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Rizal Commercial Banking Corporation RCB

PSE Disclosure Form 17-18 - Other SEC Forms/Reports/Requirements

Form/Report Type	Corporate Governance Manual
Report Period/Report Date	May 30, 2018

Description of the Disclosure

Corporate Governance Manual filed with the Securities and Exchange Commission on May 30, 2018.
Please see attached.

The amendment is to correct the report period and date of receipt by SEC from May 31, 2018 to May 30, 2018.

Filed on behalf by:

Name	Joyce Lacson
Designation	Assistant Corporate Secretary

COVER SHEET

1 7 5 1 4

SEC Registration Number

R I Z A L C O M M E R C I A L B A N K I N G C O R P

(Company's Full Name)

6 8 1 9 R C B C P L A Z A A Y A L A A V E C O R

S E N G I L P U Y A T A V E M A K A T I C I T Y

(Business Address: No., Street City/ Town / Province)

Atty. Claribelle S. Bautista-Perez

Contact Person

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Company Telephone Number

Month

Day

L E T T E R

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number / Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS



30 May 2018

Assistant Director Rachel Esther J. Gumbang-Remalante

OIC - Corporate Governance and Finance Department

THE SECURITIES AND EXCHANGE COMMISSION

G/F Secretariat Building

PICC Complex, Roxas Boulevard

Pasay City, 1307

Re : ***Revised Corporate Governance Manual***

Dear Assistant Director Gumbang-Remalante:

Please find attached Revised Corporate Governance Manual for Rizal Commercial Banking Corporation, adopting the Enhanced Corporate Governance Guidelines for Publicly-listed Companies issued by the Bangko Sentral ng Pilipinas through BSP Circular No. 969, Series of 2017, and amending provisions of the Corporate Governance Manual submitted to the Securities and Exchange Commission in compliance with SEC Memorandum Circular No. 19, series of 2018.

Very truly yours,

RIZAL COMMERCIAL BANKING CORPORATION

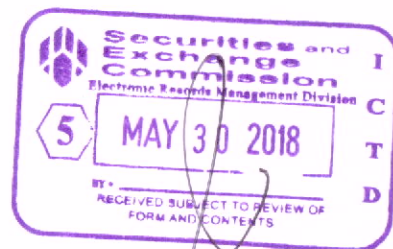
By:


MS. ANA LUISA S. LIM

Chief Compliance Officer


ATTY. GEORGE GILBERT G. DELA CUESTA

Corporate Secretary



Revised Corporate Governance Manual

CGM – 2017 (BOD Approved: 27 November 2017)

Nov 2017
Document Version 5
Updated by: Atty. Claribelle S. Bautista-Perez
Compliance Office/
Regulatory Affairs Division 1

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I. INTRODUCTION

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

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

- Transparency or the availability of information through expansion of public disclosure requirements. Consistent with the policy of transparency, all doubts or questions that may arise in the interpretation or application of the provisions of herein Corporate Governance Manual, shall be resolved in favor of promoting transparency, accountability and fairness to the stockholders and other stakeholders of the corporation.

- Accountability involves providing adequate incentives and instilling in the business environment the discipline to act in the best interest of the company.
- Fairness/equity implies that the rights of all concerned parties are protected. Directors shall not only promote the interest of stockholders but also that of other stakeholders which include among others, customers, employees, suppliers, financiers, government and community in which it operates.

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

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

Policy

The Bank has structured itself to ensure that the men and women that comprise it adhere to the basic principles of good governance, which encompass transparency, accountability and fairness. The Board of Directors shall insist on strict adherence to the Bank’s Corporate Governance Manual, which shall guide all relations with the Bank’s major and other stakeholders and with the general public.

Definition of Terms

- a. **Affiliate**¹ – an entity linked directly or indirectly to the Bank by means of:
 - (1) Ownership, control as defined under “e” below, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the Bank, or vice-versa;
 - (2) Interlocking directorship or officership, where the director or officer concerned owns, controls as defined under “e” 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 Bank and at least twenty percent (20%) of the outstanding voting stock of the entity;
 - (4) Management Contract or any other 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 trusts in favor of the Bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice versa.
- b. **Board of Directors**² – the governing body elected by the stockholders that exercises the corporate powers of the Bank, conducts all business, and controls its resources.
- c. **Corporate Governance**³ – the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal, and social obligations towards their stakeholders.

¹ BSP Circular No. 969, Series of 2017

² SEC Memorandum Circular No. 19, Series of 2016

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

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

d. **Close family members**⁴ – 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 of the Bank's DOS.

e. **Control**⁵ of an enterprise exists when there is:

- (1) Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
- (2) Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
- (3) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
- (4) Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
- (5) Any other arrangement similar to any of the above.

Control is presumed to exist if there is ownership, holding, whether direct or indirect, of twenty percent (20%) or more of a class of voting shares of a company.

The presumption may be rebutted by providing facts sufficient to show that there is indeed no control, and by submitting a written commitment that: (a) shares owned or held are exclusively for investment purposes; (b) the stockholder will not serve on the board of directors and will not nominate any candidate to serve on the board of director or otherwise seek board representation; (c) the stockholder will have only limited contacts with the entity's management that are customary for interested shareholders; (d) the shareholder will engage only in normal and customary transactions with the enterprise; and (e) the entity will not pledge the shares acquired to secure a loan with any institution.

f. **Corresponding persons in affiliated companies**⁶ – the DOS of the affiliated companies and their close family members.

g. **Directors**⁷ – shall include:

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

h. **Enterprise Risk Management**⁸ – a process, effected by an entity's Board of Directors, management and other personnel, applied in strategy setting and across the enterprise that is

³ SEC Memorandum Circular No. 19, Series of 2016

⁴ BSP Circular No. 969, Series of 2017

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives.

- i. **Executive Director**⁹ – a director who has executive responsibility of day-to-day operations of a part or the whole of the Bank.
- j. **Independent Directors**¹⁰ – a person who is independent of management and the controlling shareholder, and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.
- k. **Internal Control**¹¹ – a process designed and effected by the board of directors, senior management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, and the organization's policies and procedures.
- l. **Majority stockholder**¹² – a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of the Bank.
- m. **Management**¹³ – a group of executives given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the Bank.
- n. **Non-Executive Directors**¹⁴ – directors who are not part of the day to day management of operations and shall include the independent directors. However, not all non-executive directors are considered independent directors.
- o. **Non-Audit Work** – other services offered by an external auditor to a corporation that are not directly related and relevant to its statutory audit functions, such as accounting, payroll, bookkeeping, reconciliation, computer project management, data processing, or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor.
- p. **Officers**¹⁵ - officers shall include the chief executive officer (CEO)/president, executive vice president, senior vice-president, vice president, general manager, treasurer, corporate secretary, trust officer and others mentioned as officers of the Bank such as employees with rank of First Officer and above, or those whose duties as such are defined in the by-laws, or are generally known to be the officers of the Bank (or any of its branches and offices other than the head office) either through announcement, representation, publication or any kind of communication made by the Bank.
- q. A person holding the position of chairman or vice-chairman of the board of directors or another position in the board of directors shall not be considered as an officer unless the duties of his position in the board of directors include functions of management such as those ordinarily performed by regular officers. Members of a group or committee, including sub-groups or sub-committees, whose duties include functions of management such as those ordinarily performed

⁸ SEC Memorandum Circular No. 19, Series of 2016, citing Committee of Sponsoring Organizations of the Treadway Commission (COSO Framework)

⁹ SEC Memorandum Circular No. 19, Series of 2016

¹⁰ BSP Circular No. 969, Series of 2017

¹¹ SEC Memorandum Circular No. 19, Series of 2016

¹² BSP Circular No. 969, Series of 2017

¹³ SEC Memorandum Circular No. 19, Series of 2016

¹⁴ BSP Circular No. 969, Series of 2017

¹⁵ BSP Circular No. 969, Series of 2017

by regular officers, and are not purely recommendatory or advisory, shall likewise be considered as officers.

- r. **Parent**¹⁶ – a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries.
- s. **Related Company**¹⁷ – another company which is:
 - (1) Its parent or holding company;
 - (2) Its subsidiary or affiliate; or
 - (3) A corporation where the Institution 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.
- t. **Related Interests**¹⁸ – refers to any of the following:
 - (1) Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a director, officer or stockholder of the Bank;
 - (2) Partnership of which a director, officer, or stockholder of the Bank or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;
 - (3) Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covered only said co-owner's undivided interest;
 - (4) Corporation, association or firm of which any or a group of directors, officers, stockholders of the Bank and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm;
 - (5) Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in items "2 to 4" above;
 - (6) Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the Bank or which controls majority interest¹⁹.
 - (7) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the Bank; and

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ As defined under the MORB provisions, the term "*control of majority interest*" shall be synonymous to "controlling interest" and exists when the parent owns directly or indirectly through subsidiaries more than one half of the voting power of an enterprise unless, in exceptional circumstance, it can be clearly demonstrated that such ownership does not constitute control. Control of majority interest may also exist even when the parent owns one-half or less of the voting power of an enterprise when there is:

- (1) Power over more than one-half of the voting rights by virtue of an agreement with other investors; or
- (2) Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
- (3) Power to appoint or remove the majority members of the board of directors or equivalent governing body; or
- (4) Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
- (5) Any other arrangement similar to any of the above.

- (8) Non-governmental organizations (NGOs)/foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers or related Bangko Sentral-supervised Financial Institution.

- u. **Related Parties**²⁰ – shall cover the Bank's subsidiaries as well as 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 their related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the Bank, hence, is identified as a related party.

