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S.E.C. Registration Number

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(Company's Full Name)

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

**KRISTEL D. GUTO**  
Corporate Planning & Investor  
Relations Officer

Contact Person

**(632) 631-3333 /**  
**(632) 638-6888**

Company Telephone Number

1	2
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Month

3	1
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Day

Fiscal Year

**Other SEC Forms, Reports and  
Requirements**

FORM TYPE

**4<sup>TH</sup> Friday of June**

Month

Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

**107**  
As of 04/30/2017

Total No. of Stockholders  
Owning at Least One Board Lot

Total Amount of Borrowings

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Domestic

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Foreign

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To be accomplished by SEC Personnel concerned

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**REVISED CORPORATE  
GOVERNANCE MANUAL  
OF  
ASIA UNITED BANK CORPORATION**

# CORPORATE GOVERNANCE MANUAL

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## PART I OBJECTIVE

Banks play a strategic role in the smooth functioning of the national economy. They act as principal intermediary between the users and providers of financial services. If the banking system is weak, the national economy is also affected by virtue of its critical role in the operations of the national payments system.

The Board of Directors, Management, and Employees of **ASIA UNITED BANK CORPORATION** (the 'Bank' or the 'Corporation') believe that Corporate Governance is a necessary component of sound strategic business management that will enable the Bank to perform its role in the national economy. The term 'Corporate Governance' refers to any or all of the following:

1. a set of relationships between a company's board, its shareholders and other stakeholders;<sup>1</sup>
2. a structure through which the objectives of the company are set, and the means of attaining those objectives and maintaining performance are determined;<sup>2</sup>
3. the system by which businesses are directed and implemented by the company's board of directors<sup>3</sup>;
4. the framework of rules, systems, and processes in the corporation that governs the performance of the Board of Directors and Management of the bank of their respective duties and responsibilities to shareholders and other stakeholders, which include, among others, customers, employees, suppliers, financiers, government, and the community in which it operates;<sup>4</sup>
5. a system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders<sup>5</sup>; and
6. 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, the purpose of which, is to maximize the organization's long-term success, creating sustainable value for its shareholders, stakeholders, and the nation.<sup>6</sup>

By adopting this Corporate Governance Manual ('Manual'), the Board of Directors and the management of Corporation commit themselves to the principles and best practices of good Corporate Governance and undertakes to institutionalize such principles within the Bank.

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<sup>1</sup> OECD Principles of Corporate Governance, 2004.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

<sup>4</sup> SEC Memorandum Circular (MC) No. 9, series of 2014 (Amendment to the Revised Code of Corporate Governance).

<sup>5</sup> SEC MC No. 19, series of 2016 (Code of Corporate Governance for Publicly-listed Companies).

<sup>6</sup> *Ibid.*

## PART II GOVERNANCE STRUCTURE

### 1. Board of Directors

#### 1.1 Definition; Composition; Limitations; Board Diversity

##### 1.1.1. Definition of Directors.<sup>7</sup> Directors shall include:

- a. directors who are named as such in the articles of incorporation;
- b. directors duly elected in subsequent meetings of the stockholders or those appointed by virtue of the charter of government-owned banks; and
- c. those elected to fill vacancies in the board of directors.

##### 1.1.2. Composition. Pursuant to Section 15 and 17 of R.A. No. 8791, there shall be at least 5, and a maximum of 15 members of the board of directors of a bank. Provided, that in case of a bank/QB/trust entity merger or consolidation, the number of directors may be increased up to the total number of the members of board of directors of the merging or consolidating bank/QB/trust entity as provided for in their respective Articles of Incorporation, but in no case to exceed 21. The board shall determine the appropriate number of its members to ensure that the number is commensurate with the size and complexity of the bank's operations.<sup>8</sup>

To the extent practicable, the members of the board of directors shall be selected from a broad pool of qualified candidates.<sup>9</sup> To promote the independence of the board from the views of senior management, a majority of the members of the Board shall be **non-executive directors** who possess the necessary qualification to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances.<sup>10</sup> For this purpose, 'non-executive directors' shall refer to those who are not part of the day to day management of banking operations and shall include the independent Directors.<sup>11</sup>

The board shall have at least three (3) **independent directors**<sup>12</sup> or such number as to constitute at least one third (1/3) of the members of the board of directors, whichever is higher.<sup>13</sup>

##### 1.1.3. Limitation on Nationality of Directors<sup>14</sup>. Non-Filipino citizens may become members of the board of directors of the bank to the extent of their equity

<sup>7</sup> Subsection X141.1(a) of the Manual of Regulations for Banks ('MORB'), as amended.

<sup>8</sup> *Ibid.*

<sup>9</sup> *Ibid.*

<sup>10</sup> SEC MC No. 19, series of 2016, Recommendation 1.2.

<sup>11</sup> MORB, Subsection X141.1(b).

<sup>12</sup> An 'Independent Director' is 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 director.

<sup>13</sup> SEC MC No. 19, series of 2016, Recommendation 5.1.

<sup>14</sup> MORB, Subsection X141.1(d).

in the Bank. Provided that pursuant to Section 23 of the Corporation Code of the Philippines (BP Blg. 68), a majority of the directors must be residents of the Philippines.

**1.1.4. Board Diversity.** The Bank recognizes that diversity in the Board of Directors ensures against groupthink and ensures optimal decision-making at the Board level. For this purpose, the Board shall, as much as practicable, consider diversity with respect to age, gender, ethnicity, culture, skills, competence, and knowledge in determining its membership.

**1.1.5. Conduct of Board Meetings.** The meetings of the board of directors shall be conducted in accordance with Article VII of the Bank's Bylaws and 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 matter taken up therein.

## 1.2. Qualifications

**1.2.1. All Directors.** Directors shall have the following qualifications:

- a. He/She shall be at least 25 years of age at the time of his/her election or appointment;
- b. He/She shall be at least a college graduate or have at least 5 years experience in business;
- c. He/She must have attended a special seminar on corporate governance for board of directors conducted or accredited by the BSP. Provided, that incumbent directors as well as those elected after 17 September 2001 must attend said seminar on or before June 30, 2003 or within a period of 6 months from date of election for those elected after June 30, 2003, as the case may be, and
- d. He/She must be fit and proper for the position of a director of the bank. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience.

The members of the board of directors shall possess the foregoing qualifications for directors in addition to those required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations.<sup>15</sup>

No person shall be elected as director unless he is a registered owner in the Books of the Bank of at least one (1) share of the capital stock of the Bank with voting rights, and unless he possesses all of the qualifications and none of the disqualifications for directors under existing laws and regulations of the Bangko Sentral ng Pilipinas.<sup>16</sup>

**1.2.2 Disqualifications.** The following persons shall be disqualified from becoming a director of the Bank:

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<sup>15</sup> MORB, Subsection X141.2(a)

<sup>16</sup> Article VII of the Bank's Bylaws.



## **a. Permanent disqualification**

- i. 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 and 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/her fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
- ii. 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 subparagraphs (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;

- iii. Any person convicted by final judgment or order by a court, or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- iv. 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;
- v. Any person judicially declared as insolvent;
- vi. 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;
- vii. Any person convicted 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/her election or appointment; and
- viii. Any person disqualified due to other grounds provided by the SEC.



**b. Temporary disqualification.** In addition, the following shall be grounds for a director's temporary disqualification:

- i. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his/her incumbency, or any 12-month period during said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification should apply for purposes of the succeeding election;
- ii. 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/her dismissal or termination;
- iii. If the beneficial equity ownership of an independent director in the Bank or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with; and
- iv. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

**1.2.3 Independent Directors.** In selecting independent directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry-out his/her duties and responsibilities. Provided, that the rules and regulations of the Securities and Exchange Commission (SEC) governing public and listed companies on the maximum number of companies of the conglomerate in which an individual can serve as an independent director shall apply to independent directors of all types of banks.

An independent director shall refer to a person who:

- a. is not or has not been an officer or employee of the Bank, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his/her election<sup>17</sup>;
- b. is not a director or officer of the related companies of the Bank's majority stockholder<sup>18</sup>;
- c. is not a stockholder with shares of stock sufficient to elect one seat in the board of directors of the Bank, or in any of its related companies or of its majority corporate shareholders<sup>19</sup>;
- d. is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or a stockholder holding shares of stock sufficient to elect one seat in the board of the Bank or any of its related companies; For this purpose, relatives refer to the spouse, parent, child, brother, sister, parent-in-law, son/daughter-in-law, and

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<sup>17</sup> MORB, Subsection X141.2(b).

