



15 March 2024

**PHILIPPINE STOCK EXCHANGE, INC.**

6F PSE Tower  
5<sup>th</sup> Avenue corner 28<sup>th</sup> Street  
Bonifacio Global City, Taguig City

Attention: **DISCLOSURE DEPARTMENT**  
-----

**PHILIPPINE DEALING & EXCHANGE CORP.**

29th Floor, BDO Equitable Tower  
8751 Paseo de Roxas, Makati City, 1227

Attention: **MR. ANTONIO A. NAKPIL**  
President and CEO  
-----

We are pleased to submit to you China Banking Corporation’s enhanced Corporate Governance Manual in compliance with the SEC and BSP rules, and to keep the provisions aligned with the following recently issued rules and regulations:

1. **BSP Circular No. 1128** – *Environmental and Social Risk Management Framework.*
2. **BSP Circular No. 1129** – *Amendments to Corporate Governance Guidelines for BSP-Supervised Financial Institutions.*
3. **BSP Circular No. 1160** – *Regulations on Financial Consumer Protection to Implement Republic Act. No. 11765, otherwise known as the “Financial Products and Service Consumer Protection Act. “*
4. **SEC Memorandum Circular No. 4 Series of 2022** – *Disqualification of Directors, Trustees and Officers of Corporation; and the Guidelines on the Procedure for their Removal (Pursuant to Sections 26 and 27 of the Revised Corporation Code of the Philippines).*
5. **SEC Memorandum No. 5, Series of 2023** – *SEC Rules and Regulations of the Financial Products and Services Consumer Protection Act Of 2022.*

The **2023 Rules Governing the Nomination and Election of Directors** was added as an Annex to the Manual.

Thank you very much.

Very truly yours,

A handwritten signature in cursive script that reads "Gerald Florentino".

**GERALD O. FLORENTINO**  
First Vice President & Head  
Investor & Corporate Relations Group

*Signature digitally attached on March 15, 2024*



**MANUAL ON  
CORPORATE GOVERNANCE**

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## I. INTRODUCTION

This Manual shall serve as guide / reference for China Banking Corporation (the “Bank” or “China Bank”), primarily and its subsidiaries are expected to align with this Manual, as deemed applicable and necessary, (hereinafter referred to as the “CBC Group”), in complying with, but not limited to the following regulatory issuances:

- a. SEC Memo No. 19 Series of 2016 re: Code of Corporate Governance for Publicly-Listed Companies<sup>1</sup>
- b. BSP Circular No. 969 re: Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions
- c. Relevant provisions of the Manual of Regulations for Banks (MORB), as amended, and other issuances of the BSP not yet incorporated in the MORB.
- d. Republic Act No. 11232 or the Revised Corporation Code of the Philippines, and its implementing rules and guidelines.

The Board of Directors, Management, Officers and Staff of China Bank hereby formally commit to sound principles and best practices contained in this Manual, and acknowledge that the same shall continue to guide the attainment of corporate goals.

## II. OBJECTIVES

This Manual shall formalize and institutionalize the principles of good corporate governance in the entire organization and as far as practicable, within the CBC Group,

The Board, Management, employees and shareholders believe that good corporate governance is a necessary component of what constitutes sound strategic business management and shall therefore undertake greater effort necessary to create more and continuing awareness within the organization.

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

- a. Transparency or the availability of information through expansion of public disclosure requirements.
- b. Accountability involves providing adequate incentives and instilling in the business environment the discipline to act in the best interest of the Bank.
- c. Fairness or equity implies that the rights of all concerned parties are protected. Directors should not only promote the interest of the stockholders but also that of other

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<sup>1</sup> Subsidiaries are expected to comply with CG Codes that are applicable to them as issued by regulators who has oversight / control over them, such as but not limited to the Securities and Exchange Commission, the Insurance Commission, etc.

### **Contains INTERNAL Information**

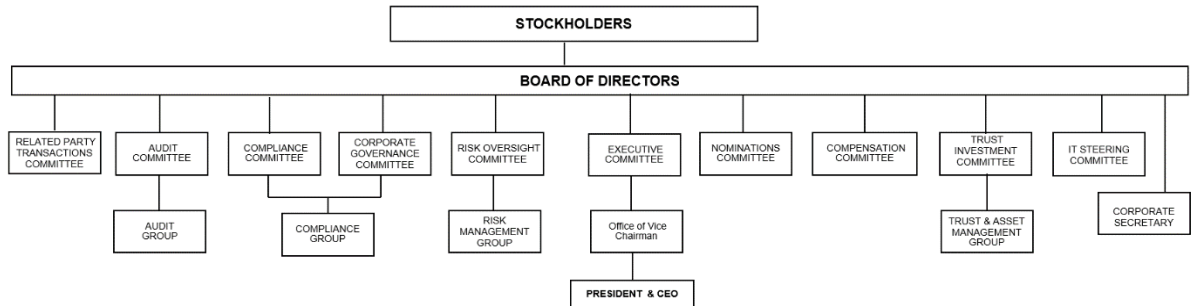
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stakeholders such as depositors, investors, borrowers and the banking public in general.

- d. Integrity or Bank’s strict adherence to a moral code, reflected in transparent honesty and complete harmony in what one thinks, says and does.

### III. CORPORATE GOVERNANCE STRUCTURE

The Board of Directors is at the core of China Bank’s corporate governance structure, wherein its members represent our shareholders.



As part of China Bank’s adherence to the rule on transparency in corporate governance and the BSP’s 3-lines of defense governance framework, the above structure shows the Bank’s line of accountability as regards corporate governance. The same shall be reviewed and updated periodically, or as the need arises by the Corporate Governance Officer and shall form part of the annual report and other disclosures.

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## IV. COMPOSITION OF THE ORGANIZATION

### A. Board of Directors

#### 1. Diversity in the Composition of the Board <sup>2</sup>

The Board should be composed of directors with a collective working knowledge, experience or expertise that is relevant to the banking industry/sector. The Board should ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively – to fulfill their roles & responsibilities, as well as respond to the needs of the organization based on the evolving business environment & strategic direction.

To ensure diversity, the Board shall consider gender, educational background, business experience in banking or related industry, competence, knowledge, skills and to include ethnicity, culture, skills, among others.

To the extent practicable, the members of the Board of Directors shall be selected from a broad pool of qualified candidates. The membership of the Board may be a combination of executive and non-executive directors. Non-executive directors, who shall include independent directors, shall comprise at least majority of the members to promote the independent oversight of management by the Board of Directors and help secure the objective independence of the Board from the views of senior management in judgment of corporate affairs and to substantiate proper checks and balances; that no director or small group of directors can dominate the decision-making process. <sup>3</sup>

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

#### 1.1 Composition and Limits on Membership

##### 1.1.1 Limit on Numbers.

- a. The Board shall be composed of at least five (5) but not more than fifteen (15) members elected by the stockholders, where at least one-third (1/3) but not less than two (2) members of the Board shall be independent directors: *Provided*, That any fractional result from applying the said requirement, shall be rounded up to the nearest whole number or such number as to constitute at least one-third of the members of the Board, whichever is higher. <sup>4</sup>
- b. In case of merger, the number of directors may be increased up to the total number of the members of the Board of Directors of the merging

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<sup>2</sup> SEC Memo No. 19 S2016, Code of CG for Publicly Listed Companies (PLCs), Recommendation no. 1.1

<sup>3</sup> *ibid*, Recommendation no. 1.2; Manual of Regulations for Banks (MORB), Section 132 (BSP Circular No. 969 re: Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions)

<sup>4</sup> *ibid*, Recommendation No.5; Section 132 of the MORB

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/ consolidating bank, provided for in their respective Articles of Incorporation, but in no case to exceed twenty-one (21). The Board shall determine the appropriate number of its members to ensure that the number thereof is commensurate with the size and complexity of the Bank's operations. <sup>5</sup>

#### 1.1.2 Limitation on Nationality of Directors

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

#### 1.1.3 Others Limitations

Members of the Board of directors shall not be appointed as Corporate Secretary or Chief Compliance Officer.

### 1.2 Definition of Directors <sup>7</sup>

Directors shall include:

- 1.2.1 Directors who are named as such in the Articles of Incorporation;
- 1.2.2 Directors duly elected in subsequent meetings of the stockholders; and
- 1.2.3 Those elected to fill vacancies in the Board of Directors.

### 1.3 Independent and Non-Executive Directors <sup>8</sup>

The Bank, in selecting independent directors and non-executive directors, must consider the number and types of entities where the candidate is likewise elected as such, to ensure that he will be able to devote sufficient time to effectively carry-out his duties and responsibilities: *Provided*, That the rules and regulations of the Securities and Exchange Commission (SEC) governing public and listed companies on the maximum number of companies of the conglomerate in which an individual can serve as independent director shall be strictly observed. The restriction on independent directorship is discussed further in item 1.3.3 below.

#### 1.3.1 Definition of an Independent Director

Must be an owner of at least one (1) share of stock of the Bank.

*"Independent Director"* is defined as a person who, apart from his fees and shareholdings, is independent of management and the controlling shareholder and is free from any business or other relationship which could, or could

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<sup>5</sup> MORB, Section 132

<sup>6</sup> *ibid*

<sup>7</sup> *ibid*

<sup>8</sup> *ibid*, Section 132, *Qualifications of a Director*; Revised Corporation Code Section 22; SEC Memo No. 19 S 2016, Recommendation no.5.2

reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director of the Bank, and includes, among others, any person who -

- a. Is not or was not a director, officer, or employee of the Bank, its subsidiaries, affiliates or related interests during the past three (3) years counted from the date of his election/appointment;<sup>9</sup>
- b. Is not or has not been a senior officer or employee of the Bank, unless there has been a change in the controlling ownership of the company;
- c. Is not or has not been in the three (3) years immediately preceding the election, a director of the Bank; a director, officer, employee of the Bank's subsidiaries, associates, affiliates or related companies; or a director, officer, employee of the Bank's substantial shareholders<sup>10</sup> and its related companies.
- d. Has not been appointed in the covered company, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus", "Ex-Officio" director/officer or members of any advisory board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three years immediately preceding his election;
- e. Is not an owner of more than two percent (2%) of the outstanding shares of the Bank, its subsidiaries, associates, affiliates or related companies;<sup>11</sup>
- f. Is not a securities broker-dealer of listed companies and registered issuer of securities.  
  
"Securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or sales man, and an unauthorized clerk of the broker or dealer;
- g. Is not a director or officer of the related companies of the institution's majority stockholder<sup>12</sup>;

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<sup>9</sup> MORB, Section 131.g(1)

<sup>10</sup> As defined in Annex I hereof.

<sup>11</sup> Securities Regulation Code, Amended IRR, Rule 38.2

<sup>12</sup> Majority stockholder or majority shareholder shall refer to a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a Bank. (MORB, Section 131.g)

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- h. Is not a stockholder with shares of stock sufficient to elect one seat in the Board of Directors of the institution, any of its related companies, or of its majority corporate shareholders;
  - i. Is not a relative, a close family member<sup>13</sup>, legitimate or common-law of any director, officer or stockholder holding shares of stock sufficient to elect one (1) seat in the Board of the Bank or any of its related companies or of any director or substantial shareholder. For this purpose, relatives refer to the spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister-in-law;
  - j. Is not acting as a nominee or representative of any director or substantial shareholder of the Bank, any of its related companies or any of its substantial shareholders; and
  - k. Is not or was not retained as professional adviser, auditor, consultant, agent or counsel of the Bank or 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 within three years immediately preceding the date of his election.
  - l. 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 arm's length and could not materially interfere with or influence the exercise of his judgment.
  - m. Is not affiliated with any non-profit organization that receives significant funding from the covered company or any of its related companies or substantial shareholders.<sup>14</sup>
- Related companies based on the CG Code for PLCs, refer to (a) the covered entity's holding/parent company; (b) its subsidiaries; and (c) subsidiaries of its holding/parent/company.
- n. Is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the Bank or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

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<sup>13</sup> As defined in *Annex 1 hereof*

<sup>14</sup> SEC Memo No. 19 S 2016, Recommendation no.5.2

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- o. Is not employed as an executive officer of another company where any of the Bank's executives serve as director <sup>15</sup> or has not been employed in any executive capacity by the Bank, any of its related companies and/or any of its substantial shareholders within the last two (2) years <sup>16</sup>.
- p. Is not or has not been convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Securities Regulation Code, committed within five (5) years prior to the date of his election. <sup>17</sup>
- q. A Non-Executive Director (NED), should not concurrently serve as director in more than five (5) publicly-listed companies. <sup>18</sup>

### 1.3.2 Term Limit for Independent Directors (ID) <sup>19</sup>

- a. An ID can serve for a maximum cumulative term of nine (9) years. <sup>20</sup>
- b. After which, the ID, in general, shall be perpetually barred from re-election as such in the Bank. However, he may continue to qualify as a regular director of the Bank.

In case the Bank wants to retain an ID who has served for more than nine (9) years, the Bank is required to provide the Commission with meritorious justifications for the re-election and to seek the shareholders' approval during the annual stockholders' meeting.

- c. It shall be the responsibility of the Corporate Secretary to ensure that the above-mentioned requirements for an ID are complied with during nomination / election.

### 1.3.3 Limit on Directorship of ID and NED

There shall be no limit in the number of covered companies a person may be elected as NED; but an ID who is also a NED, can only be elected as ID for up to five (5) listed companies within the conglomerate. Each entity where the NED is concurrently serving as director shall be separately considered in assessing compliance with this requirement; <sup>21</sup>

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<sup>15</sup> MORB, Section 131.g(10)

<sup>16</sup> Securities Regulation Code, Amended IRR, Rule 38.2

<sup>17</sup> *ibid*, Rule 38.3

<sup>18</sup> SEC Memo No. 19 S2016, Recommendation 4.2; MORB, Section 132

<sup>19</sup> SEC Memo No. 19 S2016, Recommendation no. 5.3

<sup>20</sup> SEC Advisory dated March 31, 2016.

<sup>21</sup> MORB, Section 131

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#### 1.3.4 Definition of Terms

The foregoing terms and phrases used in items (a) to (q) of 1.3.1 above shall have specific meaning, please refer to Annex 1.

#### 1.3.5 Termination/Cessation of ID <sup>22</sup>

- a. Independent directorship shall be terminated in case the ID voluntarily resigns or he was terminated for a cause (such as disqualification), or for other reasons based on existing rules, regulations and internal policies, such as the Code of Ethics for Directors.
- b. Such resignation, disqualification or cessation from independent directorship shall be reported to the Securities and Exchange Commission within five (5) days from such resignation, disqualification or cessation, by the Office of the Corporate Secretary.
- c. Any vacancy due to termination or cessation of independent directorship shall be filled in accordance with the rules on vacancies in the Board of Directors set for the in Section 1.10 hereunder.

#### 1.3.6 Reportorial Requirement

Please refer to Section A.3 hereunder for the reportorial requirements concerning the Independent Director.

#### 1.4 Definition of Executive Director (ED) <sup>23</sup>

An ED is a director who has executive responsibility of day-to-day operations of a part or the whole of the Bank's organization.

#### 1.5 Definition of Non-Executive Director (NED)

- 1.5.1 A NED is a director who has no executive responsibility and does not perform any work related to the operations of the Bank. <sup>24</sup>
- 1.5.2 Non-executive members of the Board of Directors refer to those who are not part of the day to day management of banking operations and shall include the IDs. However, not all NEDs are considered as IDs. <sup>25</sup>

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<sup>22</sup> SEC Memo No. 16, Series of 2002

<sup>23</sup> SEC Memo No. 19 S2016, Introduction, item no. 7 on Definition of Terms

<sup>24</sup> *ibid.*

<sup>25</sup> MORB, Section 131.i

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## 1.6 Chairman of the Board <sup>26</sup>

### 1.6.1 The responsibilities of the Chairman include, among others the following <sup>27</sup>:

- a. To provide leadership in the Board of Directors. The Chairperson of the Board shall ensure effective functioning of the Board, including maintaining a relationship of trust with Board members. <sup>28</sup>
- b. To make certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the Bank, major developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;

The Chairman shall preside at all meetings of the directors as well as of the stockholders, whether regular or special, unless the By-laws provide otherwise. In the absence, inability, or incapacity of the Chairman, the Vice-Chairman shall preside. In the absence, inability, or incapacity of both the Chairman and Vice-Chairman, the President shall preside. <sup>29</sup>

- c. To ensure that the Board takes an informed decision. The chairperson of the Board shall ensure sound decision-making process and he should encourage and promote critical discussion and ensure that dissenting views can be expressed and discussed within the decision-making process.

In relation to the above, he shall guarantee that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;

- d. Facilitate discussion on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
- e. Ensure that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- f. Assures the availability of proper orientation for first-time directors and continuing training opportunities for all directors; and
- g. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on.

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<sup>26</sup> SEC Memo No. 19, Recommendation no. 2.3; MORB, Section 132

<sup>27</sup> *ibid.*

<sup>28</sup> MORB, Section 132

<sup>29</sup> Amended By-Laws

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#### 1.6.2 Qualifications of the Chairman of the Board <sup>30</sup>

In order to promote check and balance, the Chairman should be:

- a. A NED or an ID;
- b. Must not have served as Chief Executive Officer of the Bank for the past three (3) years. In exceptional cases, the Bank's former CEO is allowed to immediately assume the position of the chairman / chairperson of the board, Provided that:
  - i. It is consistent with the Bank's succession plan; and
  - ii. There are no major supervisory concerns in the quality of the Bank's governance, risk management systems, and internal controls and compliance system. And that the Bank is not escalated to enforcement action by the BSP.

#### 1.6.3 Separation of Duties of the Chairman and Chief Executive Officer (CEO) <sup>31</sup>

The roles & responsibilities of the Chairman and CEO shall be separate to foster appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board.

To carry out item 1.6.2 above, the roles of the Chairman of the Board and the CEO are segregated, with a clear division of duties and responsibilities.

Only in exceptional cases and subject to the approval of the Monetary Board may the position of the Chairman and CEO is allowed. In this, case a lead Independent Director shall be appointed.<sup>32</sup> Policies governing the Lead Independent Director are discussed in section IV.A item 1.3.2 above and item no. 1.6.4 below.

#### 1.6.4 Lead Independent Director <sup>33</sup>

- a. In case the Chairman is not an independent director and if the roles of the Chairman and the CEO are combined <sup>34</sup> and to avoid the possible abuse of power and authority, and potential conflict of interest, the Board shall appoint among the independent directors a strong "lead director". The Lead Independent Director shall have sufficient authority to lead the Board in cases where management has clear conflict of interest.

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<sup>30</sup> MORB, Section 132, Chairperson of the Board of Directors

<sup>31</sup> SEC Memo No.19, Recommendation no. 5.4

<sup>32</sup> *ibid.*

<sup>33</sup> MORB, Section 132, Board of Directors; SEC Memo No. 16, Recommendation no. 5.5

<sup>34</sup> The exception to allow the Chairman to be the CEO shall be approved by the Monetary Board, MORB, Section 132.

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The Board should ensure that the Lead Independent Director can function in an environment that allows him to effectively challenge the CEO as circumstances may warrant.

- b. Functions of the Lead Independent Director
  - i. Serves as an intermediary between the Chairman and the other directors when necessary;
  - ii. Convenes and chairs meeting of the independent directors and/or non-executive directors without the presence of the executive directors;
  - iii. Contributes to the performance evaluation of the Chairman, as required; and
  - iv. Lead the independent directors at board meetings in raising queries and pursuing matters

## 1.7 CEO

### 1.7.1 Duties of the CEO <sup>35</sup>

In accordance with the amended By-Laws, the President shall be the CEO of the Bank, and subject to the control of the Board, have direct charge of the business and general supervision of the business affairs and property of the Bank.

In the absence, inability or incapacity of the Chairman and the Vice-Chairman<sup>36</sup>, he shall preside over the meetings of the stockholders and the Board of Directors. In addition, he has the following roles and responsibilities:

- a. Determines the Bank's strategic direction, formulates and implements the strategic plan & direction of the business;
- b. Communicates and implements the Bank's vision, mission, values and overall strategy, as well as promotes any organization or stakeholder change in relation to the same;
- c. Oversees the operations of the Bank and manages human and financial resources in accordance with the strategic plan;

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<sup>35</sup> *ibid.*

<sup>36</sup> *Section 53, RRCP - The chairman or, in his absence, the president shall preside at all meetings of the directors or trustees as well as of the stockholders or members, unless the bylaws provide otherwise.*

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- d. Has a good working knowledge of the banking industry, its market and keeps up-to-date/abreast of its core business purpose;
- e. Directs, evaluates and guides the work of key officers of the Bank;
- f. Manages the Bank's resources prudently and ensures proper balance of the same;
- g. Provides the Board with timely information and interfaces between the Board and employees;
- h. Builds the corporate culture and motivates the employees of the Bank; and
- i. Serves the link between internal operations and external stakeholders

## 1.8 Nomination and Election of Directors

- 1.8.1 The nomination of Directors shall be governed by the policies issued and to be issued by the Office of the Corporate Secretary and shall form an integral part of this Manual. The updated Nomination Rules of the Bank has been attached as Annex 2 hereof.
- 1.8.2 The aforesaid rules shall determine the reasonable time within which nomination in writing may be submitted using the prescribed form to any member of the Nominations Committee, the Corporate Governance Committee or the Office of the Corporate Secretary.
- 1.8.3 Any shareholder of record, including a minority shareholder, who is entitled to a notice and to vote during the Annual Stockholders' Meeting, is qualified to nominate or be nominated.
- 1.8.4 The Committees (as mentioned in item 1.8.2 above) shall endeavor to (i) pre-screen the qualifications of the nominees, evaluating the qualifications of all persons nominated to the Board, (ii) on the basis of the nominations and/or supporting papers, prepare a final list of candidates containing all relevant information about the nominees, and (iii) present the nominees for independent directors to the Board. In the unlikely event that no one among the stockholders who made the nominations indicated any particular nominee as nominee for ID, the Committees shall endorse by majority vote of their members the nominees for IDs who meet the guidelines/criteria set by the regulatory agencies / offices of listed banks.
- 1.8.5 In all meetings of the stockholders, any stockholder who is not delinquent in his subscription shall be allowed to vote either in person, through remote communication, in absentia or by proxy executed in writing by the stockholder

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or his duly authorized attorney-in-fact, subject to compliance with the requirements of existing rules and regulations.<sup>37</sup>

## 1.9 Voting

Each Common share entitles the holder to one vote. At each meeting of the shareholders, every stockholder entitled to vote on a particular question or matter involved shall be entitled to one vote for each share of stocks standing in his name in the books of the Bank at the time of the closing of the transfer books for such meeting.

In accordance with Section 23 of the RCCP, at each election of directors, every stockholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by him as of the relevant record date for as many persons as there are directors to be elected and for whose election he has the right to vote, or to cumulate his votes by giving one candidate the number of votes equal to the number of directors to be elected multiplied by the number of his shares shall equal or by distributing such votes on the same principles among any number of candidates as the stockholder shall see fit.

Either authorized in the Bank's By-laws or by majority of the Board of Directors, the stockholders or members may also vote through remote communication or in absentia. A stockholder or member who participates through remote communication or in absentia shall be deemed present for purposes of quorum.

## 1.10 Vacancies in the Board<sup>38</sup>

1.10.1 As a general rule, any vacancy occurring in the Board (other than removal or by expiration of term which will be governed by the succeeding paragraphs), may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise said vacancy shall be filled by the stockholders in a regular or special meeting called for the purpose, in accordance with law. The election must be held no later than forty-five (45) days from the time the vacancy arose.

### 1.10.2 Vacancy Due to Expiration of Term

When the vacancy is due to term expiration, the election or the filling of the vacancy shall be in accordance with existing laws, rules & regulations.

### 1.10.3 Vacancy Due to Removal by the Stockholders

When the vacancy is a result of removal by the stockholders or members, the election may be held on the same day of the meeting authorizing the removal and this fact must be so stated in the agenda and notice of meeting, or to be done in accordance with existing law.

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<sup>37</sup> Amended By-laws

<sup>38</sup> RCCP, Section 28

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1.10.4 The person so elected to fill a vacancy shall be referred to as replacement director shall hold office/serve only for the unexpired term of his predecessor in office.<sup>39</sup>

1.10.5 The Board of Directors may use professional search firms or other external sources of candidates when searching for candidates for the Board.

#### 1.11 Retirement Policy

As a matter of policy, a director shall remain in the Board of the Bank for as long he/she remains to be fit and proper<sup>40</sup> for the position of a director, in accordance with the requirements of the MORB<sup>41</sup> and the Bank's internal policies.

The director shall continue to be mentally and physically fit to discharge his duties and responsibilities, which includes physical attendance and active participation in the Board/Board Committee meetings by being able to contribute in a meaningful way through inputs and insights during the discussions<sup>42</sup>. The director shall also ensure that he/she regularly attends the Board meetings, as set forth in this Manual and the rules of BSP.

The director has the burden to prove that he/she possesses continuing fitness or qualification for the position. The annual self-assessment process is one of the means by which a director can assess his fitness to discharge his responsibilities.

If the director no longer has the required fitness, he/she shall inform the Board of his intention to retire or refrain from seeking re-election. The Corporate Governance Committee shall take cognizance of the director's decision to retire, and take appropriate steps to ensure a smooth transition of the change in board composition.

#### 1.12 Advisor to the Board

The Bank's Board of Directors understand that in order for the Board to come up with an informed decision, it should have sufficient information at hand, and thus welcomes comments, opinions, and/or advices.

In this regard, the Bank may engage an advisor, someone who can provide counsel, advice, and expert knowledge to the Board on certain issues or via a specific project or task.

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<sup>39</sup> *ibid.*

<sup>40</sup> *Whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness; relevant education/ financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.*

<sup>41</sup> *MORB, Section 132 Qualifications of a director, as amended by Circular No. 969, see footnote no. 3.*

<sup>42</sup> *Under the Bank's CG Manual on teleconferencing and video conferencing, should attend at least fifty percent (50%) and shall physically attend at least twenty-five percent (25%) of all Board meetings every year.*

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#### 1.12.1 Board Advisor

It shall be the Board's prerogative to retain an internal advisor, without prejudice from seeking external advice, as it may deem necessary.

In appointing or selecting an advisor to the Board, the Board may consider, among others:

- a. Compatibility – While keeping an independent thinking or judgment, the Advisor should possess the necessary qualities, expertise and experience that will complement the existing Board to strengthen decision making process.
- b. Field of Expertise – The Advisor must have competence in the particular task / project, preferably with banking experience or experience in other financial intermediary service and related industries.
- c. Integrity and Reputation - The Advisor must possess – (i) integrity and a good reputation in the banking industry. He must not have been charged of a crime involving moral turpitude, or a record of scandalous behavior or ethical conduct and other circumstances analogous to the foregoing.
- d. Conflict of Interest – The Advisor must not have any conflict of interest with the Bank. Any existing or potential conflict of interest must be properly and timely disclosed for the Board's evaluation whether or not to terminate the engagement with the Advisor. The Bank's internal policies & rules on conflict of interest shall form an integral part of this Manual.

#### 1.12.2 External Advisor

If there is no expert Advisor internally, or whenever appropriate, the Board may, in its discretion, engage an external party to render advice on certain areas such as, fairness opinion on prices, continuing education, IT, etc.

#### 1.12.3 Selection of Advisor to the Board

The Corporate Governance Committee shall have the responsibility of assessing prospective advisors to the Board. The CG Committee shall however, secure the final approval or ratification from the Board.

#### 1.12.4 Professional Fees

The Advisor shall be entitled to a professional fee, commensurate with the services rendered, as determined by Management, upon the endorsement of the CG Committee and approved by the Board.

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#### 1.12.5 Obligation of the Advisor

- a. Any person, who accepts such advisory services, shall ensure that his/her activities or commitments to the Bank shall not in any way conflict with his/her other commitments, if any. While employment outside the Bank is common, some types of interests may pose possible conflict, and the Advisor should avoid these conflicts and properly disclose any interest that may result to or give rise to potential conflict of interest.
- b. In this regard, the Advisor shall be required to make regular, timely and full disclosure to the Board through the Office of the Corporate Secretary.

