



# **MANUAL OF CORPORATE GOVERNANCE AND COMPLIANCE PROGRAM**

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As of 30 June 2016



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.** 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 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 Compliance Program has the following components:

1. A written Manual of 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 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 hold the position of at least Vice President or its equivalent who shall monitor compliance with the provisions and requirements of the Corporate Governance Compliance Program and providing assistance to the Corporate Governance 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. **Board of Directors** – refers to the governing body elected by the stockholders that exercises the corporate powers of a corporation established under the Corporation Code. It conducts all business and controls or holds all property of such corporations.
2. **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.
3. **Corporate Governance** – refers to the framework of rules, system and processes by which business corporations are directed and controlled. Its structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, the management, stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates, and spells out the rules and procedures for making decisions on corporate affairs. It provides the structure through which the objectives of an organization are set, the means of attaining those objectives are implemented, the risks are mitigated and the monitoring performance guidelines are determined. It provides proper incentive for board and management to pursue objectives that are in the best interests of the Bank and shareholders, thereby encouraging them to use corporate resources more efficiently.



4. **Independent Director** shall refer to a person who –
- a. is not or has not been a member of the executive committee of the board of directors, an officer or employee of the bank, its subsidiaries or affiliated or related interests during the past three (3) years counted from the date of his election;
  - b. is not a director or officer of the related companies of the institution's majority stockholder;
  - c. is not a stockholder with shares of stock sufficient to elect one seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;
  - d. is not a relative, legitimate or common-law, of any director, officer or majority shareholder of the bank or any of its related companies. For this purpose, relatives refer to the spouse, parent, child, brother, parent-in-law, son-/daughter-in-law, and brother-sister-in-law;
  - e. is not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders;
  - f. is not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms length and could not materially interfere with or influence the exercise of his judgment; and
  - g. apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.



Rules on the election of Independent Directors in listed, public and mutual fund companies:

- i. There shall be no limit in the number of covered companies that a person may be elected as Independent Director (ID), except in business conglomerates where an ID can be elected to only five (5) companies of the conglomerate, i.e., parent company, subsidiary or affiliate;
  - ii. IDs can serve as such for five (5) consecutive years, provided that service for a period of at least six (6) months shall be equivalent to one (1) year, regardless of the manner by which the ID position was relinquished or terminated;
  - iii. After completion of the five-year service period, an ID shall be ineligible for election as such in the same company unless the ID has undergone a “cooling-off” period of two (2) years, provided, that during such period, the ID concerned has not engaged in any activity that under existing rules disqualifies a person from being elected as ID in the same company;
  - iv. An ID re-elected as such in the same company after the “cooling off” period can serve for another five (5) consecutive years under the conditions mentioned in paragraph ii above; and
  - v. After serving as ID for ten (10) years, the ID shall be perpetually barred from being elected as such in the same company, without prejudice to being elected as ID in other companies outside of the business conglomerate, where applicable, under the same conditions provided for in SEC Memo Cir. No. 9, Series of 2011.
5. **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.
  6. **Parent** – refers to a corporation, which has control over another corporation directly, or indirectly through one (1) or more intermediaries.
  7. **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.



8. **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.
9. **Related Interests** – as defined under Sections 12 and 13 of R.A. No. 8791, shall mean individuals related to each other within the fourth degree of consanguinity or affinity, legitimate or common law, and two (2) or more corporations owned or controlled by a single individual or by the same family group or the same group of persons.
10. **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.
11. **Related company** – refers to another company which is: (a) its parent or holding company; (b) its subsidiary or affiliate; or (c) a corporation where a bank or its majority stockholders own such number of shares that will allow/enable him to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner.
12. **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.
13. **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.



14. **Management** – refers to the body given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation.
15. **Executive Directors** – refers to a director who is also the head of a department or unit of the corporation or performs any work related to its operation.
16. **Non-executive Directors** – refers to a director who is not the head of a department or unit of the corporation nor performs any work related to its operations and shall include the independent directors.
17. **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.
18. **Internal Control** – refers to the process effected by a company’s Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws, regulations, and internal policies.
19. **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.
20. **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.
21. **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.



22. **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.
23. **Independence** – refers to that environment which allows the person to carry out his/her work freely and objectively.
24. **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.
25. **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.
26. **Exchange** – Refers to an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities.

#### **D. CORPORATE GOVERNANCE / NOMINATION COMMITTEE**

##### **1. TERMS OF REFERENCE**

The Corporate Governance/Nomination Committee is a committee created by the Board of Directors of Philippine Business Bank to perform specific functions set out hereunder. It consists of at least three (3) members of the Board of Directors, two (2) of which shall be independent Directors. As such, its regular members (including the chairperson) shall be appointed by the Board of Directors and shall report directly thereto.