The above definition shall also include direct or indirect linkages to the Bank identified as follows:

- (1) Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa;
- (2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
- (3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Bank and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity;
- (4) Permanent proxy or voting trusts in favor of the Bank constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

- v. **Related Party Transactions (RPTs)**²¹ – transactions or dealings with related parties of the Bank, including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:

- (1) On- and off-balance sheet credit exposures and claims and write-offs;
- (2) Investments and/or subscriptions for debt/equity issuances;
- (3) Consulting, professional, agency and other service arrangements/contracts;
- (4) Purchase and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements);
- (5) Construction arrangements/contracts
- (6) Lease arrangements/contracts
- (7) Trading and derivative transactions;
- (8) Borrowings, commitments, fund transfers and guarantees;
- (9) Sale, purchase or supply of any good or materials; and
- (10) Establishment of joint venture entities.

²⁰ BSP Circular No. 969, Series of 2017

²¹ BSP Circular No. 969, Series of 2017

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

- w. **Stakeholders**²² – any individual, organization or society at large who can either affect and/or be affected by the company's strategies, policies, business decisions and operations, in general. These include, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.
- x. **Stockholders**²³ – 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 stockholdings in the Bank, individual and/or collectively with the stockholdings of:
 - (1) His spouse and/or relative within the first degree by consanguinity or 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.
- y. **Subsidiary**²⁴ – 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.
- z. **Substantial Stockholder**²⁵ – 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 the 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.

II. BOARD GOVERNANCE

A. Board of Directors

i. Powers/Corporate powers of the Board of Directors²⁶

The corporate powers of an institution shall be exercised, its business conducted, and all its resources controlled through 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 shall hold their office charged with the duty to exercise sound and objective judgment for the best interest of the institution.

ii. Composition of the Board of Directors

- a) The Board shall be composed of at least five (5), but not more than fifteen (15), members who are elected by stockholders. At least three (3) of whom shall be Independent Directors or such number as to constitute one-third of the members of the Board, whichever is higher.²⁷

²² SEC Memorandum Circular No. 19, Series of 2016

²³ BSP Circular No. 969, Series of 2017

²⁴ BSP Circular No. 969, Series of 2017

²⁵ *Id.*

²⁶ *Id.*

- b) Non-executive directors, who shall include independent directors, shall comprise at least majority of the board of directors to promote the independent oversight of management by the board of directors.²⁸
- c) The Board should have an appropriate mix of Non-Executive and Executive Directors who possess the necessary qualifications to effectively participate in the deliberations of the Board.²⁹
- d) The Board should be composed of directors with collective working knowledge, experience or expertise that is relevant to the industry/sector that the company is in. The Board should always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable it to fulfill its roles and responsibilities and to respond to the needs of the organization based on evolving business environment and strategic direction.³⁰
- e) The Board shall promote diversity in its membership and shall not disqualify a nominee/member on the basis of gender, race, age, religion, or political affiliation.³¹
- f) Majority of the members of the Board of Directors shall be residents of the Philippines.³²
- g) The Directors elected in the annual meeting of the stockholders shall serve a one-year term and until their successors are elected and qualified. Any vacancy in the Board occurring for any reason other than by removal of a Director by the stockholders or by the expiration of term may be filled by the vote of at least a majority of the remaining Directors, if still constituting a quorum. A Director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor of office.
- h) While the Bank acknowledges the Stockholders' ultimate right to elect the directors that will best serve their interests, a director who ascertains that he/she is no longer fit to perform his/her functions shall refuse nomination, if not yet elected, or may opt to retire, if already elected.³³

iii. Qualifications of a Director³⁴

a) Minimum qualifications

A director shall have the following minimum qualifications:

- (1) Every director must own at least one (1) share of the capital stock of the corporation of which he is a director, which share shall stand in his name on the books of the corporation. Any director who ceases to be the owner of at least one (1) share of the capital stock of the corporation of which he is a director shall thereby cease to be a director.³⁵

²⁷ Recommendation 5.1, SEC Memorandum Circular No. 19, Series of 2016

²⁸ BSP Circular No. 969, Series of 2017

²⁹ Recommendation 1.2, SEC Memorandum Circular No. 19, Series of 2016

³⁰ Recommendation 1.1, SEC Memorandum Circular No. 19, Series of 2016

³¹ Recommendation 1.4, SEC Memorandum Circular No. 19, Series of 2016

³² Section 23, Corporation Code of the Philippines

³³ Also see Recommendation 2.4, SEC Memorandum Circular No. 19, Series of 2016

³⁴ Also see Recommendation 5.2, SEC Memorandum Circular No 19, Series of 2016

³⁵ Section 23, Corporation Code of the Philippines

- (2) He must be fit and proper for the position of a director. 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; and sufficiency of time to fully carry out responsibilities.

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 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.³⁶

An elected director has the burden to prove he/she possesses all the foregoing minimum qualification and none of the disqualifications. A director shall submit to the BSP the required certifications and other documentary proof of such qualifications using Appendix 98 of the MORB as guide, within twenty (20) banking days from the date of election.

- (3) He must have attended a seminar on corporate governance for board of directors. A director shall submit to the Bangko Sentral a certification of compliance with the Bangko Sentral-prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance: Provided, That the following persons are exempted from complying with the aforementioned requirement:

- (a) Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance;
- (b) Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board members; or
- (c) Former Chief Justices and Associate Justices of the Philippine Supreme Court:

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

b) Independent and non-executive directors³⁷

An Independent Director shall refer to a person who:

1. Is not or was not a director (except as an Independent Director)³⁸, 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;

³⁶ BSP Circular No. 969, Series of 2017

³⁷ BSP Circular No. 969, Series of 2017; also see Recommendation 5.2, SEC Memorandum Circular No. 19, Series of 2016

³⁸ BSP letter-reply dated 29 September 2017 clarified that "director" in terms (1) and (2) refers to director other than an independent director, i.e., a regular director or a non-executive director. Accordingly, an independent director of a BSP-supervised financial institution (BSFI) may hold concurrent independent directorships in the BSFI's subsidiaries, affiliates or related interests, or in the BSFI's substantial stockholder and their related companies, subject to existing regulations on independent directors such as term limit and maximum number of entities where an independent director may serve as such, and interlocking positions; SEC letter-reply

2. Is not or was not a director (except as an Independent Director), officer or employee of the Bank's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;
3. Is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;
4. 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 directors of the Bank or any of its related companies or of any of its substantial stockholders;
5. Is not acting as a nominee or representative of any director or substantial shareholder of the Bank, any of its related companies or any of its substantial shareholders;
6. Is not or was not retained as professional adviser, consultant, agent or counsel of 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;
7. 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 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;
8. Was not appointed in the Bank, its subsidiaries, affiliates or related interests as Chairman "Emeritus", "Ex-Officio", Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;
9. Is not affiliated with any non-profit organization that receives significant funding from the Bank or any of its related companies or substantial shareholders; and
10. Is not employed as an executive officer of another company where any of the Bank's executives serve as directors.

In selecting independent and non-executive directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry out his duties and responsibilities. In this regard, the following shall apply:

dated 18 September 2017 clarified that SEC Memorandum Circular No. 16, Series of 2002 has been incorporated in Rule 38 of the Securities Regulation Code (SRC), which also states that an independent director is one who is "not a director or officer of the covered company or its related companies or any of its substantial shareholders except when the same shall be an independent director of the foregoing." Hence, it is specifically provided in the SRC Rules that an independent director of a company's subsidiary, affiliate or related company may also be an independent director of the company

- (1) A non-executive director may concurrently serve as director in a maximum of five (5) publicly listed companies. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the non-executive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement;³⁹
- (2) An independent director of the Bank may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the Bank, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.⁴⁰

A director should notify the bank's Board of Directors before accepting directorship in another company.⁴¹

c) Prohibition⁴²

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

iv. Disqualification⁴³

Directors elected or appointed who do not possess all the qualifications mentioned under this section shall not be confirmed by the applicable confirming authority and shall be removed from office even if he/she assumed the position to which he/she was elected or appointed.

Confirmed directors possessing any of the disqualifications, as enumerated below, shall be subject to the disqualification procedures by the BSP.

Without prejudice to specific provisions of law prescribing disqualifications for directors, the following are disqualified from becoming directors:

a) Permanent disqualification

Under BSP Rules

- (1) Persons who have been convicted by final judgment of a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of Anti-Graft and Corrupt Practices 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);
- (2) Persons who have been convicted by final judgment of a court sentencing them to serve a maximum term of imprisonment of more than six (6) years;
- (3) Persons who have been convicted by final judgment of the court for violation of banking laws, rules and regulations;

³⁹ Also see Recommendation 4.2, SEC Memorandum Circular No. 19, Series of 2016

⁴⁰ Also see Recommendation 5.3, SEC Memorandum Circular No. 19, Series of 2016

⁴¹ Recommendation 4.3, SEC Memorandum Circular No. 19, Series of 2016

⁴² BSP Circular No. 969, Series of 2017

⁴³ BSP Circular No. 513, Series of 2006, as amended

- (4) Persons who have been judicially declared insolvent, spendthrift or incapacitated to contract;
- (5) Directors of closed banks who were found to be culpable for such institution's closure as determined by the Monetary Board;
- (6) Directors of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory;
- (7) Directors of banks found by the Monetary Board to be unfit for the position of director because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executor.