#### 1.12.6 Prohibition

All information with regard to the Bank's clients, directors, officers, including information on transactions, strategies or plans obtained by the Advisor by reason of his engagement shall be considered in utmost confidence and shall not be disclosed by the Advisor.

### 2. Powers/Responsibilities, Duties and Functions of the Board of Directors

There are the two key elements of the fiduciary duty of the Board: duty of care and loyalty. The duty of care requires members of the Board to act on a fully informed basis, in good faith, with due diligence and care while the duty of loyalty is where the board members should act in the best interest of the Bank and all its stakeholder, such as the depositors, creditors, employees and regulators.<sup>43</sup>

#### 2.1 Corporate Powers and Authority of the Board of Directors<sup>44</sup>

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

#### 2.2 Primary Responsibilities of the Board of Directors

2.2.1 *The position of a director is a position of trust. A director assumes certain responsibilities to different stakeholders, i.e., the Bank itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner.*<sup>45</sup>

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<sup>43</sup> SEC Memo No. 19 S2016, Recommendation No. 2.1, MORB, Section 132

<sup>44</sup> MORB, Section 132

<sup>45</sup> Ibid.

2.2.2 *The Board of directors is primarily responsible for defining the Bank's vision and mission.* It has the fiduciary responsibility to the Bank and its shareholders including minority shareholders. It shall approve and oversee (i) the implementation of the bank's strategic objectives and monitor their implementation, in order to sustain the Bank's long-term viability and strength<sup>46</sup> (ii) the implementation of risk governance framework (iii) the system of checks and balances, (iv) the establishment of a sound corporate governance framework, and (v) approve the selection of the CEO and key members of senior management and control functions and oversee their performance.

## 2.3 Specific Duties and Responsibilities of the Board of Directors <sup>47</sup>

2.3.1 **Define the Bank's corporate culture and values.** It shall establish a code of conduct and ethical standards in the Bank and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard the Board shall:

- a. *Code of Conduct.* Approve a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the Bank as well as the corresponding disciplinary actions and sanctions.

The code of conduct shall explicitly provide that directors, officers, and all personnel are expected to conduct themselves ethically and perform their job with skill, due care, and diligence in addition to complying with laws, regulations, and company policies.

- b. *Conduct of Business Affairs.* Consistently conduct the affairs of the Bank with a high degree of integrity and play a lead role in establishing the Bank's corporate culture and values.

The Board shall establish, actively promote, and communicate a culture of strong governance in the Bank, through adopted policies and displayed practices.

The Board shall ensure that the CEO and executive team champion the desired values and conduct, and that they face material consequences if there are persistent or high-profile conduct and value breaches.

- c. *Whistleblowing.* Oversee the integrity, independence, and effectiveness of Bank's policies and procedures on Whistleblowing. It shall allow employees to communicate, with protection from reprisal,

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<sup>46</sup> Also required under SEC Memo No. 16 S2016, Recommendation no. 2.2

<sup>47</sup> MORB, Section 132

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legitimate concerns about illegal, unethical or questionable practices directly to the Board or to any independent unit.

Policy shall set on how the concerns are to be investigated and addressed, either by internal control, an objective external party, senior management and/or the Board itself. It shall prevent the use of the facilities of the Bank in the furtherance of criminal and other improper or illegal activities, not limited to financial misreporting, money laundering, fraud, bribery or corruption.

**2.3.2 Approve Bank's objectives and strategies and in overseeing management's implementation thereof.** In this regard, the Board shall perform the following functions:

- a. *Support to National Economy.* Ensure that the Bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.
- b. *Business Plans.* Approve the Bank's business plans, taking into account the Bank's long-term financial interests, level of risk tolerance and ability to manage risk effectively. In this respect, the Board shall establish a system for measuring performance against plans through regular monitoring and reviews, with corrective action taken as needed.
- c. *Performance Management.* Establish a performance management framework to ensure that personnel's performance is at par with the standards set by the Board or Senior Management.
  - i. *Performance Evaluation.* Results of the performance evaluation should be linked to other human resource activities such as training and development, remuneration, and succession planning. These will form part of the assessment of the continuing fitness and propriety of personnel in carrying out their respective duties and responsibilities.
  - ii. *Continuing Assessment on Fitness and Propriety.* The Board shall likewise establish an effective mechanism that leverages on existing controls or reports to facilitate the assessment of continuing fitness and propriety of personnel, taking into consideration the factors affecting individual performance that will enable the Bank detect suspicious behaviors of personnel.

This may include, among others, consideration of the financial circumstances of an employee who will be responsible for the custody of, or handling cash related transactions, refusal to take vacation leaves, involvement in frequent overrides of control, limits or approving authorities, or high incidents of circumvention of policy, change in lifestyle, standard of living, and spending

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habits inconsistent with the salary, financial position, and level of indebtedness of the personnel.

- d. *Active and up-to date participation.* Actively engage in the affairs of the Bank and keep up with material changes in the Bank's business and regulatory environment as well as act in a timely manner to protect the long-term interest of the Bank.
- e. *Major Banking Operations.* Approve and oversee the implementation of policies governing major areas of banking operations. The Board shall regularly review these policies, as well as evaluate control functions (e.g. internal audit, risk management and compliance) with senior management to determine areas for improvements, as well as to promptly identify and address significant risk areas and issues 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.

In relation to the above, the powers of the Board are set out in Section 1, Article IV of the Bank's By-laws.

**2.3.3 The Board shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentive policies for personnel.**

In this regard, the Board shall:

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

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b. *Recruitment and Selection*<sup>48</sup>. Establish an efficient process to facilitate timely recruitment and selection of personnel from a broad pool of candidates with appropriate educational backgrounds, skills, experience, character, integrity and competencies to fulfill their duties and responsibilities. This shall be done through the Bank's Human Resources Group, which shall include:

i. *Adoption of a risk focused screening process* - by the Management through the development of a risk-focused approach for the pre-employment background checking, employing an appropriate level of screening based on factors like the position, reputation risk implication, and responsibilities associated with a particular position.

The sensitivity of the position and authorities give to the certain positions, including those in the branches, or the access level of individual employee may warrant additional background screening procedures, such as but not limited to: verification of character references, criminal records, psychological evaluation, past employment, credentials, and professional qualifications. These will enable the Bank to sufficiently understand the applicant's personal background, character, and susceptibility to collusion, fraud, or illegal activities.

ii. *Screening the applicants against the Bangko Sentral records* – Part of the background screening procedures is for HRG requiring all those who passed the initial stages of pre-employment screening to accomplish the Authorization Form for Querying (AFQ) the BSP records and will be an integral part in considering the fitness and propriety of the applicant for the position.

Checking against the BSP records shall form part, but is not the sole source of information for the pre-employment screening.

c. *Performance Standards*. Approve and oversee the implementation of performance standards as well as remuneration and other incentives policy. The policy should be consistent with the long-term strategic objectives and financial soundness of the Bank and promote good performance, convey acceptable risk taking behavior, and reinforce the Bank's operating and risk culture.

d. *Senior Management and Head of Controls' Performance*. Oversee the performance of senior management and heads of control functions:

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<sup>48</sup> *BSP Circular No.1112 dated 08 April 2021 re: Amendments to Operational Risk Management and Internal Control Measures.*

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- i. The Board shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.
  - ii. The Board shall hold members of the senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the Board's performance expectations. The expectations shall include adherence to the Bank's values, risk appetite and risk culture, under all circumstances.
  - iii. The Board shall regularly meet with senior management to engage in discussions, questions, and critically review the reports and information provided by the latter.
  - iv. Non-executive Board members shall meet regularly, other than in meetings of the audit, risk oversight, corporate governance, and related party transaction committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk functions.
- e. *Succession Planning.* Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the Board shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions.
  - f. *Employee Development.* Ensure that personnel's expertise and knowledge remain relevant. The Board shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibility.
  - g. Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the Bank at all times, and that all transactions involving the pension fund are conducted at arm's length terms.

**2.3.4 The Board shall be responsible for approving and overseeing implementation of the Bank's corporate governance framework.**

In this regard, the Board shall:

- a. Define appropriate governance structure and practices for its own work and ensure that such practices are followed and periodically reviewed:
  - i. The Board shall structure itself in a way, including in terms of size, frequency of meetings, so as to promote efficiency,

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critical discussion of issues and thorough review of matters. The Board shall meet regularly to properly discharge its functions and likewise have discussions on values, conduct, and behaviors.

- ii. The Board shall create committees to increase efficiency and allow deeper focus in specific areas. The number and nature of board-level committees would depend on the size of the bank and the board, the Bank's complexity of operations, as well as Board of Directors' long-term strategies and risk tolerance.

The discussions on various board-level committees are in Section IV.E of this Manual.

- iii. The Board of Directors shall regularly review the structure, size and composition of the Board and Board-level committees with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation of the structure, size and composition of the Board of Directors and Board-level committees shall be adopted which shall include, but not limited to, benchmark and peer group analysis.

The result of the assessment shall form part of the ongoing improvement efforts of the Board of Directors.

- iv. The Board shall adopt policies aimed at ensuring that the members of the Board of Directors are able to commit to effectively discharge their responsibilities, which shall include policy on the number of directorship positions and/or other internal/external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the Bank's operations.

Please refer to Section IV.A.4 for policies on multiple Board seats.

- v. The Board shall ensure that individual members of the Board and the shareholders are accurately and timely informed of a comprehensive and understandable assessment of the bank's performance, financial condition and risk exposures. All members of the board shall have reasonable access to any information about the Bank at all times. The Board shall ensure that adequate and appropriate information flows internally and to the public.

Towards this end and aligned with the Bank's commitment on transparency, policies are in Section VI.H of this Manual.

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- vi. The Board of Directors shall assess at least annually its performance and effectiveness as a body, as well as all board level committees, the Chairman and the Chief Executive Officer, the individual directors, and the bank itself, which may be facilitated by the corporate governance committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each board member taking into account his performance in the board and board-level committees.

Every three (3) years, the assessment shall be supported by an external facilitator.<sup>49</sup>

- vii. The Board shall maintain appropriate records (e.g. minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The Board shall also ensure that independent views in meetings of the Board of Directors shall be given full consideration and all such meetings shall be duly minuted.

The Minutes are taken and kept by the Office of the Corporate Secretary.

- b. Develop a remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The Board of Directors shall ensure that the policy is consistent with the long-term interest of the Bank, does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities.
- c. Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.

The Board retirement policy statement is discussed in Section IV.A 1.11 hereof.

- d. 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 practice.
- e. Maintain and periodically update, organizational rules, by-laws, or other similar documents setting out its obligation, rights, responsibilities and key activities.

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<sup>49</sup> SEC Memo No. 16, S2016, Recommendation No 6.1

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The Board shall ensure that the Bank's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability.

- f. Oversee the development, approve, and monitor implementation of corporate governance policies. The Board shall ensure that these policies are followed and periodically reviewed for ongoing improvement.
- g. Approve an overarching policy on the handling of Related Party Transactions (RPTs) to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged. In this regard, the Board shall:
  - i. Approve all material RPTs, those that cross the materiality threshold and write-off material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in terms and conditions of RPTs shall also be approved by the Board of Directors.

All final decisions of the Board on material RPTs, including important facts about the nature, terms, conditions, original, outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders' meetings and duly reflected in the minutes of Board and stockholders' meetings.

- ii. Delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the Board of Directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the Board. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.
- iii. Establish an effective system to:
  - Determine, identify and monitor related parties and RPTs;
  - Continuously review and evaluate existing relationships between and among businesses and counterparties; and

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- Identify, measure, monitor and control risks arising from RPTs.

The system should be able to define related parties' extent of relationship with the Bank; assess situations in which a non-related party (with whom a Bank has entered into a transaction) subsequently becomes a related party and vice-versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulators/supervisors.

The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation.

The overarching policy and the system shall be made available to the BSP, SEC and audit functions for review. Any change in the policies and procedures shall be approved by the Board.

- iv. Maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the Bank is well-insulated from any going concern issue of related parties.
- v. Oversee the integrity, independence, and effectiveness of the policies and procedures for Whistleblowing. The Board should ensure that senior management addresses legitimate issues on RPT that are raised. The Board should take responsibility for ensuring that staff members who raise concerns are protected from detrimental treatment or reprisals.
- h. Since the Bank is a subsidiary or affiliate of a non-Bangko Sentral regulated parent company, the Board shall:
  - i. Define and approve policies and clear strategies for the establishment of new structures (e.g. subsidiaries/affiliate of the Bank). The Board shall also report to the BSP any plan to create additional group structures.
  - ii. Understand the roles, relationship or interactions of each entity in the group with one another and with the parent company. The Board shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the Bank's capital, risk

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profile and funding under normal and contingent circumstances.

i. **On Interlocking Positions, the Board shall:**

- i. Approve policy on having directors or officers with interlocking position in other entities, which shall cover, among others, the minimum requirements of the BSP on interlocking positions under BSP Circular No. 1129, as contained in Annex 3.
- ii. Ensure effective governance process on the selection and appointment of directors and/or officers who are holding interlocking positions in other entities and in approving the acceptance of directors/officers of interlocking positions in other entities. The governance process shall cover continuous assessment of potential conflict of interest in the entities involved as well as the interlocking positions held.
- iii. Ensure that directors and/officers holding interlocking positions in other entities effectively carry out their duties and responsibilities in the Bank. And that there is a conduct of periodic performance evaluation of the concerned directors and officers measure against agreed upon standards for the position. The board of directors shall immediately take appropriate action should the results of performance evaluation reflect that the performance of the function in the Bank has been adversely affected by the interlocking positions held by the director and/or officer.
- iv. Ensure that the control functions (i.e., risk management, compliance, and internal audit) cover the assessment of adherence to internal policies and regulatory expectations on interlocking positions held by the directors and/or officers. For the interlocking positions held by heads of control functions, the assessment shall be performed by the board of directors or board-level committee to whom they functionally report to.

2.3.5 **The Board shall be responsible for approving the Bank's risk governance framework and overseeing management's implementation thereof.**

In this regard, the Board shall:

- a. Define the Bank's risk appetite, where the Board shall take into account the business environment, regulatory landscape, and the Bank's long-term interest and ability to manage risk.
- b. Approve and oversee adherence to the risk appetite statement (RAS), risk policy and risk limits.

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- c. Oversee the development of, approve and oversee the implementation of policies and procedures relating to the management of risks throughout the Bank.

**Additional Duties and Responsibilities of the Board in relation to the Information Technology Risk Management (ITRM).<sup>50</sup>**

- i. The Board is ultimately responsible for understanding the IT risks confronted by the Bank and ensuring that they are properly managed, which shall include the approval of the design of the ITRM system that suits the Bank's business strategy.

The Board may delegate to an IT steering committee or its equivalent the IT oversight function to cohesively monitor IT performance and institute appropriate actions to ensure achievement of the desired results.

- ii. The Board shall approve the IT strategic plan that is aligned with the institution's business strategy that is focused on long term goals covering 3 to 5-year horizon and should be sufficiently supplemented by tactical IT plans. It should be reviewed and updated regularly for new risks or opportunities to maximize the value of IT to the institution.
- iii. In order to maintain confidentiality, integrity, and availability of computer systems for reliable and timely information, the Bank should have a comprehensive information security program and the Board shall approve the same.
- iv. The Board should appoint an independent information security officer (ISO) who will be responsible and accountable for the organization-wide IS program.

The ISO should report directly to the Board or senior management and have sufficient independence to perform his mandate.

**Additional Duties and Responsibilities of the Board with regard to Sound Credit Risk Management Practices and E&S Risks<sup>51</sup>**

- i. The Board shall be responsible for the approval and regular review of credit risk strategy and credit policy. The Board shall also set strategic E&S objectives and targets for the Bank's

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<sup>50</sup> MORB, Section 148, *Information Technology Risk Management*

<sup>51</sup> MORB, Section 143, *Credit Risk Management, as amended by BSP Circular No 1128, Series of 2021, dated 26 October, 2021*

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credit operations covering short, medium, and long term horizons<sup>52</sup>. As well as the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of the Bank.

- ii. The Board shall ensure that the system provides for adequate policies, procedures and processes to identify, measure, monitor and control all credit risks inherent in the Bank's products and activities, both at the individual and portfolio levels on a consistent and continuing basis and that an independent assessment of the system is periodically performed, the results of which shall be reported to it or to a board-level committee for appropriate action.
- iii. The Board should approve the credit risk management structure that clearly delineates lines of authority, establish accountabilities and responsibilities of individuals involved in different phases of the credit risk management process. Moreover, the Board shall ensure that the key functions are considered; that independence and control oversight functions are effective to avoid or address any potential conflict of interest.

#### **Additional Duties and Responsibilities of the Board with regard to the Operational Risk Management** <sup>53</sup>

Apart from the establishment of a comprehensive and effective operational risk management framework (as part of the enterprise-wide risk management system), the Board shall:

- i. Ensure that it is aware of and understand the nature and complexity of the major operational risks in the Bank's business and operating environment, including risks arising from transaction or relationships with third parties, vendors, suppliers, including outsourced service providers, and clients of the services provided. This should include understanding of both the financial and non-financial impact of operational risk to which the Bank is exposed to;
- ii. Ensure that E&S are integrated in the operational risk management framework, for the purpose of identifying potential sources of operational risk exposures of the Bank as

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<sup>52</sup> This may include progressively increasing targets on the proportion of the loan portfolio allocated for sustainable financing, as the case maybe. This may include clear criteria for decisions to finance high E&S sectors, among others. <Section 143 of the MORB, as amended.>

<sup>53</sup> MORB, Section 146, Operational Risk Management

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regards climate change, failure of climate change mitigations and adaptation of strategies or initiatives, and other E&S risks<sup>54</sup>.

- iii. Ensure that the Bank's policies and procedures include the extent of the bank's engagement with its counterparties, including suppliers and outsourced service providers on their adoption of sustainability principles, aligned with the Bank's strategy.
- iv. Approve the operational risk management framework which shall form part of the Bank's enterprise-wide risk management system and shall cover all business lines and functions of the Bank, including outsourced services and services provided to external parties.

The operational risk management framework should include an enterprise-wide definition of operational risk consistent with the definition under Section 146, governance, and reporting structures including the roles and responsibilities of all personnel, feedback mechanism, as well as standards and tools for operational risk management.

In this regard, the Board shall:

- 1) Define the operational risk management strategy and ensure that it is aligned with the Bank's overall business objectives. Relative to this, the Board should set and provide clear guidance on the Bank's operational risk appetite (i.e. the level of operational risk the Bank is willing to take and able to manage in pursuit of its business objectives as well as the type of risks that are not acceptable to the Board and management), which should consider all material risk exposures as well as the Bank's financial condition and strategic direction.
- 2) Approve appropriate thresholds or limits to ensure that the level of operational risk is maintained within tolerance and at prudent levels and supported by adequate capital. Relative to this, the Board shall approve policy on resolving limit breaches which should cover escalation procedures for approving or investigating breaches, approving authorities, and requirements in reporting to the appropriate level of management or the Board;

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<sup>54</sup> Other risks may include water crises, natural disasters, incidents related to pollution, and waste management, as well as those affecting customer and employee safety. <BSP MORB, Section 146, as amended>

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- 3) Ensure that operational risk is appropriately considered in the capital adequacy assessment process;
- 4) Ensure that it receives adequate information on material developments in the operational risk profile of the Bank, including pertinent information on the current and emerging operational risk exposures and vulnerabilities as well as information on the effectiveness of the operational risk management framework.

The Board must challenge the quality and comprehensiveness of operational risk information it receives. It should also be satisfied with the reliability of the said information and the monitoring system for operational risk;

- 5) Ensure that business objectives, risk appetite, the operational risk management framework, and the respective roles and responsibilities of personnel and officers at all levels in terms of implementing the operational risk management framework, are properly disseminated, clearly communicated / discussed, and understood by personnel concerned;
- 6) Provide senior management with clear guidance and direction regarding the principles underlying the operational risk management framework. The Board shall ensure that senior management appropriately implements policies, processes and procedures, and provides feedback on the operational risk management process. In this regard, the Board shall establish a feedback and reporting system that will allow employees to raise their concerns without fear of negative consequences; and

With regards to the above, the Bank has an existing Whistleblowing System covered by a specific policy.

- 7) Ensure that the operational risk management framework is subject to effective and comprehensive independent review, on a periodic basis, by operationally independent, appropriately trained, and competent staff to ensure that it remains commensurate with the Bank's risk profile and continues to be adequate and effective in managing operational risk. The review should take into account the changes in business and operating environment,

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material changes in systems, business activity or volume of transactions, quality of control environment, effectiveness of risk management or mitigation strategies, loss experience, and the frequency, volume or nature of breaches in limits or any policy.

- v. Provide adequate oversight on all outsourcing activities and ensure effective management of risks arising from these activities. In this regard, the Board of Directors shall approve a framework governing outsourcing activities, which includes a system to evaluate the risk and materiality of all existing and prospective outsourcing engagements and the policies that apply to such arrangements;
- vi. Ensure observance of expectations and requirements prescribed under relevant laws, rules and regulations, industry set standards, and policies on internal control, internal audit, and disclosure;
- vii. Promote a culture of high standards of ethical behavior. The board shall adopt a code of ethical behaviors with corresponding disciplinary actions for non-compliance, which should cover, among others, guidance and protocols on conflicts of interest situations, safeguarding of confidential information, and use of sensitive information. The Board should likewise institute tools, methodologies, and practices in order to ensure compliance and adherence to the standards by all employees including the senior officers and the Board itself. In this regard, employees should be required to acknowledge in writing that they have read, understood, and will observe the code of conduct.
- viii. Ensure that business and risk management activities, including the operational risk management function, are carried out by adequate and qualified staff with the necessary experience, technical capabilities, and competence. Moreover, the Board shall ensure that employees and officers in all areas of operations have a high degree of integrity.

For this purpose, the Board shall approve appropriate hiring and selection policies and processes, adopt a continuing professional development program, and institutionalize a framework for continuing assessment of fitness and propriety of employees. These policies, processes and programs should reinforce the conduct and values being promoted in the organization.

Further, the Board shall oversee the design and implementation of remuneration policies. It shall ensure that

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the remuneration policies do not encourage excessive risk-taking or provide incentives to people to perform contrary to the desired risk management values. It shall also ensure that remuneration policies are appropriate and aligned with the Bank's long-term strategic direction and risk appetite, as well as with relevant legal or regulatory requirements.

- ix. Ensure that all units in the organization have adequate resources, including personnel complement, duly supported by appropriate technological systems that is commensurate to the activities being undertaken; and
- x. Oversee implementation of a sound business continuity management framework. The Board should create and promote an organizational culture that places high priority on business continuity. This shall include providing sufficient financial and human resources associated with the Bank's business continuity initiatives.

#### **Additional Duties and Responsibilities of the Board with regard to Reputational Risk Management <sup>55</sup>**

- i. As part of the key direction and strategies of the Bank in setting the "tone at the top", the Board shall ensure that the Bank's reputational risk management is embedded in its enterprise risk management strategy.

In this regard, it shall approve the Bank's reputational risk management framework and that the framework provides an effective and efficient system for identifying, measuring, monitoring, and controlling reputation risk.

- ii. The Board shall also ensure that the reputational risk management system is periodically reviewed by an independent and competent party to provide assurance that the controls in place to manage reputational risk are operating as intended.
- d. Define organizational responsibilities following the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions for the second line of defense, and the internal audit function for the third line defense. In this regard <sup>56</sup>:
- i. The Board shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry

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<sup>55</sup> BSP Circular No. 1114, Series of 2021, dated 16 April 2021, Guidelines on Reputational Risk Management.

<sup>56</sup> MORB, Section 132, Board of Directors, Specific duties and responsibilities of the Board.

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out their responsibilities independently, objectively and effectively.

- ii. The Board shall ensure that non-executive board members meet regularly, the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees, in the absence of senior management.

## 2.4 Additional Duties and Responsibilities of the Board of Directors

- 2.4.1 Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Bank. The CEO shall exercise oversight responsibility over this program.
- 2.4.2 Establish and maintain an alternative dispute resolution system in the corporation that can amicably settle conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including the regulatory authorities.
- 2.4.3 Approve and recommend for the ratification of the stockholders, after it has been recommended by the Audit Committee,<sup>57</sup> an external auditor duly accredited by the BSP and/or by the Securities and Exchange Commission who shall undertake an independent audit of the corporation, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders.

*Note: The BSP also has its own accreditation of external auditors and may provide a list of its duly accredited external auditor.*

The responsibilities of the Board of Directors and management are in no way diminished by the existence of a system for the supervision of FIs by BSP or by a requirement for the Financial Institution's (FI) financial statements to be audited by an external auditor.<sup>58</sup>

- 2.4.4 The following are additional duties and responsibilities of the Board on Compliance Risk:<sup>59</sup>
  - a. To ensure that it is assisted in its duties by appointing a Chief Compliance Officer (CCO) who should have a rank of Senior Vice President or an equivalent position with adequate status and authority in the Bank. The CCO shall not be a member of the Board and should annually attend training on corporate governance.<sup>60</sup>

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<sup>57</sup> SEC Memo No. 19 S2016, Recommendation no. 9.1

<sup>58</sup> BSP Memorandum No. M – 2014-011, 14 March 2014, Section II.1.c.5

<sup>59</sup> MORB, Section 161, Compliance Framework, Chief Compliance Officer

<sup>60</sup> SEC Memo No. 19, S2016, Recommendation 1.6

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- b. To ensure that the compliance program is defined for the Bank and compliance issues are resolved expeditiously. In this regard, the Compliance Committee shall oversee the Compliance Program.
- c. To ensure that personnel and affiliated parties adhere to the pre-defined compliance standards (which rest collectively with the senior management) of which the CCO is the lead operating officer on compliance.

2.4.5 The Board of Directors of the Bank including senior management shall be liable for the acts performed and representation made by sales and marketing personnel in their official capacity.<sup>61</sup>

Notwithstanding the above, the Board and senior management may file the case or action against the erring sales and marketing personnel.

**The following are additional responsibilities of the Board in relation to the control, independent oversight and checks and balances systems, including the financial statements in accordance with BSP Memorandum No. M-2014-011 dated 14 March 2014:**<sup>62</sup>

2.4.6 Establish adequate governance structures and control processes for areas of exposures that may pose significant risk to a financial institution such as fair value measurement and financial instruments.

The Board's oversight responsibilities for the financial institution's use of fair value accounting include:

- i. Reviewing and approving written policies related to fair valuations;
- ii. Continuing review of significant valuation model performance for issues escalated for resolution and all significant changes to valuation policies;
- iii. Ensuring adequate resources are devoted to the valuation process;
- iv. Articulating the financial institution's tolerance for exposures subject to valuation uncertainty and monitoring compliance with the Board's overall policy settings at an aggregate firm wide level;
- v. Ensuring independence in the valuation process between risk taking and control units;
- vi. Ensuring appropriate internal and external audit coverage of fair valuations and related processes and controls;

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<sup>61</sup> MORB, 612, Sales and Marketing Guidelines for Financial Products

<sup>62</sup> BSP's Expectations for an Effective External Audit Function

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- vii. Ensuring consistent application of accounting standards and disclosures within the applicable accounting framework;
- viii. Ensuring the identification of significant differences, if any, between the valuations used for financial reporting purposes and for regulatory purposes.

**The following are additional responsibilities of the Board in relation to the sustainable finance rules<sup>63</sup>:**

2.4.7 Consistent with Section 153 of the MORB in promoting long-term financial interest on the Bank and in ensuring that it has beneficial influence on the economy, the Board of Directors shall:

- a. Institutionalize the adoption of sustainability principles, including those covering environment and social (E&S) risk areas in the Bank, by incorporating the same in the corporate governance and risk management frameworks as well as in the Bank's strategic objectives and operations taking into account the Bank's risk appetite and ability to manage risks:
  - i. Approve portfolio objectives, overall investment strategies, general investment policies, and limits that are consistent with the bank's financial condition and risk tolerance, which the Bank may delegate to a Board-level Committee, as determined;<sup>64</sup>
  - ii. Set strategic E&S objectives covering short, medium and long-term horizons;
  - iii. Approve the risk appetite on specific risk areas that the Bank is willing and capable to manage, results of stress testing exercises, and assessment of the timing and channels through which E&S risks may materialize;
  - iv. Ensure that material E&S risks are considered in the Internal Capital Adequacy Assessment Process (ICAAP) or internal capital planning process; and
  - v. Oversee the integration of sustainability principles and objectives in the bank's investment activities and monitor the progress in attaining such objectives through the relevant committee designated.