<sup>18</sup> *Ibid.*

<sup>19</sup> *Ibid.*

brother-/sister-in-law<sup>20</sup>;

- e. is not acting as a nominee or representative of any director or substantial shareholder of the Bank, any of its related companies or any of its substantial shareholders<sup>21</sup>;
- f. is 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/her personal capacity or through his/her firm; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm or which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms length and could not materially interfere with or influence the exercise of his/her judgment.<sup>22</sup>
- g. does not own more than two percent (2%) of the shares of the Bank and/or its related companies or any of its substantial shareholders;
- h. has not been appointed as Chairman “Emeritus”, “Ex-Officio” Directors/Officer or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three (3) years immediately preceding his/her election<sup>23</sup>;
- i. is not a securities broker-dealer of listed companies and registered issuers of securities. “Securities broker-dealer” refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer<sup>24</sup>
- j. does not engage or has not engaged, whether by himself or with other persons or through a firm of which he/she is a partner, director, or substantial shareholder, in any transaction with the Bank or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm’s length and could not materially interfere with or influence the exercise of his/her independent judgment<sup>25</sup>

An independent director shall serve for a maximum cumulative term of nine (9) years. Thereafter, the independent director shall be perpetually barred from re-election as such in the Bank. However, he may continue to qualify for nomination and election as a non-independent director. In the event the Bank desires to retain such independent director who has served the maximum cumulative term, the Board shall be required to provide meritorious justification/s for retaining such independent director and seek the approval of the Bank’s stockholders during the annual stockholders’ meeting.<sup>26</sup>

The foregoing terms and phrases used in items 1.2.3 a to f of this Section shall have the following meaning:

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<sup>20</sup> *Ibid.*

<sup>21</sup> *Ibid.*

<sup>22</sup> *Ibid.*

<sup>23</sup> SEC MC No. 19, series of 2016, Recommendation 5.2 (c).

<sup>24</sup> *Ibid.*, Recommendation 5.2 (g).

<sup>25</sup> *Ibid.*, Recommendation 5.2 (i).

<sup>26</sup> *Ibid.*, Recommendation 5.3

- a. “*Parent*” is a corporation which has control over another corporation directly or indirectly through 1 or more subsidiaries.
- b. “*Subsidiary*” means a corporation more than 50% of the voting stock of which is owned or controlled directly or indirectly through 1 or more intermediaries by a bank.
- c. “*Affiliate*” is a juridical person that directly or indirectly through 1 or more intermediaries, is controlled by, or is under common control with the bank or its affiliates.
- d. “*Related interests*” as defined under Sections 12 and 13 of R.A. No. 8791 shall mean individuals related to each other within the fourth degree of consanguinity or affinity, legitimate or common law, and two (2) or more corporations owned or controlled by a single individual or by the same family group or the same group of persons.
- e. “*Control*” exists when the parent owns directly or indirectly through subsidiaries more than one-half of the voting power of an enterprise unless, in exceptional circumstance, it can be clearly demonstrated that such ownership does not constitute control. Control may also exist even when ownership is one-half or less of the voting power of an enterprise when there is:
  - i. power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
  - ii. power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
  - iii. power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
  - iv. power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
  - v. any other arrangement similar to any of the above.
- f. “*Related company*” means another company which is: (a) its parent of holding company; (b) its subsidiary or affiliate; or (c) a corporation where a bank or its majority stockholder own such number of shares that will allow/enable him to elect at least 1 member of the board of directors or a partnership where such majority stockholder is a partner.
- k. “*Substantial or major shareholder*” shall mean a person, whether natural or juridical, owning such number of shares that will allow him to elect at least one (1) member of the board of directors or a bank or who is directly or indirectly the registered or beneficial owner or more than ten percent (10%) of any class of its equity security.
- l. “*Majority stockholder or majority shareholder*” means a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a bank.<sup>27</sup>

### 1.3. Orientation Program and Annual Continuing Training

- 1.3.1. All Directors.** All members of the Board of Directors must be familiar with their duties and responsibilities as directors, the company’s business, Articles of Incorporation, Bylaws, Code of Conduct or any equivalent policy. All directors must be continuously informed of the developments in the business and regulatory environments, including emerging risks relevant to the company by attending an annual continuing training program, of at least four (4) hours, involving courses on corporate governance as may be relevant to the company or as may be determined by the Corporate Governance Committee.

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<sup>27</sup> MORB, Subsection X141.2(b).

- 1.3.2. First-time directors.** First-time directors must be properly apprised of their duties and responsibilities before beginning their directorships. All first-time directors shall attend an orientation program of at least eight (8) hours and which sufficiently covers the corporate governance topics enumerated by the SEC under Part IV of Memorandum Circular No. 2, series of 2015. Newly-elected directors who have already attended such orientation program shall not be considered as first-time directors and shall not be required to attend such orientation program provided he/she is able to provide/present proof of attendance in said orientation program to the Corporate Governance Committee.

## **1.4. Duties and Responsibilities of the Board of Directors**

### **1.4.1. Powers of the Board of Directors**

The corporate powers of the Bank shall be exercised, its business conducted and all its property controlled and held, by its board of directors. The powers of the board of directors as conferred by law are original and cannot be revoked by the stockholders. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the Bank.<sup>28</sup>

### **1.4.2. General Responsibility of the Board of Directors**

The position of a director, especially that of a bank, is a position of trust. A bank director is responsible and accountable 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.<sup>29</sup>

The Board shall be responsible for fostering the long-term success of the Bank and sustaining its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its shareholders and other stakeholders.

The Board shall also formulate the bank's vision, mission, strategic objectives, policies and procedures that will guide its activities. In addition, the Board shall monitor and oversee the performance of senior management as the latter manages the day-to-day affairs of the bank.

The Board shall have a Board Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary duties. Such Board charter shall serve as a guide to the directors in the performance of their functions.<sup>30</sup> Furthermore, the Board shall have a clear and focused policy on the disclosure of non-financial information with emphasis on the management of economic, environmental social and governance (EESG) issues of its business, which underpin sustainability and/or adopt a globally recognized standard/framework in reporting sustainability and non-financial issues.

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<sup>28</sup> MORB, Subsection X141.3(a).

<sup>29</sup> *Ibid.*, Subsection X141.3(b).

<sup>30</sup> SEC MC No. 19, series of 2016, Recommendation 2.12.

## 1.4.3 Specific Duties and Responsibilities of the Board of Directors<sup>31</sup>

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

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

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

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

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

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

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

<sup>31</sup> Based, generally, on the MORB, Subsection X141.3(c) with adopted changes pursuant to the recommendations under SEC MC No. 19, series of 2016.

the appreciation of the bank's overall risk exposures.

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

**(4) To oversee selection, performance, and succession of senior management.**

It is the primary responsibility of the board of directors to appoint competent management team at all times, monitor and assess the performance of the management team based on established performance standards that are consistent with the bank's strategic objectives, and conduct a regular review of Bank's policies with the management team.

- a. The board of directors shall apply fit and proper standards on key personnel. Integrity, technical expertise and experience in the institution's business, either current or planned shall be the key considerations in the selection process. And because mutual trust and a close working relationship are important, the members of the senior management shall uphold the general operating philosophy, vision and core values of the institution. The board of directors shall replace members of senior management, when necessary, and have in place an appropriate plan of succession, including a policy on retirement age, as appropriate.<sup>32</sup>
- b. The board of directors shall regularly monitor the actions of senior management and ensure that these are consistent with the policies that it has approved. It shall put in place formal performance standards to be able to effectively assess the performance of senior management. The performance standards shall be consistent with the Bank's strategic objectives and business plans, taking into account the bank's long-term financial interests.
- 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. The board of directors shall set the frequency of meeting with senior management taking into account the size, complexity of operations and risk profile of the Bank.
- d. The board of directors shall regularly review policies, internal controls and self-assessment functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues. The board of directors shall set the frequency of review taking into account the size, complexity of operations and risk profile of the Bank.
- e. The board of directors shall ensure that senior management's expertise and knowledge shall remain relevant given the bank's strategic objectives, complexity of operations and risk profile.