Under SEC Rules⁴⁴

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

The disqualification should 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 SEC or BSP, or under any rule or regulation issued 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 of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

- (10) Any person convicted by final judgment or order by a court, or competent administrative body of an offense involving moral turpitude, fraud, embezzlement,

⁴⁴ Explanation, Recommendation 2.7, SEC Memorandum Circular No. 19, Series of 2016

theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;

- (11) Any person who has been adjudged by final judgment or order of the SEC, BSP, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law, rule, regulation or order administered by the SEC or BSP;
- (12) Any person judicially declared as insolvent;
- (13) Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated previously;
- (14) Conviction by final judgment of an offense punishable by imprisonment for more than six years, or a violation of the Corporation Code committed within five years prior to the date of his election or appointment; and
- (15) Other grounds as the SEC may provide.

b) Temporary disqualification

Under BSP Rules⁴⁵

- (1) Directors who refuse to full disclose the extent of their business interest or any material information to the appropriate department of the BSP when required pursuant to a provision of law or of a circular, memorandum, rule or regulation of the BSP. The disqualification shall be in effect as long as the refusal persists;
- (2) Directors who have been absent or who have not participated for whatever reasons in more than fifty (50%) of all meetings, both regular and special, of the board of directors during their incumbency, and directors who failed to physically attend for whatever reason in at least twenty-five percent (25%) of all board meetings. This disqualification applies only for purposes of the immediately succeeding election;
- (3) Persons who are delinquent in the payment of their obligations as defined hereunder:
 - (a) Delinquency in the payment of obligations means that an obligation of a person with a bank where he/she is a director, or at least two (2) obligations with other banks/Financial Institutions (FIs), under different credit lines or loan contracts, are past due;
 - (b) Obligations shall include all borrowings from a bank obtained by:
 - i. A director for his own account or as the representative or agent of others or where he/she acts as guarantor, endorser or surety for loans from such FIs;
 - ii. The spouse or child under the parental authority of the director;

⁴⁵ BSP Circular No. 513, Series of 2006, as amended

- iii. Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director or officer;
- iv. A partnership of which a director or officer or 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 group of persons mentioned in the foregoing items i, ii, and iv above.

This disqualification shall be in effect as long as the delinquency persists.

- (4) Directors who have been convicted by a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of Anti-Graft and Corrupt Practices Act, and prohibited acts and transactions under Section 7 of R.A. No. 6713, violation of banking laws, rules and regulations, or those sentenced to serve a maximum term of imprisonment of more than six (6) years but whose conviction has not yet become final and executor;
- (5) Directors of closed banks pending their clearance by the Monetary Board;
- (6) Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board on recommendation by the appropriate BSP department of such directors' election/reelection;
- (7) Directors who failed to attend the special seminar for board of directors required under XII.A.i below. This disqualification applies until the director concerned has attended such seminar;
- (8) Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity or upon clearance, on their request, from the Monetary Board after showing good and justifiable reasons, or after the lapse of five (5) years from the time there were officially advised by the appropriate BSP department of their disqualification;
- (9) Those under preventive suspension;
- (10) Persons with derogatory records as certified by, or on the official files of, the judiciary, NBI, Philippine National Police, quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities of foreign countries for irregularities or violations of any law, rules and regulations, that would adversely affect the integrity of the director or the ability to effectively discharge his/her duties. This disqualification applies until they have cleared themselves of the alleged irregularity/violations or after the lapse of five (5) years from the complaint, which was the basis of the derogatory record, was initiated;
- (11) Directors of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal

before the appellate court, unless execution or enforcement thereof is restrained by the court;

- (12) Directors of banks or any person found by the Monetary Board to be unfit for the position of director because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or an offense/violation involving dishonesty or breach of trust, and which finding of said government agency is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court; and
- (13) Directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed, regardless whether the finding of the Monetary Board is final and executor or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court. The disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid.

Under SEC Rules⁴⁶

- (14) No person convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code of the Philippines, committed within five (5) years prior to the date of his election or appointment, shall qualify as a director of the Bank.⁴⁷ He shall otherwise be qualified after the lapse of the five (5) year period.
- (15) 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;
- (16) If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with; and
- (17) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

v. Remuneration of the Board of Directors

- 1. A proportion of the executive directors' remuneration shall be structured so as to link reward to corporate and individual performance.
- 2. A Per Diem, as may be determined from time to time by stockholders owning or representing a majority of the subscribed capital stock at any regular or special meeting, shall be paid to each director for attendance at any meeting of the Board of Directors for each day of session; provided, that nothing herein contained shall be construed to preclude any director from serving in any other capacity and receiving compensation therefore.

⁴⁶ Explanation, Recommendation 2.6, SEC Memorandum Circular No. 19, Series of 2016

⁴⁷ Section 27, Corporation Code of the Philippines

3. In the absence of any provision in the by-laws fixing their compensation, the directors shall not receive any compensation, as such directors, except for reasonable per diems. Provided, that any such compensation other than per diems may be granted to directors by the vote of the stockholders representing at least a majority of the outstanding capital stock at a regular or special stockholders' meeting. Provided, further, that in no case shall the total yearly compensation of directors, as such directors, exceed ten (10%) percent of the net income before income tax of the corporation during the preceding year.⁴⁸

vi. Chairperson of the Board of Directors

a) Roles of the Chairperson of the Board of Directors⁴⁹

The chairperson of the board of directors shall provide leadership in the board of directors. He/she shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. He/she shall:

- (1) Ensure the efficient functioning of the Board including maintaining a relationship of trust with the members of the Board
- (2) Ensure active participation and sufficiently deep professional involvement of all members of the Board of Directors
- (3) Ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns
- (4) Ensure a sound decision making process
- (5) Encourage and promote critical discussion
- (6) Ensure that dissenting views can be expressed and discussed within the decision-making process
- (7) Ensure that members of the board of directors receives accurate, timely, and relevant information
- (8) Ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors
- (9) Ensure conduct of performance evaluation of the board of directors at least once a year

b) Corporate Vice-Chairman

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

c) Qualifications of the Chairperson of the Board of Directors⁵⁰

⁴⁸ Section 30, Corporation Code of the Philippines

⁴⁹ BSP Circular No. 969, Series of 2017

To promote checks and balances, the Chairperson of the board of directors shall be a non-executive director or an independent director, and must not have served as CEO of the Bank within the past three (3) years. The positions of Chairperson and CEO shall not be held by one person. In exceptional cases where the position of Chairperson of the board of directors and CEO is allowed to be held by one (1) person as approved by the Monetary Board, a lead independent director shall be appointed.

d) Lead Independent Director⁵¹

The Lead Independent Director shall perform a more enhanced function over the other Independent Directors and shall: (a) lead the Independent Directors at Board of Directors meetings in raising queries and pursuing matters; and (b) lead meetings of Independent Directors, without the presence of the executive directors.

B. Duties and Responsibilities of the Board of Directors

i. Specific duties and responsibilities of the Board of Directors⁵²

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

- a) The board of directors shall define the Bank's corporate culture and values. It shall establish a code of conduct and ethical standards in the Bank and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the board of directors shall:
 - (1) Approve a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the Bank as well as the corresponding disciplinary actions and sanctions. The code of conduct shall explicitly provide that directors, officers, and all personnel are expected to conduct themselves ethically and perform their job with skill, due care, and diligence in addition to complying with laws, regulations, and company policies.
 - (2) Consistently conduct the affairs of the Bank with a high degree of integrity and play a lead role in establishing the Bank's corporate culture and values. The board of directors shall establish, actively promote, and communicate a culture of strong governance in the Bank, through adopted policies and displayed practices. The board of directors shall ensure that the CEO and executive team champion the desired values and conduct, and that they face material consequences if there are persistent or high profile conduct and value breaches.

⁵⁰ BSP Circular No. 969, Series of 2017; Recommendation 5.4, SEC Memorandum Circular No. 19, Series of 2016

⁵¹ *Ibid.*; Recommendation 5.5, SEC Memorandum Circular No. 19, Series of 2016

⁵² BSP Circular No. 969, Series of 2017

- (3) Oversee the integrity, independence, and effectiveness of the Bank's policies and procedures for whistleblowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or the board of directors itself. It shall prevent the use of the facilities of the Bank in the furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting money laundering fraud, bribery or corruption.⁵³
- b) The board of directors shall be responsible for approving Bank's objectives and strategies and in overseeing management's implementation thereof.⁵⁴ In this regard, the board of directors shall:
 - (1) Ensure that the Bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.
 - (2) Approve the Bank's strategic objectives and business plans. These shall take into account the Bank's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the board of directors shall establish a system for measuring performance against plans.
 - (3) 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 interests of the Bank.
 - (4) Approve and oversee the implementation of policies governing major areas of the Bank's operations. The board of directors shall regularly review these policies, as well as evaluate control functions (e.g., internal audit, risk management, and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues.
- c) The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel. In this regard, the board of directors shall:⁵⁵
 - (1) 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.
 - (2) Approve the Bank's strategic objectives and business plans. These shall take into account the Bank's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the board of directors shall establish a system for measuring performance against plans.