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<sup>63</sup>MORB, Section 153, Sustainable Finance Framework, as amended by BSP Circular No. 1149 (Series of 2022) on the Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks.

<sup>64</sup>BSP Circular No. 1149 (Series of 2022) re: Guidelines on the Integration of Sustainability Principles in investment Activities of the Bank.

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- b. Promote a culture that fosters environmentally and socially responsible business decisions. The board of directors shall ensure that sustainability implications are considered in the overall decision-making process;
- c. Approve the Bank's ESRMS (Environment and Social Risk Management System) that is commensurate with the Bank's size, nature, and complexity of operations and oversee its implementation. The board of directors shall ensure that the ESRMS is aligned with the internationally recognized principles, standards and global practices and forms part of the enterprise-wide risk management (ERM) system;
  - i. In line with Section 143<sup>65</sup> of the MORB and in relation to the management of E&S related risks, the Board shall set strategic E&S objectives and targets for the Bank's credit operations covering short, medium and long-term horizons to facilitate the integration of E&S principles in lending operations.

These objectives may include progressively increasing targets on the proportion of the loan portfolio allocated for sustainable financing. In this regard, the Board shall:

- Set out clear criteria involving decisions to finance high E&S risk sectors during the said term horizons. The criteria shall consider the long-term financial interest of the Bank and its role in contributing to the sustainable goals and growth of the economy; and
  - Ensure comprehensive discussion of credit related E&S risks of the Bank as well as deviations from strategic objectives and targets set.
- ii. Consistent with the expectations set forth in Section 146<sup>66</sup> of the MORB, the Board shall:
    - Ensure that E&S risks are integrated in the Bank's operational risk management framework; and
    - Ensure that the Bank's policies and procedures include the extent of its engagement with its counterparties, including suppliers and outsourced service providers, with regard to the adoption of sustainability principles, in accordance with its strategy.

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<sup>65</sup> *Credit Risk Management*

<sup>66</sup> *Operational Risk Management*

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- d. Ensure that sustainability objectives and policies are clearly communicated across the institution, and to its investors, clients, and other stakeholders;
- e. Adopt an effective organizational structure to ensure attainment and continuing relevance of the Bank's sustainable objectives. The board of directors or the designated board-level or management committee shall monitor the bank's progress in attaining sustainability objectives;
- f. Monitor the progress of the Bank in meeting its E&S strategic objectives and targets, and ensure that issues in meeting the same are addressed;
- g. Institutionalize a capacity building program for the Board of Directors, all levels of management, and personnel to equip the Bank in identifying, measuring, monitoring and controlling E&S risks. The Board shall likewise ensure that key personnel shall possess adequate knowledge, skills, and expertise necessary to perform their work;
- h. Ensure that adequate resources are available to attain the bank's sustainability objectives. The board of directors shall ensure that the members of the board, senior management and personnel are regularly apprised of the developments on sustainability standards and practices;
- i. Adopt an effective communication strategy to inform both internal and external stakeholders of the Bank's E&S strategic objectives and targets; and
- j. Ensure that the sustainability agenda is integrated in the Bank's performance.

2.4.8 Ensure appropriate management information systems are established; and

2.4.9 Ensure that the interests of stakeholders are adequately protected.

Approving and overseeing the implementation of the Bank's **Consumer Protection and Risk Management System (CPRMS)**.<sup>67</sup>

The Board's responsibilities shall include the following:

- a. Approve the CPRMS and FCPAM (Financial Consumer Protection Assistance Mechanism) that take into consideration the Bank's

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<sup>67</sup> BSP Circular No. 1160, Regulations on Financial Consumer Protection to Implement Republic Act No. 11765, otherwise known as the "financial Products and Services Consumer Protection Act"; SEC Memo No. 5 S2023, SEC Rules and Regulations of the Financial Products and Services Consumer Protection Act of 2022

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business model, market, product lines, and relationships with third parties that may give rise to risks to Financial Consumers;

- b. Promote culture of ethical behavior and ensure adherence to the Standards and all relevant laws and regulations;
- c. Provide adequate resources and adopt policies to effectively implement training and competency requirement for officers and personnel, authorized representatives or any other party acting on behalf of the Bank;
- d. Approve a policy on remuneration and compensation packages structured to encourage responsible business conduct, fair treatment and avoidance/mitigation of conflict of interest; and performance review which includes provision for incentives on positive reviews/assessment that could also serve as basis for renewal of contract of third-party service providers;
- e. Approve product oversight and governance mechanisms designed to ensure that financial products or services meet the needs of Financial Consumers in target markets or market segments, as well as universal products which are simple to access so as not to exclude vulnerable groups;
- f. Adopt a policy on the imposition of any fees and/or charges of the Bank's financial product or service which shall include among others, the basis and quantitative support for the setting of the fees / charges and rationalization of the fee structure or amount;
- g. Review periodically the implementation and effectiveness of the CPRMS including how findings are reported and whether the audit mechanisms are in place to enable adequate oversight, and put in place a regular mechanism to review the relevance of the CPRMS in case of changes in the Bank's business model and/or operating environment.

2.4.10 Board to require the external auditor to submit to the board of directors or a Letter of Commitment indicating any material weakness or breach in the institution's internal control and risk management systems not later than 120 calendar days after the close of the calendar year or fiscal year of the Bank.

If no material weakness or breach is noted to warrant the issuance of an LOC, a certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank shall be submitted instead, together with the AFS.<sup>68</sup>

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<sup>68</sup> *BSP Circular No. 1074, series of 2020, Amendments to Regulations on Financial Audit of Banks*

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2.4.11 The Board of Directors, in a regular or special meeting, shall consider and act on the AFS and the LOC and shall submit, not later than one hundred twenty (120) calendar days after the close of the calendar year or fiscal year adopted by the Bank, a copy of its resolution (containing the date of receipt of the AFS and LOC by the Board of Directors), to the appropriate supervising department of the *Bangko Sentral*. The resolution shall show the action(s) taken on the AFS and the findings and recommendations stated in the LOC, if any.

## 2.5 Code of Ethics for Directors

The Board, being the highest governing body, sets the tone for and leads the practice of ethical and responsible business conduct throughout the organization. Each member upholds the Code of Ethics for Directors<sup>69</sup> which establishes the standards for directors' professional and ethical conduct, including the acceptable practices when dealing with investors, creditors, customers, depositors, contractors, suppliers, regulators, and the general public. The Code also provides the guiding principles on the performance of their duties in accordance with the fit and proper rules.

All Directors and employees are required to comply with the Bank's Code of Ethics. New employees of China Bank are provided a booklet of the Code, and receipt thereof is acknowledged in writing.

## 3. Reportorial Requirements

### 3.1 Transmission of the Duties and Responsibilities of a Director <sup>70</sup>

3.1.1 The Office of the Corporate Secretary (OCS) shall furnish all first time directors of the Bank, upon their election with a copy of the general and specific duties and responsibilities of the Board of Directors and as an individual director.

3.1.2 The director/s concerned shall acknowledge receipt of the copies of such general and specific duties and responsibilities and shall certify that he/she fully understand the same.

3.1.3 The OCS shall keep on file copies of the certification under oath the acknowledgment receipt thereof.

### 3.2 Bio-Data of Directors <sup>71</sup>

3.2.1 Banks shall submit to the appropriate department of the BSP a bio-data with ID picture of their directors who are:

- i. Subject to confirmation based on existing rules, using the prescribed form, and

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<sup>69</sup> *The Code of Ethics for Directors is posted on the Bank's Website, under Corporate Governance.*

<sup>70</sup> *MORB, Section 132, Board of Directors, Specific duties and responsibilities of a director*

<sup>71</sup> *MORB, Section 137, Confirmation of the Election / Appointment*

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ii. First time directors

Within twenty (20) banking days from the date of election/re-election of the directors/meeting of the Board of Directors in which the officers are appointed/promoted, in accordance with Appendix 137 of the MORB.

3.2.2 Updating of the Bio-Data

The bio-data shall be updated and submitted in cases of change of name due to change in civil status and change of residential address, within twenty (20) banking / business days from the date the change occurred.

3.2.3 The Bank shall keep a record of the bio-data of all its directors and officers and shall maintain a system of updating said records which shall be made available to the BSP during its examination.

3.3 List of Incumbent Directors <sup>72</sup>

The OCS shall submit to the BSP a duly notarized list of the incumbent members of the Board of Directors and officers (format based on Appendix 102) within twenty (20) banking days from the annual election of the Board as provided in the by-laws.

3.4 Certification by an Independent Director

In the case of ID, the bio-data shall be accompanied by a certification under oath from the director concerned, that he/she is an ID as defined under existing laws, rules and regulations <sup>73</sup>

4. Multiple Board Seats/ Interlocking/Concurrent Directorship <sup>74</sup>

The BSP recognizes that an effective sharing of managerial and technical expertise promotes economies of scale and organizational synergies, aside from broadening perspective in strategy formulation and risk management. Thus, the Bank is expected to have an effective governance process to ensure that benefits are optimized in interlocking positions.

The concerned director, in accepting interlocking/concurrent directorship shall ensure that he can devote sufficient time and attention necessary to effectively carry out his/her duties and responsibilities. To this effect, a separate policy guidelines may be drafted and shall form part of this Manual.

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<sup>72</sup> *ibid*, Section 132

<sup>73</sup> *ibid*, Section 137, *Bio-data of Directors*

<sup>74</sup> *MORB, Section 137, as amended by BSP Circular No. 1129 re: Amendments to Corporate Governance Guidelines for BSP-Supervised Financial Institutions.*

#### 4.1 General Rule

Interlocking directorships among BSP-Supervised Financial Institutions is allowed except in cases involving banks that belong to the same category.

The said appointment does not pose conflict of interests.

#### 4.2 Banks in the same category

Interlocking directorship in banks belonging to the same category shall be allowed only if the banks:

4.2.1 are part of the same banking groups; or

4.2.2 have different business models and are serving different markets or clients.

For the above purpose, a director and his/her spouse (whether legitimate or common law) shall be considered as one (1) and the same person.

#### 4.3 Interlocking directorship in Investment House (IH)

The BSP allows interlocking directorship between a bank and an investment house, subject to the requirements set for by the BSP and with the other applicable laws and regulations.

#### 4.4 Approval

The Board or the duly designated Board-level Committee, for example, the Corporate Governance, Nominations and/or the Executive Committee shall approve the interlocking positions of directors and officers of the Bank. In this regard, the supporting documents on the approval shall reflect the assessment done by the Committee.

#### 4.5 Reports on Interlocking Directorship

The Bank through OCS shall submit an annual report of all interlocking positions of the directors within twenty (20) days from the end of each reference year starting 31 December 2021.

OCS shall keep the complete record of all interlocking directorship, including all documents in the approval and assessment process, to be made available to the BSP when so required.

### **B. Directors**

#### 1. Specific Duties and Responsibilities of a Director <sup>75</sup>

The position of a director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders. These stakeholders have the right to expect that the

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<sup>75</sup> MORB, Section 132, Board of Directors

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institution is being run in a prudent and sound manner. The members of the Board of Directors should exercise their duty of care and duty of loyalty to the Bank.

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

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

In order to enhance the conflict of interest prevention, aside from the Bio-data of directors for BSP purposes, the directors are required to accomplish the Conflict of Interest (COI) Disclosure Form, requiring a more robust disclosure of possible conflict, in addition to RPT policy of the Bank.

Conduct of the COI accomplishment shall be facilitated by the Bank's Corporate Governance Department.

1.3 **To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public.** A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.

1.4 **To devote time and attention necessary to properly discharge their duties and responsibilities.** Directors should devote sufficient time to familiarize themselves with the institution's business. They must be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the Board's work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the Board.

1.5 **To act judiciously.** Before deciding on any matter brought before the Board, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

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- 1.6 **To contribute significantly to the decision-making process of the Board.** Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such Board.
- 1.7 **To exercise independent judgment.** A director should view each problem/ situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollarily, he should support plans and ideas that he thinks will be beneficial to the institution.
- 1.8 **To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation and by-laws, the requirements of the BSP and where applicable, the requirements of other regulatory agencies.** A director should also keep himself informed of the industry developments and business trends in order to safeguard the institution's competitiveness.
- 1.9 **To observe confidentiality.** Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They may not disclose said information to any other person without the authority of the Board.

## 2. **Qualifications of Directors** <sup>76</sup>

A director should have the following minimum qualifications:

- 2.1 He must be fit and proper for the position of a director of the Bank. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness, relevant education/ financial literacy/ training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind, sufficiency of time to fully carry out responsibilities; and concurrent positions in other entities that may pose conflict of interest.

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

An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Section 138 (Persons disqualified to become directors). A director shall submit to the Bangko Sentral the

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<sup>76</sup> *MORB, Section 132, Qualifications of a director, as amended by BSP Circular No. 1076 (Amendments to the Regulations on Disqualification and Watchlisting of Directors/Officers); as amended further by BSP Circular No. 1129 dated 12 November 2021.*

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required certifications and other documentary proof of such qualifications using the Appendix 101 as guide within twenty (20) banking days from the date of election. Non-submission of complete documentary requirements or their equivalent within the prescribed period shall be construed as his failure to establish his qualifications for the position and results in his removal from the Board of Directors.

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

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

2.2 He must have attended a special seminar on corporate governance for Board of Directors. A director shall submit to the BSP a certification of compliance with the BSP-prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance: *Provided*, That the following persons are exempted from complying with the aforementioned requirement:

2.2.1 Filipino citizens with recognized stature, influence and reputation in the banking community, including directors of publicly-listed companies in the Philippines, and whose business practices stand as testimonies to good corporate governance;

2.2.2 Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies. For this purpose, BSP has defined senior officials in the Bangko Sentral as those who assumed Managing Director position or higher.

2.2.3 Former Chief Justices and Associate Justices of the Philippine Supreme Court.

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

### 3. Disqualification of Directors

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

3.1 Permanently disqualified <sup>77</sup> prior to election or appointment or within the tenure

Directors permanently disqualified by the BSP Monetary Board, the Securities and Exchange Commission<sup>78</sup> and the RCCP from holding a director position:

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<sup>77</sup> *MORB, Section 138, Disqualification, as amended by Circular No. 1076, S2020 dated 18 February 2020*

<sup>78</sup> *SEC Memo No. 4, Series of 2022, Disqualifications of Directors, Trustees and Officers of Corporations; and the Guidelines on the Procedure for their Removal.*

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3.1.1 Persons who have been convicted by final judgment:

- a. Of a court for offenses involving fraud acts,<sup>79</sup> dishonesty or breach of trust such as but not limited to estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. 22 (Anti-Bouncing Check Law), violation of R.A. No. 3019 (Anti-Graft and Corrupt Practices Act), violation of R.A. 9160, as amended (Anti-Money Laundering Act), and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees).

Note: The disqualification on violation of Anti-Graft and Corrupt Practices Act shall apply to government employees appointed for directorship position.

- b. For any offense involving fraudulent acts punishable under Republic Act No. 11232, otherwise known as the Revised Corporation Code of the Philippines, Republic Act No. 8799, otherwise known as the Securities Regulation Code, and other laws, rules or regulations enforced or implemented by the Commission.
- c. Of a court or other tribunal for violation of securities and banking laws, rules and regulations;
- d. For cases filed against them for offenses under R.A. No. 3591, as amended (PDIC Charter);
- e. Of a court for offenses involving moral turpitude, or for offenses which they were sentenced to serve a term of imprisonment of more than six (6) years;
- f. Or order by a competent judicial or administrative body of any crime that:
  - i. involves the purchase or sale of securities, as defined in the Securities Regulation Code;
  - ii. arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker;
  - iii. arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as affiliated person of any of them;<sup>80</sup>

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<sup>79</sup> *RCCP, Section 26.*

<sup>80</sup> *SEC Memo No. 19 Series of 2016, Recommendation No. 2.6*

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- g. Or has been adjudged by final judgment or order of the SEC, BSP, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Revised Corporation Code<sup>81</sup>, Securities Regulation Code<sup>82</sup> or any other law, regulation or order administered by the SEC or BSP; and
  - h. Or found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated previously<sup>83</sup> or similar to those enumerated in paragraphs (a) and (b) of Section 26 of the RCC; or
- 3.1.2 Persons who have been judicially declared with finality as insolvent, spendthrift or incapacitated to contract;
  - 3.1.3 Persons who were found to be culpable for the bank's closure as determined by the Monetary Board.
  - 3.1.4 Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the Bangko Sentral, where a penalty of removal from office is imposed, and which resolution of the Monetary Board has become final and executory;
  - 3.1.5 Persons found liable by another government agency/corporation, including government financial institution, for violation of any law, rule or regulation involving dishonesty, misconduct, or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affects their fitness and propriety as directors/officers, and which finding of said government agency has become final and executory;
  - 3.1.6 Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC, BSP or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.<sup>84</sup>

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<sup>81</sup> For final judgment for violation of the Revised Corporation Code of the Philippines within five (5) years prior to election or appointment.

<sup>82</sup> For final judgment for violation of the Securities Regulation Code, it is within five (5) years prior to election or appointment.

<sup>83</sup> SEC Memo No. 19 Series of 2016, Recommendation No. 2.6

<sup>84</sup> SEC Memo No. 19 S2016, Recommendation No. 2.6

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

3.1.7 Other grounds as the SEC may provide<sup>85</sup>.

### 3.2 Disqualification within tenure

This shall apply while holding the office, if the director was:

3.2.1 convicted by final judgement of an offense punishable by imprisonment for a period exceeding six (6) years;

3.2.2 convicted by final judgement for violating the Revised Corporation Code;

3.2.3 convicted by final judgement for violating the Securities Regulation Code;

3.2.4 was found administratively liable, by final judgment, for any offense involving fraudulent acts punishable under RA 11232 (RCCP), RA 8799 or the SRC, and other laws, rules or regulations enforced or implemented by the SEC; and

3.2.5 was convicted or found administratively liable by a foreign court or equivalent foreign regulatory authority for acts, violations or misconduct similar to those enumerated in paragraphs (a) and (b) Section 26 of the RCCP.

### 3.3 Temporarily Disqualified<sup>86</sup>

Directors disqualified by the BSP Monetary Board and the Securities and Exchange Commission from holding a director position for a specific/indefinite period of time. Included are:

3.3.1 Persons who have shown unwillingness to settle their financial obligations, as evidenced by, but not limited to, the following circumstances:

- a. the person has failed to satisfy any financial obligation that has been adjudicated by a court;
- b. the person has filed for insolvency or suspension of payments that adversely affects his/her fitness and propriety as director / officer; or

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<sup>85</sup> Please refer to footnote no.77

<sup>86</sup> MORB, Section 138, as amended by BSP Circular No. 1076, S2020, dated 18 February 2020

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- c. a person who is delinquent in the payment of: an obligation with a bank where he/she is a director or officer; or at least two (2) obligations with other banks/FIs.

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

- i. A person for his own account or where he/she acts as a guarantor, endorser, or surety for loans;
- ii. The spouse, except when incurred after legal separation of properties or when the property regime governing the spouses is absolute separation of properties or except when incurred prior to the marriage;
- iii. Any debtor whose borrowings or loan proceeds were credited to the account of, or used for the benefit of, the person described under item 3.2.1 above a director or officer;
- iv. A partnership of which a person or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
- v. A corporation, association or firm wholly owned or majority of the capital of which is owned by any or a group of persons, mentioned in the foregoing Items (i), (ii) and (iv);

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

- 3.3.2 Persons involved in the closure of banks pending their clearance by the Monetary Board;
- 3.3.3 Persons confirmed by the Monetary Board to have committed acts or omissions, which include failure to observe/discharge their duties and responsibilities prescribed under existing regulations, that (a) caused undue injury or disadvantage to the bank through manifest partiality, evident bad faith or gross inexcusable negligence; (b) caused or may have caused material loss or damage to the bank, its depositors, creditors, investors, stockholders, to the Bangko Sentral or to the public in general; or (c) exposed the safety, stability, liquidity or solvency of the bank to abnormal risk or danger.
- 3.3.4 Persons found to have been involved in any irregularity/violation which constitutes a just cause for dismissal/termination as defined under the Labor Code of the Philippines, as amended, regardless of any action taken by the bank;
- 3.3.5 Persons certified by, or in the official files of, foreign financial regulatory authorities, financial intelligence units, or similar agencies or authorities of

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foreign countries, as charge with commission of, or having committed, irregularities or violation of any law, rule or regulation, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his/her duties.

- 3.3.6 Persons, other than those covered under item 3.2.8 below (Persons disqualified to become directors/officers), who after conduct of investigation by domestic financial or commercial regulatory authorities, financial intelligence units, or similar agencies or authorities such as the Securities and Exchange Commission (SEC), Anti-Money Laundering Council (AMLC), or the Philippine Deposit Insurance Corporation (PDIC), have complaints filed against them by the aforementioned authorities/units/agencies pending before a court of law or quasi-judicial body, or convicted by said court or quasi-judicial body but whose conviction has not become final and executor, for offenses involving violation of laws, rules and regulations, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his/her duties;
- 3.3.7 Persons with cases pending before a court or other tribunal, or those convicted by said court or tribunal but whose conviction has not become final and executory, for offenses involving: (a) dishonesty or breach of trust such as, but not limited to estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22 (Anti-Bouncing Check Law), violation of R.A. No. 3019 (Anti-Graft and Corrupt Practices Act), violation of R.A. No. 9160, as amended (Anti-Money Laundering Act), and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees); or (b) violation of securities and banking laws, rules and regulations;
- 3.3.8 Persons who have been convicted by a court for an offense involving moral turpitude, and persons who have been sentenced to serve a term of imprisonment of more than six (6) years for other crimes but whose conviction has not yet become final and executory;
- 3.3.9 Persons with pending cases for offenses under R.A. No. 3591, as amended (PDIC Charter), of those who have been convicted for said cases but whose conviction has not yet become final and executory;
- 3.3.10 Persons found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations implemented by the Bangko Sentral ng Pilipinas, where a penalty of removal from office is imposed, and which resolution of the Monetary Board is on appeal, unless execution or enforcement thereof is restrained by the appellate court;
- 3.3.11 Persons against whom a formal charge has been filed or who are found liable by any government agency/corporation, including government financial institution, for violation of any law, rule or regulation involving dishonesty, misconduct or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affects their fitness and propriety as director/officers, and which finding of said government

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institution is on appeal, unless execution or enforcement thereof is restrained by the appellate court; and

- 3.3.12 Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the Bangko Sentral ng Pilipinas, where a penalty of suspension from office or fine is imposed, unless the finding is on appeal and the execution of enforcement thereof is restrained by the appellate court.

Resignation or retirement from his/her office shall not exempt the person from being permanently or temporarily disqualified under the applicable section of the MORB.

The following temporary disqualifications are found in SEC Memo No. 19 Series of 2016:

- 3.3.13 Absence in more than fifty percent (50%) of all regular meetings and special meetings of the Board of Directors during his incumbency, or any 12-month period during the said incumbency, unless absence is due to illness, death in the immediate family or serious accident. The disqualification should apply for purposes of the succeeding election;
- 3.3.14 Dismissal or termination for cause as director of any publicly listed company, public company, registered issuer of securities and holder of a secondary license from the Commission. The disqualification should be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.
- 3.3.15 If the beneficial equity ownership of an ID in the Bank or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. This disqualification from being elected as an ID is lifted if the limit is later complied with; and
- 3.3.16 If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

#### 3.4 Removal from Office

No director shall be removed from the office without due process. For all independent administrative actions brought to the SEC in accordance with SEC Memo No. 4 Series of 2022, the same shall be heard in accordance with the rules of the SEC.

Furthermore, prior to the removal, and/or imposition of other administrative sanctions, the SEC shall issue an order, directing the director to show cause under oath within a certain period<sup>87</sup> from receipt, why the director should not be disqualified or removed and/or why he /she should not be administratively penalized.

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<sup>87</sup> Fifteen (15) days from receipt in accordance with SEC Memo No. 4 Series of 2022.

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## C. Board and Committee Meetings

The director should attend and actively participate in all meetings of the Board, Committees, and Shareholders in person or through tele-/videoconferencing in accordance with the rules and regulations, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent them from doing so.

In Board and Committee meetings, the director should review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.

### 1. Schedule of Board Meetings

In accordance with the Bank's By-Laws, the Board shall meet at least once a month, every first Wednesday, to review the Bank's financial performance and to attend to matters that may require its approval. Special Board meetings may be called for to deliberate and assess corporate proposals or business issues that require Board approval.

### 2. Place of Board Meetings

In accordance with the Bank's by-laws, Board Meetings shall be held at the principal office of the Corporation or if not applicable, in the city where the principal office of the Bank is located<sup>88</sup>.

### 3. Conduct of Meetings, Attendance and Quorum Requirement

#### 3.1 Full Board of Directors meetings

3.1.1 Board members are encouraged to attend board meetings regularly. They are expected to prepare for and participate in these meeting and to act judiciously, in good faith, and in the best interest of the bank, the shareholders and other stakeholders.

3.1.2 A majority of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business and every decision of at least a majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of a majority of all the members of the Board, and whenever required by existing laws and regulations.

3.1.3 In cases where a decision is to be arrived at by the Board, as a matter of policy, decisions should be made only upon quorum of 2/3 members of the board present, unless a different voting requirement is required by existing laws, rules and regulations.

The above rule shall apply for material RPTs that fall within the definition of the SEC as individual material related party transaction.<sup>89</sup> Material shall refer

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<sup>88</sup> *RCCP, Section 50.*

<sup>89</sup> *SEC Memo No.4, Series of 2019, Rules on Material Related Party Transactions for Publicly-Listed Companies.*

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to transactions that are 10% or higher of the Bank's total consolidated assets based on the latest consolidated audited financial statement.

- 3.1.4 If a member of the Board cannot attend personally, subject to existing rules, he/she may attend/participate/vote in meetings through remote communication/teleconference or videoconferencing or other alternative modes of communication that allow them reasonable opportunities to participate, and in compliance with the Bank's Guidelines for Participation in Board and Committee Meetings Through Remote Communication.

In relation to the conduct of meeting through modern technologies such as, but not limited to, teleconferencing and videoconferencing as long as the director who is taking part in said meetings can actively participate in the deliberations on matters taken up therein: *Provided*, That every member of the Board shall participate in at least fifty percent (50%) and shall physically attend at least twenty five percent (25%) of all Board meetings every year: *Provided*, further, That the absence of a director in more than fifty percent (50%) of all regular and special meetings of the Board of Directors during his/her incumbency is a ground for disqualification in the succeeding election: *Provided*, furthermore, That the twenty-five (25%) physical attendance requirement is lifted during periods of national emergencies, public health emergencies, and major disasters, among others, that affect mobility, activity, and access to Bank.<sup>90</sup>

- 3.1.5 Except for most compelling reasons, an ID should always be in attendance in every meeting, recognizing the significant role of an ID in the board decisions. Unless otherwise provided in the by-laws, his absence shall not affect the quorum.

## 3.2 Board-level Committee Meetings<sup>91</sup>

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

### 3.2.2 Conduct of Committee Meetings

Committee members should attend and actively participate in all meetings in person or through tele-/videoconferencing in accordance with the rules and regulations, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent them from doing so.

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<sup>90</sup> *MORB, Section 132, Board of Directors meetings, as amended by BSP Circular No. 1129, Amendments to Corporate Governance Guidelines for BSP-Supervised Financial Institutions, dated 11 November 2021.*

<sup>91</sup> *ibid*

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### 3.2.3 Quorum

A majority of the members of the Committee shall constitute a quorum and every decision of at least a majority of the Committee members present at a meeting at which there is a quorum shall be valid, unless a specific number of votes is required by existing laws and regulations.

#### 4. Board Materials

In general, board papers are provided to the directors five (5) days before the meeting.