The Corporate Governance Committee is responsible for the development, implementation and review of the Bank's Corporate Governance Compliance Program, which shall include a set of effective corporate governance policies and procedures applicable to its business.





It assists the Board of Directors in fulfilling its corporate governance responsibilities by reviewing and evaluating the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors.

### 2. FUNCTIONS

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

- a. Assist the Board of Directors in fulfilling its corporate governance responsibilities.
- b. Pre-screen and shortlist all candidates nominated to become members of the Board of Directors in accordance with the qualifications and disqualifications provided for under E.2.a.vii and E.2.a.viii. Review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors.
- c. Ensure the Board's effectiveness and due observance of corporate governance principles and guidelines.
- d. Annually conduct a performance evaluation of the Board and its Committees and Executive Management, and through its chairperson, to communicate such evaluation to the full Board. The Committee shall conduct the performance evaluation in a manner it deems appropriate.
- e. Conduct an annual self-evaluation of the performance of the Committee at least thirty (30) days prior to the annual stockholders' meeting. The evaluation shall be focused on its performance as a whole based on the review of its goals, policies and processes and such other criteria, as the Committee deems appropriate. The chairperson shall report the results of the evaluation to the full Board prior to the appointment of members of the Committee for the ensuing year.
- f. In consultation with the executive or management committee/s, re-define the role, duties and responsibilities of the Chief Executive Officer by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.



- g. It shall consider the following guidelines in the determination of the number of directorships that a board member can hold in other corporations:
  - i. The nature of the business of the corporation of which he is a director;
  - ii. Age of the director;
  - iii. Number of directorship/active memberships and officerships in other corporations or organizations; and
  - iv. Possible conflict of interest.

The optimum number should take into consideration the capacity of a director to diligently and efficiently perform his duties and responsibilities.

In particular, it shall set a limit to the number of board seats that a director may hold in other publicly listed companies to not more than five (5.)

- h. Determine whether or not a Director is able to and has been adequately carrying out his/her duties as Director.
- i. Make recommendations to the Board regarding the continuing education of Directors, assignment to Board Committees, succession plan for the Board Members and Senior Officers.
- j. Make recommendation to the Board, from time to time, as to changes that the Committee believes to be desirable in the size of the Board or any committee or to the establishment of any new committees thereof.
- k. 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; and
- vii. Provide guidance and support to the relevant work of the Compliance Office.
- viii. Prepare and issue the report and evaluation required under the "Committee Reports".

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

The committee shall consist of at least three (3) directors, two (2) of which shall be independent. The Board shall designate one of the two independent directors as chairperson of the Committee.

**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 2<sup>nd</sup> paragraph of item b, Subsection X144.2 of the MORB.

**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, provided such 2/3 vote shall always include the vote of the Chairperson or in his absence, the Vice-Chairperson.

### 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 produce the following report and evaluation and provide them to the Board:

- a. An annual report of Corporate Governance 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 this 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 insure adherence to corporate principles and best practices, the Board shall designate a Chief Compliance Officer who shall hold a senior officer position.
- 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 company 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 unit/department with other functions or units of the organization, including the delineation of responsibilities and lines of cooperation;



- (d) Its right to obtain access to information necessary to carry out its responsibilities;
  - (e) Its right to conduct investigations of possible breaches of the compliance policy;
  - (f) Its formal reporting relationships to senior management, the Board of Directors, and the appropriate board-level Committee; and
  - (g) Its right of direct access to the Board of Directors and to the appropriate level Committee.
- iii. Ensures that the Compliance Charter is communicated throughout the Bank;
  - iv. Ensures the integrity and accuracy of all documentary submissions to the BSP; and
  - v. Tasked in managing the implementation of the Corporate Governance Compliance Program of the Bank, with the following specific duties and responsibilities:
    - (a) Develop and formulate a Corporate Governance Compliance Program that promotes observance of Bank policies and procedures, reduces risk to the Bank for non-compliance with laws, rules and regulations relative to the Bank's business, and supports lawful and ethical business conduct by employees;
    - (b) Manage the implementation and periodic revision of the Corporate Governance Compliance Program;
    - (c) Assist the Corporate Governance Committee in ensuring that the Bank directors, officers and employees comply with the Manual of Corporate Governance, Code of Conduct and related laws, rules and regulations as well as with the Bank's policies and procedures;
    - (d) Coordinate any internal investigation of fact finding ordered by the Board of Directors and any resulting corrective action to address regulatory compliance issues;
    - (e) Develop and recommend 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;