⁵³ Also see Recommendation 15.3, SEC Memorandum Circular No. 19, Series of 2016

⁵⁴ Also see Recommendation 2.2, SEC Memorandum Circular No. 19, Series of 2016

⁵⁵ Also see Recommendation 2.8 and 2.9, SEC Memorandum Circular No. 19, Series of 2016

- (3) Oversee the performance of senior management and heads of control functions:
 - (a) The board of directors shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.
 - (b) The board of directors shall hold members of senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the board of directors' performance expectations. These expectations shall include adherence to the Bank's values, risk appetite and risk culture, under all circumstances.
 - (c) The board of directors shall regularly meet with senior management to engage in discussions, question, and critically review the reports and information provided by the latter.
 - (d) Non-executive board members shall meet regularly, other than in meetings of the audit, risk oversight, corporate governance, and related party transactions committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.
- (4) Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the board of directors 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.⁵⁶
- (5) Ensure that personnel's expertise and knowledge remain relevant. The board of directors 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.
- (6) 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.
- d) The board of directors shall be responsible for approving and overseeing implementation of the Bank's corporate governance framework. In this regard, the board of directors shall:
 - (1) Define appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed:
 - (a) The board of directors shall structure itself in a way, including in terms of size and frequency of meetings, so as to promote efficiency, critical discussion of issues, and thorough review of matters. The board of directors shall meet regularly to properly discharge its functions, and likewise have discussions on values, conduct, and behaviors.
 - (b) The board of directors 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 of directors,

⁵⁶ Also see Recommendation 2.4, SEC Memorandum Circular No. 19, Series of 2016

the Bank's complexity of operations, as well as the board of directors' long-term strategies and risk tolerance.

- (c) The board of directors shall regularly review the structure, size and composition of the board of directors 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 results of assessment shall form part of the ongoing improvement efforts of the board of directors.
 - (d) The board of directors 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.
 - (e) The board of directors shall ensure that individual members of the board of directors 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 of directors shall have reasonable access to any information about the Bank at all times. The board of directors shall also ensure that adequate and appropriate information flows internally and to the public.
 - (f) The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the CEO, 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 or her performance in the board of directors and board-level committees.
 - (g) The board of directors shall maintain appropriate records (e.g., meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The board of directors 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.
- (2) Develop 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.⁵⁷
 - (3) Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.
 - (4) 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. The board of

⁵⁷ Also see Recommendation 2.5, SEC Memorandum Circular No. 19, Series of 2016

directors 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.

- (5) Maintain, and periodically update, organizational rules, bylaws, or other similar documents setting out its organization, rights, responsibilities and key activities. The board of directors shall ensure that the Bank's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability.
- (6) Oversee the development, approve, and monitor implementation of corporate governance policies. The board of directors shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.
- (7) 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:⁵⁸
 - (a) The board of directors shall approve all material RPTs, those that cross the materiality threshold, and write-off of 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 the terms and conditions of RPTs shall also be approved by the board of directors. All final decisions of the board of directors on material RPTs, including important facts about the nature, terms, conditions, original and 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 of directors and stockholders' meetings.
 - (b) The board of directors shall 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 of directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.
 - (c) The board of directors shall establish an effective system to:
 - 1. Determine, identify and monitor related parties and RPTs;
 - 2. Continuously review and evaluate existing relationships between and among businesses and counterparties; and
 - 3. 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 nonrelated 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

⁵⁸ Also see Recommendation 2.7, SEC Memorandum Circular No. 19, Series of 2016

submission of accurate reports to the regulatory 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 Bangko Sentral and audit functions for review. Any changes in the policies and procedures shall be approved by the board of directors.

- (d) The board of directors shall 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.
 - (e) The board of directors shall oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The board of directors should ensure that senior management addresses legitimate issues on RPT that are raised. The board of directors should take responsibility for ensuring that personnel who raise concerns are protected from detrimental treatment or reprisals.
- (8) Define an appropriate corporate governance framework for group structures, which shall facilitate effective oversight over entities in the group. The board of directors of the parent company shall ensure consistent adoption of corporate governance policies and systems across the group. In this regard:
- (a) The board of directors shall define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account nature and complexity of operations, size and the types of risks to which the Bank and its subsidiaries are exposed. The board of directors shall also establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements.
 - (b) The board of directors shall define the risk appetite for the group, which shall be linked to the process of determining the adequacy of capital of the group.
 - (c) The board of directors shall ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems.
 - (d) The board of directors shall define and approve policies and clear strategies for the establishment of new structures.
 - (e) The board of directors shall understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group's capital, risk profile and funding under normal and contingent circumstances. The board of directors shall ensure that the group's corporate governance framework includes appropriate processes

and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions.

- (f) The board of directors shall develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.
 - (g) The board of directors shall require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board of directors approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board of directors.
- e) The board of directors shall be responsible for approving Bank's risk governance framework and overseeing management's implementation thereof. In this regard, the board of directors shall:
- (1) Define the Bank's risk appetite. In setting the risk appetite, the board of directors shall take into account the business environment, regulatory landscape, and the Bank's long term interests and ability to manage risk.
 - (2) Approve and oversee adherence to the risk appetite statement (RAS), risk policy, and risk limits.
 - (3) Oversee the development of, approve, and oversee the implementation of policies and procedures relating to the management of risks throughout the Bank.
 - (4) 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 of defense. In this regard:
 - (a) The board of directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.
 - (b) The board of directors shall ensure that non-executive board members meet regularly, with 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.

ii. Board Charter

The Board should have a Board Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary duties. The Board Charter should serve as a guide to the directors in the performance of their functions and should be publicly available and posted on the company's website.⁵⁹

iii. Corporate Secretary

⁵⁹ Recommendation 2.12, SEC Memorandum Circular No. 19, Series of 2016

a) Qualifications

The Board should ensure that it is assisted in its duties by a Corporate Secretary, who should be a separate individual from the Compliance Officer. The Corporate Secretary should not be a member of the Board of Directors and should annually attend training on corporate governance.⁶⁰

The Corporate Secretary, including his/her assistants, shall be Filipino citizens and resident of the Philippines.⁶¹

They must possess administrative, legal and interpersonal skills, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities. They must also have some financial and accounting skills, and a working knowledge of the operations of the Bank.

b) Duties and responsibilities⁶²

The Corporate Secretary shall be primarily responsible to the corporation and its shareholders, and not to the Chairman or President of the Bank, and has, among others, the following duties and responsibilities:

- (i) Assists the Board and the board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its committees to set agendas for those meetings;
 - i. Safe keeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the corporation;
 - ii. Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the corporation, and advises the Board and the Chairman on all relevant issues as they arise;
 - iii. Works fairly and objectively with the Board, Management and stockholders and contributes to the flow of information between the Board and management, the Board and its committees, and the Board and its stakeholders, including shareholders;
 - iv. Advises on the establishment of board committees and their terms of reference;
 - v. Informs members of the Board, in accordance with the by-laws, of the agenda of their meetings at least five working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
 - vi. Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
 - vii. Performs required administrative functions;

⁶⁰ Recommendation 1.5, SEC Memorandum Circular No. 19, Series of 2016

⁶¹ Section 25, Corporation Code of the Philippines

⁶² Explanation, Recommendation 1.5, SEC Memorandum Circular No. 19, Series of 2016

- viii. Oversees the drafting of the by-laws and ensures that they conform with regulatory requirements; and
- ix. Performs such other duties and responsibilities as may be provided by applicable law or regulation.

c) Transfer of voting shares of stock or registration of voting trust agreements

In all transactions which may lawfully come to the knowledge of the Corporate Secretary involving transfer of voting shares of stock or registration of voting trust agreements, or any form of agreement vesting the right to vote the voting shares of stock of the Bank, the Corporate Secretary shall:

1. Ascertain the identity and citizenship of the transferee, voting trustee, proxy or person vested with the right to vote, and his relation to existing stockholders, and for this purpose, he shall require the transferee, voting trustee, proxy or the person vested with the right to vote to submit proof of citizenship, which may consist, in case of a corporation, of a certified true copy of the Articles of Incorporation, accompanied by the affidavit of the Corporate Secretary of the corporation, certifying to the correctness and accuracy of the list of stockholders, their citizenship, and the percentage of shares owned by them.
2. Require the transferee, voting trustee, proxy or person vested with the right to vote, at the time of the receipt of the request for transfer or registration, or at any time thereafter, to disclose all information with respect to persons related to the transferee, voting trustee, proxy or person vested with the right to vote, within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, as well as corporations, partnership or associations where the transferee, voting trustee, proxy or person vested with the right to vote has controlling interest, and the extent thereof.
3. Require the transferee to execute an affidavit stating, among other things, that the transferee is a bona fide owner of shares of stock and that he acknowledges full awareness of the requirements of the law and the prohibitions against exceeding ownership of voting stocks beyond the prescribed limitations.
4. If the request for transfer or the arrangement sought to be registered will patently cause the voting stocks of a person or corporation, to exceed the limits prescribed by law, the Corporate Secretary shall deny the transfer or registration and forthwith inform the parties to the transaction in writing. Simultaneously with the notice to the parties, the Corporate Secretary shall submit a written report to the Governor of the BSP of the attempted illegal transfer or arrangements, together with the names, addresses of parties and other pertinent data with respect to the particular stock transaction.

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

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

III. SPECIFIC DUTIES AND RESPONSIBILITIES OF A DIRECTOR

The position of a director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the Bank itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The members of the board of directors should exercise their “duty of care” and “duty of loyalty” to the institution.⁶³

- i. To remain fit and proper for the position for the duration of his term. A director is expected to remain fit and proper for the position for the duration of 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.⁶⁴
- ii. 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.⁶⁵
- iii. 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 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.⁶⁶
- iv. 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.⁶⁷
- v. To act judiciously. Before deciding on any matter brought before the Board of Directors, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.⁶⁸
- vi. 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.⁶⁹

⁶³ BSP Circular No. 969, Series of 2017

⁶⁴ BSP Circular No. 749, Series of 2012

⁶⁵ *Ibid.*

⁶⁶ BSP Circular No. 969, Series of 2017; Recommendation 2.1, SEC Memorandum Circular No. 19, Series of 2016

⁶⁷ BSP Circular No. 749, Series of 2012

⁶⁸ *Ibid.*

⁶⁹ *Ibid.*

- vii. 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.⁷⁰
- viii. 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 Bangko Sentral 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.⁷¹
- ix. 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 authority of the board.⁷²

IV. PERFORMANCE EVALUATION

- 1. The Board should conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees. Every three years, the assessment may be supported by an external facilitator.⁷³
- 2. The Board should have in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, the individual directors, committees and such system should allow for a feedback mechanism from the shareholders.⁷⁴

V. BOARD MEETINGS AND QUORUM REQUIREMENTS

In accordance with the Section 3, Article V, of the By-Laws, the board of directors shall hold a regular meeting, either in person or by teleconference/videoconference, on the last Monday of each month, at the head office of the Bank, unless otherwise determined by the Board: Provided, that in no case shall any regular Board meeting be held outside of the Philippines.