#### 5. Definition of Specific Actions by the Board and its Committees

**Ratify** - When the Board and any of its committees ratifies an action, it means approving an action which originally or initially did not bind the Bank because the person who has acted for the Bank lacked the authority.<sup>92</sup>

Thus an act or agreement that was signed or executed without the confirmation of the Board is not enforceable or valid until it was ratified by the Board.

**Approve** – When an action is approved, it refers to giving a favorable decision on item/s presented to it for decision.

**Note** – When the Board noted an action presented to it, it means that they have clearly understood the information provided or given them. Moreover, they are also signifying a commitment that whatever action is to be taken or done, they shall implement the same.

**Confirm** – When the board confirms an action made by a board committee or the management committee, it means to strengthen the said act.

#### D. Confirmation of the Election / Appointment of Directors<sup>93</sup>

##### 1. Confirmation Requirement

1.1 The election/appointment of directors of the Bank shall be subject to confirmation by the Monetary Board. It shall be the responsibility of the OCS to secure Monetary Board confirmation for duly elected directors of the Bank.

1.2 The Bank through the OCS shall report to the appropriate department of the Supervisory and Examination Sector of the BSP any succeeding resignation, retirement, or replacement of directors within twenty (20) banking days after such resignation/retirement/replacement.

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<sup>92</sup> [www.proeconomics.com/law/company/the\\_meaning\\_of\\_ratification.html](http://www.proeconomics.com/law/company/the_meaning_of_ratification.html) <visited on January 31, 2012>

<sup>93</sup> MORB, Section 137, Bio-data of directors and officers

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- 1.3 Election/appointment of directors/officers shall be deemed to have been confirmed by the BSP, if after sixty (60) banking days from its receipt of the required report, no advice against said election/appointment has been received by the Bank.<sup>94</sup>
- 1.4 The appointment of the officers below the rank of Senior Vice President (SVP) other than the Treasurer, Trust officer, and Heads of internal audit, risk management, and compliance functions regardless of rank shall not require Monetary Board approval or BSP confirmation.
- 1.5 However, the confirmation of the director is no longer required in the following cases:
  - 1.5.1 Re-election of a director (as a director) in the same Bank or election of the same director in another bank, QB, trust corporation, and NBFIs with trust authority within a banking group<sup>95</sup>;
  - 1.5.2 Re-election of an ID in the same Bank, trust corporation, or NBFIs with trust authority within a banking group;

*Provided*, That the director/officer concerned has been previously confirmed by the Monetary Board or if previously confirmed by the SES Committee, his/her re-election/promotion/transfer requires the same level of confirming authority (as provided in BSP rules). Provided further, that the said director/officer has had continuous service within the same Bank or banking group. This exemption shall apply to all directors confirmed by the MB/SEC Committee starting January 1, 2011.

## 2. Documentary Requirements for the Confirmation

- 2.1 The documentary requirements for the confirmation of the election of directors are shown in Appendix 101 of the MORB.
- 2.2 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.
- 2.3 A director/officer whose election/appointment was not confirmed for failure to submit the complete documentary requirements shall be deemed removed from office after due notice to the Board of Directors of the Bank, even if he has assumed the position to which he was elected / appointed.

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<sup>94</sup> added by BSP Circular No. 758

<sup>95</sup> Banking group, for this purpose, shall refer to the parent bank and its subsidiary banks, QB, trust entities, and other NBFIs other than stand-alone and trust corporation as well as other banks, QBs, trust entities, and other NBFIs other than stand-alone and trust corporations over which the parent bank has power to exercise "control" as defined under BSP rules. Please refer to Annex 1 hereof.

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## E. Board Committees

The Board of Directors may delegate some of its functions, but not its responsibilities, to Board-level committees.

### 1. Creation of Committees

The Board of Directors shall constitute, at a minimum, the following committees<sup>96</sup>:

- 1.1 Audit Committee <sup>97</sup>
- 1.2 Risk Oversight Committee
- 1.3 Corporate Governance Committee
- 1.4 Related Party Transactions Committee <sup>98</sup>
- 1.5 Trust Investment Committee

The existence of the above-mentioned committees does not preclude the Bank from creating additional committees that shall aid the Board in the discharge of its governance functions, as follows:

- 1.6 Executive Committee
- 1.7 Nominations Committee <sup>99</sup>
- 1.8 Remuneration Committee
- 1.9 Compliance Committee
- 1.10 Information Technology Steering Committee

### 2. Committee Charters

- 2.1 The Board 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.
- 2.2 Said documents shall articulate how the committee will report to the full Board of Directors, what is expected of the committee members, and tenure limits for serving on the committee.
- 2.3 In case of conflict between the approved committee charter and provisions of this Manual, the most recently approved document shall prevail.

### 3. Tenure Limit for Serving in a Committee

The Board shall consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.

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<sup>96</sup> *By-Laws of the Bank, MORB, Section 133, Board Level Committees*

<sup>97</sup> *MORB, Section 133, Board Level Committees*

<sup>98</sup> *The creation of the RPT Committee is required for Banks that are part of a conglomerate. MORB, Section 133*

<sup>99</sup> *SEC Memo No. 19, S2016, Recommendation no. 3.3, – the establishment of a Corporate Governance Committee does not preclude companies from establishing separate Remuneration or Nomination Committees, if they deem necessary.*

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In this regard, a director who has been a member of a board-level committee for at least five (5) consecutive years shall be rotated, as necessary. For purposes of determining the number of years as committee member, a cooling off period of one-year can be observed and such cool-off period shall be excluded in the counting of years.

#### 4. Members in Committees

The Board of Directors shall appoint members of the committees taking into account the optimal mix of skills and experience to allow the Board of Directors, through the committees, to fully understand and objectively evaluate the relevant 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. 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 Management and Corporate Governance, Related Party Transaction committees, without prior approval of the Monetary Board.<sup>100</sup>

The Board of Directors shall have the power to remove and replace members of and fill vacancies in the Board-level committees, as necessary and in compliance with laws, rules and regulations.

#### 5. Minutes of Meetings

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.

#### 6. Performance Evaluation

The Board shall conduct an annual review of the performance of the committees through a self-assessment. The results thereof shall be reported to the Board through the Corporate Governance Committee.

#### 7. Deadlock Resolution

In cases where there is deadlock on matters for resolution of the Committee, the same shall be elevated to the Board of Directors for its decision and resolution. For this purpose, the Corporate Secretary shall include in the agenda of the Board of Directors in its next meeting the matters which need to be decided upon or resolved by the Board of Directors in view of the deadlock.<sup>101</sup>

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<sup>100</sup> MORB, Section 133.b

<sup>101</sup> Approved by the Board of Directors on 02 December 2015

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## 8. Audit Committee

Without prejudice to its own charter, the following guidelines shall govern the Audit Committee of the Bank:

### 8.1 Functions of the Audit Committee

The Audit Committee primarily oversees all matters pertaining to audit – the Bank’s internal audit function and performance, the integrity of the Bank’s financial statements, and the Bank’s accounting processes in general, among other things.

The Audit Committee is responsible for overseeing the senior management’s activities in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.<sup>102</sup>

The Audit Committee provides oversight of the Bank’s financial reporting and control and internal and external audit functions.

The Committee also plays an important role in empowering and elevating the status of internal audit activity throughout the organization as provider of quality and significant assurance and consulting services that adds value to the Bank’s governance, risk management, and internal control processes.

### 8.2 Composition of the Audit Committee<sup>103</sup>

8.2.1 The audit committee shall be composed of at least three (3) appropriately qualified non-executive directors, the majority of whom, including the Chairman, should be independent directors. All of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance that is commensurate with the size, complexity of operations and risk appetite 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.

#### 8.2.2 Restrictions in the Audit Committee Membership

a. The Chairman of the Committee should not be the chairman of the Board or any other committees.<sup>104</sup>

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<sup>102</sup> SEC Memo No. 19, S2016, Recommendation no.3.2

<sup>103</sup> *ibid*; MORB Section 133, Board Level Committees

<sup>104</sup> SEC Memo No. 19 S2016, Recommendation 3.2; MORB,133, Board Level Committees

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- b. 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.
- c. No member of the Audit Committee, shall be concurrently designated as a member of the Trust Investment Committee <sup>105</sup>

8.2.3 The Board has the power to re-organize committee membership, thus, in case of vacancy the Board of Directors may appoint the replacement in accordance with the Bank's By-Laws.

### 8.3 Authority of the Audit Committee <sup>106</sup>

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

### 8.4 Duties and Responsibilities

The Audit Committee has the following duties and responsibilities, among others:

#### 8.4.1 On Internal Audit Charter

Recommend the approval of the Internal Audit (IA) Charter, which formally defines the role of Internal Audit and the audit plan as well as oversee the implementation of the IA Charter; <sup>107</sup>

#### 8.4.2 On Internal Control

- a. Through the Internal Audit Group, monitor and evaluate the adequacy and effectiveness of the corporation's internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances should be in place in order to (a) safeguard the company's resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the company's financial data, and (d) ensure compliance with applicable laws and regulations; <sup>108</sup>

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<sup>105</sup> MORB, Section 412, Organization and Management, Composition of Trust Committee

<sup>106</sup> MORB, 133, Board Level Committees

<sup>107</sup> SEC Memo No. 19 Series of 2016, Recommendation no.3.2

<sup>108</sup> SEC Memo No. 19 Series of 2016, Recommendation no.3.2

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- b. It shall monitor and evaluate the adequacy and effectiveness of the internal control system. <sup>109</sup>
- c. Shall ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management. <sup>110</sup>

#### 8.4.3 On Internal Audit Function and Chief Audit Executive

It shall be responsible for the setting up of the internal audit department and for the appointment, fees of the internal auditor as well as the appointment, dismissal and re-appointment of the independent external auditor<sup>111</sup> who shall both report directly to the Audit Committee. It shall monitor and evaluate the adequacy and effectiveness of the internal control system. <sup>112</sup>

#### 8.4.4 External Auditor

- a. Recommend to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Commission, who undertakes an independent audit of the corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders; <sup>113</sup>
- b. The appointment, dismissal and re-appointment of the external auditor shall be based on fair and transparent criteria, such as <sup>114</sup>:
  - i. Core values, culture and high regard for excellence in audit quality,
  - ii. Technical competence and expertise of auditing staff,
  - iii. Independence,
  - iv. Effectiveness of audit process, and
  - v. Reliability and relevance of the external auditor's reports
- c. Organize an internal audit department, and recommend the appointment of the Chief Audit Executive (CAE), an independent internal auditor and the terms and conditions of its engagement and removal. At least once per year, review the performance of the Chief Audit Executive and concur with the annual compensation and salary adjustment.

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<sup>109</sup> MORB, Section 133, Board Level Committees

<sup>110</sup> *ibid*

<sup>111</sup> Section II.1.a Audit Committee of BSP Memo No. M-2014-011

<sup>112</sup> MORB, Section 133, Board Level Committees

<sup>113</sup> SEC Memo No. 19 S2016, Recommendation no. 3.2

<sup>114</sup> Section II.1.a Audit Committee of BSP Memo No. M-2014-011

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In relation to the above, report to the Board the annual performance appraisal of the head of the internal audit function and recommend for approval of the Board the annual remuneration of the head of the internal audit function and key internal auditors <sup>115</sup>; and

- d. Establish and identify the reporting line of the Internal Auditor to enable him properly fulfill his duties and responsibilities. For this purpose, he should directly report to the Audit Committee; <sup>116</sup>

#### 8.4.5 On Financial Reporting and Financial Statements

- a. Assist the Board in the performance of its oversight responsibility for the financial reporting process, practices, and system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations.

In addition to the above, the Audit Committee shall be responsible for overseeing senior management in establishing and maintaining an adequate, effective and efficient internal control framework. <sup>117</sup>

It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, rules and internal polices, efficiency and effectiveness of operations, and safeguarding of assets.

It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.

- b. Review and approve the Interim and annual financial statements before their submission to the Board, with particular focus on the following matters<sup>118</sup>:
  - i. Any change/s in accounting policies and practices
  - ii. Areas where a significant amount of judgment has been exercised
  - iii. Significant adjustments resulting from the audit
  - iv. Going concern assumptions
  - v. Compliance with accounting standards
  - vi. Compliance with tax, legal and regulatory requirements
- c. Shall provide oversight over the institutions financial reporting policies, practices and control and internal and external audit functions. <sup>119</sup>

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<sup>115</sup> MORB, Section 162, Internal Control Framework, Audit Committee

<sup>116</sup> SEC Memo No. 19, S2016, Recommendation no. 3.2

<sup>117</sup> MORB, Section 162, Internal Control Framework, Audit Committee

<sup>118</sup> SEC Memo No. 19, S2016, Recommendation no. 3.2

<sup>119</sup> MORB, 133, Board Level Committee

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#### 8.4.6 On Management's Risk Management Activities

- a. Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Bank. This function shall include regular receipt from Management of Information on risk exposures and risk management activities; and
- b. Reviews and monitors Management's responsiveness to the Internal Auditor's findings and recommendations.<sup>120</sup>

#### 8.4.7 On Internal Audit Plan

Review and approve the annual internal audit plan including all major changes thereafter, to ensure its conformity with the objectives of the Bank. The plan shall include the audit scope, resources and budget necessary to implement it.

#### 8.4.8 On Compliance

Coordinate, monitor, and facilitate compliance with laws, rules and regulations.<sup>121</sup>

#### 8.4.9 On Whistleblowing<sup>122</sup>

The committee shall establish and maintain mechanisms by which officers and staff, 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.

### 8.5 Responsibilities on Internal and External Audits<sup>123</sup>

- 8.5.1 Perform oversight functions over the corporation's internal and external auditors. It ensures the independence of internal and external auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.<sup>124</sup>

With regard to access to records, the external auditor is allowed to have read-only access to the BSP Reports of Examination (ROE).<sup>125</sup>

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<sup>120</sup> SEC Memo No. 19, S2016, Recommendation no.3.2

<sup>121</sup> *ibid*

<sup>122</sup> *Ibid; MORB, Section 133*

<sup>123</sup> *Institute of Internal Auditors' Model Audit Committee Charter*

<sup>124</sup> SEC Memo No. 19, S2016, Recommendation no. 3.2

<sup>125</sup> BSP Memo No. M – 2014-011, Section II.3.e

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- 8.5.2 Prior to the commencement of 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. <sup>126</sup>
- 8.5.3 Review the reports submitted by the internal and external auditors by reviewing the disposition of the recommendation in the External Auditor's management letter. <sup>127</sup>
- 8.5.4 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; <sup>128</sup>
- 8.5.5 Evaluate and determine the non-audit work, if any, of the external auditor, and periodically review the non-audit fees paid to the external auditor in relation to the total fees paid to him and to the corporation's overall consultancy expenses. The committee 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 corporation's annual report and Corporate Governance Report; <sup>129</sup>
- 8.5.6 Review the effectiveness of the internal audit function, including compliance with The Institute of Auditors' International Professional Practices Framework for Internal Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards.

In assessing the effectiveness of the external auditor's work, the Audit Committee should closely coordinate with the external auditor during all phases of the external audit engagement, as follows:

- a. It should discuss and agree to the terms of the engagement letter issued by the external auditor prior to the approval of the engagement.
- Where relevant, the engagement letter should reflect changes in circumstances relevant to the external audit
- b. It should obtain an understanding of the score and audit approach which shall be adopted by the external auditor for purposes of meeting the FI's financial reporting requirements;
- c. It should ascertain and take steps to address the major areas of concern identified by the external auditor during the course of its audit.

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<sup>126</sup> SEC Memo No. 19, S2016, Recommendation no.3.2

<sup>127</sup> *ibid*

<sup>128</sup> MORB, Section 133

<sup>129</sup> SEC Memo No. 19 S 2016, Recommendation no. 3.2

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These issues may cover significant accounting estimates, valuation methodologies and accounting policies adopted;

- d. It should review management representation letters before these are transmitted to the external auditor to ensure that items in the letter are complete and appropriate;
  - e. It should assess the extent of cooperation provided by the FI's management during the conduct of the external audit; and
  - f. It should understand and duly assess the external auditor's opinion regarding the capacity of FI management and the adequacy of accounting/information system to comply with financial and prudential reporting responsibilities.
- 8.5.7 Meet separately with the Head of internal audit/external auditors to discuss any matter that the committee or internal/external audit and such meetings shall be duly minuted.
- 8.5.8 Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationship between the auditors and Bank, including non-audit services, and discussing the relationships with the auditors.
- 8.5.9 Communication with the External Auditor <sup>130</sup>

In order to reinforce the Audit Committee's effectiveness in performing its key role in strengthening corporate governance, the Audit Committee shall maintain effective communication channels with the external auditor through regular and structure dialogues in the course of the external audit.

Such communication should focus on the key accounting or auditing issues that, in the external auditor's judgment, give rise to a greater risk of material misstatement of the financial reports, as well as other external audit concerns of the Audit Committee. Internal and external auditors should be allowed and encouraged to attend the meeting of the Audit Committee.

During regular meetings of the Audit Committee, matters that may be raised include audit findings that would impact on the FI's compliance with regulatory requirements, disclosures and other accounting concerns.

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<sup>130</sup> BSP Memo No. M-2014-011, Section II.1.a Audit Committee,

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- 8.6 Additional functions of the Audit Committee <sup>131</sup>
- 8.6.1 Regularly review and monitor the external auditor's technical competence, independence, objectivity and overall effectiveness of the external audit process.
- 8.6.2 Determination of Audit Fees<sup>132</sup>
- a. The Audit Committee is required to set the compensation of the external auditor in relation to the scope of its duties.
- b. Reasonableness of the Audit Fees
- The external auditor is expected to charge only reasonable audit fees. In determining reasonableness of the fees, the following may be considered:
- i. Expected hours needed to complete the scope of work envisioned in the audit plan;
- ii. Complexity of the activities and structure of the company;
- iii. Level of internal audit assistance;
- iv. Level of fees being charged by other audit firms; and
- v. Quality of audit service
- 8.6.3 Establish a system that addresses, in a timely and effective manner any findings of fraud or error on the financial statements.
- 8.6.4 Continually engage the external auditor on matters concerning audit quality.
- 8.6.5 If the external auditor resigns or communicates an intention to resign, the Audit Committee should follow up on the reasons/explanations giving rise to such resignation and consider whether it needs to take any action in response to those reasons.
- 8.6.6 To meet with the Board at least every quarter without the presence of the CEO or other management team members and periodically meets with the head of internal audit. <sup>133</sup>
- 8.7 Responsibilities over Internal Audit Outsourcing <sup>134</sup>
- 8.7.1 The Audit Committee shall approve the terms and conditions for outsourcing internal audit services; <sup>135</sup> and

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<sup>131</sup> *ibid*

<sup>132</sup> *BSP Memorandum No. M-2014-01, 14 March 2014, Section II.2.1, 8-9*

<sup>133</sup> *SEC Memo No. 19 S 2016 Recommendation no. 3.2*

<sup>134</sup> *MORB, Section 163, Internal Audit Function*

<sup>135</sup> *SEC Memo No. 19 S 2016, Recommendation no.3.2*

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- 8.7.2 The Audit Committee shall be responsible for the selection and overseeing the performance of the internal audit service provider.

In particular, the Audit Committee shall be responsible for:

- a. Ensuring the independence of the internal audit service provider;
- b. Reporting to the Board on the status of accomplishments of the outsourced internal audit activities, including significant findings noted during the conduct of the internal audit;
- c. Ensuring that the internal audit service provider comply with sound internal auditing standards such as the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics;
- d. Ensuring that the audit plan is aligned with the overall plan strategy and budget of the bank and is based on robust risk assessment; and
- e. Ensuring that the internal audit service provider has adequate human resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.

## 8.8 Reporting Responsibilities <sup>136</sup>

- 8.8.1 Provide an open avenue of communication between internal audit, the external auditors, and the Board of Directors.
- 8.8.2 Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- 8.8.3 Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.

## 9. Risk Oversight Committee <sup>137</sup>

The Risk Oversight Committee shall be responsible for the oversight of the Bank's enterprise risk management system to ensure its functionality and effectiveness.

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<sup>136</sup> *ibid*

<sup>137</sup> *SEC Memo No. 19, S2016 Recommendation no. 3.4; MORB, Section 133, Risk Oversight Committee*

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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.

9.1 Composition of the Risk Oversight Committee <sup>138</sup>

9.1.1 Risk Oversight Committee shall be composed of at least three (3) members of the Board of Directors, the majority of whom should be independent director including the Chairman. The Chairman should not be the Chairman of the Board or of any other committee.

9.1.2 Qualifications of the members of the Risk Oversight Committee

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. At least one must have relevant thorough knowledge and experience on risk and risk management.

9.1.3 Authority and Access to Independent Expert

- a. The Committee shall have the authority to investigate any matter within its duties and responsibilities under the law, rules, circulars, memorandum and/or this Charter, full access to and cooperation from management and other units of the Bank, with full discretion to invite any officer or employee to its meetings.
- b. The Committee shall have adequate resources to enable it to effectively discharge its functions
- c. Whenever appropriate, the Committee shall have access to independent experts to assist it in discharging its responsibilities, particularly in relation to proposed strategic transaction. <sup>139</sup>

9.2 General Responsibilities of the Risk Oversight Committee <sup>140</sup>

9.2.1 Advise the Board on the Bank's current and future risk appetite levels and risk tolerance limits; <sup>141</sup>

9.2.2 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;

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<sup>138</sup> *Ibid*

<sup>139</sup> *Strategic transaction may refer to mergers and acquisitions, among others.*

<sup>140</sup> *MORB, Section 133, Board Level Committees; SEC Memo No. 19 S2016, Recommendation no. 3.4.*

<sup>141</sup> *SEC Memo No. 19 S2016, Recommendation no. 3.4*

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- 9.2.3 Oversee the state of risk culture of the Bank; and
  - 9.2.4 Require the Chief Risk Officer and the Bank's Risk Management Group to communicate formally and informally any material information relative to the discharge of its function to the Committee.
- 9.3 Core Responsibilities of the Risk Oversight Committee:
- 9.3.1 **Oversee the risk management framework** – The Risk Oversight Committee shall oversee the enterprise risk management framework and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.
  - 9.3.2 **Identify and evaluate exposures** – the Risk Oversight Committee shall assess the profitability of each risk becoming reality and shall estimate its possible effect and cost. Priority areas of concern are those risks that are most likely to occur and are costly when they happen.
  - 9.3.3 **Develop risk management strategies** –the Risk Oversight Committee shall develop a formal written risk management program which shall contain and define the following: (a) common language or register of risks, (b) well defined risk management goals, objectives and oversight, (c) uniform strategies for managing and controlling the major risks. (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes and measures.

The committee shall identify practical strategies to reduce the chance of harm and failure, or minimize losses if the risk becomes real.

- 9.3.4 **Oversee the implementation of the risk management plan** – the Risk Oversight Committee shall conduct regular discussions on the Bank's current and residual risk exposure based on regular risk management reports, and assesses how the concerned units or offices are addressing and managing these risks.

In view of the above, shall provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the Bank. This function includes regularly receiving information on risk exposures and risk management activities from Management; and

Report to the Board on a monthly basis, or as deemed necessary, the company's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

- 9.3.5 **Review and revise the plan as needed** – the Risk Oversight Committee shall oversee and evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. It shall revisit strategies, look for emerging or changing material exposures, and stay abreast of significant developments that seriously affect the likelihood of harm or loss. It

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shall report regularly to the Board of Directors, or as deemed necessary, the Bank's over-all risk exposure, the actions taken to reduce the risks, and recommends further action or plans as necessary.

- 9.3.6 **Oversee adherence to risk appetite** – The Committee shall ensure that the current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management among others.
- 9.3.7 **Review the Bank's risk appetite** – at least annually the Committee shall review the Bank's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the company;
- 9.3.8 **Oversee the risk management function** – The Committee shall be responsible for the appointment/selection, remuneration and dismissal of the Chief Risk Officer. It shall ensure that the risk management function has adequate resources and effectively oversee the risk taking activities of the Bank.
- 9.3.9 **Provide necessary assistance to Corporate Governance Committee** – The Committee shall provide assistance in overseeing the design and operation of the remuneration and other incentives by examining whether incentives provided by the remuneration system taken into consideration risk, capital, and likelihood and timing of earnings.

## 10. Corporate Governance Committee <sup>142</sup>

This Committee is tasked to assist the Board of Directors in fulfilling its corporate governance responsibilities by ensuring compliance with and proper observance of corporate governance laws, rules, principles and best practices.

### 10.1 Composition of the Corporate Governance Committee

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

### 10.2 Duties and Responsibilities

The Committee has the following duties and responsibilities, among others:

#### 10.2.1 Corporate Governance Framework and Policies

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<sup>142</sup> MORB, Section 133; SEC Memo No. 19 S2016, Recommendation no. 3.3

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- a. Oversee the implementation of the corporate governance framework and periodically review the said framework to ensure that it remains appropriate in light of material changes to Bank's size, complexity and business strategy, as well as its business and regulatory environment;<sup>143</sup>
- b. Adopt corporate governance policies and ensures that these are reviewed and evaluated regularly and consistently implemented in form and in substance.

#### 10.2.2 Nomination and Election

- a. Together with the Nominations Committee, oversee the nomination process for members of the Board of Directors and for positions requiring appointment by the Board of Directors.
- b. Determine the nomination and election process for the company's directors and has the special duty of defining the general profile of Board members that the company may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board;<sup>144</sup>
- c. 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.
- d. Recommend to the Board of Directors matters pertaining to the assignment to board committees, as well as succession plan for the members of the Board of Directors and senior management.

#### 10.2.3 Education Program

- a. Oversee the continuing education program for the Board of Directors by ensuring allocation of sufficient time, budget and other resources, and draw on external expertise as needed.
- b. The Committee shall establish and ensure effective implementation of policy for on-boarding/orientation program for first time directors and annual continuing education for directors.

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

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<sup>143</sup> SEC Memo No. 19 S2016, Recommendation no. 3.3

<sup>144</sup> SEC Memo No. 19 S2016, Recommendation no. 3.3

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- c. Propose and plan relevant training for the members of the Board. In relation thereto, it shall make recommendations to the Board regarding the continuing education of directors, assignment to Board Committees, succession plan for the Board members and senior officers, and their remuneration commensurate with corporate and individual performance.<sup>145</sup>

#### 10.2.4 Performance Evaluation of the Board and Committees

- a. Oversee the periodic evaluation (may be conducted through the use of self-assessments) of contribution and performance (e.g. competence, candor, attendance, preparedness and participation) of the Board of Directors, board-level committees, and senior management.
- b. Ensure that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement.<sup>146</sup>
- c. Adopt internal guidelines that shall address the competing time commitments that are faced when directors serve on multiple boards.

#### 10.2.5 Compensation of the Directors

- a. Oversee the design and operation of the remuneration and other incentives policy.
- b. Together with the Compensation and Remuneration Committee, the Corporate Governance Committee shall establish a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the Bank's culture and strategy as well as the business environment in which it operates.
- c. The Committee shall ensure that the remuneration and other incentives policy is aligned with operating and risk culture as well as with the strategic and financial interest of the Bank, promotes good performance and conveys acceptable risk-taking behavior defined under its Code of Ethics, and complies with legal and regulatory requirements.
- d. The Committee shall work closely with the Bank's Risk Oversight Committee in evaluating the incentives created by the remuneration system.

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<sup>145</sup> *ibid*

<sup>146</sup> *SEC Memo No. 19 S2016, Recommendation no. 3.3*

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- e. The Committee shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes to ensure that it operates and achieves the objectives as intended.

10.2.6 Decide the manner by which the Board of Directors' performance shall be evaluated, and propose an objective performance criteria approved by the Board. Such performance indicators shall address how the Board has enhanced long-term shareholder's value.

## 11. Related Party Transaction Committee <sup>147</sup>

The Committee shall be responsible for the evaluation on an ongoing basis of the existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured.

### 11.1 Composition of the Related Party Transaction Committee <sup>148</sup>

The Committee shall be composed of at least three (3) independent, non-executive directors, all of whom shall be independent directors.

In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction. The Chief Compliance Officer or the Chief Audit Executive may sit as resource persons in the said Committee.