- (f) Develop, coordinate and participate in educational and training programs that focus on the elements of the Corporate Governance Program to ensure that all employees are knowledgeable of and comply with the established standards of conduct, related laws, rules and regulations, Bank policies and procedures, and other specific issues deemed necessary for the effective implementation of the Corporate Governance Program;
  - (g) Provide the Corporate Governance Committee with timely updates on new developments in the field of corporate governance;
  - (h) Prepare the Annual Compliance Report for submission to the Board of Directors, through the Corporate Governance Committee, summarizing the activities undertaken pursuant to the Corporate Governance Program;
  - (i) Prepare annual budget and work program for compliance-related activities; and
  - (j) Identify and report violations of the manual to the corporate governance/ nomination committee.
- vi. Monitor compliance by the Bank with the revised Code of Corporate Governance and its internal rules and regulations and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation; and
- vii. Appear before the Securities and Exchange Commission when summoned in relation to compliance with the revised Code of Corporate Governance.
- 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, company 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 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:  
Compliance Office Staff

To provide backstop technical and administrative support to the Corporate Governance unit of the Compliance Office in administering the implementation of the Corporate Governance Compliance Program, it 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 as such 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.

The Bank shall have at least two (2) independent directors or such number of independent directors that constitutes twenty (20%) of the members of the Board, whichever is lesser, but in no case less than two (2).





The membership of the Board may be a combination of executive and non-executive directors (which include independent directors) in order that no director or small group of directors can dominate the decision-making process.

The non-executive directors should possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

### ii. 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.

### iii. General Responsibility of the Board

The position of a bank director is a position of trust and confidence. A director assumes certain responsibilities to different constituencies or stakeholders (e.g. the bank itself, its stockholders, its depositors and other creditors, its management and employees, and the public at large). These constituencies or stakeholders have the right to expect that the bank is being run in a prudent and sound manner.

(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 should 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.



### iv. Specific Duties 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 should conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

- (a) ***To approve and monitor the implementation of strategic objectives.*** Consistent with the bank's strategic objectives, business plans shall be established for the bank including its trust operations, and initiatives thereto shall be implemented with clearly defined responsibilities and accountabilities. These shall take into account the bank's long-term financial interests, its level of risk tolerance and its ability to manage risk effectively. The board shall establish a system for measuring performance against plans through regular monitoring and reviews, with corrective action taken as needed.

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

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

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

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



- a comprehensive risk management approach;
- a detailed structure of limits, guidelines and other parameters used to govern risk taking;
- a clear delineation of lines of responsibilities for managing risk;
- an adequate system for measuring risk, and
- effective internal controls and a comprehensive risk-reporting process. The board of directors shall ensure that a robust internal reporting system is in place that shall enable each employee to contribute to the appreciation of the bank's overall risk exposures.

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

- (d) ***To oversee selection and performance of senior management.*** It is the primary responsibility of the board of directors to appoint competent management team at all times, monitor and assess the performance of the management team based on established performance standards that are consistent with the bank's strategic objectives, and conduct regular review of bank's policies with the management team.
- The board of directors shall apply fit and proper standards on key personnel, integrity, technical expertise and experience in the bank's business, either current or planned, shall be the key considerations in the selection process. And because mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the institution. The board of directors shall replace members of senior management, when necessary, and have in place an appropriate plan of succession.
  - The board of directors shall regularly monitor the actions of senior management and ensure that these are consistent with the policies that it has approved. It shall put in place formal performance standards to be able to effectively assess the performance of senior management. The performance standards shall be consistent with the bank's strategic objectives and business plans, taking into account the bank's long-term financial interests.



- The board of directors shall regularly meet with senior management to engage in discussions, question and critically review the reports and information provided by the latter. The board of directors shall set the frequency of meeting with senior management taking into account the size, complexity of operations and risk profile of the bank.
- The board of directors shall regularly review policies, internal controls and self-assessment functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues. The board of directors shall set the frequency of review taking into account the size, complexity of operations and risk profile of the bank.

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

(e) ***To consistently conduct the affairs of the institution with a high degree of integrity.*** Since reputation is a very valuable asset, it is in the bank's best interest that in dealings with the public, it observes a high standard of integrity. The board of directors shall lead in establishing the tone of good governance from the top and in setting corporate values, code of conduct and other standards of appropriate behavior for itself, the senior management and other employees. The board of directors shall:

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



- Articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the bank, or unethical conduct.
  - Articulate policies that will prevent the use of the facilities of the bank in furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.
  - Explicitly discourage the taking of excessive risks as defined by internal policies and establish an employees' compensation scheme effectively aligned with prudent risk taking. The compensation scheme shall be adjusted for all types of risk and sensitive to the time horizon of risk. Further, the grant of compensation in forms other than cash shall be consistent with the overall risk alignment of the bank. The board of directors shall regularly monitor and review the compensation scheme to ensure that it operates and achieves the objectives as intended.
  - Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the bank at all times. Further, the board of directors shall ensure that all transactions involving the pension fund are conducted at arm's length terms.
  - Allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or the board itself.
  - Articulate policies in communicating corporate values, codes of conduct and other standards in the bank as well as the means to confidentially report concerns or violations to an appropriate body.
- (f) ***To define appropriate governance policies and practices for the bank and for its own work and to establish means to ensure that such are followed and periodically reviewed for ongoing improvement.*** The board of directors, through policies and its own practices, shall establish and actively promote, communicate and recognize sound



governance principles and practices to reflect a culture of strong governance in the bank as seen by both internal and external stakeholders.

- The board of directors shall ensure that the bank's organizational structure facilitates effective decision-making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability, especially between the roles of the Chairman of the board of directors and Chief Executive Officer/President.
- The board of directors shall maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities.
- The board of directors shall structure itself in a way, including in terms of size, frequency of meetings and the use of committees, so as to promote efficiency, critical discussion of issues and thorough review of matters. It shall meet regularly to properly discharge its functions. It shall also ensure that independent views in board meetings shall be given full consideration and all such meetings shall be duly minuted.
- The board shall conduct and maintain the affairs of the bank within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound banking practice. The board shall appoint a chief compliance officer who shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. The chief compliance officer shall be vested with appropriate authority and provided with appropriate support and resources.
- The board of directors shall establish a system of checks and balances, which applies in the first instance to the board itself. Among the members of the board, an effective system of checks and balances must exist. The system shall also provide a mechanism for effective check and control by the board over the chief executive officer and key managers and by the latter over the line officers of the bank. Checks and balances in the board shall be enhanced by appointing a chairperson who is a non-executive, whenever possible.



- The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the chief executive officer, the individual directors, and the bank itself, which may be facilitated by the corporate governance committee or external facilitators. The composition of the board shall also be reviewed regularly with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation shall be adopted which shall include, but not limited to, the setting of benchmark and peer group analysis.
  - The board shall ensure that *individual members of the board and the shareholders are accurately and timely informed*. It shall provide all its members and to the shareholders a comprehensive and understandable assessment of the bank's performance, financial condition and risk exposures. All members of the board shall have reasonable access to any information about the bank at all times. It shall also provide appropriate information that flows internally and to the public.
- (g) ***To constitute committees to increase efficiency and allow deeper focus in specific areas.*** The board of directors shall create committees, the number and nature of which would depend on the size of the bank and the board, the complexity of operations, long-term strategies and risk tolerance level of the bank.
- The board of directors shall approve, review and update at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures.
  - The board of directors shall appoint members of the committees taking into account the optimal mix of skills and experience to allow the members to fully understand, be critical and objectively evaluate the issues. In order to promote objectivity, the board of directors shall appoint independent directors and non-executive members of the board to the greatest extent possible while ensuring that such mix will not impair the collective skills, experience, and effectiveness of the committees. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight and Corporate Governance committees, without prior approval of the Monetary Board.



- The board of directors shall ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.
  - The board of directors shall constitute, at a minimum, the following committees:
    - Audit Committee
    - Risk Oversight Committee
    - Corporate Governance Committee
- (h) ***To effectively utilize the work conducted by the internal audit, risk management and compliance functions and the external auditors.*** The board of directors shall recognize and acknowledge the importance of the assessment of the independent, competent and qualified internal and external auditors as well as the risk and compliance officers in ensuring the safety and soundness of the operations of a bank on a going-concern basis and communicate the same through-out the bank. This shall be displayed by undertaking timely and effective actions on issues identified.
- Further, non-executive board members shall meet regularly, other than in meetings of the audit and risk oversight committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.
- (i) Ensure the Bank's faithful compliance with all applicable laws, regulations and best business practices.
  - (j) Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Bank. If feasible, the Bank's CEO or chief financial officer shall exercise oversight responsibility over said program.
  - (k) Identify the Bank's stakeholders in the community in which it operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
  - (l) Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times.





There should be a continuing review of the Bank's internal control system in order to maintain its adequacy and effectiveness.

- (m) Establish and maintain an alternative dispute resolution system in the Bank that can amicably settle conflicts or differences between the Bank and its stockholders, and the Bank and third parties, including the regulatory authorities.
- (n) Meet at such times or frequency as may be needed. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration.
- (o) Keep the activities and decisions of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules and regulations.
- (p) Appoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.