**(5) To consistently conduct the affairs of the institution with a high degree of integrity.**

Since reputation is a very valuable asset, it is in the institution's best interest

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<sup>32</sup> SEC MC No. 19, series of 2016, Recommendation 2.4.

that in dealings with the public, it observes a high standard of integrity. The board of directors shall lead in establishing the tone of good governance from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior for itself, the senior management and other employees. Such policies shall constitute the Bank's Code of Business Conduct and Ethics and shall be properly disseminated to the Board, senior management, and employees.<sup>33</sup> The board of directors shall:

- a. Articulate clear policies on the handling of any transaction with DOSRI and other related parties ensuring that there is effective compliance with existing laws, rules and regulations at all times and no stakeholder is unduly disadvantaged. In this regard, the board of directors shall define "related party transaction", which is expected to cover a wider definition than DOSRI under existing regulations and a broader spectrum of transactions (i.e., not limited to credit exposures), such that relevant transactions that could pose material risk or potential abuse to the Bank and its stakeholders are captured. In addition, the Board shall: (i) set guidelines in ensuring that such transactions shall, at all times, be entered into in arm's length terms, (ii) adopt materiality thresholds and set internal limits for individual and aggregate exposures, in accordance with the rules and regulations of the BSP, (iii) adopt a whistle-blowing mechanism, and (iv) set guidelines in restitution of losses and other remedies for abusive related party transactions<sup>34</sup>;
- b. Require the bank's stockholders to confirm by majority vote, in the annual stockholder's meeting, the Bank's significant transactions with its DOSRI and other related parties;
- c. Articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the institution, or unethical conduct;
- d. Articulate policies that will prevent the use of the facilities of the Bank in furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption;
- e. Explicitly discourage the taking of excessive risks as defined by internal policies and establish an employees' compensation scheme effectively aligned with prudent risk taking. The compensation scheme shall be adjusted for all types of risk and sensitive to the time horizon of risk. Further, the grant of compensation in forms other than cash shall be consistent with the overall risk alignment of the Bank. The board of directors shall regularly monitor and review the compensation scheme to ensure that it operates and achieves the objectives as intended;
- f. Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the bank at all times. Further, the board of directors shall ensure that all transactions involving the pension fund are conducted at arm's length terms;

<sup>33</sup> SEC MC No. 19, series of 2016. Recommendation 7.1.

<sup>34</sup> *Ibid.* Recommendation 2.7.



- g. Establish policies and programs which allow employees to communicate, with protection from reprisal, legitimate concerns about health, safety, and welfare, training and development, reward/compensation, as well as 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/or addressed, for example, by an internal control function, an objective external party, senior management as to and/or the board itself;
  - h. Articulate policies in communicating corporate values, codes of conduct and other standards in the bank as well as the means to confidentially report concerns or violations to an appropriate body; and
  - i. Ensure the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies.<sup>35</sup>
- (6) **To define appropriate governance policies and practices for the bank and for its own work and to establish means to ensure that such are followed and periodically reviewed for ongoing improvement.** The board of directors, through policies and its own practices, shall establish and actively promote, communicate and recognize sound governance principles and practices to reflect a culture of strong governance in the bank as seen by both internal and external stakeholders.
- a. The board of directors shall ensure that the Bank's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability, especially between the roles of the Chairperson of the board of directors and Chief Executive Officer/President. Should such positions be held by the same person, the Board shall designate a lead director amongst the independent directors who shall:
    - i. serve as an intermediary between the chairperson of the board and the other directors, when necessary;
    - ii. convene and chair meetings of the non-executive directors;
    - iii. contribute to the performance evaluation of the chairperson of the board, as required.<sup>36</sup>
  - b. The board of directors shall maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities.
  - c. The board of directors shall structure itself in a way, including in terms of size, frequency of meetings and the use of committees, so as to promote efficiency, critical discussion of issues and thorough review of matters. It shall meet regularly to properly discharge its functions. It shall also ensure that independent views in board meetings shall be given full consideration and all such meetings shall be duly minuted.
  - d. The board shall conduct and maintain the affairs of the institution within the scope of its authority as prescribed in its charter and in

<sup>35</sup> SEC MC No. 19, series of 2016, Recommendation 7.2.

<sup>36</sup> SEC MC No. 19, series of 2016, Recommendations 5.4. and 5.5.

existing laws, rules and regulations, and best business practices. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound banking practice. The board shall appoint a compliance officer who shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. The compliance officer shall be vested with appropriate authority and provided with appropriate support and resources.

- e. The board of directors shall establish a system of checks and balances which applies in the first instance to the board itself. Among the members of the board, an effective system of checks and balances must exist. The system shall also provide a mechanism for effective check and control by the board over the chief executive officer and key managers and by the latter over the line officers of the Bank. Checks and balances in the board shall be enhanced by appointing a chairperson who is a non-executive, whenever possible.
- f. The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the chief executive officer, other officers with control functions such as, the Chief Risk Officer, Chief Compliance Officer, and Chief Audit Executive, the individual directors, and the bank itself, which may be facilitated by the corporate governance committee or external facilitators. In determining the remuneration of directors, the Board shall ensure that no director shall participate in deciding on his/her remuneration, the level of remuneration is commensurate to the responsibilities of the director, and pay-out schedules shall be sensitive to risk outcomes over a multi-year horizon.<sup>37</sup>

The composition of the board shall also be reviewed regularly with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation shall be adopted which shall include, but not limited to, the setting of benchmark and peer group analysis.

- g. The board, through the Chairperson, shall ensure that individual members of the board are accurately and timely informed. It shall provide all its members a comprehensive and understandable assessment of the Bank's performance, financial condition and risk exposures. All members of the board shall have reasonable access to any information about the institution at all times. It shall also provide appropriate information that flows internally.
- h. The board shall establish and maintain an investor relations office, headed by an Investor Relations Officer who shall keep the shareholders informed of important developments in the Bank. The President or the Head of Financial Control CFO shall exercise oversight responsibility over this program.
- i. The Board shall identify the bank's stakeholders in the community in which the corporation operates or are directly affected by its

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<sup>37</sup> SEC MC No. 19, series of 2016, Recommendation 2.5

operations, and formulate a clear policy of accurate, timely, and effective communication with them.

- j. To ensure growth and a continued increase in shareholders' value, the Board shall be responsible for ensuring and adopting an effective succession planning program not only for its senior management and key officers but also for its own members. Such succession plan shall include a policy on retirement age, as may be appropriate and applicable.<sup>38</sup>

(7) **To constitute committees to increase efficiency and allow deeper focus in specific areas.** The board of directors shall create committees, the number and nature of which would depend on the size of the Bank and the board, the complexity of operations, long-term strategies and risk tolerance level of the bank.

- a. The board of directors shall ensure that all established committees shall have their respective committee charters, stating in plain terms, their respective purposes, memberships, structures, operations, reporting processes, resources, and such other relevant information as may be applicable; 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; and ensure that the committee charters shall be made available in the Bank's website.<sup>39</sup>

The board of directors shall appoint members of the committees taking into account the optimal mix of skills and experience to allow the members to fully understand, be critical and objectively evaluate the issues. In order to promote objectivity, the board of directors, shall appoint independent directors and non-executive members of the board to the greatest extent possible while ensuring that such mix will not impair the collective skills, experience, and effectiveness of the committees. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions, such as the Audit, Risk Oversight and Corporate Governance committees, without prior approval of the Monetary Board.

- b. The board of directors shall ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.
- c. The board of directors shall establish, at a minimum, the following committees:

<sup>38</sup> SEC MC No. 19, series of 2016, Recommendation 2.4.

<sup>39</sup> *Ibid.*, Recommendation 3.6.

- (i) Audit Committee;
- (ii) Board Risk Oversight Committee;
- (iii) Corporate Governance Committee; and
- (iv) Related Party Transactions Committee

Board committees such as the Audit Committee, Corporate Governance Committee, Board Risk Oversight Committee and Related Party Transaction Committee are necessary to support the Board in the effective performance of its functions. The establishment of the same, or any other committees that the company deems necessary, allows for specialization in issues and leads to a better management of the Board's workload. The type of board committees to be established by a company would depend on its size, risk profile and complexity of operations. However, if the committees are not established, the functions of these committees may be carried out by the whole board or by any other committee.<sup>40</sup>

- (8) ***To effectively utilize the work conducted by the internal audit, risk management and compliance functions and the external auditors.*** The board of directors shall recognize and acknowledge the importance of the assessment of the independent, competent and qualified internal and external auditors as well as the risk and compliance officers in ensuring the safety and soundness of the operations of a bank on a going-concern basis and communicate the same throughout the bank. This shall be displayed by undertaking timely and effective actions on issues identified.