### 11.2 Duties and Responsibilities

11.2.1 The Committee shall be responsible in ensuring that the RPT policy is reviewed annually or whenever necessary. Any changes therein shall be approved by the Board of Directors through the RPT Committee.

11.2.2 The Committee shall determine the Material Interests or the amount of significant transactions that could pose material risk to the Bank. For this purpose, materiality threshold values for various transactions (i.e., as may be applicable, but not limited to them) have been set for concerned Bank units. The RPT Materiality Threshold summary can be accessed thru the Compliance Public Folder, and shall be promptly updated whenever necessary.

For purposes of Compliance with SEC Memo No. 10 Series of 2019, a transaction amounting to ten percent (10%) or more of the Bank's total consolidated assets based on its latest audited financial statement, shall be considered material, thus subject to the prescribed rules under the said Circular and the Bank's RPT Framework and Policy.

The amount may be changed based on the discretion of the Board.

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<sup>147</sup> MORB, Section 133; SEC Memo No. 19 S2016, Recommendation no. 3.5

<sup>148</sup> ASEAN Corporate Governance Scorecard

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### 11.2.3 Review of Material RPTs

- a. Evaluate on an ongoing basis, existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the Board and regulators/supervisors.
- b. The Committee shall also be responsible in evaluating or reviewing all material RPTs as defined in the existing policies of the Bank.
- c. The Committee shall evaluate the terms and conditions of the facility or the transaction, ensuring that it is conducted at arm's length basis, or shall be upon economic terms not less favorable to the Bank than those offered to others and that no business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transaction.
- d. In determining that a transaction is at arm's length or not undertaken on more favorable economic terms for the related party, it shall consider the pricing, commission, interest rates, fee, tenor, collateral requirement, timing of transactions, economic benefit, etc.

In the evaluation, the Committee shall take into account, among others, the following:

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

### 11.2.4 Ensure that appropriate disclosure is made, and/or information is provided to regulatory agencies regarding the Bank exposures, and policies on conflicts of interest or potential conflicts of interest with the information on the approach

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to managing material conflicts of interest that are inconsistent with such policies and conflicts that could arise as a result of the Bank's affiliation or transactions with other related parties.

- 11.2.5 Report to the Board of Directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
- 11.2.6 Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.
- 11.2.7 Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

## 12. Executive Committee <sup>149</sup>

### 12.1 Composition of the Executive Committee

- 12.1.1 The Committee shall be composed of such number as may be determined by the Board but not exceeding seven (7) including the Chairman and President.
- 12.1.2 The Board of Directors shall have the power at any time to remove and replace the members of, and fill vacancies in, the Executive Committee.

### 12.2 Duties and Responsibilities

- 12.2.1 The Executive Committee, when the Board of Directors is not in session, shall have and may exercise the powers of the Board in the management of the business and affairs of the Corporation, except with respect to <sup>150</sup>:
  - a. Approval of any action for which stockholders' approval is also required;
  - b. The filling of vacancies in the Board of Directors;
  - c. The amendment or repeal of the By-Laws or the adoption of new By-Laws;
  - d. The amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable;
  - e. A distribution of cash dividend to the stockholders; and
  - f. Such other matters as may be specifically excluded or limited by the Board of Directors and/or by laws or regulations.

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<sup>149</sup> Section 1, Art. V of the By-Laws

<sup>150</sup> Section 2, Art. V of the By-Laws

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### 13. Nominations Committee

#### 13.1 Composition of the Nominations Committee

The Nominations Committee shall be composed of at least three (3) members of the Board of Directors all of whom shall be independent directors and the Chairman shall at all times be an Independent Director <sup>151</sup>.

#### 13.2 Duties and Responsibilities <sup>152</sup>

13.2.1 Together with the Corporate Governance Committee, its primary task is to review and evaluate the qualifications of all persons nominated to the Board and all other appointments as may be prescribed in the Bank's internal policy.

That with regard to the nominees to the Board, the Committee is also tasked to identify the quality of the directors nominated aligned with the Bank's strategic directions.

13.2.2 It shall promulgate the guidelines or criteria to govern the conduct of the nomination, and the same shall be properly disclosed in the Bank's information or proxy statement or such other reports required to be submitted to the SEC.

In relation to the above, determine the nomination and election process for the company's directors and has the special duty of defining the general profile of board members that the company may need and ensuring appropriate knowledge, competences and expertise that complement the existing skills of the Board.<sup>153</sup>

13.2.3 The nomination of all directors, more particularly of independent director/s, shall be conducted by the Committee prior to a stockholders' meeting. All nominations or recommendation shall be signed by the nominating stockholders together with the acceptance and conformity of the nominees.

13.2.4 The Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters that meet at least the minimum requirement of relevant BSP and SEC circulars and issuances to facilitate its task to effectively review the qualifications of the nominees for directors, more specifically for independent director/s.

13.2.5 After the nomination, the Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for directors, more particularly for independent directors, as required by existing laws and relevant circulars and issuances.

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<sup>151</sup> *Amended By-laws*

<sup>152</sup> *Article 6.C.2, Amended By-Laws*

<sup>153</sup> *SEC Memo No. 19 S2016, Recommendation no. 3.3*

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13.2.6 Only nominees whose names appear on the Final List of Candidates shall be eligible for election as directors. No other nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

13.2.7 Assess the effectiveness of the Board's processes and procedures in the election or replacement of directors.

#### 14. Remuneration Committee <sup>154</sup>

The Committee provides oversight over the remuneration of senior management and other key personnel, ensuring that compensation is consistent with the Bank's culture, strategy and control environment. <sup>155</sup>

##### 14.1 Composition of the Remuneration Committee

The Remuneration Committee shall be composed of at least three (3) members, the majority of whom shall be an independent director including the chairman.

##### 14.2 Duties and Responsibilities

14.2.1 Establish a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the Bank's culture and strategy as well as the business environment in which it operates. <sup>156</sup>

14.2.2 Review and approve amount of remuneration, which shall be at a sufficient level to attract and retain directors and all personnel who are needed to manage the Bank successfully.

14.2.3 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.

14.2.4 Disallow any director to decide his or her own remuneration.

14.2.5 Provide in the Bank's annual reports, information and proxy statements a clear, concise and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year.

14.2.6 Review (if any) the existing Human Resources Division or Personnel Handbook, to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and

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<sup>154</sup> SEC Memo No. 16, S2016, Recommendation no. 3.3

<sup>155</sup> Organizational Minutes of the Board of Directors dated May 7, 2009

<sup>156</sup> SEC Memo No. 19, S2016, Recommendation no. 3.3

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compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts.

Or in the absence of such Personnel Handbook, cause the development of such, covering the same parameters of governance stated above.

15. Compliance Committee <sup>157</sup>

The Committee shall assist the Board in monitoring compliance with established banking laws, rules and regulations, specifically in compliance risk management system designed to specifically mitigate risks that may erode the franchise value of the Bank such as risk of legal or regulatory sanctions, material financial loss, or loss to reputation, a Bank may suffer as a result of its failure to comply with laws, rules, related self-regulatory organization standards, the codes of conduct applicable to its activities.

The said risk may also arise from failure to manage conflict of interest, treat customers fairly, or effectively manage risks arising from money laundering and terrorist financing activities.

The Committee will report its activities to the Board on a regular basis and make such recommendations, as the Committee deems necessary or appropriate.

15.1 Composition of the Compliance Committee

The Committee shall be composed of at least three (3) members of the Board, preferably, one (1) of whom shall be an independent director, and the chairman of the Committee shall be a non-executive director.

15.2 Duties and Responsibilities

Without prejudice to its Charter, the following are the duties and responsibilities of the Committee:

15.2.1 Ensure that the Bank's compliance function has a formal status within the Bank as established by a charter duly approved by the Board. The Compliance Charter shall define the compliance functions standing, authority and independence. In addition, ensure the appointment of a full-time Chief Compliance Officer, who shall be responsible to manage the compliance program.

15.2.2 Approve the compliance program and material changes, updates, and amendments to the Program.

15.2.3 Ensure that Management generally complies with the prescribed rules, policies, procedures, guidelines and the like, and that appropriate corrective actions are being taken when necessary or required. <sup>158</sup>

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<sup>157</sup> *The Compliance Committee was created by the Board on its Organizational Meeting on May 7, 2009, 2009/210 Organizational Meeting Minutes, p.19*

<sup>158</sup> *May 7, 2009, 2009-2010 Organizational Minutes, page 19*

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- 15.2.4 Receive regular compliance reports from the Chief Compliance Officer or his representative on major activities/initiatives undertaken, general assessment of the Bank's regulatory compliance and vital compliance matters that demands immediate attention.
- 15.2.5 Review the completeness of the processes in reporting and compliance to identified regulatory breaches, including the review of findings by the Bangko Sentral ng Pilipinas and other regulatory agencies, as the case may be;
- 15.2.6 Assess and review on a regular basis the Bank's Compliance Framework.
- 15.2.7 Provide oversight over the implementation of the Compliance Program or Plan affecting its design and implementation thereof.
- 15.2.8 Perform such other duties as may be delegated to it by the Board from time to time.

## 16. Trust Investment Committee

The Trust Investment Committee (TIC) is mandated by regulators to provide oversight functions, overall strategic business development and financial policy directions to the Trust and Asset Management Group (Trust Group). The TIC shall be directly responsible to the Bank's Board of Directors while ensuring that the Trust Group fulfill its fiduciary obligations.

### 16.1 Composition of the TIC

- 16.1.1 The Committee shall be composed of least five (5) members: (a) three [3] non-executive directors or IDs who are not part of the Audit Committee; (b) the President; and (c) the Trust Officer.

The Board shall indicate in the Minutes the Committee Members and designate the Chairman who shall be one of the three (3) non-executive/independent directors.

- 16.1.2 The chairperson, may be any of the following:

Those considered as qualified "independent professionals".

A qualified independent professional shall refer to a person who:

- Is not a director/officer/employee of the Bank during the last twelve (12) months counted from the date of committee membership.
- Is not a relative within the fourth (4<sup>th</sup>) degree of consanguinity or affinity, legitimate or common-law of any executive director or those involved in the day to day management of institution's operation or officer of the Bank.

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- Is not engaged or does not engage in any transactions with the Bank whether by himself or with other persons or through a firm of which he is a partner, other than transactions with are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

An independent professional may be appointed as a TIC member of other banks that belong to the same financial conglomerate.

In case the TIC is composed of more than five (5) members, the majority of whom must be qualified non-executive members.

## 16.2 Duties and Responsibilities

The TIC duly constituted and authorized by the Board shall act within the sphere of authority which may be provided in the by-laws and/or as may be delegated by the Board, such as but not limited to the following:

- 16.2.1 Ensure that the fiduciary activities are conducted in accordance with applicable laws, rules and regulations, and prudent practices;
- 16.2.2 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 and are well understood by concerned personnel of the Trust Group;
- 16.2.3 Oversee the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities and are periodically reviewed and modified as necessary;
- 16.2.4 Adopt an appropriate organizational structure/staffing pattern and operating budgets that shall enable the Trust Group to effectively carry out its functions including enforcement of official lines of authority and appropriate separation of duties;
- 16.2.5 Oversee and evaluate the performance of the Trust Officer.
- 16.2.6 Review all internally and externally prepared audits and examination reports of the Trust Group and take appropriate actions to rectify reported observations in such audits and examination.

## 17. Information Technology Steering Committee

The Information Technology Steering Committee (ITSC) is responsible for assisting the Board in fulfilling its corporate governance and oversight responsibility for the Bank's investments, strategy and implementation in relation to Information Technology and Digitalization.

### 17.1 Composition

- 17.1.1 The ITSC at the minimum, shall be composed of the following:

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- One (1) Non-Executive or Independent Director;
- Head of the Bank's IT Group or the Chief Innovation and Transformation Officer;
- Highest ranking officer who oversees the business user group, identified to be as the President and CEO;
- Chief Finance Officer;
- Head of Consumer Banking Segment;
- Head of Retail Banking Segment;
- The heads of control units (Chief Risk Officer and Chief Audit Executive) should participate in advisory capacity or may sit as resource persons, as necessary

17.1.2 The Board of Directors shall appoint/designate the non-executive / independent director member/s of the ITSC, including its Chairman.

17.1.3 The members of the ITSC shall have a range of expertise as well as adequate knowledge of the Bank's risks concerning information technology, digital transformation, or similar field of expertise.

17.1.4 The Board of Directors shall have the power to remove and replace the non-executive / independent director member/s of the ITSC.

## 17.2 Duties and Responsibilities

ITSC shall recommend to the Board the information technology strategy and its implementation, together with relevant policies.

17.2.1 To facilitate its oversight, the Committee will receive information from management (and external advisors) in relation to the following matters. These matters are not exhaustive and may change from time to time.

- Technology Strategy and Innovation
- Technology Operating Model and Governance
- Technology Investment Oversight
- Technology Operating Performance
- Technology Risk and Security

17.2.2 Keep the Board of Directors informed as needed, by reporting and providing the Board with appropriate guidance, advice or recommendation on matters covered by this Charter, to facilitate decision making by the Board, at least once every quarter and to reflect on IT related matters/reports and updates on IT projects, as necessary.

17.2.3 Ensure open communication between the IT Group and other functional units of the Bank to promote collaborative planning on IT matters and/or projects.

17.2.4 Perform the following to assist the Board in carrying out its IT oversight function:

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- a. Review and recommend to the Board, management's strategies relating to technology and their alignment with the Bank's overall strategy and objectives.
- b. Review and monitor management's strategies for developing or implementing new technologies and systems.
- c. Increase awareness of the technology changes and innovation in the marketplace.
- d. Review and recommend to the Board, new technology investments and monitor and review the post implementation results of all key technology projects.
- e. Review and recommend to the Board, management's strategies for sourcing major technology supplies and monitor the technology governance frameworks for third party suppliers.
- f. Review and monitor the effectiveness of the IT Risk Management and Security plan.
- g. Review and monitor on a periodic basis of the Bank's IT performance against established plans by receiving periodic reports from the concerned units, including reports on: (a) SLA with business units and IT departments; (b) review and validation of established performance benchmarks; and (c) any deviation that should be escalated to the ITSC.

#### **F. Board and Committee Evaluation Process**

The Board shall conduct an annual review of its performance, including the evaluation of the performance of the Chairman, individual members and committees to be conducted through self-assessment. The results thereof shall be reported to the Board through the Corporate Governance Committee.<sup>159</sup>

Every three (3) years, the assessment should be supported by an external facilitator<sup>160</sup>.

#### **G. Remuneration and Other Incentives** <sup>161</sup>

##### **1. Remuneration and Incentive Policy**

The Board of Directors shall approve remuneration and other incentives policies that are consistent with the principle of remuneration and performance. It shall be able to attract and retain the services of qualified and competent individuals that are appropriate and consistent

<sup>159</sup> SEC Memo No. 16, S2016, Recommendation No. 6.1.

<sup>160</sup> The external facilitator can be any independent third party such as, but not limited to, a consulting firm, academic institution or professional organization.

<sup>161</sup> *Ibid*, Article 3.J

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with the Bank's operating and risk culture, long-term business and risk appetite, performance and control environment.

The said policy shall cover all employees and should be designed to encourage good performance that supports the interest of the Bank and its stakeholders. It shall be aligned with prudent risk taking and explicitly discourage excessive risk taking.

This will encourage employees to act in the long-term interest of the Bank, rather than for themselves or for other personal reasons.

## 2. Design of Remuneration

The following shall be considered in the design of the remuneration and other incentives policy:

- 2.1 The remuneration and incentives package shall take into account the employee position, role, responsibilities and activities in the Bank. It shall also consider the risks that the employees take on behalf of the Bank. Thus, it should be sensitive to prospective risk and risk outcomes that have been realized and considers the overall performance of the Bank.
- 2.2 Remuneration and incentive pay-out schedule should be sensitive to the time-horizon of risk. The policy may include provision that defer payment until risk outcomes are better known or provisions under which remunerations and incentives may be reduced or reversed. If new facts emerge showing that the remuneration and incentives paid was based on erroneous assumptions, such as misreporting, or if it is discovered that the employee has failed to comply with internal policies or legal requirements.
- 2.3 Remuneration of employees in risk control function (i.e., Internal Audit, Compliance, and Risk Management Functions) shall be based on the achievement of their objectives and shall be independent of the business lines which they oversee.

## 3. Compensation of Director<sup>162</sup>

- 3.1 The directors shall not receive any compensation in their capacity as directors. However, the stockholders (representing at least a majority of the outstanding capital stock or majority of the members) may grant director with compensation and approve the amount thereof at a regular or special meeting.

In no case shall the total yearly compensation of directors exceed ten (10%) percent of the net income before income tax of the corporation during the preceding year.

- 3.2 The Bank's directors shall receive a per diem for attendance at each session of the Board of Directors or of any Committee. The amount of which shall be in accordance with the Bank's Laws, or as may be determined from time to time by stockholders owning or representing a majority of the subscribed capital stock at any regular or special meeting.

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<sup>162</sup> RCCP, Section 29

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- 3.3 In accordance with Article VIII of the Bank's By-Laws, a portion of the net earnings shall be given to the members of the Board of Directors.
  - 3.4 No Director of the Bank is allowed to participate in the discussion or deliberation involving his / her own per diem or remuneration.<sup>163</sup>
  - 3.5 The Bank shall reflect in its annual report the total compensation of each of their directors, in accordance with the requirements of the law.
4. Disclosure of Board Compensation<sup>164</sup>

The Board shall oversee the disclosure of the directors' compensation considering that the Bank is a corporation vested public interest. The Bank shall submit to the shareholders and the SEC, an annual report of the total compensation of each of the directors, in accordance with existing laws and regulations.

#### **H. Corporate Secretary** <sup>165</sup>

1. The Corporate Secretary is an officer of the Bank, a Filipino citizen and resident of the Philippines.

The Corporate Secretary is primarily responsible to the corporation and its shareholders and not to the Chairman or President of the Company.

2. Among others, he has the following responsibilities:
  - 2.1 Assist the Board and the Board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its committees to set agenda for those meetings;
  - 2.2 Safekeep and preserve the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the corporation;
  - 2.3 Keep abreast on relevant laws, rules and regulations, all governance issuances, relevant industry;
  - 2.4 Work fairly and objectively with Board, Management, stockholders and other stakeholders;
  - 2.5 Advise on the establishment of Board committees and their terms of reference.
  - 2.6 Inform the members of the Board, in accordance with the By-Laws, of the agenda of their meetings at least five working days in advance and ensure that the members have

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<sup>163</sup> SEC Memo No. 19, S2019, Recommendation No. 2.5

<sup>164</sup> RCCP, Section 29

<sup>165</sup> SEC Memo No. 19, S2016, Recommendation No. 1.5

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before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;

- 2.7 Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent him from doing so;
- 2.8 Perform required administrative functions;
- 2.9 Oversee the drafting of the by-laws and ensure that they conform with regulatory requirements; and
- 2.10 Perform such other duties and responsibilities as may be provided by the Securities and Exchange Commission.

## I. Officers

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

### 1. Qualifications of an Officer <sup>166</sup>

- 1.1 An officer must be fit and proper for the position he is being appointed to. In determining whether a person is fit and proper for a particular position, the following shall be considered: integrity/probity, education/training, and possession of competencies relevant to the function such as knowledge and experience, skills and diligence, and concurrent positions and interlocking positions in other entities that may pose conflict of interest.<sup>167</sup>
- 1.2 In assessing an officer's integrity/probity, consideration shall be given by the Bank to the officer's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.
- 1.3 The appointed officer has the burden to prove that he possesses all the foregoing qualifications and none of the disqualifications mentioned under Section 138 of the MORB.
- 1.4 An officer shall submit to the BSP the required certifications and other documentary proof of the qualifications using as guide Appendix 101 of the MORB, within twenty (20) banking days from the date of meeting of the Board in which the officer was

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<sup>166</sup> *These qualifications are in addition to those required or prescribed under R.A 8791 otherwise known the General Banking Law of 2000.*

<sup>167</sup> *Interlocking position was added among the factors to consider in determining fitness in accordance with BSP Circular No. 1129 re: Amendments to Corporate Governance Guidelines for BSP-Supervised Financial Institutions.*

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appointed/promoted. Non submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position and results to his/her removal therefrom.

2. Duties and Responsibilities of Officers on Corporate Governance <sup>168</sup>
  - 2.1 To set the tone of good governance from the top. Bank officers shall promote the good governance practices within the Bank by ensuring that policies on governance as approved by the Board of Directors are consistently adopted across the Bank.
  - 2.2 To oversee the day-to-day management of the Bank. Bank officers shall ensure that Bank's activities and operations are consistent with bank's strategic objectives, risk strategy, corporate values and policies as 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 Bank.
  - 2.3 To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency. Bank officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each Bank personnel. Bank officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the Board of Directors for the performance of the Bank.
  - 2.4 To promote and strengthen check and balance systems in the Bank. Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their function. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.
3. Bio-Data of Officers
  - 3.1 Banks shall submit to the appropriate department of the BSP a bio-data with ID of their:
    - 3.1.1 Officers who are subject to confirmation based on existing rules;
    - 3.1.2 Officers below the rank of SVP requiring a different set of minimum qualifications, upon every election/re-election/appointment/promotion in a prescribed form and for first time directors/officers within a particular bank/banking group whose election/appointment required MB/SES Committee confirmation, the duly notarized authorization form (as prescribed by the BSP under Appendix 80), within twenty (20) banking days from the date of election/re-election of the directors/meeting of the Board of Directors in which the officers are appointed/promoted, in accordance with Appendix 137 of the MORB.
  - 3.2 Updating of the Bio-Data

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<sup>168</sup> MORB, Section 134, Duties and Responsibilities of Officers

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- 3.2.1 The bio-data shall be updated and submitted in cases of change of name due to change in civil status and change of residential address, within twenty (20) banking days from the date the change occurred, and in cases of requests for prior Monetary Board approval of interlocks.
- 3.2.2 Officers below the rank of SVP other than the Treasurer, trust officer, and heads of internal audit, risk management, and compliance functions regardless of rank, the Bank shall not be required to submit their bio-data to the BSP.
4. List of Officers <sup>169</sup>
- 4.1 The Bank is required to submit to the Central Point of Contact – BSP a duly notarized list of incumbent officers (president or equivalent rank, down the line, following the prescribed BSP format (Appendix 102 of the MORB), within ten (10) banking days from the annual election of the Board of Directors.
- 4.2 The responsibility of submission is with the Bank’s Office of the Corporate Secretary, however, the list shall be prepared by the Human Resources Division.
5. Disqualification of Officers <sup>170</sup>
- 5.1 An officer who is elected or appointed but who does not possess all the qualifications under existing rules of the BSP <sup>171</sup> and/or has any of disqualifications mentioned under Section 138 shall not be confirmed by the confirming authority of the BSP and shall be removed from office even if he/she assumed the position to which he/she was elected or appointed, in accordance with the established procedures on termination of an employee with a cause.
- 5.2 In case of officers who have been confirmed already by the confirming authority of the BSP, but was found to possess any of the disqualifications enumerated in the MORB shall be subject to the disqualification procedures.
- 5.3 Except as may be authorized by the Monetary Board or the Governor, spouse of relative within the second degree of consanguinity or affinity of any person holding the position of Chairman, President, Executive Vice President or any position of equivalent rank, General Manager, Treasury, Chief Cashier or Chief Accountant is disqualified from holding or being elected or appointed to any of said positions in the same bank/quasi-bank; and the spouse or relative within the second degree of consanguinity or affinity of any person holding the position of Manager, Cashier, or Accountant of a branch or office of a bank/quasi-bank/trust entity is disqualified from holding or being appointed to any of said positions in the same branch or office.

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<sup>169</sup> MORB, Section 138, *Disqualification and Watchlisting of Directors and Officers, as amended by BSP Circular No. 1076.*

<sup>170</sup> *ibid*

<sup>171</sup> MORB, Section 134, *Officers*

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- 5.4 Except as may otherwise be allowed under C.A no. 108, otherwise known as “The Anti-Dummy Law”, as amended, foreigners cannot be officers or employees of banks.<sup>172</sup>
6. Persons prohibited to become officers<sup>173</sup>
- 6.1 The spouse or relatives within the second degree of consanguinity or affinity holding officership positions across the following functional categories within a bank:
- 6.1.1 Decision making and senior management function, e.g. president, chief executive officer (CEO), chief operating officer (COO), general manager, and chief finance officer (CFO);
  - 6.1.2 Treasury function, e.g., treasurer or treasury head;
  - 6.1.3 Recordkeeping and financial reporting functions, e.g. controller and chief accountant;
  - 6.1.4 Safekeeping or assets, e.g. chief cashier;
  - 6.1.5 Risk management function, e.g. chief risk officer;
  - 6.1.6 Compliance function, e.g. chief compliance officer; and
  - 6.1.7 Internal audit function, e.g. chief audit executive
- The spouse or a relative within the second degree of consanguinity or affinity of any person holding the position of manager, cashier, or accountant of a branch or branch-lite unit of a bank or their respective equivalent positions is prohibited from holding or being appointed to any of said positions in the same branch or branch-lite unit.
- 6.2 Any appointive or elective official, whether full time or part time, except in cases where such service is incidental to the financial assistance provided by the government or government-owned or-controlled corporations (GOCCs) in cases allowed under existing laws.

## V. Code of Conduct

1. The Bank must establish a set of Personnel Policies and Code of Conduct to be strictly observed by all employees of the Bank. It should form part of the Employee Handbook which a copy should be distributed to all employees for their information. Any updates thereto shall also be distributed to all employees and should be duly acknowledged. This Handbook shall be with the employee for the whole duration of his stay in the Bank and must be surrendered upon his resignation / retirement.

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<sup>172</sup> MORB, Section 132, Board of Directors

<sup>173</sup> BSP Memo No. 1076, Series of 2020, Amendments to the Regulations on the Disqualification and Watchlisting of Directors/Officers, dated 18 February 2020

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2. All officers and employees of the Bank hold a position of trust. In this regard he/she must avoid situations where his / her personal interest may conflict or appear to conflict with the interest of the Bank or its customers. In case of conflict, the interest of the Bank should prevail. <sup>174</sup>

## **VI. Compliance System and Internal Control**

### **A. Internal Control Framework <sup>175</sup>**

#### **1. Definition of Internal Control**

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

#### **2. Components of Internal Control**

The Bank's internal control framework shall embody the following:

- 2.1 Management oversight and control culture
- 2.2 Risk recognition and assessment
- 2.3 Control activities
- 2.4 Information and communication; and
- 2.5 Monitoring activities and correcting deficiencies

#### **3. Control Activities <sup>176</sup>**

Bank control activities shall form part of the daily activities and all levels of personnel in the Bank. This shall involve establishment of control policies and procedures, and verification that these are being complied with.

Control activities is every business level shall include the following:

- 3.1 Top and functional level reviews;
- 3.2 Checking compliance with exposure limits and follow-up on non-compliance;
- 3.3 A system of approvals and authorizations (to include the approval process for new products and services); and
- 3.4 A system of verification and reconciliation.

#### **4. Senior Management's Responsibility over Internal Control**

- 4.1. Senior management shall be responsible for maintaining, monitoring and evaluating the adequacy and effectiveness of the internal control system on an ongoing basis, and for reporting on the effectiveness of inter controls on a periodic basis;

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<sup>174</sup> *Code of Ethics – item 4.7*

<sup>175</sup> *MORB, Section 162, Internal Control Framework*

<sup>176</sup> *ibid, Control Activities*

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- 4.2. Management shall develop a process that identifies, measures, monitors and controls risk that are inherent to the operations of the Bank;
- 4.3. Maintain an organizational structure that clearly assigns responsibility, authority and reporting relationships;
- 4.4. Ensure that delegated responsibilities are effectively carried out;
- 4.5. Implement internal control policies and ensure that activities are conducted by qualified personnel with the necessary experience and competence;
- 4.6. Ensure that bank personnel undertake continuing professional development and that there is an appropriate balance in the skills and resources of the front office, back office, and control functions;
- 4.7. Management shall promptly inform the internal audit function of the significant changes in the bank's risk management system, policies and processes.