### v. Duties and Responsibilities of a Director

A Director shall have the following duties and responsibilities:

- (a) *Devote time and attention necessary to properly discharge their duties and responsibilities.* They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. All directors should devote sufficient time to familiarize themselves with bank's business. They must be constantly aware of the bank's condition and be knowledgeable enough to contribute meaningfully to the board's work. If a person cannot give sufficient time and attention to the affairs of the bank, he should neither accept his nomination nor run for election as member of the board.
- (b) *Exercise independent judgment.* A director should view each problem/situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollary to this, he should support plans and ideas that he thinks will be beneficial to the bank.



- (c) *Act honestly and in good faith, with loyalty and in the best interest of the bank, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public.* A director must always act in good faith, with the care 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) *Act 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) *Conduct 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) *Have a working knowledge of the statutory and regulatory requirements affecting the bank, including the content of its articles of incorporation and by-laws, the requirements of the 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) *Observe confidentiality.* Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They may not disclose said information to any other person without the authority of the Board.
- (h) *To contribute significantly to the decision-making process of the board.* Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such board.



- (i) *To remain fit and proper for the position for the duration of his term.* A director is expected to remain fit and proper for the position for the duration of this term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that the bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training.

**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:
- Definition of the duties and responsibilities of the CEO who is ultimately accountable for the Bank's organizational and operational controls;
  - Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO;
  - Evaluation and selection of proposed senior management appointments through the Corporate Governance/Nomination Committee; and
  - 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 may establish an internal audit system that can reasonably assure the Board, Management and stockholders that its key organizational and operational controls are faithfully complied with. The Board may 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.

vii. 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:<sup>1</sup>
  - 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;

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<sup>1</sup> BSP Circular No. 840 dated 7 July 2014



- Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance;
  - Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board members; or
  - 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.<sup>2</sup>

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.

### viii. DISQUALIFICATION

#### (a) Persons Permanently Disqualified

- Persons convicted by final judgment of an offense involving dishonesty or breach of trust, such as estafa, embezzlement, extortion, forgery, malversation, swindling and theft;

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<sup>2</sup> BSP Circular No. 887 dated 7 Oct 2015



- Persons convicted by the Commission or a court or other administrative body to have willfully violated or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or any rule, regulation or order of the Commission or Bangko Sentral ng Pilipinas;
- Persons judicially declared to be insolvent, spendthrift or incapacitated to enter into a contract;
- Persons finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconducts similar to any of the acts, violations or misconduct listed in the foregoing paragraphs;
- Persons convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment or violation of banking laws;
- Directors, officers or employees of closed banks/quasi-banks/trust entities who were responsible for such institutions' closure as determined by the Monetary Board; and
- Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasibank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or wilfully violating the laws that govern securities and banking activities.

The disqualification shall also apply if such person is currently the subject of an order of the Commission 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 Commission or Bangko Sentral ng Pilipinas (BSP), or under any



rule or regulation issued by the Commission or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization; and

- Any person earlier elected as independent director who becomes an officer, employee or consultant of the same Bank.

(b) Persons Temporarily Disqualified

- Persons who refuse to fully disclose the extent of his business interest as required under the Securities Regulation Code and its implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists;
- Directors who have been absent or who have not participated for whatever reasons in more than fifty (50%) percent of all meetings, both regular and special, of the Board of Directors during his incumbency, and directors who failed to physically attend for whatever reasons in at least twenty-five percent (25%) of all board meetings in any year, except that when a notarized certification executed by the Corporate Secretary has been submitted attesting that said directors were given the agenda materials prior to the meeting and that their comments/decisions thereon were submitted for deliberation/discussion and were taken up in the actual board meeting, said directors shall be considered present in the board meeting. This disqualification applies for purposes of the succeeding election;
- Persons dismissed/terminated from employment / directorship in another listed corporation for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity;
- Those under preventive suspension by the bank;
- Persons with derogatory records with the National Bureau of Investigation (NBI), court, police, Interpol and monetary authority (central bank) of other countries (for foreign directors) involving violation of any law, rule or regulation of the Government or any of its instrumentalities adversely affecting the integrity and/or ability to discharge the duties of the bank/quasi-bank/trust entity director.



This disqualification applies until they have cleared themselves of involvement in the alleged irregularity;

- If the beneficial equity ownership of an independent director in the Bank or its subsidiaries and affiliates exceeds two percent of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with; and
- If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

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.

### ix. 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.

### b. Accountability and Audit

- i. The Board is primarily accountable to the stockholders. It should provide them with a balanced and comprehensible assessment of the Bank's performance, position and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.





Thus, it is essential that Management provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders.