Further, non-executive board members shall have separate regular meetings with the external auditor and heads of the internal audit, compliance and risk management functions, without any executive directors present to ensure that proper checks and balances are in place within the Bank. The meetings shall be chaired by the lead independent director, whenever applicable.<sup>41</sup>

- (9) ***In group structures, the board of directors of the parent company banks shall have the overall responsibility for defining an appropriate corporate governance framework that shall contribute to the effective oversight over entities in the group.*** Towards this end, the board of directors of the parent company bank shall ensure consistent adoption of corporate governance policies and systems across the group and shall carry-out the following duties and responsibilities:

- a. To define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account nature and complexity of operations, size and the types of risks to which the bank and its subsidiaries are exposed. The board shall also establish 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. To define the level of risk tolerance for the group, which shall be linked

<sup>40</sup> SEC MC No. 19, series of 2016, Recommendation 3.1.

<sup>41</sup> SEC MC No. 19, series of 2016, Recommendation 5.7.

to the process of determining the adequacy of capital of the group;

- c. To 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. To establish a system for monitoring compliance of each entity in the group with all applicable policies, practices and systems;
- e. To define and approve policies and clear strategies for the establishment of new structures;
- f. To understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company bank. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group's capital, risk profile and funding under normal and contingent circumstances;
- g. To develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group;
- h. To require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board;
- i. To disclose to the BSP all entities in the group (e.g., owned directly or indirectly by the parent company bank and/or its subsidiaries/affiliates including special purpose entities (SPEs), and other entities that the bank exerts control over or those that exerts control over the bank, or those that are related to the bank and/or its subsidiaries/affiliates either through common ownership/directorship/officership) as well as all significant transactions between entities in the group involving any BSP regulated entity. For this purpose, significant shall refer to transactions that would require board approval based on the bank's internal policies or as provided under existing regulations. Provided, that the bank shall continue to submit any report required under existing regulations covering transactions between companies within the group;
- j. In cases where the bank is a subsidiary/affiliate of a non-BSP regulated parent company, its board of directors shall carry-out the following duties and responsibilities:
  - i. To ensure that the bank complies with the governance policies, practices and systems of the parent company as well as meets the standards and requirements set forth under existing laws, rules and regulations;
  - ii. To define and approve policies and clear strategies for the establishment of new structures (e.g., subsidiaries/affiliate of the bank). The board of directors shall also report to the BSP any plan to create additional group structures;

- iii. To understand the roles, 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 bank's capital, risk profile and funding under normal and contingent circumstances;
- iv. To require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board;
- v. To disclose to the BSP all entities in the group (e.g., owned directly or indirectly by the parent company bank and/or its subsidiaries/affiliates including special purpose entities (SPEs), and other entities that the bank exerts control over or those that exerts control over the bank, or those that are related to the bank and/or its subsidiaries/affiliates either through common ownership / directorship / officership) as well as all significant transactions between entities in the group involving any BSP-regulated entity. For this purpose, significant shall refer to transactions that would require board approval based on the bank's internal policies or as provided under existing regulations. Provided, that the bank shall continue to submit any report required under existing regulations covering transactions between companies within the group.

#### 1.4.4. Specific duties and responsibilities of a director<sup>42</sup>

- (1) ***To remain fit and proper for the position for the duration of his/her term.*** A director is expected to remain fit and proper for the position for the duration of his/her 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/her duties and responsibilities as well as his/her role in promoting good governance. Hence, he shall maintain his/her professional integrity and continuously seek to enhance his/her 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.
- (2) ***To conduct fair business transactions with the bank and to ensure that personal interest does not bias board decisions.*** Directors should, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the institution cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the institution than those offered to others. The basic principle to be observed is that a director

<sup>42</sup> Based, generally, on the MORB, Subsection X141.3 (d).with adopted changes pursuant to the recommendations under SEC MC No. 19, series of 2016.



should not use his/her position to make profit or to acquire benefit or advantage for himself/herself and/or his/her related interest. He should avoid situations that would compromise his/her impartiality. A director with a material interest in any transaction affecting the Corporation shall abstain from taking part in the deliberations for the same.<sup>43</sup>

- (3) ***To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public.*** A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.
- (4) ***To devote time and attention necessary to properly discharge their duties and responsibilities.*** Directors should devote sufficient time to familiarize themselves with the institution's business. They must be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the board's work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his/her nomination nor run for election as member of the board. Moreover, a director shall notify the board before accepting a directorship in another company for the corporation to be able to assess if his/her present responsibilities and commitment to the company will be affected and if the director can still adequately provide what is expected of him.<sup>44</sup>

The Non-executive directors should concurrently serve as directors to a maximum of five (5) publicly-listed corporations only in order to ensure that they have sufficient time to fully prepare for meetings, challenge Management's proposals/views, and oversee the long-term strategy of the company.<sup>45</sup>
- (5) ***To act judiciously.*** Before deciding on any matter brought before the board, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.
- (6) ***To contribute significantly to the decision-making process of the board.*** Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such board.
- (7) ***To exercise independent judgment.*** A director should view each problem/situation objectively. When a disagreement with others occurs, he/she should carefully evaluate the situation and state his position. He/She should not be afraid to take a position even though it might be unpopular. Corollarily, he/she should support plans and ideas that he/she thinks will be beneficial to the institution.
- (8) ***To have a working knowledge of the statutory and regulatory***

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<sup>43</sup> *Ibid.*, Recommendation 5.6

<sup>44</sup> *Ibid.*, Recommendation 4.3,

<sup>45</sup> SEC MC No. 19, series of 2016, Recommendation 4.2.



**requirements affecting the institution, including the content of its articles of incorporation and by-laws, the requirements of the BSP and where applicable, the requirements of other regulatory agencies.** A director should also keep himself informed of the industry developments and business trends in order to safeguard the institution's competitiveness.

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

#### 1.4.5. Chairperson of the Board of Directors<sup>46</sup>

The Chairperson of the Board of Directors shall have the following duties and responsibilities:

- (1) **To provide leadership in the board of directors.** The chairperson of the board shall ensure effective functioning of the board by:
- a. making certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;
  - b. ensuring that individual members of the board receive accurately, timely, relevant, insightful. Concise, and clear information to enable them to make sound decisions;
  - c. assuring the availability of proper orientation for first-time directors and continuing training opportunities for all directors; and
  - d. making sure that performance of the Board is evaluated at least once a year and discussed and followed up on.
- (2) **To ensure that the board takes an informed decision.** The chairperson of the board shall ensure a sound decision making process and he should encourage and promote critical discussions and ensure that dissenting views can be expressed and discussed within the decision-making process.

**2. Board Committees** All established committees shall have their respective committee charters, stating in plain terms, their respective purposes, memberships, structures, operations, reporting processes, resources, and such other relevant information as may be applicable. The committee charters shall be made available in the Bank's website.<sup>47</sup>

#### 2.1. Audit Committee

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

<sup>46</sup> Based, generally, on the MORB, Subsection X141.3 (e).with adopted changes pursuant to the recommendations under SEC MC No. 19, series of 2016.