**B. Compliance Function** <sup>177</sup>

The Bank's Compliance function acts as a second line of defense, aside from Risk Management. It has a formal status, as established by a Charter, defining its function, standing, authority and independence, which includes its right to obtain access to information necessary to carry out its responsibilities, conduct of investigation on possible breaches of the compliance policy.

The compliance function is under the Compliance Group of the Bank with direct reporting line to the Board or the Compliance Committee.

The Compliance Function facilitates effective management of compliance risk by:

- a. Advising the Board and senior management on relevant laws, rules and standards, including keeping them informed on development in the area;
- b. Apprising the Bank's personnel on compliance issues, and acting as a contact point within the Bank for compliance queries;
- c. Establishing written guidance to staff on appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines;
- d. Identifying, documenting and assessing the compliance risk associated with the Bank's business activities, including new products and business units;

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<sup>177</sup> *MORB, Section 161, Compliance Function*

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- e. Assessing the appropriateness of the Bank's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments;
  - f. Monitoring and testing compliance by performing sufficient and representative compliance testing; and
  - g. Maintain constructive working relationship with the BSP.
1. Chief Compliance Officer (CCO) <sup>178</sup>

The Bank's CCO should have the necessary qualifications, experience, and professional background and should have a sound understanding of relevant laws and regulations and their potential impact on the Bank's operations.

#### 1.1 Qualifications of a CCO

- 1.1.1 He must be fit and proper for the position of an officer based on the fit proper rules of the BSP <sup>179</sup>, which consideration shall include but not limited to: integrity/probity, education, training and possession of competencies relevant to the function;
- 1.1.2 He must have the necessary knowledge, skill, experience and professional background on banking, financial industry or compliance.
- 1.1.3 He should have understanding of relevant laws, rules and regulations and their potential impact on the Bank's operations.  
  
In this regard, he should be up-to-date with the developments in laws, rules, regulations and standards maintained through continuous training.
- 1.1.4 He has the burden to prove that he possesses all the minimum qualifications and none of the disqualifications by submitting the proof of qualifications to the BSP using the list in Appendix 101 of the MORB as guide.
- 1.1.5 Non-submission of the complete document requirements within the prescribed deadline shall be construed as his failure to establish his qualifications for the position and shall result to his removal.

#### 1.2 Appointment

- 1.2.1 Banks are required to appoint a full-time CCO to manage the compliance program. Taking into consideration the importance of the compliance function, the CCO shall be a senior officer functionally reporting to the Bank's Board of

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<sup>178</sup> MORB, Section 161, Compliance Program

<sup>179</sup> MORB, Section 134, Qualifications of an Officer

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Directors through the appropriate board-level Committee. Such designation shall require prior approval of the Monetary Board. <sup>180</sup>

For this purpose, no member of the Board shall be appointed as Chief Compliance Officer<sup>181</sup>.

1.2.2 It shall be the responsibility of the OCS to secure the said BSP approval in the form of a letter request within a reasonable period after the Bank's board approval of the appointment of the CCO.

1.2.3 The appointment of the CCO shall be immediately disclosed to the Securities and Exchange Commission on SEC Form 17-C by the OCS. All correspondences relative to his functions as such shall be addressed to the said Officer.

## 2. Duties and Responsibilities<sup>182</sup>

2.1 He shall oversee the identification and management of the Bank's compliance risk and shall supervise the compliance function staff.

2.2 He is expected to liaise with the BSP on compliance related issues.

2.3 He shall also be responsible for ensuring the integrity and accuracy of all documentary submissions to the BSP and the SEC.

2.4 He shall functionally meet/report to the Board or Board-level committee, such as, but not limited to, matters that affect the design and implementation of the compliance program to the Board or Compliance Committee;

He shall also report found violation matters to the Board and recommends the imposition of appropriate disciplinary action;<sup>183</sup>

2.5 Seek the approval of the Board for the Compliance Program and amendments thereto; and

2.6 Report promptly breaches of compliance program to the Board or Compliance Committee and to promptly address these breaches.

The CCO shall have the following additional duties<sup>184</sup> :

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

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<sup>180</sup> MORB, Section 161, Compliance Framework

<sup>181</sup> MORB, Section 132, Qualifications of a Director, as amended by BSP Circular No. 1129, Amendments to Corporate Governance Guidelines for BSP-Supervised Financial Institutions.

<sup>182</sup> *ibid*

<sup>183</sup> SEC Memo No. 19, S2016, Recommendation no. 1.5

<sup>184</sup> SEC Memo No. 19, S2016, Recommendation no. 1.5

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- 2.8 Monitor, review, evaluate and ensure the compliance by the Bank, its officers and directors with the relevant laws, the Code of CG for PLCs, rules and regulations and all governance issuances of regulatory agencies;
- 2.9 Appear before the Commission when summoned in relation to compliance with the Code of CG for PLCs; and
- 2.10 Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
- 2.11 Identifies possible areas of compliance issues and works towards the resolution of the same;
- 2.12 Ensures the attendance of Board members and key officers to relevant trainings; and
- 2.13 Perform such other duties and responsibilities as may be provided by the SEC.

### 3. Work Program

#### 3.1 Program Objectives

This section is added herein just for clarity of purpose.

- 3.1.1 This work program is not distinct from the Bank's Compliance Work Program, but it shall serve as an extension of the former and shall be implemented in accordance and in conjunction with the duly approved Compliance System.
- 3.1.2 This shall aide the Bank monitor compliance with the applicable laws, rules and regulations specifically those affecting corporate governance.

#### 3.2 Work Plan

##### 3.2.1 Identification of applicable laws, rules and regulations

- a. It shall be the general responsibility of the corporate governance officer of the Bank to identify basic laws, rules and regulations, standards and best practices concerning corporate governance.
- b. A list of the basic and specific laws shall be maintained by the corporate governance officer to serve as his/her guide in monitoring compliance.

##### 3.2.2 Risk Levels

The risk levels as identified in the Compliance Manual shall be adopted in the risk classification of laws, rules and regulations affecting corporate governance, that shall be based on:

- a. **Impact** – the potential loss as well as the potential effect on shareholder value and reputation;

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- b. **Likelihood** – the frequency with which the event is likely to occur or the probability

This however, does not prohibit the corporate governance officer from adding relevant criteria in determining risk levels.

### 3.2.3 Compliance Testing

As required in the Bank's Compliance System, the Corporate Governance Officer shall conduct a periodic compliance testing on Bank's compliance with applicable laws, rules and regulations on corporate governance.

## C. Audit Function

Internal Audit is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control.

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

It shall both assess and complement operational management, risk management, compliance and other control functions. In this respect, internal audit shall be conducted in frequencies

1. Internal Auditor or the Chief Audit Executive (CAE)
  - 1.1 Appointment, Reappointment and Removal of the CAE
    - 1.1.1 The head of the internal audit function shall be appointed/re-appointed or replaced with prior approval of the Audit Committee.<sup>185</sup>
    - 1.1.2 In cases when the CAE will be replaced, the Bank shall report the same and the corresponding reason for replacement to the appropriate supervising department of the BSP within five (5) days from the time it has been approved by the Board of Directors.
  - 1.2 Duties and Responsibilities of the CAE <sup>186</sup>
    - 1.2.1 To review, at least annually, the internal audit charter and present it to the senior management and the Audit Committee for approval.<sup>187</sup>
    - 1.2.2 To demonstrate appropriate leadership and have the necessary skills to fulfill his responsibilities for maintaining the unit's independence and objectivity.

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<sup>185</sup> *MORB Section 163*

<sup>186</sup> *BSP Circular No. 871 series of 2015, page 11, Duties and responsibilities of the head of internal audit function or the Chief Audit Executive.*

<sup>187</sup> *SEC Memo No. 19, S2016, Recommendation no. 12.3*

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- 1.2.3 To be accountable to the Board of Directors or audit committee on all matters related to the performance of its mandate as provided in the internal audit charter. The CAE shall submit a report to the Audit Committee or Board on the status of accomplishment of the internal audit unit, including findings noted during the conduct of internal audit as well as status of compliance of concerned departments or units.
- 1.2.4 To ensure that the internal audit function complies with sound internal auditing standards such as the Institute of Internal Auditors' International Standards on Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics.
- 1.2.5 To develop a risk-based-audit plan, including policies and procedures based on robust risk assessment to determine the priorities of the internal audit activity, consistent with the organization's goals, including inputs from the Board of Directors, Audit Committee and senior management and ensure that such plan is comprehensive and adequately covers regulatory matters. The CAE shall also ensure that the audit plan, including any revisions thereto, shall be approved by the Audit Committee.<sup>188</sup>
- 1.2.6 To ensure that the internal audit function has adequate human resources with sufficient qualifications and skills necessary to accomplish its mandate. In this regard, the CAE shall periodically assess and monitor the skill-set of the internal audit function and ensure that there is an adequate development program for the internal audit staff that shall enable them to meet the growing technical complexity of banking operations.
- Moreover, to communicate internal audit activity's plan, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval.
- 1.2.7 To spearhead the performance of the internal audit activity to ensure it adds value to the organization
- 1.2.8 To report periodically to the Audit Committee on the internal audit activity's performance relative to its plan; <sup>189</sup>
- 1.2.9 To present the findings and reformations to the Audit Committee and give advice to senior management and the Board on how to improve internal processes. <sup>190</sup>

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<sup>188</sup> SEC Memo No. 19, S2016, Recommendation no. 12.3

<sup>189</sup> *ibid.*

<sup>190</sup> *ibid*

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1.2.10 In addition to those mentioned in the job description of the CAE, he/she is the highest person in the Bank responsible for internal audit activities or to perform the audit function.

1.3 Independence of the Internal Auditor <sup>191</sup>

1.3.1 The By-Laws/Internal Audit Charter shall provide for the position of internal auditor together with the authority, accountability, duties and responsibilities, scope and objectives of internal auditing. It shall be the responsibility of the OCS to ensure that this is complied with.

1.3.2 The Chief Audit Executive shall report directly to the Board of Directors or to an audit committee composed of directors who do not hold executive positions in the Bank.

1.3.3 The internal auditor shall not install nor develop procedures, prepare records or engage in other activities which he normally reviews or appraises.

1.4 Qualification Standards of an Internal Auditor <sup>192</sup>

The Head of the internal audit function must have an unassailable integrity, relevant education/ experience/training, and has an understanding of the risk exposures of the bank, as well as competence to audit all areas of its operations.

He must also possess the following qualifications:

1.4.1 The head of the internal audit function or the Chief Audit Executive of a universal bank must be a Certified Public Accountant (CPA) or a Certified Internal Auditor (CIA);

1.4.2 He must have at least five (5) years of experience in the regular audit (internal or external) of a UB or KB as auditor-in-charge, senior auditor or audit manager; and

1.4.3 He must possess the knowledge, skills, and other competencies to examine all areas in which the institution operates. Professional competence as well as continuing training and education shall be required to face up to the increasing complexity and diversity of the institution's operations.

1.5 Qualification to Audit TBs, Subsidiaries and Affiliates

A qualified CAE of a UB shall be qualified to audit TBs, RB, Coop Banks, QBs, trust entities, NSSLAs, subsidiaries and affiliates engaged in allied activities, and other financial institutions under BSP supervision.

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<sup>191</sup> MORB, Section 162, Internal Control Framework

<sup>192</sup> BSP Circular 871, Series of 2015, page 10, Qualification of the Head of the Internal Audit Function

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## 1.6 Code of Ethics and Internal Auditing Standards <sup>193</sup>

The internal auditor should conform with the Code of Professional Ethics for CPAs and ensure compliance with sound internal auditing standards, such as the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (e-mail: standards@theiia.org; Web: http://www.theiia.org.) and other supplemental standards issued by regulatory authorities/government agencies. The Standards address independence and objectivity, professional proficiency, scope of work, performance of audit work, management of internal audit, quality assurance reviews, communication and monitoring of results.

- 1.7 The Bank's internal auditor shall include among his functions, the conduct of periodic audits of the trust department or investment management department at least once every twelve (12) months. The Board of Directors, in a resolution entered in its minutes, may also require the internal auditor to adopt a suitable continuous audit system to supplement and/or to replace the periodic audit. In any case, the audit shall ascertain whether the institution's trust and other fiduciary business and investment management activities have been administered in accordance with laws, BSP rules and regulations, and sound trust or fiduciary principles. <sup>194</sup>

## 2. Internal Audit

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

Internal audit is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of an organization, which helps management and the Board of Directors in protecting the bank and its reputation. <sup>195</sup>

In addition, Internal Audit helps the Bank in monitoring and guides the implementation of policies and to accomplish the Bank's objective by bringing a systematic, disciplined approach. <sup>196</sup>

The internal audit function shall both assess and complement operational management, risk management, compliance and other control functions. In this respect, internal audit shall be conducted in frequencies commensurate with the assessment levels of risk in specific banking areas.

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<sup>193</sup> *ibid*; MORB, Section 163, Internal Audit Function

<sup>194</sup> *ibid*

<sup>195</sup> *ibid*

<sup>196</sup> SEC Memo No. 19, S2016, Recommendation no. 12.2

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2.1 Permanency of Internal Audit Function <sup>197</sup>

The Bank shall have a permanent internal audit function. In case of China Bank's group structure where it is the parent bank with BSP-supervised subsidiaries and affiliates, in accordance with the BSP rule may establish an internal audit in each of the BSP-supervised institution or centrally by the parent bank.

2.2 Functions of Internal Audit <sup>198</sup>

Among others, internal audit shall have the following functions:

2.2.1 Provide an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in:

- a. Promoting the right values and ethics;
  - i. Ensuring effective performance management and accounting in the organization;
  - ii. Communicating risk and control information; and
  - iii. Coordinating the activities and information among the Board, external and internal auditors, and Management.

2.2.2 Perform regular and special audit as contained in the annual audit plan and/or based on the Bank's risk assessments;

2.2.3 Perform consulting and advisory services related to governance and control as appropriate for the Bank;

2.2.4 Perform compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the Bank;

2.2.5 Review, audit and assess the efficiency and effectiveness of the internal control system of all areas of the Bank;

2.2.6 Evaluate operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried;

2.2.7 Evaluate specific operations at the request of the Board or Management, as appropriate; and

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<sup>197</sup> MORB, Section 163

<sup>198</sup> SEC Memo no. 19, S2016, Recommendation no. 12.2

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2.2.8 Monitor and evaluate governance process.

2.3 Internal Audit Function in Group Structures <sup>199</sup>

2.3.1 In case each of the BSP-supervised institutions belonging to China Bank has their own internal audit function, the said IA shall be accountable to its own Board of Directors and shall likewise report to the Chief Audit Executive of the parent bank or China Bank within a reasonable period and frequency prescribed by the Board of China Bank.

2.3.2 In case the Parent Bank's Internal Audit shall cover the internal audit activities of the subsidiaries or affiliate BSP-supervised financial institution, the Board of China Bank shall ensure that the score of the internal audit activities is adequate considering the size, risk profile and complexity of operations of the subsidiary or affiliate concerned.

2.3.3 In accordance with BSP rules, the establishment of internal audit function centrally by the parent bank in group structures shall not fall under the outsourcing framework. In this respect, the CAE shall define the internal audit strategies, methodology, score and quality assurance measures for the entire group.

The above shall be done in consultation and coordination with the respective Board of Directors of the subsidiary or affiliate BSP-supervised financial institution.

The Board of Directors of the subsidiary or affiliate BSP-supervised financial institution shall remain ultimately responsible for the performance of the internal audit activities.

2.4 Professional Competence and Ethics of the Internal Audit <sup>200</sup>

2.4.1 The internal audit function shall be comprised of professional and competent individuals who collectively have the knowledge and experience necessary in the conduct of an effective internal audit on all areas of Bank's operations. The skill set of the internal audit staff shall be complemented with appropriate audit methodologies and tools as well as sufficient knowledge of auditing techniques in the conduct of audit activities.

2.4.2 All internal audit personnel shall act with integrity in carrying out their duties and responsibilities. They should respect the confidentiality of information acquired in the course of the performance of their duties and should not use it for personal gain or malicious actions.

2.4.3 IA personnel shall avoid conflicts of interest. Internally-recruited internal auditors shall not engage in auditing activities for which they have had previous responsibility before a one-year "cooling off" period has elapsed.

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<sup>199</sup> *ibid*, Internal Audit function in group structure

<sup>200</sup> MORB, Section 163 and BSP Circular No. 871 Series of 2015, page 12

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- 2.4.4 The IA personnel shall adhere at all times to the Bank's Code of Ethics as well as to an established code of ethics for internal auditors such as that of the Institute of Internal Auditors.
- 2.5 Independence and Objectivity of the Internal Audit Function <sup>201</sup>
- 2.5.1 The function of Internal Audit must be independent of the activities audited and from day-to-day internal control process. It must be free to report audit results, findings, opinions, appraisals and other information through clear reporting line to the Board of Directors or audit committee. It shall have authority to directly access and communicate with any officer or employee, to examine any activity or entity of the Bank, as well as to access any records, files or data whenever relevant to the exercise of its assignment.
- 2.5.2 If independence or objectivity of internal audit function is impaired, in fact or appearance, the details of the impairment must be disclosed to the audit committee. Impairment to organizational independence and individual objectivity may include, but is not limited to, personnel conflict of interest, scope limitations, restrictions on access to records, personnel and properties, and resource limitations, such as funding.
- 2.5.3 The internal audit function shall inform senior management of the results of its audits and assessment. Senior management may consult the internal auditor on matters related to risks and internal controls without tainting the latter's independence. *Provided, That:* the IA shall not be involved in the development or implementation of policies and procedures, preparation of reports or execution of activities that fall within the scope of his review.
- 2.5.4 Staff of the internal audit shall be periodically rotated, whenever practicable, and without jeopardizing competence and expertise to avoid unwarranted effects of continuously performing similar tasks or routine jobs that may affect the internal auditor's judgment and objectivity.
- 2.5.5 The Audit Committee or senior management should take all necessary measures to provide the appropriate resources and staffing that would enable internal audit to achieve its objectives.
- 2.6 The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.
- 2.7 The scope of internal audit function <sup>202</sup> :
- All processes, systems, units and activities, including outsourced services shall fall within the overall scope of the internal audit function.

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<sup>201</sup> *ibid*, MORB Section 163, Internal Audit Function

<sup>202</sup> *Ibid*; BSP Circular No. 871, Series of 2015, page 13

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The score of internal audit shall cover, among others, the following:

- 2.7.1 Evaluation of adequacy, efficiency and effectiveness of internal control, risk management and governance system in the context of current and potential future risk;
  - 2.7.2 Review of the reliability, effectiveness and integrity of management and financial information systems, including the electronic information system and electronic banking services;
  - 2.7.3 Review of the systems and procedures of safeguarding the Bank's physical and information assets;
  - 2.7.4 Review of compliance of trading activities with relevant laws, rules and regulations.
  - 2.7.5 Review of the compliance system and the implementation of established policies and procedures.
  - 2.7.6 Review of areas of interest to regulators such as, among others monitoring of compliance with relevant laws, rules and regulations, including but not limited to the assessment of the adequacy of capital and provisions, liquidity level; regulatory and internal reporting.
- 2.8 Establish a follow-up process to monitor and ensure that engagement recommendations and management actions have been effectively implemented or that senior management has been apprised of and has accepted the risks of not taking action. The status reports shall summarize unresolved findings/exceptions, recommendations, corrective actions, officers responsible and implementation dates.
  - 2.9 The internal auditors shall have free and full access to all functions, Bank's records/files, accounts, properties, and personnel relevant to the internal audit activity with strict accountability for confidentiality and safeguarding of information obtained.
  - 2.10 The Chief Audit Executive shall render to the Audit Committee and senior management an annual report on the Internal Audit Group's activities, purpose, authority, responsibility, and performance relative to audit plans and strategies approved by the Audit Committee.
  - 2.11 Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluation, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
  - 2.12 The Chief Audit Executive shall coordinate with other control and monitoring Units (e.g. Risk Management Group, Compliance Group, Legal Division, Human Resources Group, and Information Security Office) on activities and issues that are considered important and pose potential risks to the Bank.

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- 2.13 The Chief Audit Executive shall establish a quality assurance program which assures the effectiveness and efficiency of the internal auditing activities and identifies opportunities for improvement. Furthermore, he/she shall communicate the status of internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.
- 2.14 Internal Auditors should evaluate significant new or changing Bank's operations, functions, processes, services and systems coincident with their development, implementation and expansion to ensure adequacy and effectiveness of security and control.
- 2.15 Internal Audit should assist the Bank in the investigation and evaluation of significant suspected fraudulent activities within the organization and notify management and the Audit Committee of the results.
- 2.16 Internal Auditors should consider the scope of work of the external auditors/service providers and regulators, as appropriate, for the purpose of providing optimal audit coverage to the Bank at a reasonable cost.
- 2.17 Internal Audit should report significant risk exposures, control and governance issues, and other matters needed or requested by the Board through the Audit Committee.
- 2.18 Internal Audit should maintain professional workforce which collectively have sufficient knowledge, skills, experience, and professional qualifications/certifications to meet the requirements of regulations and its Charter.
3. Outsourcing of Internal Audit Activities <sup>203</sup>

The Bank may outsource internal audit activities except for areas covered by existing statutes on deposit secrecy. Outsourcing of internal audit activities shall however, be done on a limited basis to have access to certain areas of expertise that are not available to the internal audit function or to address resource constraints. *Provided, That:* the internal audit activity shall not be outsourced to the bank's own external auditor/audit firm not to internal audit service provider that was previously engaged by the Bank in the same area intended to be covered by the internal audit activity that will be outsourced, without a one-year "cooling off" period. *Provided, further, That:* the Head of the Bank's internal audit function shall ensure that the knowledge or inputs from the outsourced experts shall be assimilated into the Bank to the greatest extent possible.

4. Internal Audit Charter

The Bank shall have an internal audit charter approved by the Board. The said Charter shall be periodically reviewed by the CAE and any changes thereto shall be approved by the Board.

The Charter shall establish, among others the following:

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<sup>203</sup> MORB, Section 163; BSP Circular No. 871, Series of 2015, page 9

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- 4.1 Purpose, stature and authority, and responsibilities of the internal audit function as well as its relations with other control functions in the bank. The charter shall recognize the authority of the internal audit function, to initiate direct communication with any bank personnel; to examine any activity or entity; and to access any records, files, data and physical properties of the bank, in performing its duties and responsibilities;
  - 4.2 Standards of independence, objectivity, professional competence and due professional care, and professional ethics;
  - 4.3 Guidelines or criteria for outsourcing internal audit activities to external experts.
  - 4.4 Guidelines for consulting or advisory service that may be provided by the Internal audit function.
  - 4.5 Responsibilities and accountabilities of the CAE.
  - 4.6 Requirement to comply with sound internal auditing standards such as the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics; and
  - 4.7 Guidelines for coordination with the external auditor and supervisory authority.
5. Audit of Trust Operations <sup>204</sup>

The Bank's internal auditor shall include among his functions the conduct of annual audit of the trust department or investment management department.

However, the Board of Directors, through a resolution duly minuted, may require the internal auditor to adopt a suitable continuous audit system to supplement and/or replace the performance of the annual audit. The audit may be conducted in intervals commensurate with the assess levels of risk in trust and investment management operations; *Provided*, That such intervals shall be supported and reassessed regularly to ensure appropriateness given the current risk and volume of the trust and investment management operations.

In any case the audit shall ascertain whether the institution's trust and other fiduciary business and investment management activities have been administered in accordance with laws, BSP rules and regulations, and sound trust or fiduciary principles.

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<sup>204</sup> *MORB, Section 164, Selection, Appointment, Reporting Requirements and Delisting of External Auditors and/or Auditing Firm; Sanctions; Effectivity*

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## 6. External Auditor <sup>205</sup>

### 6.1 Appointment of the External Auditor

6.1.1 An external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the company, an external auditor shall be selected and appointed by the stockholders upon recommendation of the Audit Committee.

6.1.2 The Bank in selecting, appointing, re-appointing or dismissing its External Auditor including fees of the external auditor should be recommended by the Audit Committee, approved by the Board and ratified by the shareholders. The External Auditor appointed should be part of the SEC and/or BSP list of accredited External Auditors.

6.1.3 Banks shall engage the services of an external auditor that is duly included in the list of selected external auditors for Banks. That is belonging to the same category or from category higher than the category of the Bank.<sup>206</sup>

The External Auditor of the Bank shall likewise audit the Bank's trust department, subsidiaries and affiliates engaged in allied activities, as applicable.<sup>207</sup>

### 6.2 Audit Engagement and Reportorial Requirements

The scope of external audit work shall sufficiently cover the following areas:

6.2.1 Review of the adoption of the applicable reporting framework as well as the assessment of the accuracy, adequacy, and reliability of accounting records and financial reports;

6.2.2 Assessment of the propriety and adequacy of disclosures in the financial statements;

6.2.3 Assessment of the adequacy and effectiveness of internal controls and risk management systems;

6.2.4 Assessment of the quality of capital in relation to risk exposures; and

6.2.5 Evaluation of the quality of corporate governance.

### 6.3 Engagement Contract

The External Auditor's engagement contract shall include, at the minimum the following:

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<sup>205</sup> SEC Memo No. 19, S2016, Recommendation no. 9.1; MORB Section 164

<sup>206</sup> BSP Memo No. 1040, Revised Framework on the Selection of External Auditors.

<sup>207</sup> *ibid*

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- 6.3.1 The disclosure of information, such as those enumerated under item “6.4” below by the external auditor to the BSP and/or other financial section supervisors shall not constitute a breach of confidentiality on the part of the external auditor nor shall it be a ground for civil, criminal, or disciplinary proceedings against the external auditor;
- 6.3.2 That the external auditor shall be allowed read-only access to the Bangko Sentral’s Report of Examination on the Bank and that the external auditor shall appropriately consider the contents thereof and maintain its confidentiality; and
- 6.3.3 That the Bank and the external auditor shall comply with all the requirements under the rules of the BSP.

The engagement contract shall be made available by the Bank to the Bangko Sentral upon request.

#### 6.4 External Audit Report to the BSP

The External Auditor is required by the BSP to report to the appropriate supervising department of the BSP within fifteen (15) calendar days upon discovery of any matter adversely affecting the condition or soundness of the Bank, such as but not limited to:

- 6.4.1 Any material finding involving fraud or error;
- 6.4.2 Actual or potential losses, the aggregate or which amounts to at least ten percent (10%) of the consolidated total assets of the Bank;
- 6.4.3 Significant doubt as to the ability of the Bank to continue as a going concern;
- 6.4.4 Material breach of laws or Bangko Sentral rules and regulations such as but not limited to prescribed capital and liquidity ratios, significant deficiency in allowance for credit losses, material weakness in fair value measurement methodology, and significant vulnerabilities to money laundering and combating financing of terrorism;
- 6.4.5 Material internal control weaknesses which may lead to financial reporting problems; and
- 6.4.6 Findings on matters of corporate governance that may require urgent action by the BSP.

#### 6.5 Non-Audit Work and Conflict of Interest

- 6.5.1 The external auditor of the Bank shall not at the same time provide internal audit services. The Bank shall ensure that other non-audit work to be given to the external auditor shall not be in conflict with the functions of the external auditor, or does not pose a threat to his independence.

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6.5.2 The Bank shall disclose the nature of the non-audit services performed by its external auditor in the Annual Report.

6.6 Cessation of Service of the External Auditor

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 corporation 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.

6.7 Views of the External Auditor on the Annual Report and Other Disclosures

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

6.8 Rotation of the External Auditor

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

**D. Risk Management Function** <sup>208</sup>

The risk management function is one of the Bank's second line of defense, apart from Compliance, and shall be under the Risk Management Group (RMG) of the Bank.

The RMG shall report functionally to the Board or through the Risk Oversight Committee. The personnel under the RMG should collectively have knowledge and technical skills commensurate with business activities and risk exposures of the Bank.