Management should formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

- (a) The extent of its responsibility in the preparation of the financial statements of the Bank, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;
- (b) An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Bank for the benefit of all stockholders and other stakeholders;
- (c) On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Bank's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;
- (d) The Bank should consistently comply with the financial reporting requirements of the Commission;
- (e) The external auditor should be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the Bank, should be changed with the same frequency. The Internal Auditor should submit to the Audit Committee and Management an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual report should include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor should certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.



- ii. 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 date of effectivity 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.

### c. 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.

### d. Board Committees

To aid in complying with the principles of good governance, the Board shall constitute Committees, as follow:



i. 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:

- (a) Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the bank's culture, strategy and control environment.
- (b) 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.
- (c) 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.
- (d) Disallow any director to decide his or her own remuneration.
- (e) 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.
- (f) 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.



### ii. Audit Committee

The Audit committee shall be composed of at least three (3) members of the Board of Directors, wherein two (2) of whom shall be independent directors, including the Chairperson, preferably with Accounting, Auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the bank. To the greatest extent possible, the audit committee shall be composed of a sufficient number of independent and non-executive board members. Further, the chief executive officer, chief financial officer and/or treasurer, or officers holding equivalent positions, shall not be appointed as members of the audit committee.

#### (a) Functions

- Review and approve the audit scope and frequency. It shall receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.
- Explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions. The audit committee shall ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually.
- Establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.
- Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process.



- Perform oversight functions over the Bank's internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- Review the annual internal audit plan to ensure its conformity with the objectives of the Bank. The plan shall include the audit scope, resources and budget necessary to implement it;
- Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;
- Monitor and evaluate the adequacy and effectiveness of the Banks internal control system, including financial reporting control and information technology security;
- Review the quarterly, half-year 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
  - Major judgmental areas
  - Significant adjustments resulting from the audit
  - Going concern assumptions
  - Compliance with accounting standards
  - Compliance with tax, legal and regulatory requirements.
- Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Bank's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Bank's annual report; and



- Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee.

The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.

### iii. 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.

#### (a) Functions

- Ensure that fiduciary activities are conducted in accordance with applicable laws, rules and regulations, and prudent practices;
- 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;
- Oversee the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities;
- Adopt an appropriate organizational structure/ staffing pattern and operating budgets that shall enable the Trust and Investment Center to effectively carry out its functions;
- Oversee and evaluate performance of the Trust Officer;



- Conduct regular meetings at least once every quarter, or more frequently as the Committee deemed it necessary;
- Report regularly to the BOD on matters arising from fiduciary activities.
- 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.

#### iv. 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.



v. Risk Oversight Committee

The Risk Oversight Committee shall be responsible for the development and oversight of the risk management program for the bank and its trust unit. The committee shall be composed of at least three (3) members of the Board of Directors including at least one (1) independent director, and a chairperson who is a non-executive member. The members of the risk oversight committee shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached. The bank's risk management unit and the chief risk officer shall communicate formally and informally to the risk oversight committee any material information relative to the discharge of its function. The risk oversight committee, shall, where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and acquisitions.

(a) Core Responsibilities

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





The committee shall report regularly to the board of directors the entity's overall risk exposure, actions taken to reduce the risks, and recommend further action or plans as necessary.

e. The Management Team

i. 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:

- (a) *To provide leadership in the board of directors.* The chairman of the board shall ensure effective functioning of the board, including maintaining a relationship of trust with board members;
- (b) To ensure that the board takes an informed decision. The chairman of the board shall ensure a sound decision making process and he should encourage and promote critical discussions and ensure that dissenting views can be expressed and discussed within the decision-making process;
- (c) Ensure that the meetings of the Board are held in accordance with the by-laws or as the Chair may deem necessary;
- (d) Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors; and
- (e) Maintain qualitative and timely lines of communication and information between the Board and Management.

ii. Vice Chairman

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.



iii. President

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 functions:

- (a) Initiate and develop corporate objectives and policies, and formulate business plans for the approval of the Board of Directors;
- (b) Have general supervision and management of the business affairs and property of the bank;
- (c) Ensure that the administrative and operational policies of the bank are carried out under his supervision and control;
- (d) Oversee the preparation of the budgets and the financial statements of the bank; signs/executes such reports of the bank as may be required of him by regulatory bodies.
- (e) Represent the bank at all functions and proceedings;
- (f) Execute on behalf of the bank all contracts, agreements and other instruments affecting the interests of the bank that require the approval of the Board of Directors, unless otherwise directed by the Board of Directors;
- (g) Make and present the reports to the Board of Directors and Stockholders; and
- (h) Perform such other duties incidental to his office or are entrusted to him by the Board of Directors.

iv. 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 shall have the following specific powers and duties:

- (a) Record or see the proper recording of the minutes and transactions of all meetings of the directors and the stockholders and to maintain minute books of such meetings in the form and manner required by law;



- (b) Keep or cause to be kept record books showing the details required by law with respect to the stock certificates of the bank, including ledgers and transfer books showing all shares of the bank subscribed, issued and transferred;
- (c) Keep 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;
- (d) Attend to the giving and serving of all notices of the bank required by law or by-laws;
  - i. Provide the rationale and explanation for each agenda item which requires shareholders' approval in the Notice of ASM/circulars and/or the accompanying statement.*
  - ii. The Notice of ASM should contain the following information:*
    - *Profile of candidates to the board. Besides age and work experience the profile should include the directors' directorships in other listed companies. The date of first appointment (at least month and year) and their academic qualifications should also be included.*
    - *Dividend policy should be disclosed.*
    - *Proxy documents should be attached in the Notice of ASM or downloadable in the company website*
  - iii. Directors are required to inform or report to the Bank within three (3) business days when transacting in bank shares.*
- (e) Certify 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;
- (f) Act 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;



- i. The Bank is encouraged to practice voting by poll for all resolutions at the ASM. If voting is by poll, the bank should appoint an independent party to count and/or validate the votes at the ASM.*
  - ii. The bank should disclose the voting results including approving, dissenting and abstaining votes for each agenda item.*
- (g) 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 should 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.
- (h) Be loyal to the mission, vision and objectives of the Bank;
- (i) Work fairly and objectively with the Board, Management and stockholders and other stakeholders;
- (j) Have appropriate administrative and interpersonal skills;
- (k) 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;
- (l) Have a working knowledge of the operations of the Bank;
- (m) Inform the members of the Board, in accordance with the by-laws of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;



- (n) Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent him from doing so; and
- (o) Ensure that all Board procedures, rules and regulations are strictly followed by the members.

v. 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:

In-charge of over-all fund management activities of the bank and responsible for the liquidity and reserve management operations of the bank;

- (a) Report to management covering information on Market developments and bank's treasury transactions; recommends investment outlets and sourcing of funds;
- (b) Develop business relationships with other banks, as well as exchange of market views with other treasurers as well as with clients;
- (c) Introduce / develop new treasury products to complement bank's sources and utilization of funds;
- (d) Directly involved in Asset Liability Management where bank would minimize costs and maximize profit and assures liquidity at any given time; and
- (e) Exercise such authority and perform such other duties and functions as may be assigned to the position.

vi. Internal Auditor

The Internal Auditor is responsible for conducting an independent appraisal activity within the Bank to assist Management and the Board in discharging their responsibilities. He is authorized to direct a broad, comprehensive audit or examination of bank operations and records.

He ensures adequacy and effectiveness of internal controls to ascertain:



- (a) accuracy and reliability of financial information;
- (b) compliance with laws enacted and rules and regulations issued by the Bangko Sentral ng Pilipinas and other regulatory agencies;
- (c) adherence to Bank's internal policies; and
- (d) safeguarding of assets; and economical/efficient utilization of resources.

f. External Auditor

An external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the Bank. He shall be selected and appointed by the stockholders upon recommendation of the Audit Committee through the Board of Directors.

The reason(s) for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the minutes of the Bank's annual Stockholders Meeting as well as in any of the Board of Directors' Meeting in which the same was discussed and taken up. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

The External auditor of the Bank shall not, at the same time, provide non-audit services to the Bank. However, in case the same cannot be avoided, the Bank shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor. The Bank's external auditor shall be changed every five (5) years or earlier.

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

g. Risk Management

The risk management function is generally responsible for:

- i. identifying the key risk exposures and assessing and measuring the extent of risk exposures of the bank and its trust operations;



- ii. monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the bank's internal capital adequacy assessment on an on-going basis;
- iii. monitoring and assessing decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- iv. reporting on a regular basis to senior management and to the board of directors of the results of assessment and monitoring.

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.

(a) The Chief Risk Officer

- The Bank shall appoint a Chief Risk Officer (CRO), or any equivalent position, who shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions. This independence shall be displayed in practice at all times, as such, albeit the CRO may report to the President or Senior Management, he shall have direct access to the board of directors and the risk oversight committee without any impediment. In this regard, the board of directors shall confirm the performance ratings given by the President or Senior Management to the CRO.
- The CRO shall have sufficient stature, authority and seniority within the bank. This will be assessed based on the ability of the CRO to influence decisions that affect the bank's exposure to risk.
- The CRO shall have the ability, without compromising his independence, to engage in discussions with the board 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.
- The CRO shall meet with the board of directors/risk oversight committee on a regular basis and such meetings shall be duly minuted and adequately documented.