<sup>47</sup> SEC MC No. 19, series of 2016, Recommendation 3.6

The Audit Committee shall be composed of at least three (3) appropriately qualified non-executive directors, majority of whom, including the Chairperson, shall be independent directors. All of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing, and, finance. The Chairperson of the committee should not be the chairperson of the Board or of any other committees. Further, the chief executive officer, chief financial officer and/or treasurer, or officers holding equivalent positions, shall not be appointed as members of the audit committee.<sup>48</sup>

The Audit Committee's duties and responsibilities shall include the following:

- a. Recommend the approval of the Internal Audit Charter, which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the IA Charter;
- b. Through the Internal Audit Department, monitor and evaluate the adequacy and effectiveness of the corporation's internal control system, integrity of financial reporting, and security of physical and information assets. ;
- c. Oversees the Internal Audit Department and recommends the appointment and/or grounds for approval of an internal audit head or Chief Audit Executive (CAE). The Audit Committee shall also approve the terms and conditions for outsourcing internal audit services;
- d. Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his/her duties and responsibilities;
- e. Review and monitor Management's responsiveness to the Internal Auditor's findings and recommendations;
- f. Prior to the commencement of the audit, discuss with the External Auditor the nature, scope and expenses of audit, and ensure the proper coordination if more than one audit firm will be involved in the audit in order to secure proper coverage and minimize duplication of efforts;
- g. Evaluate and determine the non-audit work, if any of the External Auditor, and periodically review the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the corporation's overall consultancy expenses. The committee should disallow any non-audit work that will conflict with his/her duties as an External Auditor or may pose a threat to his/her independence. The non-audit work, if allowed, should be disclosed in the corporation's Annual Report and Annual Corporate Governance Report;
- h. Reviews and approves the interim and annual financial statements before their submission to the Board, with particular focus on the following matters:
  - i. Any change/s in accounting policies and practices
  - ii. Areas where a significant amount of judgment has been exercised
  - iii. Significant adjustments resulting from the audit
  - iv. Going concern assumptions
  - v. Compliance with accounting standards
  - vi. Compliance with tax, legal, and regulatory requirements;
- i. Review the disposition of the recommendations in the External Auditor's

<sup>48</sup> MORB, Subsection X141.3(c)(7)(d)(i).

management letter;

- j. Perform oversight functions over the corporation's Internal and External Auditors, to ensure the independence of Internal and External Auditors and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- k. Coordinate, monitor, and facilitate compliance with laws, rules, and regulations;
- l. Recommend to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Commission, who undertakes an independent audit of the corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders; and
- m. Meet with the board of directors at least every quarter without the presence of the CEO or other management team members, and periodically meet with the head of the internal audit head or CAE.

## 2.2 Board Risk Oversight Committee

The Board Risk Oversight Committee (BROC) shall be responsible for the development and oversight of the corporation's risk management program to ensure its functionality and effectiveness. The BROC shall assist the Board in ensuring that there is an effective and integrated risk management process in place to ensure that the Board and top management will be in a position to make well-informed decisions related to significant business activities, plans, and opportunities.

The committee shall be composed of at least 3 members of the board of directors, majority of whom, including the chairperson, shall be independent directors. The Chairperson should not be the chairperson of the Board or of any other committee. At least one (1) member of the Risk Oversight Committee must have relevant and thorough knowledge and experience on risk and risk management.

It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached. The bank's risk management unit and the chief risk officer shall communicate formally and informally to the BROC any material information relative to the discharge of its function. The committee shall, where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and acquisitions.

The core responsibilities of the BROC are to:

- a. *Identify and evaluate exposures.* The committee shall assess the probability of each identified risk becoming a reality and shall estimate its possible significant financial impact, cost, and likelihood of occurrence. Priority areas of concern are those risks that are most likely to occur, are costly when they happen, and will impact the performance and stability of the corporation and its stakeholders.

The Committee shall assess and review the Bank's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and major events which occur that are considered to have major impacts on the company.

The Committee shall also oversee Management's activities in relation to managing credit, market, liquidity, operational, legal, and other risk exposures and shall, for this purpose, ensure receipt of information from Management on risk exposures and risk management activities.

*b. Develop risk management strategies.* The committee shall develop a formal enterprise risk management plan defining the strategies for managing and controlling the major risks. It shall identify practical strategies to reduce the chance of harm and failure or minimize losses if the risk becomes real. As far as practicable, such plan shall contain the following elements:

- i. Common language or register of risks
- ii. Well-defined risk management goals, objectives and oversight;
- iii. Uniform processes of assessing risks and developing strategies to manage prioritized risks;
- iv. Designing and implementing risk management strategies; and
- v. Continuing assessments to improve risk strategies, processes and measures.

*c. Oversee the implementation of the enterprise risk management plan.* The committee shall conduct regular discussions on the institution's current risk exposure based on regular management reports and assess how the concerned units or offices reduce these risks.

*d. Review and revise the plan as needed.* The committee shall evaluate the enterprise risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The committee shall report to the board of directors, on a regular basis or as deemed necessary, the corporation's overall and material risk exposures, actions taken to reduce the risks, and recommends further action or plans as necessary.

## **2.3. Corporate Governance Committee**

The Corporate Governance Committee shall assist the board of directors in fulfilling its corporate governance responsibilities. It shall review and evaluate the qualifications of all persons nominated to the board as well as those nominated to other positions requiring appointment by the board of directors. The committee shall be composed of at least 3 members of the board of directors, all of whom shall be independent directors, including the chairperson.

The Corporate Governance Committee shall oversee the implementation of the corporate governance framework and periodically review said framework to ensure that it remains appropriate in light of material changes to the corporation's size, complexity, and business strategy, as well as its business and regulatory environments.

The Corporate Governance Committee shall also be responsible for ensuring the board's effectiveness, and due observance of corporate governance principles and guidelines. It shall oversee the periodic performance evaluation of the board and its committees and executive management; and shall also, conduct an annual self-evaluation of its performance, and ensure that the results of the evaluation are shared, discussed and concrete action plans are developed and implemented to address the identified areas for improvement. The corporate governance committee may coordinate with external facilitators on carrying out board assessment, every

three (3) years or within the frequency approved by the entire board, whichever is applicable or appropriate. The Corporate Governance Committee shall also decide whether or not a director is able to and has been adequately carrying out his/her duties as director based on its own assessment or the assessment of external facilitators, bearing in mind the director's contribution and performance (e.g., competence, candor, attendance, preparedness and participation). Internal guidelines shall be adopted that address the competing time commitments that are faced when the directors serve on multiple boards.

The Corporate Governance Committee shall make recommendations to the board regarding the continuing education of directors, assignment to board committees, succession plan for the board members and senior officers, and their remuneration commensurate with corporate and individual performance.

The Corporate Governance Committee shall decide the manner by which the board's performance shall be evaluated and propose an objective performance criteria approved by the board. Such performance indicators shall address how the board has enhanced long term shareholder's value.

## **2.4. Related Party Transactions Committee**

The Related Party Transactions Committee shall be responsible for reviewing all material related party transactions of the corporation and shall be composed of at least three (3) non-executive directors, two (2) of whom, including the chairperson, should be independent directors.

The Related Party Transactions Committee's duties and responsibilities shall include the following:

- a. Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured, and reflect the related parties, RPTs and changes in relationships in the relevant reports to the Board and regulators/supervisors;
- b. 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 non-related parties under similar circumstances and that no corporate or business resources of the company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with transactions.
- c. In evaluating RPTs, the Committee shall take into account, among others, the related party's relationship to the corporation and interest in the transaction; the material facts of the proposed RPT, including the proposed aggregate value of such transaction; the benefits to the corporation of the proposed RPT; the availability of other sources of

comparable products or services; and an assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The committee shall ensure that the corporation shall have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs.

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

Provided, that in case of simple or non-complex banks, the board of directors may, at a minimum, constitute only the audit committee. Provided further, that the board shall discuss risk management and corporate governance matters in their board meetings, with the views of the independent directors duly noted and minuted.

For this purpose, a bank's business model is deemed simple if a bank is primarily engaged in the business of deposit-taking and lending. Provided that a universal or commercial bank shall be deemed a complex bank while a thrift, rural or cooperative bank shall be deemed a simple bank. Nonetheless, a universal or commercial bank may apply with the BSP for a reclassification as simple bank in order to avail of the reduced minimum requirement on the constitution of board committees. The BSP may likewise declare a thrift, rural or cooperative bank as complex, and therefore necessitating complete compliance with the aforementioned requirements.

### **3. Officers**

#### **3.1. Definition**

The Bank's officers shall include the president, executive vice president, senior vice-president, vice president, general manager, treasurer, secretary, trust officer and others mentioned as officers of the bank, 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: *Provided*, That a person holding the position of chairman or vice chairman of the board or another position in the board shall not

be considered as an officer unless the duties of his/her position in the board include functions of management such as those ordinarily performed by regular officers: *Provided, further*, That members of a group or committee, including sub-groups or subcommittees, whose duties include functions of management such as those ordinarily performed by regular officers, and are not purely recommendatory or advisory, shall likewise be considered as officers.<sup>49</sup>

## 3.2. Duties and responsibilities

The Bank's officers shall have the following general responsibility:

- (1) ***To set the tone of good governance from the top.*** Bank officers shall promote the good governance practices within the bank by ensuring that policies on governance as approved by the board of directors are consistently adopted across the bank;
- (2) ***To oversee the day-to-day management of the bank.*** Bank officers shall ensure that 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 systems in the bank.*** Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.