A majority of the incumbent Directors shall constitute a quorum at any meeting and a majority of the members in attendance at any Board meeting shall decide its action.⁷⁵

Should the date appointed for a regular meeting fall on a legal holiday, the meeting shall be held at the same hour on the next succeeding business day.

The non-executive directors (NEDs) should have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any executive directors present to ensure that proper checks and balances are in place within the corporation.⁷⁶

A. Full Board of Directors meetings

The meetings of the board of directors may be conducted through modern technologies such as, but not limited to, teleconferencing and video conferencing as long as the director who is taking part in said meetings can actively participate in the deliberations on matters taken up therein: Provided, That every member of the board of directors shall participate in at least fifty percent

⁷⁰ *Ibid.*

⁷¹ BSP Circular No. 749, Series of 2012

⁷² *Ibid.*

⁷³ Recommendation 6.1, SEC Memorandum Circular No. 19, Series of 2016

⁷⁴ Recommendation 6.2, SEC Memorandum Circular No. 19, Series of 2016

⁷⁵ Section 6, Article V, By-Laws

⁷⁶ Recommendation 5.7, SEC Memorandum Circular No. 19, Series of 2016

(50%) and shall physically attend at least twenty-five percent (25%) of all meetings of the board of directors every year: provided, further, That the absence of a director in more than fifty percent (50%) of all regular and special meetings of the board of directors during his/her incumbency is a ground for disqualification in the succeeding election.⁷⁷

B. Board-level committee meetings

Board-level committees shall meet as prescribed in their respective charters. Participation of committee members may likewise be in person or through modern technologies; provided, That the attendance and participation of members in committee meetings 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.⁷⁸

VI. BOARD COMMITTEES⁷⁹

The board of directors may delegate some of its functions, but not its responsibilities, to board-level committees. In this regard, the board of directors shall:

- (1) Approve, review, and update, at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures. 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. The board of directors shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.
- (2) 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 nonexecutive members of the board of directors 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 Oversight and Corporate Governance, Related Party Transactions committees, without prior approval of the Monetary Board.

- (3) Ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.
- (4) All established committees should be required to have Committee Charters stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources and other relevant information. The Charters should provide the standards for evaluating the performance of the Committees. It should also be fully disclosed on the company's website.⁸⁰

A. Executive Committee

I. Composition

⁷⁷ BSP Circular No. 969, Series of 2017

⁷⁸ *Ibid.*

⁷⁹ Also see Recommendation 3.1, SEC Memorandum Circular No. 19, Series of 2016

⁸⁰ Recommendation 3.6, SEC Memorandum Circular No. 19, Series of 2016

The Executive Committee shall be composed of a Chairman, and at least four (4) members to be elected by the board of directors from among themselves.⁸¹

ii. Duties and responsibilities

The Executive Committee shall have the power to act and pass upon such matters as the board of directors may entrust to it for action in between meetings of the said board of directors. Matters affecting general policy shall always be referred to the board of directors for decision.⁸² The Executive Committee shall likewise have the power to review an asset or loan to ensure timely recognition and resolution of impaired assets.

The Executive Committee Charter is attached as Annex “A”.

B. Audit and Compliance Committee⁸³

i. Composition and Chairperson

The audit and compliance committee shall be composed of at least three (3) members of the board of directors, who shall all be non-executive directors majority of whom shall be independent directors, including the Chairperson: Provided, That the Chairperson of the audit committee shall not be the Chairperson of the board of directors or of any other board-level committees.

The audit and compliance committee shall have accounting, auditing or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank. The audit committee shall have access to independent experts to assist them in carrying out its responsibilities.

ii. Duties and responsibilities⁸⁴

- (1) Oversee the financial reporting framework. The committee shall oversee the financial reporting process, practices, and controls. It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.
- (2) Monitor and evaluate the adequacy and effectiveness of the internal control systems. The committee shall oversee the implementation of internal control policies and activities. It shall also ensure that periodic assessment of the internal control system is conducted to identify the weaknesses and evaluate its robustness considering the Bank's risk profile and strategic direction.
- (3) Oversee the internal audit function. The committee shall be responsible for the appointment/selection, remuneration, and dismissal of internal auditor. It shall review and approve the audit scope and frequency. The committee shall ensure that the scope covers the review of the effectiveness of the Bank's internal controls, including financial, operational and compliance controls, and risk management system. The committee shall functionally meet with the head of internal audit and such meetings shall be duly minuted and adequately documented. In this regard, the audit committee shall review and

⁸¹ Section 10, Article V, By-Laws

⁸² *Ibid.*

⁸³ BSP Circular No. 969, Series of 2017; Recommendation 3.2, SEC Memorandum Circular No. 19, Series of 2016

⁸⁴ BSP Circular No. 969, Series of 2017

approve the performance and compensation of the head of internal audit, and budget of the internal audit function.

- (4) Oversee the external audit function. The committee shall be responsible for the appointment, fees, and replacement of external auditor. It shall review and approve the engagement contract and ensure that the scope of audit likewise cover areas specifically prescribed by the Bangko Sentral and other regulators.
- (5) Oversee implementation of corrective actions. The committee shall receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, noncompliance with policies, laws, and regulations and other issues identified by auditors and other control functions.
- (6) Investigate significant issues/concerns raised. The committee shall have explicit authority to investigate any matter within its terms of reference, have full access to and cooperation by management, and have full discretion to invite any director or executive officer to attend its meetings.
- (7) Establish whistleblowing mechanism. The committee shall establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.
- (8) Assist the Board in its oversight functions over the Bank's (a) compliance with legal and regulatory requirements, (b) assessment and management of enterprise risks including credit, market, liquidity, operational and legal risks, and (c) audit process and the performance of the Bank's internal audit organization and external auditors, including external auditors' qualifications and independence.

The Audit and Compliance Committee Charter is attached as Annex "B".

C. Risk Oversight Committee⁸⁵

i. Composition and Chairperson⁸⁶

The committee shall be composed of at least three (3) members of the board of directors, majority of whom shall be independent directors, including the chairperson. The ROC's chairperson shall not be the chairperson of the board of directors, or any other board-level committee. The risk oversight committee shall possess a range of expertise and adequate knowledge on risk management issues and practices. It shall have access to independent experts to assist it in discharging its responsibilities.

ii. Duties and responsibilities⁸⁷

The ROC shall advise the board of directors on the Bank's overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement, and report on the state of risk culture of the Bank. The ROC shall:

⁸⁵ Also see Recommendation 3.4, SEC Memorandum Circular No. 19, Series of 2016

⁸⁶ BSP Circular No. 969, Series of 2017

⁸⁷ *Ibid.*

- (1) Oversee the risk management framework. The 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.
- (2) 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.
- (3) Oversee the risk management function. The committee shall be responsible for the appointment/selection, remuneration, and dismissal of the Chief Risk Officer (CRO). It shall also ensure that the risk management function has adequate resources and effectively oversees the risk taking activities of the Bank.

This Risk Oversight Committee Charter is attached as Annex "C".

D. Corporate Governance Committee⁸⁸

i. Composition and Chairperson

The committee shall be composed of at least four (4) members of the board of directors who shall all be non-executive directors, majority of whom shall be independent directors, including the chairperson, with (1) one member representing the minority shareholders.⁸⁹

ii. General responsibilities⁹⁰

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

- (1) Oversee the nomination process for members of the board of directors and for positions appointed by the board of directors. The committee shall review and evaluate the qualifications of all persons nominated to the board of directors as well as those nominated to other positions requiring appointment by the board of directors. The committee shall 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.
- (2) Oversee the continuing education program for the board of directors. The committee shall ensure allocation of sufficient time, budget and other resources for the continuing education of directors, and draw on external expertise as needed. The committee shall establish and ensure effective implementation of policy for on-boarding/orientation program for first time directors and annual continuing education for all directors.

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

⁸⁸ Also see Recommendation 3.3, SEC Memorandum Circular No. 19, Series of 2016

⁸⁹ BSP Recommendation specific for the Bank

⁹⁰ BSP Circular No. 969, Series of 2017

- (3) Oversee the performance evaluation process. The committee shall oversee the periodic evaluation of contribution and performance (e.g., competence, candor, attendance, preparedness and participation) of the board of directors, board-level committees, and senior management. Internal guidelines shall be adopted that address the competing time commitments of directors serving on multiple boards.
- (4) Oversee the design and operation of the remuneration and other incentives policy. 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 Bank, promotes good performance and conveys acceptable risk-taking behavior defined under its Code of Ethics, and complies with legal and regulatory requirements. It shall work closely with the Bank's risk oversight committee in evaluating the incentives created by the remuneration system. In particular, the risk oversight committee shall examine whether incentives provided by the remuneration system take into consideration risk, capital, and the likelihood and timing of earnings. Moreover, it 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.

The Corporate Governance Committee Charter is attached as Annex "D".