- The CRO shall be appointed and replaced with prior approval of the board 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.

### h. Duties and Responsibilities of Bank Officers

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

- 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.
- 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.
- 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.
- 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.
- All employees of PBB are responsible for complying with the PBB Corporate Governance 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.

#### 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.

### 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.

### 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. 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 8:30AM 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.

### **G. TRAINING AND EDUCATION**

1. PBB shall provide training and education to its employees, officers and directors regarding matters covered in the Corporate Governance 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.
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.

### H. 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. Therefore, the following provisions are issued for the guidance of all internal and external parties concerned, as governance covenant between the Bank and all its investors:

1. Investor's Right and Protection
  - a. Rights of Investors/Minority Interests

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

- i. Voting Right
  - (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.

ii. 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.

iii. 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.

iv. Right to Dividends

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

(b) The Bank shall be compelled to 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.



v. 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.

**I. STOCKHOLDERS' MEETING**

The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the Bank. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the bylaws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.

It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.





The Board should take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

Although all stockholders should be treated equally or without discrimination, the Board should give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the Bank.

#### **J. 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.

#### **K. 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 Form 17-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 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 portion of this Manual shall be revoked unless upgraded to the compliant extent.
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.

#### **L. 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.

#### **M. REPORTS**

Banks shall submit the documentary requirements within twenty (20)<sup>3</sup> 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.

#### **N. PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL**

1. To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Bank's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of this Manual:
  - a. In case of first violation, the subject person shall be reprimanded.

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<sup>3</sup> BSP Circular No. 887 dated 7 October 2015



- 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.
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.

### **O. GOVERNANCE SELF-RATING SYSTEM**

To evaluate the performance of the Board of Directors as a body as well as those of its committees, the individual directors and the chief executive, the attached Self-Evaluation Form (Annex B) shall be used. 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.

### **P. DIVERSITY POLICY**

Philippine Business Bank, Inc. (PBB) recognises its talented and diverse workforce as a key competitive advantage.

Our business success is a reflection of the quality and skill of our people. PBB is committed to seeking out and retaining the finest human talent to ensure top business growth and performance.

Diversity management benefits individuals, teams, our Bank as a whole, and our customers. We recognise that each employee brings their own unique capabilities, experiences and characteristics to their work. We value such diversity at all levels of the bank in all that we do.

PBB believes in treating all people with respect and dignity. We strive to create and foster a supportive and understanding environment in which all individuals realise their maximum potential within the company, regardless of their differences. We are committed to employing the best people to do the best job possible. We recognize the importance of reflecting the diversity of our customers and markets in our workforce.



The diverse capabilities that reside within our talented workforce to anticipate and fulfill the needs of our diverse customers, both domestically and internationally, providing high quality products/services.

PBB is diverse along many dimensions. Its diversity encompasses differences in ethnicity, gender, language, age, sexual orientation, religion, socio-economic status, physical and mental ability, thinking styles, experience, and education. We believe that the wide array of perspectives that results from such diversity promotes innovation and business success. Managing diversity makes us more creative, flexible, productive and competitive.

### Recruitment

As a responsible community member, PBB recruits people from all backgrounds. We believe that our employees from many different cultural, linguistic and national backgrounds provide us with valuable knowledge for understanding and reflecting our customers in local markets.

To achieve and fully benefit from a diverse workforce

We have established outreach programmes to identify individuals from under-represented backgrounds for recruitment.

We provide student scholarships through AMY Foundation for promising individuals from under-represented backgrounds with the potential to become high achieving professionals.

### Career development and promotion

PBB rewards excellence and all employees are promoted on the basis of their performance. All managers are trained in managing diversity to ensure that employees are treated fairly and evaluated objectively.

### Community programmes

PBB recognizes that there are distinct demographic groups that have long been disadvantaged. We recognize that racism, ageism, sexism and other forms of discrimination are problems both for our organization and society as a whole. PBB is committed to tackling cultural stereotypes both within and outside our organization. We have clear reporting procedures for any type of discrimination or harassment combined with follow-up procedures to prevent future incidents. PBB combats discrimination in the wider community through partnerships with community based groups.



### Diversity bodies

Our commitment to diversity is led by our diversity champions who come from all levels of the company, from top management to the shop floor. The diversity champions make up a diversity committee, which is responsible for ensuring that our diversity policy is articulated in the day to day running and the strategic direction of the company.

### Diversity practices

All employees undergo diversity training. Diversity training encompasses raising awareness about issues surrounding diversity and developing diversity management skills.

PBB provides a safe and pleasant environment for our employees.

## **Q. 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.

## **R. 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.

## **S. DISCLOSURE AND TRANSPARENCY**

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.

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