## 3.3. Corporate Secretary

**3.3.1.** The Corporate Secretary, who shall be selected by the Board to serve as such until his/her successor shall have been duly selected and qualified, shall assist the Board in the conduct of its meetings.

**3.3.2.** The Corporate Secretary shall possess the following qualifications:

- a. He/She shall be a Filipino citizen;
- b. Considering his/her varied functions and duties, he/she must possess administrative and interpersonal skills, and if he/she is not the general counsel, then he/she must have some legal skills. He/She must also have some financial and accounting skills;
- c. He/She shall be a separate individual from the Compliance Officer;

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<sup>49</sup> MORB, Subsection X142.1.



- d. He/She shall not be a member of the Board of Directors;

**3.3.3. The Corporate Secretary shall have the following duties and functions:**

- a. Safekeep and preserve the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the Corporation;
- b. Keep abreast of relevant laws, regulations, all governance issuances, and, as far as practicable, of relevant industry developments and operations of the corporation and advise the Board and the Chairman of relevant issues;
- c. Gather and analyze all documents, records and other information essential to the conduct of his/her duties and responsibilities to the Corporation;
- d. Work fairly and objectively with the board, management, shareholders, and other stakeholders;
- e. Inform members of the Board, in accordance with the by-laws, of the agenda of their meetings, at least five (5) 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;
- f. Assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations;
- g. Attend all Board Meetings and maintain records of the same;
- h. Submit to the Commission an advisement letter on directors' attendance during Board meetings within five days from the end of the bank's fiscal year;
- i. Oversee the drafting of the by-laws of the corporation as may be necessary and ensure that these conform with regulatory requirements, if any;
- j. Annually attend a training on corporate governance; and
- k. Perform such other duties and responsibilities as may be provided by the SEC.

**3.4. Chief Executive Officer**

The Chief Executive Officer, who is an individual apart from the Chairperson of the Board of Directors, shall have the following roles and responsibilities:

- a. Determines the corporation's strategic direction and formulates and implements its strategic plan on the direction of the business;
- b. Communicates and implements the corporation's vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same;
- c. Oversees the operations of the corporation and manages human and financial resources in accordance with the strategic plan;
- d. Has a good working knowledge of the corporation's industry and market and keeps up-to-date with its core business purpose;
- e. Directs, evaluates, and guides the work of the key officers of the corporation;
- f. Manages the corporation's resources prudently and ensures a proper balance of the same;
- g. Provides the Board with timely information and interfaces between the Board and the employees;
- h. Builds the corporate culture and motivates the employees of the corporation; and
- i. Serves as the link between internal operations and external stakeholders.

**3.5. Chief Audit Executive<sup>50</sup>**

- 3.5.1. The Board shall appoint a qualified Chief Audit Executive (CAE) who shall oversee and be responsible for the internal audit activity of the organization, including that portion that is outsourced to a third party service provider. In case of a fully outsourced internal audit activity, a qualified independent executive or senior management personnel shall be assigned the responsibility for managing the fully outsourced internal audit activity.
- 3.5.2 The CAE shall directly report, functionally, to the Audit Committee and, administratively, to the CEO. The following are the duties and responsibilities of the CAE, among others:
- a. periodically review the internal audit charter and present it to senior management and the Board Audit Committee for approval;
  - b. establish a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals;
  - c. communicates the internal audit activity's plans, resource requirements, and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval;
  - d. spearheads the performance of the internal audit activity to ensure it adds value to the organization;
  - e. reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and
  - f. presents findings and recommendations to the Audit Committee and gives advice to senior management and the Board on how to improve internal processes.

**3.6. Compliance Officer**

- 3.6.1. A Compliance Officer with a rank of Senior Vice President or an equivalent position with adequate stature and authority in the corporation shall be appointed to assist the Board of Directors in its compliance function; Provided that such Compliance Officer shall not be a member of the board and shall be required to attend a training on corporate governance.
- 3.6.2. The Compliance Officer shall have the following duties and responsibilities:
- a. ensure proper onboarding of new directors (i.e. orientation on the Company's business, charter, articles of incorporation, and by-laws, among others);
  - b. Establish an evaluation system to determine, monitor and measure compliance with the provisions and requirements of this Manual, and all relevant laws, rules and regulations, as well as governance issuances of regulatory agencies, and report the same to the Board for adoption and approval;
  - c. Ensure that the Evaluation System and the features thereof are properly disclosed in the company's annual report to the SEC;
  - d. Determine violation/s of the Manual and report the same for further review and approval of the Board;
  - e. Appear before or make representations with the SEC upon summons on similar matters that need to be clarified by the same;
  - f. Issue a certification every January 30th of the year on the extent of the bank's compliance with this Manual for the completed year, explaining the reason/s of the latter's deviation from the same;

<sup>50</sup> SEC MC No. 19, series of 2016, Recommendation 12.3.

- g. Identify, monitor and control compliance risks and collaborate with other departments to properly address compliance risks/issues, which may be subject to investigation;
- h. annually attend a training on corporate governance;
- i. perform such other duties and responsibilities as may be provided by the SEC.

### 3.7. Chief Risk Officer<sup>51</sup>

- 3.7.1. The Bank shall appoint a Chief Risk Officer (CRO), or any equivalent position, who shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions. This independence shall be displayed in practice at all times as such, albeit the CRO may report to the President or Senior Management, he shall have direct access to the board of directors and the risk oversight committee without any impediment. In this regard, the board of directors shall confirm the performance ratings given by the President or Senior Management to the CRO.
- 3.7.2. The CRO shall have sufficient stature, authority and seniority within the bank. This will be assessed based on the ability of the CRO to influence decisions that affect the bank's exposure to risk. The CRO shall have the ability, without compromising his/her independence, to engage in discussions with the board of directors, chief executive officer and other senior management on key risk issues and to access such information as he deems necessary to form his/ her judgment. The CRO shall meet with the board of directors/risk oversight committee on a regular basis and such meetings shall be duly minuted and adequately documented.
- 3.7.3. The CRO shall be responsible for managing the bank's Risk Management System. The CRO's functions include, among others:
  - a. supervising the entire risk management system process and spearheading the development, implementation, maintenance and continuous improvement of the processes, and documentation;
  - b. communicating the top risks and the status of implementation of risk management strategies and action plans to the Board Risk Oversight Committee;
  - c. collaborating with the CEO in updating and making recommendations to the Board Risk Oversight Committee;
  - d. suggesting risk management policies and related guidance, as may be needed; and
  - e. providing insights on the following:
    - risk management processes are performing as intended;
    - risk measures reported are continuously reviewed by risk owners for effectiveness; and
    - established risk policies and procedures are being complied with.

CROs shall be appointed and replaced with prior approval of the board of directors. In cases, when the CRO will be replaced, the bank shall report the same to the SES of the BSP within 5 days from the time it has been approved by the board of directors.

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<sup>51</sup> MORB, Subsection X174.1; SEC MC No. 19, series of 2016, Recommendation 12.5.

## **P A R T III**

### **ACCOUNTABILITY AND AUDIT**

#### **1. In General**

The Board is primarily accountable to the shareholders. It should provide them with a balanced and easy-to-understand 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 will enable the Board to comply with its responsibilities to the shareholders.

Management shall formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal control with the following guidelines as provided in the Revised Code of Corporate Governance:

- a. The extent of its responsibility in the preparation of the financial statements of the bank, with the corresponding delineation of the responsibilities that pertain to the external auditor.
- b. An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the corporation for the benefit all stockholders and other stakeholders.
- c. On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the corporation's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules, and regulations;
- d. The bank should consistently comply with the financial reporting requirements of the Commission;
- e. The company's External Auditor shall be rotated or the handling partner changed every five (5) years or sooner.
- f. The Internal Auditor should submit to the Audit Committee and Management an annual report on the Internal Audit Department's activities, responsibilities, and performance relative to the audit plans and strategies as approved by the Audit Committee. He/She should certify that he/she conducts his/her activities in accordance with the International Standards on the Professional Practice of Internal Auditing.