E. Related Party Transactions Committee⁹¹

i. Composition and Chairperson⁹²

The Committee shall be composed of at least three (3) members of the board of directors, two (2) of whom shall be independent directors, including the chairperson. The Committee shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members. In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction.⁹³ The Compliance Officer or Internal Auditor may sit as resource persons in said committee.

ii. Duties and responsibilities⁹⁴

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

- (a) The related party's relationship to the Bank and interest in the transaction;

⁹¹ Recommendation 3.5, SEC Memorandum Circular No. 19, Series of 2016

⁹² BSP Circular No. 969, Series of 2017

⁹³ Also see Recommendation 5.6, SEC Memorandum Circular No. 19, Series of 2016

⁹⁴ *Ibid.*

- (b) The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
- (c) The benefits to the Bank of the proposed RPT;
- (d) The availability of other sources of comparable products or services; and
- (e) An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Bank shall have in place an effective price discovery system and have exercised due diligence in determining a fair price for RPTs.

All RPTs that are considered material based on Bank's internal policies shall be endorsed by the RPT Committee to the board of directors for approval.

- (3) Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Bank's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the Bank's affiliation or transactions with other related parties.
- (4) 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.
- (5) Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.
- (6) Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

The Related Party Transactions Committee Charter is attached as Annex "E".
The Related Party Transactions Policy⁹⁵ is attached as Annex "E-1".

F. OTHER BOARD-LEVEL COMMITTEES

- i. Trust Committee (charter attached as Annex "F-1")
- ii. Technology Committee (charter attached as Annex "F-2")
- iii. Personnel Evaluation and Review Committee (charter attached as Annex "F-3")
- iv. Anti-Money Laundering Committee (charter attached as Annex "F-4")

VII. OFFICERS

A. Qualifications of an Officer⁹⁶

An officer must be fit and proper for the position he is being appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered: integrity/probity, education/training, and possession of competencies relevant to the function such as knowledge and experience, skills and diligence.

⁹⁵ Recommendation 8.5, SEC Memorandum Circular No. 19, Series of 2016

⁹⁶ BSP Circular No. 969, Series of 2017

In assessing an officer's integrity/probity, consideration shall be given to the office/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.

An appointed officer has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Subsection C below. An officer shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using Appendix 98 of the MORB as guide, within twenty (20) banking days from the date of meeting of the board of directors in which the officer is appointed/promoted.

The foregoing qualifications for officers shall be in addition to those required or prescribed under R.A. No. 8791 and other applicable laws and regulations.

B. Disqualifications

- a. The disqualification for directors mentioned in Section II.B.iv above, shall likewise apply to officers, except those stated in items II.B.iv.b(2) and II.B.iv.b(7).
- b. The spouse or relatives within the second degree of consanguinity or affinity are prohibited from holding officership positions across the following functional categories within the bank:
 1. Decision making and senior management function, e.g., chairman, president, chief executive officer, chief operating officer, general manager, and chief financial officer, other than the treasurer or controller;
 2. Treasury function, e.g., Treasurer and Vice President – Treasury;
 3. Recordkeeping and financial reporting functions, e.g., controller and chief accountant;
 4. Safekeeping of assets, e.g., chief cashier;
 5. Risk management function, e.g., chief risk officer;
 6. Compliance function, e.g., compliance officer; and
 7. Internal audit function, e.g., internal auditor.

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 extension office of a bank or their respective equivalent positions is disqualified from holding or being appointed to any of said positions in the same branch or extension office.

- c. Any appointive or elective official, whether full time or part time, except in cases where such service is incident to financial assistance provided by the government or government owned or controlled corporations or in cases allowed under existing law.
- d. Except as may otherwise be allowed under Commonwealth Act No. 108, otherwise known as "The Anti-Dummy Law", as amended, foreigners cannot be officers or employees of banks.

C. Duties and responsibilities⁹⁷

⁹⁷ BSP Circular No. 749, Series of 2012

- (1) To set the tone for 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) To oversee the day-to-day management of the bank. Bank officers shall ensure that the bank's activities and operations are consistent with the bank's strategic objectives, risk strategy, corporate values and policies 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 organization.
- (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.
- (4) To promote and strengthen checks and balances in the bank. Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance, and external audit functions.

VIII. Chief Executive Officer (CEO)

The CEO shall be the overall-in-charge for the management of the business and affairs of the Bank governed by the strategic direction and risk appetite approved by the board of directors. He shall be primarily accountable to the board of directors in championing the desired conduct and behaviour, implementing strategies, and in promoting the long-term interest of the Bank.⁹⁸

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

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

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

IX. SENIOR MANAGEMENT COMMITTEE

A. Composition

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

⁹⁸ BSP Circular No. 969, Series of 2017

B. Functions

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

C. Duties and Responsibilities of Management

- i. Under the direction of the Board, Management shall ensure that the Bank's activities are consistent with the business strategy, risk tolerance and appetite, and policies approved by the Board.⁹⁹
- ii. Senior Management is responsible and shall be held accountable for overseeing the day-to-day management of the Bank. They shall have the necessary experience, competencies and integrity to manage the businesses under their supervision as well as have appropriate control over the key individuals in these areas.¹⁰⁰
- iii. Management shall provide the Directors with adequate and timely information about the matters to be taken up in their Board meetings and, upon the request of any Director, make presentations on specific topics and respond to further inquiries thereto during Board meetings. The Directors shall have independent access to management.
- iv. Management shall formulate, under the oversight of the Audit Committee, financial reporting and internal control system, rules and procedures in accordance with the following guidelines:
 - a) The extent of management's responsibility in the preparation of the financial statements of the Bank, with the corresponding delineation of the responsibilities that pertain to the External Auditor, shall be clearly explained;
 - b) An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Bank shall be maintained;
 - c) On the basis of the approved audit plans, internal audit examinations shall cover, at the minimum, the evaluation of the adequacy and effectiveness of risk management and controls that cover the Bank's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;
 - d) The Bank shall consistently comply with the financial reporting requirements of the BSP and the SEC and other regulatory agencies;

⁹⁹ Basel Committee on Banking Supervision Principles for Enhancing Corporate Governance

¹⁰⁰ *Id.*

- e) The Chief Audit Executive shall submit to the Audit Committee and Management an annual report on the internal audit group's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit and Compliance Committee. The annual report shall include significant risk exposures, control issues and such other matters as may be needed or requested by the Board/Audit and Compliance Committee and Management.

D. Strategy Setting and Planning

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

E. Financial and Operational Reporting

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

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

X. COMPLIANCE RISK MANAGEMENT

The Bank shall establish a dynamic and responsive compliance risk management system. The compliance risk management system shall be designed to specifically identify and 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, and codes of conducts applicable to its activities. 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. Compliance risk management should be an integral part of the culture and risk governance framework of the Bank. In this respect, it shall be the responsibility and shared accountability of all personnel, officers, and the board of directors.¹⁰¹

A. Chief Compliance Officer (CCO)

The Board should ensure that it is assisted in its duties by a Compliance Officer, who should have a rank of Senior Vice President or an equivalent position with adequate stature and authority in

¹⁰¹ BSP Circular No. 972, Series of 2017.

the corporation. The Compliance Officer should not be a member of the Board of Directors and should annually attend training on Corporate Governance.¹⁰²

The CCO shall functionally report to the Audit & Compliance Committee and AML Committee.

The 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. The CCO should be up-to-date with the developments in laws, rules and standards maintained through continuous training.¹⁰³

The CCO shall oversee the identification and management of the Bank's compliance risk and shall supervise the compliance function staff. He/she is expected to liaise with the BSP and other regulatory agencies, on compliance related issues and shall also be responsible for ensuring the integrity and accuracy of all documentary submissions to such agencies. He/she shall functionally meet/report to the Audit and Compliance committee and such meetings shall be duly minuted and adequately documented. In this regard, the Audit and Compliance committee shall review and approve the performance and compensation of the CCO, as well as the budget of the compliance function.¹⁰⁴

B. Compliance Function

The Compliance Function is discharged by the Regulatory Affairs Group ("RAG") headed by the Chief Compliance Officer ("CCO"). The RAG is a separate and independent unit with no business function. It reports to the Board of Directors through the Audit & Compliance Committee and the AML Committee.¹⁰⁵

The Regulatory Affairs Group (Compliance Office) shall be established by a charter, approved by the board of directors. The Regulatory Affairs Group shall facilitate the effective management of compliance risk by:¹⁰⁶

- a. Advising the board of directors and senior management on relevant laws, rules and standards, including keeping them informed on developments in the area;
- b. b) Apprising Bank personnel on compliance issues, and acting as a contact point within the Bank for compliance queries from its personnel; c) Establishing written guidance to staff on the 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 risks associated with the Bank's business activities, including new products and business units;;
- c. 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;;
- d. f) Monitoring and testing compliance by performing sufficient and representative compliance testing; and
- e. g) Maintaining a constructive working relationship with the Bangko Sentral and other regulators.

C. Chief Audit Executive¹⁰⁷

¹⁰² Recommendation 1.6, SEC Memorandum Circular No. 19, Series of 2016

¹⁰³ BSP Circular No. 972, Series of 2017.

¹⁰⁴ BSP Circular No. 972, Series of 2017.

¹⁰⁵ See BSP Circular No. 972, series of 2017.

¹⁰⁶ *Id.*

¹⁰⁷ Recommendation 12.3, SEC Memorandum Circular No. 19, Series of 2016

The Chief Audit Executive (CAE) shall oversee and be responsible for the internal audit activity of the Bank, including the portion that is outsourced to a third party provider. In case of a fully outsourced internal audit activity, a qualified, independent executive or senior management personnel should be assigned the responsibility for managing fully outsourced internal audit activity.