1. General Responsibilities of the Risk Management Group

The risk management function is generally responsible for:

- 1.1 Overseeing the risk-taking activities across the Bank as well as in evaluating whether these remain consistent with the Bank's risk appetite and strategic decision;
- 1.2 Ensuring that the risk governance framework remains appropriate relative to the complexity of risk taking activities of the Bank;

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<sup>208</sup> MORB, Section 142, Risk Governance Framework (amended by Circular No. 971); SEC Memo No. 19 S2016, Recommendation no. 12.4

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- 1.3 Assisting management in meeting its responsibility to understand and manage risk exposures and ensure the development and consistent implementation of risk policies, processes, and procedures throughout the Bank;
- 1.4 Defining a risk management strategy;
- 1.5 Identifying, measuring and analyzing key risks exposure and assessing and measuring the extent of risk exposure of the bank and its trust operations, to include risk exposures on economic, environmental, social and governance factors and the achievement of the Bank strategic objective;
- 1.6 Monitoring the risk exposure 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;
- 1.7 Evaluating, categorizing, monitoring and assessing decisions to accept particular risks whether these are consistent with board approved policies and parameters on risk tolerance and the effectiveness of the corresponding risk mitigation measure.

This shall include developing a risk mitigation plan for the most important risks to the Bank, as defined by the risk management strategy;

- 1.8 Establishing a risk register with clearly defined, prioritized and residual risks;
- 1.9 Communicating and reporting significant risk exposures, including strategic, compliance, operations, financial and reputation risks, control issues and risk mitigation plan on a regular basis to senior management, Risk Oversight Committee 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 development 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; and

- 1.10 Monitoring and evaluating the effectiveness of the Bank's risk management processes.

## 2. Chief Risk Officer (CRO) <sup>209</sup>

### 2.1 Qualifications of the Chief Risk Officer

2.1.1 The CRO should have the knowledge and skills necessary to oversee the Bank's risk management activities. To be assessed based on the ability of the CRO to influence decisions that affect the Bank's exposure to risk.

2.1.2 He should have the ability to interpret and articulate risk in a clear and understandable manner.

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<sup>209</sup> *MORB, Section 142, Risk Governance Framework, Chief Risk Officer*

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- 2.1.3 He can engage in a constructive dialogue with the Board, CEO, and other senior management on key risk issues, without compromising his independence.
- 2.2 Appointment of the Chief Risk Officer (CRO)
- 2.2.1 The Bank shall appoint a CRO, or any equivalent position, who shall be independent from executive functions and business line responsibilities operations and revenue-generating functions.
- 2.2.2 The CRO shall be appointed with prior approval of the Board of Directors.
- 2.2.3 Regardless of rank, his appointment shall require the prior approval of the Bangko Sentral ng Pilipinas.<sup>210</sup>
- 2.3 Independence of the CRO
- The independence of the CRO shall be displayed in practice at all times as such, albeit the CRO may report to the President or senior management, shall have direct access to the Board of Directors and the Risk Oversight Committee without any impediment. In this regard, the Board shall confirm the performance ratings given by the President or senior management to the CRO.
- 2.4 Status and Authority of the CRO
- 2.4.1 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.
- 2.4.2 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 management committee on a regular basis and such meetings shall be duly minuted and adequately documented.
- 2.5 Replacement of the CRO
- 2.5.1 The CRO shall be replaced with prior approval of the Board of Directors. In case when the CRO will be replaced, the Bank shall report the same to the SES of the BSP within five (5) days from the time it has been approved by the Board of Directors.
- 2.5.2 The reporting of the CRO's replacement shall be handled by the Office of the Corporate Secretary.

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<sup>210</sup> *MORB, Section 137, Confirmation of the Election*

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2.6 Duties and Responsibilities of the Chief Risk Officer <sup>211</sup>

2.6.1 The CRO shall be responsible for overseeing the risk management function and shall support the Board in the development of the risk appetite and risk appetite statement of the Bank and for translating the risk appetite into risk limits structure.

2.6.2 He shall be responsible to propose enhancements to risk management policies, process, and systems to ensure that the Bank's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

2.7 The CRO has the following functions <sup>212</sup>:

2.7.1 To supervise the Enterprise Risk Management (ERM) process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;

2.7.2 To communicate the top risks and the status of implementation of risk management strategies and action plans to the Risk Oversight Committee;

2.7.3 To collaborate with the CEO in updating and making recommendation to the Risk Oversight Committee;

2.7.4 To suggest ERM policies and related guidance, as may be needed; and

2.7.5 To provide insights on the following:

- a. Risk management processes are performing as intended;
- b. Risk measures reported are continuously reviewed by risk owners for effectiveness; and
- c. Established risk policies and procedures are being complied with.

There should be a clear communication between the Risk Oversight Committee and the CRO.

**E. Communication Process**

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

2. All directors, executives, division and department heads are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process. They must read this Manual and understand the rules herein discussed.

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<sup>211</sup> MORB, Section 142, Chief Risk Officer

<sup>212</sup> SEC Memo No. 19, S2016, Recommendation no. 12.5

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3. Soft copy of this Manual shall be made available to everyone in the Bank through the Bank's Public Folder in the IBM Notes under Compliance or similar data registry, for easy reference.

## **F. Training Process**

### **1. Orientation Program**

- 1.1 The Bank shall allocate funds for the purpose of conducting an orientation program or workshop to operationalize this Manual.
- 1.2 A new director must have attended a seminar on corporate governance for board of directors.
- 1.3 The orientation program for first time directors shall be for at least eight (8) hours, while the annual continuing training shall be at least for four (4) hours. The training programs should cover topics relevant in carrying out their duties and responsibilities as directors.

The required/mandated SEC topics for the new director's first training are enumerated in item 2.2 below.

### **2. Continuing Education Program for the Directors and Key Officers <sup>213</sup>**

- 2.1 At least annually, as part of the continuing education program for the directors, they are required to attend a program on corporate governance conducted by a training provider duly accredited by the Securities and Exchange Commission.
- 2.2 Moreover, in accordance with SEC Memo No. 13 Series of 2014 (attached as Annex 4), the Basic Course Outline of the Training Provided, should include among others, the following:

#### **2.2.1 Basic Course**

- a. Framework for Financial Statement Reporting
- b. Principal Financial Statements and Their Uses
- c. What Decision-Makers Need to Know about the Principal Financial Statements (e.g. Statement of Comprehensive Income, Balance Sheet, Cash Flow Statement, and Statement of Change in Equity)
- d. What Board of Directors and Management Need to Know About Accounting Principles
  - i. Income Statement, Balance Sheet & Statement of Cash Flows

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<sup>213</sup> SEC Memo No. 19, Recommendation no. 2.3; MORB, Section 132, Board of Directors

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- ii. Financial Statement Analysis
- iii. What to Spot in Financial Statements
  - Issue Spotting
  - What should Be Included in Performance Dashboards
  - Pointers to Ensure that Recording, Processing & Reporting Data Do Not Result in Material Misstatement of Financial Statements
  - Pointers to Avoid Material Weaknesses in Internal Controls
  - Financial Policies for Fraud Prevention that Decision-Makers Should Have
  - What Decision-Makers Need to Know About the External Auditor's Opinion
  - Understanding Basic Concepts in Making Business Decisions
  - What Decision-Makers Can Get from Reading Financial Statements

#### 2.2.2 Advance Course

Which will cover among others, provisions of the Philippine Financial Reporting Standard Standards that are relevant to the company's specific industry.

### 2.3 Mandated Topics <sup>214</sup>

All the mandated topics are required to be discussed during the first training of each director or key officers.

Subsequently, follow-up trainings may focus in more detail on any of the mandated topics appropriate to the needs of the directors or officers.

- 2.3.1 Revised Code of Corporate Governance
- 2.3.2 ASEAN Corporate Governance Scorecard and SEC Annual Corporate Governance Report
- 2.3.3 Board Responsibilities
- 2.3.4 Illegal activities of corporations/directors/officers
- 2.3.5 Insider Trading
- 2.3.6 Protection of minority shareholders
- 2.3.7 Short Swing Transactions

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<sup>214</sup> SEC Memo Circular No. 2 (Series of 2015), item IV, 3

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- 2.3.8 Liabilities of Directors
- 2.3.9 Confidentiality
- 2.3.10 Conflict of Interest
- 2.3.11 Related Party Transaction
- 2.3.12 Case Studies
- 2.3.13 Financial Reporting and Audit

2.4 In relation to items 2.1 & 2.2 above, it shall be the responsibility of the Compliance Group to ensure that only accredited SEC training providers are engaged by the Bank to conduct the required annual training.

### 3. Seminars through Videoconference <sup>215</sup>

3.1 Directors and Key Officers who are unable to physically attend a scheduled CG training may participate through videoconference subject to the following conditions:

3.1.1 The accredited training provider or the company conducting the in-house training shall advise the Commission if there are directors or key officers who will participate through videoconference at least two (2) weeks before the scheduled training.

3.1.2 The accredited training provider shall assume the following responsibilities:

- a. To safeguard the integrity of the training/seminar via videoconferencing;
- b. To record and properly document the training seminar;
- c. To store for safekeeping the recording; and
- d. To forward to the Commission a copy of the recording

3.1.3 The Commission shall have the option to observe and monitor the conduct of the said training program.

## **G. Reportorial or Disclosure System of Bank's Corporate Governance Policies**

1. The reports or disclosures required under this Manual shall be prepared and submitted to Philippine Stock Exchange (PSE), Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas, as the case may be in accordance with existing regulations, by the responsible committee or officer or through the Bank's Chief Compliance Officer.

2. All material information, i.e., anything that could potentially affect share price and volume shall be publicly disclosed. Such information shall include earnings results, acquisition or disposal of assets, off balance sheet transactions, board changes, RPTs, shareholdings of directors, direct and indirect remuneration of members of the Board and Management, and changes to ownership.

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<sup>215</sup> *ibid, item 4*

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3. Other information that shall always be disclosed includes remuneration (including stock options) of all directors and senior management, corporate strategy, and off balance sheet transactions.
4. All disclosed information shall be released via the approved stock exchange procedure for company announcements as well as through the annual report.
5. The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submission to the Commission for the interest of its stockholders and other stakeholders.
6. The Bank, as an Issuer of listed stocks, is prohibited to communicate material non-public information about the Issuer to any person, unless the Issuer is ready to simultaneously disclose the material non-public information to the Securities and Exchange Commission. This rule does not apply if the disclosure is made to:
  - 6.1 A person who is bound by duty to maintain trust and confidence to the Issuer such as but not limited to its auditors, legal counsels, investment bankers, financial advisers; and
  - 6.2 A person who agrees in writing to maintain in strict confidence the disclosed material information and will not take advantage of it for his personal gain.
  - 6.3 The Issuer shall establish and implement internal control that will ensure that its officers, staff and any other person who is privy to the material non-public information shall comply with the requirement of this rule.
7. The Bank shall observe disclosure on the acquisition or disposal of significant assets, among others, the rationale, effect on operations and approval at board meetings with independent directors present to establish transparency. In this regard, should the Bank be the offeree, the Board shall appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.

## **H. Transparency**

The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the Bank. The stockholders shall be encouraged to personally attend such meetings. In case they cannot come, the OCS should apprise them of their right to appoint a proxy.

### **1. Shareholder's Benefit**

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.

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## 2. Investors' Rights and Protection

2.1 Rights of Investors/Minority Interests. The Board shall be committed to respect the following rights of the stockholders:

### 2.1.1 Voting Rights

2.1.2 Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.

2.1.3 Cumulative voting shall be used in the election of directors.

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

2.1.5 Right to call special stockholders' meeting, subject to the rules and conditions issued by the Securities and Exchange Commission. Refer to item no. 2.2 below for more details.

## 2.2 Right to Call Special Stockholders' Meeting<sup>216</sup>

2.2.1 Any number of shareholders of the Bank ("Qualifying Shareholder(s)") that hold at least ten percent (10%) or more of the outstanding capital stock ("Qualifying Shares") shall the right to call for a Special Stockholders' Meeting, subject to the rules issued by the SEC in accordance with Section 49 of the RCCP.

### 2.2.2 Conditions

#### a. Qualifying Shares

The Qualifying Shareholders should have continuously held the Qualifying Shares for a period of at least one (1) year prior to the receipt by the Corporate Secretary of a written Call for Special Stockholders' Meeting.

#### b. Form and Period

The Call for a Special Stockholders' Meeting shall be in writing, signed by the Qualifying Shareholder(s), addressed to the Board of Directors thru the Office of the Corporate Secretary at least forty-five (45) days prior to the proposed date of the special meeting.

The Written Call, shall contain the following:

- i. Names of the Qualifying Stockholder(s) and their respective percentage of shareholdings, which must constitute at least ten percent (10) of the outstanding capital stock of the corporation;

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<sup>216</sup> SEC Memorandum No. 7, Series of 2021 re: Calling of Special Stockholders' Meeting

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- ii. Purpose of the Call, stated with sufficient clarity, and must affect the legitimate interest of the stockholders and is germane to the stockholders' interest; *Provided*, that the purpose should not include the removal of any director under Section 27 of the RCCP.
  - iii. Proposed date and time of the requested Special Stockholders' Meeting; *Provided*, that no stockholder may call a special meeting within sixty (60) days from the previous meeting of the same nature and where the same matter was discussed, unless the Bank's By-Laws provide otherwise or the special meeting is approved by the Board of Directors.
  - iv. Proposed agenda items to be discussed during the Special Stockholders' meeting: *Provided*, that the matters to be discussed are those affecting the legitimate interests of the shareholders on corporate actions where stockholders' approval is required under the RCC, except the right to remove a director; *Provided further*, that a special meeting cannot be called if the proposed agenda is not compliant with the rules under SEC Memo No. 7.
  - v. Proof of Shareholdings by the Qualifying Shareholder(s), must be provided together with at least one (1) valid government issued ID for natural persons. For juridical persons or entities, a Secretary's Certificate, or its equivalent, must be submitted showing the following: (a) a majority of its Board of Directors, Trustees, or Partners has approved the Call of a Special Stockholders' Meeting; (b) that an authorized representative was designated for this purpose; and (c) that the authorized representative provides at least one [1] valid government issued ID
- c. Notice of the Special Stockholders' Meeting
- i. If the Call is found to be consistent with the rules, the Board shall issue the Notice to convene the Special Stockholders' Meeting at least seven (7) days prior to the proposed date of special meeting in accordance with Sections 49 & 50 of the RCCP. SEC Memorandum Circular No. 6, s. 2021 on teleconferencing, videoconferencing, and other remote electronic means of communication, and other relevant laws, rules and regulations of the SEC, the BSP and the By-Laws.
  - ii. If found inconsistent, the Board of Directors, through the Office of the President, shall send a written notice to the requesting stockholders indicating that a meeting cannot be called due to their failure to comply with the requirements necessary to call for a Special Meeting of Stockholders. The notice shall clearly set out the basis for the inconsistency of the request, and shall be sent out within twenty (20) days from receipt thereof.

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d. Penalty / Sanction

- i. Any officer or agent of the Bank who shall refuse to allow the Qualifying Shareholder(s) to exercise his/her/their right to call a meeting shall be liable under Section 158 of the RCCP: *Provided*, that if such refusal is made pursuant to a Board resolution or order of the Board of Directors, the sanction shall be imposed upon the directors who voted for the refusal: *Provided further*, that it shall be a defense to any action under SEC Circular No. 7 s.2021 that the shareholder exercising any of these rights was not acting in good faith or in accordance with the requirements of the relevant rules and regulations.
- ii. Delay in the processing of the request to call for Special Stockholders' Meeting shall be equivalent to refusal if the delay is solely caused by negligence on the part of the Bank.
- iii. After due noticed and hearing, if the SEC finds that any provision of Circular No. 07 s.2021 was violated, or that any of the rights of the shareholders has been abused, the Commission may impose any or all of the sanctions under Section 158 of the RCCP.

3. PSE's Revised Disclosure Rules

3.1 Pre-emptive Right

All stockholders shall have preemptive rights, unless the same is denied in the articles of incorporation or an amendment thereto. They shall have the right to subscribe to the capital stock of the Bank. The articles of incorporation shall lay down the specific rights and powers of shareholders with respect to the particular shares they hold, all of which shall be protected by law so long as they shall not be in conflict with the Corporation Code.

3.2 Power of Inspection

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

3.3 Right to Information

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

3.3.2 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.

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- 3.3.3 The minority shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".
- 3.4 Right to Dividends
- 3.4.1 Shareholders shall have the right to receive dividends subject to the discretion of the Board.
- 3.4.2 The Bank shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board; or b) when the Bank is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Bank, such as when there is a need for special reserve for probable contingencies.
- 3.5 Appraisal Right
- 3.5.1 The shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:
- 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.
  - d. It shall be the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The directors shall pave the way

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for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

#### 4. Policy on Insider Trading

##### 4.1 Definition of Insider trading

**Insider Trading** is defined as the buying or selling of a security by someone who has access to material, nonpublic information about the security.<sup>217</sup>

The term can be both legal and illegal conduct. The legal version is when corporate insiders (see section 4.2 below for the definition of insider), like directors, officers, and employees buy and sell stock of their own companies and reports the same to the exchange in compliance with existing regulations<sup>218</sup>, such as those under Section 27 – Insider’s Duty to Disclose When Trading of the Securities Regulation Code (SRC).

The illegal conduct is the buying and selling of security in breach of a fiduciary duty or other relationship of trust and confidence, while in possession of material, nonpublic information about the security. Insider trading violations may also include "tipping" such information, securities trading by the person "tipped," and securities trading by those who misappropriate such information.<sup>219</sup>

##### 4.2 Definition of Insider<sup>220</sup>

"Insider" means: (a) the- issuer; (b) a director or officer (or person performing similar functions) of, or a person controlling the issuer; (c) a person whose relationship or former relationship to the issuer gives or gave him access to material information about the issuer or the security that is not generally available to the public; (d) a government employee, or director, or officer of an exchange, clearing agency and/or self-regulatory organization who has access to material information about an issuer or a security that is not generally available to the public; or (e) a person who learns such information by a communication from any of the foregoing insiders.

##### 4.3 Definition of Material Non-Public Information<sup>221</sup>

An information is “material non-public” if: (a) It has not been generally disclosed to the public and would likely affect the market price of the security after being disseminated to the public and the lapse of a reasonable time for the market to absorb the information; or (b) would be considered by a reasonable person important under the circumstances in determining his course of action whether to buy, sell or hold a security.

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<sup>217</sup> <http://www.investopedia.com/terms/i/insidertrading.asp#axzz20mMms2Ao> <visited on July 16, 2012>

<sup>218</sup> <http://www.sec.gov/answers/insider.htm> <visited on July 17, 2012>

<sup>219</sup> *ibid*

<sup>220</sup> *Securities Regulation Code, Section 3.8 – Definition of Terms*

<sup>221</sup> *Securities Regulation Code, Section 27.2*

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#### 4.4 Prohibition Against “Tipping” / Communicating Material Non-Public Information

It shall be unlawful for any insider to communicate material non-public information about the issuer or the security to any person who, by virtue of the communication, becomes an insider as defined in Subsection 3.8, where the insider communicating the information knows or has reason to believe that such person will likely buy or sell a security of the issuer while in possession of such information. <sup>222</sup>

#### 4.5 Transactions on the Basis of Material, Non-Public Information

If a person shall become aware of a potential tender offer before the tender offer has been publicly announced, such person shall not buy or sell, directly or indirectly, the securities of the target company until the tender offer shall have been publicly announced. Such buying or selling shall constitute insider trading under Section 27.4 of the Code. <sup>223</sup>

#### 4.6 Penalty for Illegal Conduct of Insider Trading

The Bank, the Board and Senior Management do not tolerate illegal insider trading conduct. This policy is clearly stated in Table 6.7 – Conflict of Interest, Code of Ethics, which we quote:

VIOLATIONS	PENALTIES		
	1 <sup>ST</sup> Offense	2 <sup>nd</sup> Offense	3rd Offense
Engaging, directly or indirectly, in financial transactions as a result of , or primarily relying upon, “insider information”	Written Reprimand / Suspension	Suspension / Dismissal	Dismissal

#### 4.7 Dealings of Directors in Bank’s Shares

In compliance with best practices, dealings of the directors in the Bank’s shares shall be disclosed, within three (3) business days after the transaction.

### 5. Alternative Dispute Resolution System

#### 5.1 Stockholders

The Bank constantly adheres to the applicable laws, rules and regulations geared towards the recognition and protection of the rights of the stockholders. The Bank has not encountered any major conflict with its stockholders for the last three (3) years. However, minor differences, mostly related to submission of documents, were resolved through active listening, affirming the feelings of stockholder, providing and explaining the reason for the Bank requirements, evaluating suggestions, referral of concerns to

<sup>222</sup> *Securities Regulation Code, Section 27.3*

<sup>223</sup> *Securities Regulation Code, 2015 IRR, Rule 19 – Tender Officers*

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appropriate persons such as the transfer agent, and providing feedback and/or following up on the outstanding documents, issues and concerns.

## 5.2 Third Parties

As the plaintiff or defendant in cases where the Bank is a party involved in the suit, the Bank participates in the mediation proceedings as part of the court mandated pre-trial proceedings, during the judicial dispute resolution and the formal pre-trial proceedings, wherein parties enter into stipulations and admissions.

The Bank also participates in alternative dispute resolution when the same is provided under the contract of which the Bank is a party thereto.

The Bank refers to the provisions in the signed contracts to resolve discrepancies, disputes, undelivered requirements, erroneous output, etc.; conflicts are likewise amicably resolved via discussions and negotiations with third parties and related-service providers; ties are severed in cases when the overall interest of the Bank are at negatively at stake.

## 5.3 Regulatory Authorities

The Bank appears, for purposes of alternative dispute resolution before the different regulatory agencies such as, the BSP, PHHC, SEC, IC, ROD and other administrative agencies e.g. agrarian officers participate in the process for the speedy, inexpensive and just resolution of disputes.

## 6. Access to Relevant Information <sup>224</sup>

The Bank strongly believes that disclosure of relevant information about the Bank to its shareholders and other stakeholders is crucial for them to make an informed decision. In this regard, the Bank has an existing website [www.chinabank.ph](http://www.chinabank.ph) where relevant information about the Bank is disclosed. The Bank also maintains a micro-website on Corporate Governance for the easy, convenient and focused disclosures of governance policies and practices.

The website is the Bank's channel for the comprehensive and cost-efficient communication with its stakeholders and other interested users.

The CG micro-site includes media and analysts' briefings to ensure the timely and accurate dissemination of public, material, and relevant information.

## 7. Dividend Policy and Guidelines <sup>225</sup>

China Bank, as a matter of policy, will declare cash dividends at a payout ratio of at least thirty percent of the net income of the prior year, subject to the conditions and limitations set forth in this policy statement.

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<sup>224</sup> SEC Memo No. 19, S2016, Principle 11

<sup>225</sup> The Bank's enhanced Dividend Policy was approved by the Board of Directors on 01 July 2015

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The Bank's Dividend Policy is an integral component of its Capital Management Policy and Process rather than a stand-alone process. Its fundamental and overriding philosophy is sustainability.

Dividend pay-outs are reviewed annually. These are referenced against the Bank's Capital Management Process. Based on the Capital Management Process, dividend pay-outs are calibrated based on the prior year's earnings while taking consideration dividend yields, future earnings streams and future business opportunities.

In declaring dividend pay-outs, China Bank uses a combination of cash or stock dividends as follows:

1. The dividend is increased in response to the Bank's achieving a higher level of sustainable earnings.
2. Dividends may be increased for a specific year to plow back to shareholders a commensurate share of unusually high earnings for a given year.

China Bank capital management philosophy and process, and consequently its Dividend Policy which comprises an integral component of this undertaking, are driven by the following primary objectives:

1. Ensuring compliance with externally imposed regulatory capital requirements.
2. Maintaining strong credit ratings.
3. Maintaining healthy capital ratios to support its business and maximize shareholder value.

China Bank manages its capital structure and makes adjustments to it in the light of:

1. Changes in economic conditions.
2. The risk characteristics of its activities.
3. The assessment of prospective business requirements or directions.

Management of and adjustments to the capital structure are accomplished through the following principal means:

1. Adjustments of dividend pay-outs to shareholders
2. Adjustments in form of dividend pay-outs (cash vs. stock)
3. The issuance or conversely reduction of capital securities.

Capital Management broadly follows the process outlined below:

1. An assessment of regulatory capital and capital adequacy measures.
2. Determination of the optimal capital structure based on an a risk-based capital planning approach that considers:
  - a. Planned levels and risk appetite for business activity with a focus on the implication of these plans on the resulting credit, market and operational risk exposure.

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- b. An analysis of the implications of macroeconomic activity or industry developments and probability of a corresponding improvement or deterioration in the bank's risk exposures.
  - c. Provision of a capital buffer to mitigate against an unforeseen deterioration in the bank's asset portfolio quality, or an increase in business risk, or business opportunities that arise over the course of its business activities.
  - d. Desired capital mix, leverage, and target return on equity.
  - e. Accretive or dilutive effects of incremental capital build up programs.
  - f. Developments or opportunities in the capital markets or regulatory environment that have a direct relation to the Bank's ability to build up or reduce its capital levels.
  - g. Sustainability of internally generated capital and consequently sustainability of dividend payouts.
8. Sale or Other Disposition of Assets<sup>226</sup>

The Bank may sell, lease, exchange, mortgage, pledge or otherwise dispose of its property and assets, upon terms and conditions which may be money, stock, bonds, or other instruments for the payment of money or other property or consideration, as the Board may deem necessary, by a majority vote of the Board.

On sale involving all or substantially all of the corporation's properties and assets, including its goodwill must be authorized by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock, or at least 2/3 of the members, in a stockholders' meeting duly called for the purpose.

If the counterparty is a related party, the RPT rules shall apply.

9. Annual Certifications and Report<sup>227</sup>

The Bank shall comply with the reportorial requirements under the RCCP:

- 9.1 Annual audited financial statements by an independent certified public accountant, duly accredited by the BSP;
- 9.2 General information sheet;
- 9.3 Director compensation report; and

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<sup>226</sup> *RCCP, Section 39*

<sup>227</sup> *ibid, Section 177*

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- 9.4 Director appraisal or performance report and the standards or criteria used to assess each director or trustee.

**I. Monitoring and Assessment**

1. Each Committee shall report regularly to the Board of Directors.
2. The Compliance Officer shall establish an evaluation or self-rating system to determine and measure the performance of the Board and Management in compliance with this Manual. Any violation thereof shall subject the responsible officer or employee to the penalty provided under Section M 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 Bank. 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 same frequency is amended by the Board.
5. All business processes and practices being performed within any department or business unit of the Bank that are not consistent with any portion of this manual shall be revoked, following due process and proper investigation, or shall be required to comply with the requirements under this Manual.

**J. Group Structure <sup>228</sup>**

1. Preparation of the Group Structure
  - 1.1 The Bank shall develop a group structure or conglomerate map showing all entities in the group where the Bank belongs either as parent, subsidiary or affiliate. It shall be the responsibility of Compliance Office to prepare the required group structure.
  - 1.2 The group structure or conglomerate map is also a requirement of the SEC under SEC Bulletin No. 1 Series of 2012. Thus, the same shall also be disclosed in the Bank's Annual Report as required.
2. Reporting of the Group Structure

The group structure shall be updated annually and submitted to the Central Point of Contact of the BSP by the Corporate Governance Officer, within thirty (30) calendar days after end of every calendar year.

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<sup>228</sup> *BSP Circular No. 749, Section 6. (a) (1)*

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## K. Related Party Transactions

### 1. General RPT Policy Statements

- 1.1 The Bank recognizes that Related Party Transactions (RPTs) may give rise to a conflict of interest. In this regard, The Bank, through its Board of Directors shall ensure that transactions with related parties are reviewed to make sure that all RPTs are conducted at arm's length or shall be upon terms not less favorable to the Bank than those offered to others and that corporate or business resources of the Bank are not misappropriated or misapplied.
- 1.2 Significant or material transactions shall refer to dealings that could pose material risk to the Bank. In accordance with SEC rules, a related party transaction is considered material if its amount is ten percent (10%) or higher of a company's total assets<sup>229</sup>. Transactions that shall amount to this limit shall be handled in accordance with SEC requirements.
- 1.3 Further to the above, prior to the execution of the said material RPT, the Bank shall appoint or engaged an external independent party to evaluate the fairness of the terms of the material RPTs.
- 1.4 The BSP however, did not prescribe a materiality threshold. China Bank has set materiality threshold values for various transactions (i.e., as may be applicable, but not limited), for each concerned unit. The RPT materiality threshold summary is available in the Bank's intranet under the Compliance Public Folder, and shall be promptly updated whenever necessary. The amount may be changed subject to the approval of the Bank's Board of Directors.
- 1.5 The BOD has deemed it proper for the RPT Committee to review all material RPTs and ensure that RPTs are duly ratified by the Stockholders during the Annual Stockholders' Meeting.<sup>230</sup> A more detailed discussion of the RPT Committee is in Section VI.K of this Manual.
- 1.6 Related Party shall cover the Bank's subsidiaries, affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the Bank exerts direct/indirect control over or that exerts direct/indirect control over the Bank; the Bank's directors; officers; stockholders and related interests (DOSRI), and their close family members as well as corresponding persons in affiliated companies.<sup>231</sup>
- 1.7 Related Parties shall be treated like ordinary counterparties/client of the Bank. There shall be no special rates and prices to be offered or granted to such parties.
- 1.8 Any director of the Bank who has an interest in the related party transaction shall not participate in the deliberation and shall abstain in the approval thereon.