#### **2. Internal Audit Functions<sup>52</sup>**

The Internal Audit Department established by the Audit Committee shall, among others:

- a. provide an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in:
  - i. promoting the right values and ethics,

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<sup>52</sup> SEC MC No. 19, series of 2016, Recommendation 12.2.

- ii. ensuring effective performance management and accounting in the organization;
  - iii. communicating risk and control information, and coordinating the activities and information among the Board, external and internal auditors, and Management
- b. perform regular and special audit as contained in the annual audit plan and/or based on the corporations' risk assessment;
- c. perform consulting and advisory services related to governance and control as appropriate for the organization;
- d. perform compliance audit of relevant laws, rules, and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;
- e. reviews, audits, and assesses the efficiency and effectiveness of the internal control system of all areas of the company;
- f. evaluates operations or programs to ascertain whether the results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
- g. evaluates specific operations at the request of the Board or Management, as appropriate; and
- h. monitors and evaluates governance processes.

### 3. Chief Audit Executive (CAE)<sup>53</sup>

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

The CAE shall directly report, functionally, to the Audit Committee and, administratively, to the CEO. The following are the duties and responsibilities of the CAE, among others:

- a. periodically review the internal audit charter and present it to senior management and the Board Audit Committee for approval;
- b. establish a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals;
- c. communicates the internal audit activity's plans, resource requirements, and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval;
- d. spearheads the performance of the internal audit activity to ensure it adds value to the organization;
- e. reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and
- f. presents findings and recommendations to the Audit Committee and gives advice to senior management and the Board on how to improve internal processes.

### 4. External Auditor

The External Auditor shall be selected and appointed by the Stockholders during the annual Stockholders' Meetings, upon recommendation of the Audit Committee.

The reason/s for the resignation, dismissal or cessation from service, and the date thereof, of an External Auditor shall be reported in the company's annual and current reports. Said report shall include a discussion of any disagreement with said former External Auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

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<sup>53</sup> SEC MC No. 19, series of 2016, Recommendation 12.3.

The External Auditor of the company shall not at the same time provide the services of an Internal Auditor to the same client. The Board shall ensure that other non-audit work shall not be in conflict with the functions of the External Auditor.

The company's External Auditor shall be rotated or the handling partner changed every five (5) years or sooner.

If an External Auditor believes that the statements made in the company's annual report, information statement or proxy statement filed during his/her engagement is incorrect or incomplete, he/she shall present his views in said reports.

## **P A R T I V**

### **DISCLOSURE AND TRANSPARENCY**

1. Transparency is the essence of corporate governance. It is therefore essential that all material information about the bank which could adversely affect its viability or the interest of its shareholders and other stakeholders be publicly and timely disclosed. Such information should include among others: (1) earnings results, (2) acquisition or disposal of assets, (3) off balance sheet transactions, (4) related party transactions, (5) changes in the members of the board of directors or in committee assignments, (7) appointments or resignations of senior officers (7) shareholdings of directors and senior officers and changes thereto, and (8) direct and indirect remuneration (including stock options) of all directors and management.

In order to ensure the timely and accurate dissemination of public, material, and relevant information to shareholders and investors, the Corporation shall employ various communication channels that can provide timely and up-to-date information relevant to investor's decision making, including but not limited to media and analyst's briefings.

2. All directors and officers of the Corporation shall be required to disclose/report to the Corporation, as far as practicable, any dealings or changes to their shareholdings within three (3) business days.
3. The Board shall commit at all times to full disclosure of all relevant and material information, including information on each member of the board, senior management, and key officers/executives to aid in evaluating their experience and qualifications and assess potential conflicts of interest.

Moreover, the Corporation shall disclose in its Annual Corporate Governance Report, its policies and procedures for:

- a. setting Board and executive remuneration;
- b. related party transactions and other unusual or infrequently occurring transactions, reviewed and approved during the year; and
- c. Such other events or occurrences required to be disclosed by the government's regulatory bodies such as the SEC, PSE, BSP.

For the avoidance of doubt, the Board hereby adopts the definition of material information in the Consolidated Listing and Disclosure Rules of the Philippine Stock Exchange. The Board shall cause the filing of all required information for the interest of the stakeholders through the appropriate Exchange mechanisms for listed companies and submission to the SEC for the interest of its shareholders and other stakeholders.

4. All required information, disclosures, and reports by the SEC, the Philippine Stock Exchange (PSE), the BSP, other regulatory agencies, and the Corporate Governance Committee as stated in this Manual, shall be prepared and submitted to the appropriate agency by the responsible Committee or Officer through the bank's Investor Relations Officer or Compliance Officer.
5. This Manual on Corporate Governance, which contains the corporation's governance policies, programs and procedures, shall be submitted to the regulators and posted on the corporation's official website.



## **P A R T V**

### **STOCKHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTERESTS**

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

#### **1. Voting Right**

- a. Stockholders, either in person or by proxy, shall have the right to nominate, elect, remove and replace Directors and vote on corporate acts requiring their approval under the Corporation Code during the Annual Shareholders' Meeting.
- b. The following procedure shall be followed with respect to the nomination, election, removal, and replacement of directors pursuant to the Corporation's Bylaws:

- i. *Nominations.* - All nominations shall be submitted to the Nomination Committee by any stockholder of record on or before January 30 of each year to allow the Nomination Committee sufficient time to assess and evaluate the qualifications of the nominees. All recommendations for the nomination of independent directors shall be signed by the nominating shareholders together with the acceptance and conformity [by] the would-be nominees.

After the nomination, the Nomination Committee shall prepare a List of Candidates which shall contain all the information about all the nominees for election as members of the Board of Directors, which list shall be made available to the SEC and to all stockholders through the filing and distribution of the Information Statement or Proxy Statement, or in such other reports as the Corporation will be required to submit to the SEC.

The name of the person or group of persons who recommended the nomination of the independent director(s) shall be identified in such report including any relationship with the nominee. Only nominees whose names appear on the List of Candidates shall be eligible for election as directors. No other nominations for election as director shall be entertained after the List of Candidates shall have been prepared and finalized. No further nominations for election as director shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

- ii. *Stockholders' Meetings; Notice of the Meeting –*

The annual stockholders' meeting shall be held at the principal office of the Corporation or at such place within Metro Manila as may be fixed by the Board of Directors on the date specified in the Corporation's Bylaws.

Written or printed notice of the date, time, and place of holding the annual meeting shall be sent by the Corporate Secretary by personal delivery, registered or ordinary mail, facsimile, e-mail, or other forms of electronic messaging to each stockholder at his/her last known place of residence or office as disclosed by the Registry Book of the Corporation, at least twenty-eight (28) days before the meeting.

Special meetings may be called at any time by the Chairperson of the Board of Directors, by the majority of the board of directors, by the President, or upon written request of stockholders representing not less than thirty percent (30%) of the subscribed capital stock of the Corporation, in accordance with the Corporation Code.

Calls for a special meeting shall be made at least seven (7) days prior to the date of the meeting and shall specify the date, time, place, and purpose of the meeting and no business

other than that specified in the call shall be transacted at such special meeting.

- iii. Voting Proxy. – Except as otherwise provided by law, each stockholder entitled to vote at a stockholders' meeting may vote either in person or by proxy the number of shares registered in their respective names in the Stock and Transfer Book of the Corporation. In the election of members of the Board of Directors, any stockholder may cumulate his/her votes in accordance with the provisions of the Corporation Code. Proxies shall be in writing signed by the stockholder and duly presented to the Secretary for inspection at least three (3) calendar days prior to the date of the said meeting. Unless otherwise provided in the proxy, it shall be valid only for the meeting for which it is intended. No proxy shall be valid and effective for a period longer than five (5) years at any one time.
- c.. Cumulative voting shall be used in the election of Directors.
- d. A Director shall not be removed without cause if it will deny Minority Shareholders representation in the Board.

