is uncomfortable using the standard PBB reporting system.

   iii. Concerns about possible retaliation or harassment should be reported directly to the Compliance Office who will report, in turn, to the Corporate Governance Committee.

   A copy of the complete Whistle-Blowing Program and Complaint Policy outlining the basic procedures and handling of investigation as tasked to Internal Audit Center is attached as ANNEX A.

3. This manual shall be available for inspection by any stockholder of the Bank at reasonable hours on business days.

4. 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.

5. An adequate number of printed copies of this Manual must be reproduced under the supervision of Compliance Office, with a minimum of at least one (1) hard copy of the manual per department.

P. TRAINING AND EDUCATION

1. PBB shall provide training and education to its employees, officers and directors regarding matters covered in the Corporate Governance and Compliance Program. The Compliance Office and the Human Resource Group will collaborate regarding compliance training and education programs for different corporate business functions designed to ensure that all officials and employees have the awareness of legal requirements that are relevant to their work at a level of detail appropriate to their jobs and that all employees have the awareness of Bank policies, procedures and standards of conduct.

   The orientation program for first-time directors shall be for at least eight (8) hours, while the annual continuing training shall be for at least four (4) hours.

2. PBB shall likewise conduct professional, scientific and technical trainings and education programs to enhance to the highest degree, the professionalism, excellence, intelligence and skills of its officials and employees in the performance and discharge of their duties and responsibilities.

3. The overall success of this Corporate Governance Compliance Program depends primarily on promoting legal and ethics training at every level of the organization. The Corporate Governance Committee thru the Compliance Office and Human Resources Group shall ensure that there is a systematic and on-going compliance education and training program that enhances and maintains awareness of applicable laws, rules and regulations, as well as Bank policies and procedures among existing staff and that introduces new personnel to the organization's policies, procedures and applicable rules and regulations.

4. Compliance training and education is mandatory for all PBB officers and employees. Thus, the President & CEO of the Bank shall ensure the attendance of concerned officers and employees in such training and education programs, including value development programs. The Compliance Office will see to it that a system is developed to document that such training has occurred. The Compliance Office, in coordination with Human Resource Group and in consultation with the Units/Branches whose services are affected, shall determine who shall attend training sessions on particular issues, subject to the approval of the President & CEO.

5. If necessary, funds shall be allocated by the Controller or its equivalent officer for the purpose of conducting an orientation program or workshop on the Manual.

6. A director shall, before assuming as such, be required to attend a seminar on corporate governance, which shall be conducted by a duly recognized private or government institution.

Q. RESPONSE AND CORRECTION

1. PBB supports prompt response and corrective action for detected problems as appropriate under the circumstances. Whenever an identified compliance issue requires corrective action, the appropriate department or responsible administrative personnel shall develop a corrective action plan specifying the tasks to be completed, completion dates and responsible parties.

2. Each corrective action plan must be approved by the Corporate Governance Committee, upon recommendation of the Compliance Office, prior to implementation. The Compliance Office shall monitor the proper implementation of the approved corrective action plans and shall report to the Corporate Governance Committee on the status thereof.

R. COMPLIANCE MONITORING AND ASSESSMENT

1. Each Committee shall report regularly to the Board of Directors.

2. The Chief Compliance Officer shall establish an evaluation system to determine and measure compliance with this Manual. Any violation thereof shall subject the responsible officer or employee to the penalty provided under Item 13 of this Manual.

3. The establishment of such evaluation system, including the features thereof, shall be disclosed in the Bank's annual report (SEC Form17-A) or in such form of report that is applicable to the Corporation. The adoption of such performance evaluation system must be covered by a Board approval.

4. This Manual shall be subject to annual review unless the Board amends the same earlier than the desired frequency.

5. All business processes and practices being performed within any department or business unit of PHILIPPINE BUSINESS BANK, INC. that are not consistent with any provision of this Manual shall be deemed amended or revoked.

6. The Corporate Governance Program includes efforts to monitor compliance with applicable laws, rules and regulations and with corporate policies, procedures and standards of conduct. Effective monitoring provides the organization with the capacity to detect and prevent deviations that, in certain circumstances, can potentially result to compliance concerns.

7. Progress reports on the on-going monitoring activities, including the identification of suspected non-compliance, shall be maintained by the Compliance Office and reported to the Corporate Governance Committee on quarterly basis.

S. DECIDING AUTHORITY

With reference to the provision no. **E.1.v item j** under the Manual of Corporate Governance, the Chief Compliance Officer shall be responsible in identifying and reporting violations of the Manual to the Corporate Governance/Nomination Committee, which shall conduct hearings and shall recommend to the Chairman of the Board the imposable penalty for such violation, which shall be reviewed and approved by the Board.

T. REPORTS

Bank shall submit the documentary requirements within twenty (20)[4] banking business days from date of election/re-election/appointment/promotion of directors/officers that requires approval/confirmation by the Monetary Board to the appropriate department of the SES.

U. PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL

1. To ensure strict observance and implementation of the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Bank's directors, officers and staff, in case of violations.

    a. In case of first violation, the subject person shall be reprimanded.
    b. Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.
    c. For third violation, the maximum penalty of removal from office shall be imposed.

[4] *BSP Circular No. 887 dated 7 October 2015*

2. The commission of a third violation of this Manual by any member of the Bank's Board of Directors or of its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.

3. The Chief Compliance Officer shall be responsible in identifying and reporting violations of the Manual to the Corporate Governance/Nomination Committee, which shall conduct hearings and shall recommend to the Chairman of the Board the imposable penalty for such violation, which shall be reviewed and approved by the Board.

V. UPDATING THE MANUAL ON CORPORATE GOVERNANCE AND COMPLIANCE PROGRAM

From time to time, PBB may amend this Manual on Corporate Governance. The Corporate Governance Committee shall review all changes suggested by the Chief Compliance Officer or by other PBB Officers/Staff through the Chief Compliance Officer and any change receiving the support of a majority of the Committee members shall be forwarded to the Board of Directors for approval. The decision of the Board of Directors shall be final. The Chief Compliance Officer shall be responsible for communicating all changes to affected personnel in a timely manner.

W. RULES OF INTERPRETATION

1. All references to the masculine gender in the salient provisions of the manual shall likewise cover the feminine gender.

2. All doubts or questions that may arise in the interpretation or application of the revised Code of Corporate Governance shall be resolved in favor of promoting transparency, accountability and fairness to the stockholders and investors of the Bank.

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