1. The CAE shall functionally report to the Audit and Compliance Committee.
2. The CAE shall submit to the Audit and Compliance 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 and Compliance Committee. The annual report shall include significant risk exposures, control issues, and such other matters as may be needed or requested by the Board and Management.
3. The CAE shall certify that internal audit activities are conducted in accordance with the International Standards on Professional Practice of Internal Auditing. If he/she does not, he/she shall disclose to the Board and Management the reasons why said standards are not fully complied with.

D. Audit and accountability

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

Management shall provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders.

Management shall formulate policies and procedures on risk management and governance process. Further, Management shall formulate rules and regulations on financial reporting and internal control in accordance with the following:

- (a) The extent of Management's responsibility in the preparation of the financial statements of the Bank, with the corresponding delineation of the responsibilities that pertain to the external auditor, shall be clearly explained.
- (b) An effective internal control system that will ensure the integrity of the financial reports and protection of the assets of the Bank for the benefit of all stockholders and other stakeholders shall be maintained.
- (c) The Bank shall consistently comply with the financial reporting requirements of the SEC.

1. Internal Audit Function¹⁰⁸

- i. The Bank shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of internal auditors who shall conduct independent and objective internal audit activities designed to add value to and improve the Bank's operations and to help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control and governance processes through which the Board, senior management, and stockholders shall be provided with reasonable assurance that its key

¹⁰⁸ Also see Recommendation 2.10 and 12.2, SEC Memorandum Circular No. 19, Series of 2016

organizational and procedural controls are appropriate, adequate, effective, and complied with.

- ii. The minimum risk management and internal control mechanisms for Management's operational responsibility shall center on the CEO, being ultimately accountable for the Bank's organizational and procedural controls.
- iii. The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors:
 - a. The nature and complexity of business and business culture;
 - b. The volume, size, and complexity of transactions;
 - c. The degree of risk;
 - d. The degree of centralizations and delegation of authority;
 - e. The extent and effectiveness of information technology; and
 - f. The extent of regulatory compliance.
- iv. The internal audit examinations shall cover at least the following:
 - a. Evaluation of significant risk exposures and adequacy of risk management process;
 - b. The evaluation of the adequacy and effectiveness of controls encompassing the organization's governance, operations, information systems (including the reliability and integrity of financial and operational information);
 - c. Effectiveness and efficiency of operations;
 - d. Safeguarding of assets; and
 - e. Compliance with laws, rules, regulations, and contracts.
- v. The audit reports shall summarize risk exposures, control issues, recommendations, status of committed actions, officers responsible, and implementation dates.
- vi. The internal auditors shall have free and full access to all the Bank's records, properties, and personnel relevant to the internal audit activity.

2. External Auditor¹⁰⁹

- i. An external auditor accredited by the BSP and SEC shall be selected and appointed by the stockholders upon recommendation of the Audit and Compliance Committee.
- ii. The external auditor shall enable an environment of sound corporate governance as reflected in the financial records and reports of the Bank. He shall provide an objective assurance on the manner by which the financial statements have been prepared and presented to the stockholders. If he believes that the statements made in the Bank's annual report, information statement or proxy statement filed with the SEC or any

¹⁰⁹ Also see Recommendation 9.1, SEC Memorandum Circular No. 19, Series of 2016

regulatory body during the period of his engagement is incorrect or incomplete, he shall present his views on the matter in the said reports.

- iii. The external auditor of the Bank shall not, at the same time, provide internal audit services to the Bank. The Bank shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor.
- iv. The Bank shall disclose the nature of non-audit services performed by its external auditor in the Annual Report to deal with potential conflict of interest. The Audit and Compliance Committee should be alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services which could be viewed as impairing the external auditor's objectivity.¹¹⁰
- v. The Bank's external auditor shall be rotated, or the signing part of the external auditor assigned to the Bank shall be changed, every five (5) years or earlier.
- vi. The reason/s for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the Bank's annual and current reports. The report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure. A preliminary copy of the said report shall be given by the Bank to the external auditor before its submission.

E. Chief Risk Officer¹¹¹

The Chief Risk Officer (CRO), shall be the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources and support to fulfill his/her responsibilities, subject to a company's size, risk profile and complexity of operations.¹¹²

The CRO has the following functions, among others:

1. Supervise the entire Enterprise Risk Management (ERM) process and spearhead the development, implementation, maintenance and continuous improvement of ERM processes and documentation;
2. Communicate the top risks and status of implementation of risk management strategies and action plans to the Risk Oversight Committee (ROC);
3. Collaborate with the CEO in updating and making recommendations to the ROC;
4. Suggest ERM policies and related guidance, as may be needed; and
5. 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 clear communication between the ROC and the CRO.

¹¹⁰ Recommendation 9.3, SEC Memorandum Circular No. 19, Series of 2016

¹¹¹ Recommendation 12.5, SEC Memorandum Circular No. 19, Series of 2016

¹¹² Recommendation 12.5, SEC Memorandum Circular No. 19, Series of 2016

F. Risk Management and Internal Controls¹¹³

1. The Bank recognizes that risk is an inherent part of its activities, and that Banking is essentially a business of managing risks. The Bank views risk management as a value proposition imbued with the mission of achieving sustainable growth in profitability and shareholder value through an optimum balance of risk and return.
2. The risk management infrastructure of the Bank follows a top-down approach, whereby the Board takes ultimate accountability for the risks taken, the tolerance for these risks, business strategies, operating budget, policies, and overall risk philosophy.
3. The board and senior management shall know and understand the bank's operational structure and the risks that it poses (ie "know-your-structure").
4. The Bank shall have an effective internal controls system and a risk management function (including a chief risk officer or equivalent) with sufficient authority, stature, independence, resources and access to the board.
5. The Business Risk Group and Operations Risk Management Group shall implement the risk management process in the parent company, and additionally consolidates the risk MIS from the various subsidiary risk units for a unified risk profile and eventual disposition.
6. Risks shall be identified and monitored on an ongoing firm-wide and individual entity basis, and the sophistication of the bank's risk management and internal control infrastructures shall keep pace with any changes to the bank's risk profile (including its growth), and to the external risk landscape.
7. The risk process adopted by the Bank is not designed to eliminate risks, but rather to mitigate and manage them so as to arrive at an optimum risk-reward mix.
8. The bank monitors risk levels to ensure timely review of risk positions and exceptions versus established limits and ensure effectiveness of risk controls using appropriate monitoring systems.
9. The Bank has an effective risk management that s robust internal communication within the bank about risk, both across the organization and through reporting to the board and senior management.
10. The board and senior management shall effectively utilize the work conducted by internal audit functions, external auditors and internal control functions. The Internal Audit shall evaluate the effectiveness of controls and adequacy of the risk management function.

XI. CODE OF CONDUCT

1. The Board shall adopt a Code of Business and Ethics, and shall approve any revision thereof, which would provide standards and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings. The Code and the policies shall form part of the Employee Handbook and shall be made available and readily accessible by all associates online through the internet service of the Bank. Any updates therein must also be disseminated. It should also be disclosed and made available to the public through the company website.¹¹⁴

¹¹³ Also see Recommendation 2.11, 12.1, and 12.4, SEC Memorandum Circular No. 19, Series of 2016

¹¹⁴ Recommendation 7.1 and 15.2, SEC Memorandum Circular No. 19, Series of 2016

2. The Board should ensure proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies.¹¹⁵ However, the Human Resources Group shall take the lead in ensuring compliance of employees.
3. Each officer and employee of the Bank holds a position of trust. Thus, officers and employees must avoid situations where their personal interest may conflict or appear to conflict with the interests of the Bank or its clients. In addition, officers and employees must have an obligation to the Bank and the public on the proper and responsible handling of confidential information.

XII. 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.

XIII. TRAINING PROCESS

A. Board of Directors Training Program¹¹⁶

The orientation program for first time directors shall be for at least eight hours, while the annual continuing training shall be at least for four hours. The training programs should cover topics relevant in carrying out their duties and responsibilities as directors.¹¹⁷

i. First-time Directors in any institution¹¹⁸

In addition to requirements in Part III below, a first-time director shall submit to the Bangko Sentral a certification of compliance with the Bangko Sentral-prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance: Provided, that the following persons are exempted from complying with the aforementioned requirement:

- a) Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance;
- b) Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board members; or
- c) Former Chief Justices and Associate Justices of the Philippine Supreme Court:

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

ii. First-time Directors in the Bank¹¹⁹

¹¹⁵ Recommendation 7.2, SEC Memorandum Circular No. 19, Series of 2016

¹¹⁶ Recommendation 1.3, SEC Memorandum Circular No. 19, Series of 2016

¹¹⁷ Explanation, Recommendation 1.3, SEC Memorandum Circular No. 19, Series of 2016

¹¹⁸ BSP Circular No. 969, Series of 2017

¹¹⁹ Explanation, Recommendation 1.3, SEC Memorandum Circular No. 19, Series of 2016

All directors should be properly oriented upon joining the board. This ensures that new members are appropriately apprised of their duties and responsibilities, before beginning their directorships. The orientation program covers SEC-mandated topics on corporate governance and an introduction to the company's business, Articles of Incorporation, and Code of Conduct. It should be able to meet the specific needs of the company and the individual directors and aid any new director in effectively performing his or her functions.

iii. Annual Training of the Board of Directors¹²⁰

The annual continuing training program, on the other hand, makes certain that the directors are continuously informed of the developments in the business and regulatory environments, including emerging risks relevant to the company. It involves courses on corporate governance, matters relevant to the company, including audit, internal controls, risk management, sustainability and strategy. The Bank shall assess its own training and development needs in determining the coverage of their continuing training program. The annual continuing training shall be at least for four hours.

iv. Anti-Money Laundering/Counter-Terrorist Financing Refresher Training¹²¹

There shall be regular refresher trainings, in addition to the Annual Training in part IV, in order to guarantee that the Board of Directors are informed of new developments and issuances related to the prevention of money laundering and terrorism financing as well as reminded of their respective responsibilities vis-à-vis the covered institution's processes, policies and procedures.