## 2. Power of Inspection

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

## 3. Right to Information

- a. The Shareholders shall be provided, upon written request, with periodic reports which disclose personal and professional information about the Directors and Officers and certain other matters such as their holdings of the company's shares, dealings with the company, relationships among Directors and key Officers, and the aggregate compensation of Directors and Officers.
- b. All Shareholders shall have the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.
- c. All Shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management shall include such information and, if not included, then the Minority Shareholders shall be allowed to propose to include such matters in the agenda of Stockholders' Meeting, being within the definition of "legitimate purposes".
- d. The Board shall make the results of the votes taken during the most recent Annual or Special Stockholders' Meeting publicly available the next working day. In addition, the minutes of the Annual and Special Stockholders' Meeting shall be made available on the company website within five (5) business days from the end of the meeting.

## 4. Right to Dividends

- a. Shareholders shall have the right to receive dividends subject to the discretion of the Board.
- b. The company shall be compelled to declare dividends when its retained earnings shall

be in excess of 100% of its paid-in capital stock, except:

- c. When justified by definite corporate expansion projects or programs approved by the Board; or
- d. When the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or
- e. When it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve for probable contingencies.

## **5. Appraisal Right and Alternative Dispute Mechanism**

- 5.1 The Shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:
  - a. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any Stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding **shares** of any class, or of extending or shortening the term of corporate existence;
  - b. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and:
  - c. In case of merger or consolidation.
- 5.2 An alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner shall be made available to a stockholder, at his/her option.
- 5.3 It shall be the duty of the Directors to promote shareholder rights, remove impediments to the exercise of Shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of Shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to Shareholders participating in meetings and/or voting in person. The Directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

**P A R T   V I**  
**MONITORING AND ASSESSMENT**

1. Each Committee shall report regularly to the Board of Directors.
2. The Compliance Officer shall establish an evaluation system to determine and measure compliance with this Manual. Any violation thereof shall subject the responsible Officer or Employee to the penalty provided under Part 8 of this Manual.
3. The establishment of such evaluation system, including the features thereof, shall be disclosed in the company's annual report or in such form of report that is applicable to the Corporation. The adoption of such performance evaluation system must be covered by a Board approval.
4. This Manual shall be subject to quarterly review unless this frequency is amended by the Board.
5. All business processes and practices being performed within any department or business unit of Asia United Bank that are not consistent with any portion of this manual shall be revoked unless upgraded to the compliant extent.

## **P A R T   V I I**

### **COMMUNICATION PROCESS**

1. This manual shall be available for inspection by any Stockholder of the Corporation 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.
3. An adequate number of printed copies of this Manual must be reproduced and distributed to all departments/subsidiaries with a minimum of at least one (1) hard copy of the Manual each.

## **P A R T   I X**

### **PENALTIES FOR NON-COMPLIANCE**

1. To strictly observe and implement the provisions of this manual, the following penalties shall be imposed, after notice and hearing, on the company's Directors, Officers, staff, subsidiaries and affiliates and their respective Directors, Officers and staff in case of violation of any of the provision of this Manual:
2. The commission of a third violation of this manual by any member of the Corporation or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.
  - a. In case of first violation, the subject person shall be reprimanded.
  - b. In case of second violation, suspension from office shall be imposed; The duration of the suspension shall depend on the gravity of the violation.
  - c. For third violation, the maximum penalty of removal from office shall be imposed.
3. The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

## **P A R T   X**

### **COMPLIANCE SYSTEM**

1. The Compliance System shall ensure that the corporate principles and best practices shall at all times be maintained for the attainment of the corporate goals and objectives. To this end, the Corporate Governance principles and guidelines contained in this Manual, and all relevant laws, rules and regulations, as well as governance issuances of regulatory agencies must be adhered to by all concerned, starting with the Board of Directors, the Board Committees, the Corporate Officers and the Auditors, to be monitored by the Compliance Officer.
2. Compliance Officer
  - a. The Chairman of the Board shall designate a Compliance Officer who shall possess the following qualifications:
    - i. He/She shall have a rank of Senior Vice President or an equivalent position with adequate stature and authority in the corporation;
    - ii. He/She shall not be a member of the Board of Directors; and
    - iii. He/She shall be an individual separate from the Corporate Secretary.
  - b. The Compliance Officer shall be primarily responsible for monitoring and insuring adherence to the provisions of this Manual.
  - c. The Compliance Officer shall perform the following duties:
    - i. ensure proper onboarding of new directors (i.e. orientation on the Company's business, charter, articles of incorporation, and by-laws, among others);
    - ii. establish an evaluation system to determine, monitor and measure compliance with the provisions and requirements of this Manual, and all relevant laws, rules and regulations, as well as governance issuances of regulatory agencies, and report the same to the Board for adoption and approval;
    - iii. ensure that the Evaluation System and the features thereof are properly disclosed in the company's annual report to the SEC;
    - iv. determine violation/s of the Manual and report the same for further review and approval of the Board;
    - v. appear before or make representations with the SEC upon summons on similar matters that need to be clarified by the same;
    - vi. issue a certification every January 30th of the year on the extent of the bank's compliance with this Manual for the completed year, explaining the reason/s of the latter's deviation from the same;
    - vii. identify, monitor and control compliance risks and collaborate with other departments to properly address compliance risks/issues, which may be subject to investigation;
    - viii. annually attend a training on corporate governance;
    - ix. perform such other duties and responsibilities as may be provided by the SEC.
  - d. The Compliance Officer shall have direct reporting responsibilities to the Chairman of the Board.
  - e. The appointment of the compliance Officer shall be immediately disclosed to the SEC.
  - f. All correspondence relative to his/her functions as such shall be addressed to said Officer.



## **PART XI**

### **RISK MANAGEMENT FUNCTION**

1. The risk management function is generally responsible for:
  - a. identifying the key risk exposures and assessing and measuring the extent of risk exposures of the bank and its trust operations;
  - b. monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the bank's internal capital adequacy assessment on an on-going basis;
  - c. monitoring and assessing decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
  - d. reporting on a regular basis to senior management and to the board of directors of the results of assessment and monitoring.<sup>54</sup>
2. Risk management personnel shall possess sufficient experience and qualifications, including knowledge on the banking business, the developments in the market, industry and product lines, as well as mastery of risk disciplines. They shall have the ability and willingness to challenge business lines regarding all aspects or risk arising from the bank's activities.<sup>55</sup>
3. Chief Risk Officer
  - a. The bank shall appoint a Chief Risk Officer (CRO), or any equivalent position, who shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions. This independence shall be displayed in practice at all times as such, albeit the CRO may report to the President or Senior Management, he shall have direct access to the board of directors and the risk oversight committee without any impediment. In this regard, the board of directors shall confirm the performance ratings given by the President or Senior Management to the CRO.
  - b. The CRO shall have sufficient stature, authority and seniority within the bank. This will be assessed based on the ability of the CRO to influence decisions that affect the bank's exposure to risk. The CRO shall have the ability, without compromising his/her independence, to engage in discussions with the board of directors, chief executive officer and other senior management on key risk issues and to access such information as he deems necessary to form his/ her judgment. The CRO shall meet with the board of directors/risk oversight committee on a regular basis and such meetings shall be duly minuted and adequately documented.
  - c. The CRO shall be responsible for managing the bank's Risk Management System. The CRO's functions include, among others:
    - i. supervising the entire risk management system process and spearheading the development, implementation, maintenance and continuous improvement of the processes, and documentation;

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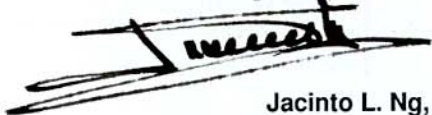
<sup>54</sup> MORB, Section X174.

<sup>55</sup> *Ibid.*

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- ii. communicating the top risks and the status of implementation of risk management strategies and action plans to the Board Risk Oversight Committee;
  - iii. collaborating with the CEO in updating and making recommendations to the Board Risk Oversight Committee;
  - iv. suggesting risk management policies and related guidance, as may be needed; and
  - v. providing insights on the following:
    - risk management processes are performing as intended;
    - risk measures reported are continuously reviewed by risk owners for effectiveness; and
    - established risk policies and procedures are being complied with.<sup>56</sup>
- d. The CRO shall be appointed and replaced with prior approval of the board of directors. In cases, when the CRO will be replaced, the bank shall report the same to the SES of the BSP within 5 days from the time it has been approved by the board of directors.

Attested to/signed by



Jacinto L. Ng, Sr.  
Chairman of the Board of Directors



Cynthia P. Santos  
Compliance Officer

<sup>56</sup> SEC MC. 19, series of 2016, Recommendation 12.5.