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<sup>229</sup> Total assets based on its latest audited financial statement (SEC Memo No. 10 Series of 2019, dated 25 April 2019)''

<sup>230</sup> Related Party Transaction Committee Charter

<sup>231</sup> BSP Circular No. 895, Guidelines on Related Party Transactions

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- 1.9 The Bank shall develop more detailed policy guidelines in handling RPTs. All other policies or operating manual on Significant Transactions or RPTs shall be a supplement to this Manual. In case of conflict in policies, the latest approved policy shall prevail.
2. Significant Transaction Report <sup>232</sup>
    - 2.1 BSP Reportorial Requirement

The Bank is required to submit significant transaction report between entities in the group involving any-BSP regulated entity, within twenty (20) calendar days after end of the reference quarter.
    - 2.2 SEC Material RPT and Threshold <sup>233</sup>

The SEC has defined material related party transaction as a transaction between and among related parties amounting to ten percent (10%) or higher of a company's total assets based on its latest audited financial statement,

In this regard, the Bank as a PLC is required to submit an Advisement Report to the SEC on its material RPT within three (3) calendar days after the execution date of the transaction.

In order to ensure proper compliance, the Bank has updated its RPT Framework to incorporate the SEC requirements. The revised RPT Framework is posted on the Bank's website under Corporate Governance.<sup>234</sup>
3. Disclosure of Related Party Transactions
    - 3.1 The Bank shall disclosed a summary of material related party transactions (based on SEC rules) entered into during the reporting years which shall be disclosed in the Bank's I-ACGR to be submitted annually every May 30.<sup>235</sup>
    - 3.2 Material RPTs falling under the BSP guidelines shall be disclosed in the Bank's Annual Report (glossy type),
- L. Integrated Annual Corporate Governance Report (I-ACGR) <sup>236</sup>**
1. In accordance with SEC Memo No. 15, Series of 2017, every May 30 starting 2018 and for each succeeding year that the Bank remains listed in PSE, the Bank shall be

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<sup>232</sup> *ibid*

<sup>233</sup> *SEC Memo No. 10 Series of 2019, Rules on Material Related Party Transactions for Publicly-Listed Companies*

<sup>234</sup> <https://www.chinabank.ph/pdf/Revised-RPT-Framework-and-Policy-Guidelines-October-2019.pdf>

<sup>235</sup> *ibid*

<sup>236</sup> *SEC Memorandum 15, Integrated Annual Corporate Governance Report*

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required to submit three (3) copies of the fully accomplished I-ACGR (standard format provided for by the SEC and shall be made available in the Compliance Public Folder).

1.1 The I-ACGR shall be prepared / accomplished as follows:

Column	General Instruction/s
<p>Recommended CG Practices / Policies</p> <p><i>Contains CG practices / policies derived from corresponding sources, labeled as follows:</i></p> <ol style="list-style-type: none"> <li>1. "Recommendation" (CG Code for PLCs)</li> <li>2. "Supplement Recommendation" (PSE CG Guidelines for Listed Companies)</li> <li>3. "Additional Recommendation" (CG practices not found in the first two items but are expected of PLCs)</li> <li>4. "Optional Recommendation" (ASEAN Corporate Governance Scorecard)</li> </ol>	<ul style="list-style-type: none"> <li>- Answer/Disclose the first three (3) items using the "comply or explain" approach.</li> <li>- Answer/Disclose the fourth item based on the Bank's discretion.</li> </ul>
<p>Compliant / Non-Compliant</p>	<p>Indicate if the Bank is compliant with the recommended practice or not</p>
<p>Additional Information</p>	<p>Provide relevant information to support the Bank's compliance with the recommended practice</p>
<p>Explanation</p>	<ul style="list-style-type: none"> <li>- Describe the circumstances surrounding the non-compliance and include how the overall principle of the recommendation is still being achieved by the Bank.</li> <li>- "Not applicable" or "None" shall not be accepted.</li> </ul>

1.2 At least one (1) duly notarized copy bearing the original and manual signatures of the following shall be filed to SEC:

- 1.2.1 Chairman of the Board
- 1.2.2 President and CEO
- 1.2.3 All Independent Directors
- 1.2.4 Chief Compliance Officer
- 1.2.5 Corporate Secretary

1.3 The Bank shall no longer be required to file:

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- 1.3.1 Consolidated changes on the ACGR within ten (10) days from the end of the year
- 1.3.2 Updates and changes on the I-ACGR within five (5) days from the occurrence of reportable changes
- 1.4 Accessible links shall be made available in the Bank website within five (5) banking days from submission to SEC.
- 2. It shall be the responsibility of the Corporate Governance Division of the Compliance Group to ensure compliance herewith, in coordination with the various units of the Bank for the replies.
- 3. Basic Penalties

Particulars	Amount (Php)
Non / Late Submission	50,000
Disclosure	
Incomplete	25,000
Misrepresentation / Misinterpretation	100,000
Incomplete/Incorrect Signatory/ies	10,000

**M. Penalties for Non-Compliance with the Manual**

- 1. 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:
  - 1.1 In case of **first violation**, the subject person shall be reprimanded.
  - 1.2 Suspension from office shall be imposed in case of **second violation**. The duration of the suspension shall depend on the gravity of the violation.
  - 1.3 **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 Board of the Bank or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.
- 3. The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

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## VII. SUSTAINABILITY, ENVIRONMENT, SOCIAL AND NON-FINANCIAL INFORMATION

China Bank believes that the best barometer for success is the fulfillment of its responsibilities not just to its shareholders, but to other stakeholders like its customers, employees, communities, and the environment as well.

### 1. Sustainability

The Bank is fully cognizant that sustainability is a vital component of its approach to support the Bank's short and long term vision, goals, and strategy through value creation.

The Bank's Sustainability Strategy is to support its vision and mission through responsible value creation activities that contribute to the environment and society, while being Resilient.

In doing so, it is able to operate under conditions that are viable to the company and the community, while ensuring that the Bank's contributions are equitable to the environment and society, and that risks are manageable, as it continue to be governed by the Corporate Governance and Risk Management Framework.<sup>237</sup>

### 2. Reporting and Deadline

For purposes of enhancing transparency and in compliance with SEC rules, the Bank shall attach to its Annual Report (AR) or SEC Form 17-A<sup>238</sup>, its annual sustainability report. This will be done starting with the 2020 AR for the 2019 Sustainability Report.<sup>239</sup>

### 3. Report Format

3.1 The SEC has prescribed a template (See Annex A of the SEC Guidelines) to be used for reporting by PLCs. However, PLCs that already have their report in accordance with internationally recognized frameworks and standards<sup>240</sup> are already considered compliant with the requirements and may choose to attach the said report to the AR or just include a statement with a link to the said report.

3.2 In relation to the above, the Bank's report may either be in SEC report template or in accordance with internationally recognized frameworks and standards.

### 4. Disclosures<sup>241</sup>

The Bank shall adhere to the following disclosure requirements:

#### 3.1 Annual Report Disclosures

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<sup>237</sup> 2022 Annual Financial Sustainability Report, Sustainability at China Bank.

<sup>238</sup> SEC Form 17-A is required to be submitted within 105 days at the end of the reference year.

<sup>239</sup> SEC Memo No. 4, Series of 2019, Sustainability Reporting Guidelines for Publicly-Listed Companies.

<sup>240</sup> Internationally recognized frameworks refer to the Global Reporting Initiative's standard, International Reporting Council's Integrated Reporting Framework, the Sustainability Accounting Standard Board, and the recommendation of the Task Force on Climate-related Financial Disclosure

<sup>241</sup> BSP Circular No. 1085, Sustainable Finance Framework, dated 29 April 2020.

#### **Contains INTERNAL Information**

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Bank shall disclose the following information in the Annual Report

- a. Sustainability strategic objectives and risk appetite;
- b. Overview of E&S risk management system
- c. Products/services aligned with internationally recognized sustainability standards and practices. This shall include the issuance of green, social or sustainability bonds;
- d. Breakdown of E&S risk exposures of the bank per industry or sector;
- e. Information on existing and emerging E&S risks and their impact on the bank; and
- f. Other initiatives to promote adherence to internationally recognized sustainability standards and practices.

### 3.2 Website Posting

The Bank's Annual Sustainability Report shall be posted on the Bank's website, which shall be the responsibility of the Bank's Marketing Communications Department, under the Investor and Corporate Relations Group to post the Bank's sustainability report on its website.

## 4. Penalty for Non-compliance

Non-attachment of the Sustainability Report to the Annual Report (SEC Form 17-A) is considered by the SEC as "Incomplete" report, thus will be subject to the penalty provided under SEC memo No. 6, Series of 2005<sup>242</sup>

Below are the penalties that may be imposed by the SEC:

SC/IRR Provisions	Description	First Offense	Second Offense	Third Offense
	Late filing of Annual Report (SEC Form 17-A)	Reprimand / Warning	P 100,00 plus P500 per day of delay	P200,000 plus P1,000 per day of delay
	Incomplete Annual Report (SEC Form 17-A) This shall be in addition to the penalty for late	Reprimand/ Warning	P30,000 plus P500 per day of delay of filing the amended report	P60,000 plus P1,000 per day of delay of filing the amended report

<sup>242</sup> Consolidated Scale of Fines

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SC/IRR Provisions	Description	First Offense	Second Offense	Third Offense
	filing of the report per due date under the rules			

*The revised Manual was approved by the Board on 06 March 2024.*

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**Definition of Terms**

Annex to Section 1.3.1

**Parent** shall refer to a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries;

**Subsidiary** shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by its parent corporation.

**Affiliate** shall refer to an entity linked directly or indirectly to the Bank by means of:

- (1) Ownership, control as defined in the next item hereunder, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa.”
- (2) Interlocking directorship or officership, where the director or officer concerned owns, control, as defined below, or has the power to vote, at least twenty percent (20%) of the outstanding voting stock of the entity;
- (3) Common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the Banks and at least twenty percent (20%) of the outstanding voting of the entity;
- (4) Management contract or any arrangement granting power to the Bank to direct or cause the direction of management and policies of the entity; or
- (5) Permanent proxy or voting trust in favor of the Bank constituting at least twenty percent (20%) of other outstanding voting stock of the entity, or vice-versa.

**Related interests** as defined under Sections 12 and 13 of R.A. No. 8791<sup>243</sup> 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.

**Control** of an enterprise exists when there is:

- i. Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
- ii. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
- iii. Power to appoint or remove the majority of the members of the Board of Directors or equivalent governing body; or
- iv. Power to cast the majority votes at meetings of the Board of Directors or equivalent governing body; or
- v. Any other arrangement similar to any of the above.

Control is presumed to exist if there is ownership or holding, whether direct or indirect, of twenty percent (20%) or more of a class of voting shares of a company.

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<sup>243</sup> General Banking Law of 2000

## Annex 1

Should the Bank choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, the Bank shall submit a written commitment that (a) shares owned or held are exclusively for investment purposes; (b) the Bank stockholder will not serve on the Board of Directors and will not nominate any candidate to serve on the Board of Directors or otherwise seek Board representation; (c) the Bank stockholder will have only limited contacts with Bank management that are customary for interested shareholders; (d) the Bank stockholder will engage only in normal and customary transactions with the enterprise; and (e) the Bank will not pledge the shares acquired to secure a loan with any institution.

**Related company** shall refer to another company which is:

- i. Its parent or holding company;
- ii. Its subsidiary or affiliate; or
- iii. a corporation where the Bank or its majority stockholder own such number of shares that will allow/enable such person or group to elect at least one (1) member of the Board of Directors or a partnership where such majority stockholder is a partner.

**Stockholder** shall refer to any stockholder of record in the books of the Bank, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts, whose stockholding in the Bank, individual and/or collectively with the stockholdings of: (1) his spouse and/or relative within the first degree by consanguinity of affinity or legal adoption; (2) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and (3) corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association or firm, amount to one percent (1%) or more of the total subscribed capital stock of the Bank.

**Substantial or major shareholder** shall refer to a person, or group of persons whether natural or juridical, owning such number of shares that will allow such person or group 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.

**Close family members** shall refer to persons related to the Bank's directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother/sister-in-law, grandparent-in-law, and grandchild-in-law of the Bank's DOS.

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

## 2023 RULES GOVERNING THE NOMINATION AND ELECTION OF DIRECTORS

**Section 1. Period.** – All nominations for Directors and Independent Directors shall be submitted to the Office of the Corporate Secretary on or before **03 February 2023**, and thereafter be referred to the Nominations and Corporate Governance Committees (Committees) for evaluation and action.

**Section 2. Form and Content.** – The nomination shall be (1) in writing; (2) duly signed by the nominating stockholder or said stockholder's representative duly authorized in writing; and (3) with the written acceptance and conformity of the person being nominated (Nominee). The nomination must indicate whether or not the nominee is intended to be an Independent Director, and the nominee's age, educational attainment, and full disclosure of work and/or business experience and/or affiliations. The attached **Nomination Form** may be used for convenience.

**Section 3. Qualifications.** – The Directors and Independent Directors shall be elected from among the Bank's stockholders. All nominees for Directors and Independent Directors must be **fit and proper** for the position of a director or independent director, and possess the minimum requirements and qualifications and none of the disqualifications required by the relevant regulatory agencies and offices of publicly listed banks. Integrity, knowledge, expertise, relevant educational background and training, competence, industry experience, values, independence, time commitment, and other criteria to ensure diversity to achieve optimal composition of the Board, will be considered.

**Section 4. List of Candidates.** – The Committees shall pre-screen the qualifications of the nominees on the basis of the nominations and/or supporting papers and prepare a final list of candidates containing all relevant information about the nominees, and indicate the nominees for independent directors, if any (Final List of Candidates). In the unlikely event that no one among the stockholders who made the nominations indicated any particular nominee as nominee for independent director, the Committees shall endorse by majority vote of their members the nominees for independent directors who meet the guidelines and criteria set by the regulatory agencies and offices of listed banks.

**Section 5. Nomination of the Committees.** – If there are not enough nominees for directors or independent directors, the Nominations and/or Corporate Governance Committees, jointly or separately, as may be agreed upon among the members, may by majority vote nominate such number of nominee/s for the said position/s and include them in the final list to be submitted at the stockholders' meeting.

**Section 6. Final List of Candidates.** – Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Director or Independent Director, as the case may be. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the actual stockholders'

**NOMINATION FORM**

**PLEASE CHECK PROPER BOX:**

- Nominee for Independent Director <sup>3</sup>
- Not a nominee for Independent Director

\_\_\_\_\_  
**NAME OF NOMINEE \***

CITIZENSHIP : \_\_\_\_\_ AGE : \_\_\_\_\_ DATE OF BIRTH : \_\_\_\_\_  
(MM/DD/YYYY)

PLACE OF BIRTH : \_\_\_\_\_ NAME OF SPOUSE : \_\_\_\_\_

RESIDENTIAL ADDRESS : \_\_\_\_\_ TEL. NO. : \_\_\_\_\_ MOBILE NO. : \_\_\_\_\_

OFFICE ADDRESS : \_\_\_\_\_ TEL. NO. : \_\_\_\_\_

EDUCATIONAL BACKGROUND/ATTAINMENT <sup>5</sup>: (Please attach separate sheet, if necessary)

FULL DISCLOSURE OF WORK AND/OR BUSINESS EXPERIENCE: (Please attach separate sheet, if necessary)

DIRECTORSHIP/POSITION IN OTHER CORPORATIONS/ASSOCIATIONS: (Please attach separate sheet, if necessary)

PSE-LISTED COMPANIES :

OTHER COMPANIES :

STOCKHOLDINGS/SECURITY OWNERSHIP:

DIRECT :

INDIRECT:

CONVICTION, IF ANY, OF AN OFFENSE, JUDICIAL OR ADMINISTRATIVE, OR JUDICIAL DECLARATION OF BEING INSOLVENT, SPENDTHRIFT OR INCAPACITATED TO CONTRACT. IF APPLICABLE, PLEASE STATE:

<u>NATURE OF OFFENSE &amp; PARTICULARS</u>	<u>COURT/BODY</u>	<u>DATE OF FILING OF COMPLAINT/ INFORMATION</u>
_____	_____	_____
_____	_____	_____

CONFORMITY & ACCEPTANCE:

_____ SIGNATURE	_____ SIGNATURE
_____ PRINTED NAME OF NOMINEE	_____ PRINTED NAME OF NOMINATOR-STOCKHOLDER OR AUTHORIZED REPRESENTATIVE <sup>4</sup>
_____ DATE SUBMITTED	_____ RELATION TO NOMINEE

NOTE: Please see reverse side to be signed and certified by nominee for Independent Director

**CERTIFICATION \***  
(Nominee for Independent Director)

As a nominee for Independent Director of the China Banking Corporation, I hereby certify that I have all the qualifications and none of the disqualifications as provided for in SEC Memorandum Circular No. 19, Series of 2016, SEC Memorandum Circular No. 4, Series of 2022, Section 38 of the Securities Regulation Code (SRC), and its Amended Implementing Rules and Regulations (AIRR), Sections 131.g, 132 and 138 of the Manual of Regulations for Banks (MORB), and those required/implicit under The General Banking Law (R.A. No. 8791).

IN WITNESS WHEREOF, I have hereunto signed this certification in \_\_\_\_\_ this \_\_\_\_ day of \_\_\_\_\_, 2023.

\_\_\_\_\_  
Signature of Nominee for Independent Director

Republic of the Philippines }  
City of \_\_\_\_\_ } s.s.

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of \_\_\_\_\_, 2023 in \_\_\_\_\_, affiant exhibiting to me his/his/ her \_\_\_\_\_ issued on \_\_\_\_\_ in \_\_\_\_\_.

Notary Public

Doc No. \_\_\_\_\_;  
Page No. \_\_\_\_\_;  
Book No. \_\_\_\_\_;  
Series of 2023.

- \* - must be an owner of at least one (1) share of stock of the Bank (Sec. 22, The Revised Corporation Code); must be fit and proper for the position of a director, and must have attended a seminar on corporate governance for board of directors (Sections 132 and 138, MORB); and must have all the qualifications and none of the disqualifications as provided for in SEC Memorandum Circular No. 19, Series of 2016, SEC Memorandum Circular No. 4, Series of 2022, Section 38 of the SRC and its AIRR, Sections 131.g, 132 and 138 of the MORB, and those required/implicit under The General Banking Law (R.A. No. 8791) and other relevant laws and rules.
- \* - "Independent Director" is defined as a person who, apart from his fees and shareholdings, is independent of management and the controlling shareholder and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with or influence his exercise of independent judgment in carrying out his responsibilities as a director of the Bank. (SEC Memorandum Circulars Nos. 19 (Series of 2016) or the Code of Corporate Governance for Publicly Listed Companies (COCG for PLCs), 16 (Series of 2002); Sec. 38 of SRC, and its Amended Implementing Rules and Regulations (AIRR); Sec. 15 of The General Banking Law; and Section 131.g of the MORB).  
Independent Director includes, among others, any person who:
  - i. is not, or has not been a senior officer or employee of the Bank unless there has been a change in the controlling ownership of the company (Recommendation 5.2, COCG for PLCs);
  - ii. is not or has not been a director, an officer, or employee of the Bank, its subsidiaries, associates or affiliates or related interests in the three (3) years immediately preceding his election (Section 131.g(1), MORB; and Recommendation 5.2, COCG for PLCs), and is not a director, officer, or employee of the Bank's substantial stockholders and their related companies in the three (3) years counted from the date of his election/appointment, or holding more than two percent (2%) of the outstanding shares of stock or holding shares of stocks sufficient to elect one (1) seat in the Board of Directors of the Bank, or in any of its related companies or of its majority corporate shareholders (Rule 38.2.2, AIRR of the SRC; and Section 131.g(2 and 3), MORB);
  - iii. has not been appointed in the Bank, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus," "Ex-Officio" Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three (3) years immediately preceding his election/appointment (Recommendation 5.2, COCG for PLCs; Section 131.g(8), MORB);
  - iv. is not a close family member of any director, officer, or stockholder holding shares of stock sufficient to elect one (1) seat in the Board of the Bank or any of its related companies or any of its substantial stockholders (Section 131.g(4), MORB);
  - v. is not acting as a nominee or representative of any director or substantial shareholder of the Bank, or any of its related companies or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement (Section 131.g(5), MORB; Rule 38.2.4, AIRR of the SRC);
  - vi. has not been employed in any executive capacity by the Bank, any of its related companies and/or any of its substantial shareholders within the last two (2) years (Rule 38.2.5, AIRR of the SRC);
  - vii. is not retained as professional adviser, consultant, agent or counsel by the Bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election (Section 131.g(6), MORB);
  - viii. has not been engaged and does not engage in any transaction with the Bank and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons or through a firm of which he is a partner and/or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment (Section 131.g(7), MORB);
  - ix. is not or has not been convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Securities Regulation Code or the Revised Corporation Code, committed within five (5) years prior to the date of his election (Rule 38.3, AIRR of the SRC) or within his tenure (SEC Memorandum Circular No. 4, Series of 2022);
  - x. as non-executive director, should not concurrently serve as director to more than five (5) publicly listed companies (Recommendation 4.2, COCG for PLCs; Section 132, MORB);
  - xi. is not affiliated with any non-profit organization that receives significant funding from the Bank or any of its related companies or substantial shareholders (Recommendation 5.2, COCG for PLCs; Section 131.g(9), MORB); and,
  - xii. is not employed as an executive officer of another company where any of the covered company's executives serve as directors (Recommendation 5.2, COCG for PLCs; Section 131.g(10), MORB).
- \* - nominee must be at least a college graduate or have five (5) years of experience in business (SEC Memorandum Circular No.16, Series of 2002).
- \* - nominator must attach a copy of pertinent Board or Partnership Resolution if a corporation or partnership stockholder is making the nomination, or a Special Power of Attorney if an individual stockholder is making the nomination through representative.
- \* - nominee for independent director must certify under oath that he complies with all the qualifications required of an independent director and does not possess any of the disqualifications therefor (Sections 131(g), 132, 138, MORB).

**Annex to Section IV.A.2.3.4.i  
Board Duties and Responsibilities on Interlocking positions**

The Board approved policy on interlocking directorships and/or officerships shall cover, among others, the following:

1. Cases and the corresponding rationale when the Bank shall allow/appoint directors or officers to have/with interlocking positions in other entities: the sectors or industries of the entities where the directors or officers may assume other positions; interlocking positions that may be held by directors or officers; and limit on the number of entities where the director or officer may hold interlocking positions.

Provided, That the limit to be set shall be consistent with item “b” of Qualifications under Section 132 of the MORB.

2. Measures to avoid excessive concentration of economic power, unfair competitive advantage and abusive practices. The policy shall also include the measures in handling conflict of interest situations;
3. Requirement to obtain approval from the board of directors or the appropriate authority designated in the Bank prior to acceptance of interlocking directorship/officership positions in other entities;
4. Requirement to obtain proof of disclosure to and consent from all the involved entities on interlocking officership positions held outside the banking group/conglomerates; and
5. Courses of action in case conflict of interest arise or when the performance of the director or officers has been affected by the interlocking positions held.

In compliance with BSP Circular No. 1129 (Series of 2021), the Bank has a policy in place on interlocking directorship, among others, to serve as guidelines in considering interlock positions, with the set parameters and/or limits on allowable positions, which shall be a supplement to this Manual.



**BSP Form (List of the Members of the Board of Directors and Officers)**

Annex B

DEADLINE : 10 banking/business days from the annual election of the board of directors/trustees

SUBMISSION: Original copy to the appropriate department of the SES

\_\_\_\_\_ (Name of Bank/QB/NBFI with Trust Authority/Trust Corporation/NBFI/NSSLA)

**List of the Members of the Board of Directors and Officers**

As of \_\_\_\_\_

Name	Position	Department (if applicable)
Directors:		
Officers with rank of senior vice president and above (or equivalent ranks):		
Officers below the rank of senior vice president:		

REPUBLIC OF THE PHILIPPINES)  
 \_\_\_\_\_ ) S.S.

I solemnly swear that all matters set forth in this report are true and correct, to the best of my knowledge and belief.

\_\_\_\_\_  
 (Signature of Authorized Signatory)

SUBSCRIBED AND SWORN TO BEFORE ME this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_, affiant exhibiting to me his/her (valid identification document) No. \_\_\_\_\_ issued at \_\_\_\_\_ on \_\_\_\_\_ 20\_\_\_\_.

\_\_\_\_\_  
 Notary Public  
 Until December 31, 20 \_\_\_\_\_  
 PTR No. \_\_\_\_\_  
 Place \_\_\_\_\_

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



Republic of the Philippines  
**SECURITIES AND EXCHANGE COMMISSION**  
 SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila

**CORPORATE GOVERNANCE & FINANCE DEPARTMENT**

**SEC MEMORANDUM CIRCULAR NO. 13**  
**Series of 2014**

**TO :** ALL ACCREDITED CORPORATE GOVERNANCE  
 TRAINING PROVIDERS

**SUBJECT :** COURSE UNITS ON FINANCIAL REPORTING AND AUDIT

Rule 68 (I) (B) (i) of the Securities Regulation Code provides that financial statements filed with the Commission are primarily the responsibility of the management of the reporting company and accordingly, the fairness of the representations made therein is an implicit and integral part of the management's responsibility. The Board of Directors, in discharging its responsibilities, reviews and approves the financial statements before these are submitted to the stockholders.

In delineating the role of management and the internal auditors, Rule 68 (I) (B) (vii) further provides, in part, that the independent auditor's duty is to conduct an independent examination of the company's financial statements and supporting documents pursuant to the prescribed auditing standards and practices.

In line with the Revised Code of Corporate Governance mandating the management of corporations to formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal control, all SEC accredited corporate governance training providers are directed to include, in their prescribed curriculum, the following units on financial reporting:

- I. The Basic Course which includes the following, among others:
  1. Framework for Financial Statement Reporting
  2. Principal Financial Statements and Their Uses
  3. What Decision-Makers Need to Know About the Principal Financial Statements (e.g. Statement of Comprehensive Income, Balance Sheet, Cash Flow Statement, Statement of Change in Equity)
  4. What Board Directors and Management Need to Know About Accounting Principles
  5. Income Statement, Balance Sheet & Statement of Cash Flows

6. Financial Statement Analysis
  7. What to Spot in Financial Statements
  8. Issue Spotting
  9. What Should Be Included in Performance Dashboards
  10. Pointers to Ensure that Recording, Processing & Reporting Data Do Not Result in Material Misstatement of Financial Statements
  11. Pointers to Avoid Material Weaknesses in Internal Controls
  12. Financial Policies for Fraud Prevention that Decision-Makers Should Have
  13. What Decision-Makers Need to Know About the External Auditor's Opinion
  14. Understanding Basic Concepts in Making Business Decisions
  15. What Decision-Makers Can Get From Reading Financial Statements
- II. The Advance Course which covers, among others, provisions of the Philippine Financial Reporting Standard provisions that are relevant to the company's specific industry.

This circular shall take effect immediately.

Signed this 23<sup>rd</sup> day of June 2014, Mandaluyong City, Philippines.

For the Commission:

  
**TERESITA J. HERBOSA**  
Chairperson