B. Senior Management Annual Training

Officers with rank of Senior Vice President and above, shall also attend annual training on applicable topics such as corporate governance, including audit, internal controls, risk management, sustainability and strategy, or any other topic assessed to be relevant to the company, for the year when training is attended.

C. Employee Succession Plan

The Bank is committed to establishing and maintaining a deep bench of internal candidates who are ready and able to assume key positions and ensure business continuity in case of resignations, retirements, re-assignments or reorganizations.

The Human Resources Group shall adopt and implement an effective succession planning program which shall have the following primary objectives:

1. To ensure organizational capability through identification, development and engagement / retention of in-house key talents for possible succession to key leadership positions/ identified critical positions (defined as department heads and up) in case of resignations, retirements, re-assignments or re-organizations.
2. To ensure continuous implementation of business/corporate strategies through systematic transfer of business/corporate knowledge and organizational directions to the identified key talents.
3. To identify candidates, and their individual capabilities and readiness levels, and provide the appropriate individual development plan for each.

¹²⁰ *Ibid.*

¹²¹ BSP Circular No. 706, Series of 2011

XIV. TRANSPARENCY/COMMITMENT TO DISCLOSE MATERIAL INFORMATION¹²²

1. The Board shall commit at all times to fully disclose material information dealings. Further, the dealings of directors in the Bank's shares shall be disclosed within three (3) to five (5) days as follows:

Procedure	Responsible Party	Timeline
Inform the Office of the Corporate Secretary of the acquisition of RCBC Shares	Director	Within the day of purchase
Inform Stock Transfer Processing Section (STPS) through email of any additional purchase and/or disposal of RCBC shares and instruct STPS to prepare the SEC Form 23-B	Corporate Secretary	Within 24 hours from receipt of information
Prepare the SEC Form 23-B and forward the accomplished SEC Form 23-B to Corporate Secretary	STPS	Within 3 days from transaction date
Forward the accomplished SEC Form 23-B to the concerned Director for approval and signature.	Corporate Secretary	
Return the duly signed SEC Form 23-B to the Corporate Secretary	Director	
Forward the duly signed SEC Form 23-B to STPS with instruction to file the same with SEC, PSE, and PDEX	Corporate Secretary	
File the SEC Form 23-B with SEC and PSE	STPS	Within 1 day from receipt of the SEC Form 23-B from Corporate Secretary
Submit the SEC Form 23-B to PDEX and submit scanned copy of the Virtual Banking and E-Commerce Division with the instruction to post to the RCBC Website	STPS	Immediately upon approval by PSE (must be same day)

2. Transactions between related parties shall be disclosed to include the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.
3. All material information about the Bank, i.e., anything that could adversely affect share price, shall be publicly disclosed.¹²³ Such information and/or transactions shall include, among others, earnings results, acquisition or disposal of significant assets, related party transactions, board membership changes, shareholdings of directors and officers and any changes thereto, and such material events or information which are required to be disclosed pursuant to the SRC and its Implementing Rules and Regulations.¹²⁴
4. The governance of the Bank shall be adequately transparent to its shareholders and other stakeholders.¹²⁵

¹²² Also see Recommendation 8.1, SEC Memorandum Circular No. 19, Series of 2016

¹²³ Also see Recommendation 8.3, SEC Memorandum Circular No. 19, Series of 2016

¹²⁴ Also see Recommendation 8.6, SEC Memorandum Circular No. 19, Series of 2016

¹²⁵ Basel Committee on Banking Supervision Principles for enhancing corporate governance

XV. STOCKHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTERESTS¹²⁶

1. The Board shall respect the rights of the stockholders as provided for in the Corporation Code, namely:
 - i. Right to vote on all matters that require their consent or approval;
 - ii. Right to inspect the books and records of the Bank;
 - iii. Right to information;
 - iv. Right to dividends; and
 - v. Appraisal right.
2. Voting Right
 - i. The Board shall be transparent and fair in the conduct of the annual and specials stockholders' meetings of the Bank. The stockholders shall be encouraged to personally attend such meetings.
 - ii. In case the stockholders cannot attend the annual and special stockholders' meetings, they shall be appraised ahead of time of their right to appoint a proxy. Subject to the requirements of the by-laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy shall be resolved in the stockholders' favor.
 - iii. The Board shall take the appropriate steps to remove excessive costs and other administrative impediments to the stockholders' participation in meetings, whether in person or by proxy. Accurate and timely information shall be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.
 - iv. Stockholders shall have the right to elect, remove, and replace directors, and vote on certain corporate acts in accordance with the Corporation Code.
 - v. Cumulative voting shall be used in the election of directors.
 - vi. A director shall not be removed without cause if it shall deny minority stockholders representation in the Board.
3. Right to Inspection

All stockholders shall be allowed to inspect corporate books and records including minutes of the 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.¹²⁷
4. Right to Information
 - i. The stockholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other

¹²⁶ Recommendation 13.1, SEC Memorandum Circular No. 19, Series of 2016

¹²⁷ Section 74, Corporation Code of the Philippines

matters such as their holdings of the Bank's shares, dealing with the Bank, relationships among directors and key officers, and the aggregate compensation of directors and officers.

- ii. The minority stockholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.
- iii. The minority stockholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management shall include such information and, if not included, then the minority stockholders shall be allowed to propose to include such matters in the agenda of the stockholders' meeting, being within the definition of "legitimate purposes".

5. Right to Dividends

The Bank shall declare dividends pursuant to its By-laws and in accordance with the requirements of the BSP.

6. Appraisal Right

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

- i. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholder 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;
- ii. 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
- iii. In case of merger or consolidation.

7. Grievance Procedure

The stockholder may file his/her complaints in writing and submit the same to the Corporate Secretary for purposes of endorsement to the Corporate Governance Committee.¹²⁸

The Bank hereby adopts an arbitration system to resolve any dispute, controversy, or claim arising out of, or relating to, the Bank's relations with its shareholders, and other intra-corporate matters under applicable law and regulations, in accordance with the Philippine Dispute Resolution Center, Inc. (PDRCI) Arbitration Rules in accordance with The Arbitration Law and R.A. No. 9285, otherwise known as The Alternative Dispute Resolution Act of 2004.¹²⁹

8. Disclosure of Material Non-Public Information

The Bank is prohibited to communicate material non-public information to any person, unless the Bank is ready to simultaneously disclose the material non-public information to the Philippine

¹²⁸ Also see Recommendation 14.3, SEC Memorandum Circular No. 19, Series of 2016

¹²⁹ Maharlika Board (Exposure draft dated 29 April 2010) on Listing and Disclosure Rules; also see Recommendation 13.4, SEC Memorandum Circular No. 19, Series of 2016

Stock Exchange (PSE). However, this rule shall not apply if the disclosure is made to the following:

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

Any disclosure of material non-public information to securities analysts, institutional investors or other third parties, who do not fall under items 9(i) and 9(ii) above, ahead of the disclosure to be made to the PSE and the general public, shall be considered as a violation of this rule.

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

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

9. Nomination and Election of Directors

The nomination and election of directors by the stockholders shall be in accordance with the provisions of the Bank's By-Laws.

XVI. MONITORING AND ASSESSMENT

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

XVII. REGULAR REVIEW

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

XVIII. REPORTORIAL REQUIREMENTS

I. Reports pertaining to group structures shall be submitted to the BSP Central Point of Contact Department 1 as follows:

1. The report disclosing all entities in the group structure where the Bank belongs either as a parent company Bank or subsidiary/affiliate company shall be submitted to the BSP within thirty (30) calendar days after the end of every calendar year starting with the year ending 31 December 2001.
2. The report on significant transactions between entities in the group and involving any BSP-regulated entity shall be submitted within twenty (20) calendar days after the end of the reference quarter starting with the quarter ending 31 March 2012.

II. Annual Corporate Governance Report (ACGR)

1. The ACGR shall be accomplished annually in accordance with the SEC rules.
2. To monitor the directors' compliance with the attendance requirements, the Bank shall update the pertinent portion of the ACGR Report and file with the SEC an advisement letter on directors' attendance within five (5) days from the end of the company's fiscal year.¹²⁹

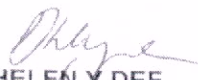
III. PSE Disclosure Survey

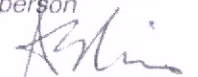
The Survey shall be submitted at the end of first quarter for each ensuing year.

Besides providing a mechanism by which investors can be informed of the corporate governance practices of the companies they are invested in, the Disclosure Survey will be used as a basis for screening Listed Companies under Phase 1 of the evaluation process for the annual PSE Bell Awards for Corporate Governance.¹³⁰

APPROVED BY THE BOARD OF DIRECTORS ON 27 NOVEMBER 2017

CERTIFIED CORRECT:


MS. HELEN Y. DEE
Chairperson


MS. ANA LUISA S. LIM
Chief Compliance Officer

¹²⁹ SEC Memorandum Circular No. 1, Series of 2014

¹³⁰ PSE Memorandum No. 2016-0003 dated January 18, 2016