



# MANUAL ON CORPORATE GOVERNANCE

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## **Compliance Division**

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## **I. Introduction**

This Manual on Corporate Governance contains the principles of sound corporate governance which shall be observed and complied with by all directors, officers and employees of Bank of Commerce as they discharge their respective duties and responsibilities. It emphasizes the Board of Directors' Commitment to prudently manage the Bank thereby preserving the trust and confidence reposed on it by its clients and stakeholders. It shall also serve as a guide in the attainment of the Bank's mission and vision.

This Manual of Corporate Governance is adopted pursuant to SEC Memorandum Circular Nos. 6 (Revised Code of Corporate Governance) and 9 (Amendment to the Revised Code of Corporate Governance) issued by the Securities and Exchange Commission on June 22, 2009 and May 6, 2014, respectively, the applicable provisions of the Bangko Sentral ng Pilipinas (BSP) Manual of Regulations for Banks, BSP Circular 969 (Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions) and the General Banking Law of 2000.

## **II. Purpose**

This Manual formalizes the principles of sound corporate governance to be observed across all segments of the entire Bank. Corporate governance being a necessary component of sound strategic business management, the Bank's directors, officers and employees are expected to exert every effort to foster awareness and consistent implementation thereof on a continuing basis.

## **III. Definition of Terms**

### **1. Corporate Governance**

Corporate governance is the framework of rules, systems and processes in the Bank that governs the performance of the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, the government and community in which it operates.

### **2. Board of Directors**

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

### **3. Directors**

Directors shall refer to any of the following:

- 1) directors who are named as such in the articles of incorporation;
- 2) directors duly elected in subsequent meetings of the stockholders or those appointed by virtue of the charter of government-owned banks; and

- 3) those elected to fill vacancies in the board of directors.

#### **4. Officers**

Officers shall include the Chief Executive Officer, 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 of directors or another position in the board of directors shall not be considered as an officer unless the duties of his position in the board 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 sub-committees, 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.

#### **5. Stockholders**

Stockholder shall refer to any stockholder of record in the books of the bank, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts, whose stockholdings in the lending bank, individual and/or collectively with the stockholdings of:

- 1) his spouse and/or relative within the first degree by consanguinity or affinity or legal adoption;
- 2) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and
- 3) corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association or firm, amount to one percent (1%) or more of the total subscribed capital stock of the bank.

#### **6. Exchange**

It is an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities.

#### **7. Management**

Management is the body given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation.

## 8. Independent Director

An independent director shall refer to a person who:

- (i) Is not or was not a director, 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 election/appointment;
- (ii) Is not or was not a director or officer or employee of the Bank's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;
- (iii) Is not an owner of more than two percent (2%) of the outstanding shares or an stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;
- (iv) Is not a close family member of any director, officer or stockholder holding shares of stock sufficient to elect one (1) seat in the board of directors of the bank or any of its related companies or any of its substantial stockholders;
- (v) 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 shareholder; and
- (vi) Is not or was not retained as professional adviser, consultant, agent or counsel of the bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election;
- (vii) Is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the bank or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms length and could not materially interfere with or influence the exercise of his judgment.
- (viii) Was not appointed in the Bank, its subsidiaries, affiliates or related interests as Chairman "Emeritus", "Ex-Officio", Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;
- (ix) Is not affiliated with any non-profit organization that receives significant funding from the bank or any of its related companies or substantial shareholders; and
- (x) Is not employed as an executive officer of another company where any of the bank's executives serve as directors.

## **9. Executive Director**

A director who is also the head of a department or unit of the corporation or performs any management function related to its operation.

## **10. Internal Control System**

The framework under which internal controls are developed and implemented (alone or in concert with other policies or procedures) to manage and control a particular risk or business activity, or combination of risks of business activities, to which the corporation is exposed.

It is a system established by the Board of Directors and Management for the accomplishment of the corporation's objectives, the efficient operation of its business, the reliability of its financial reporting, and faithful compliance with applicable laws, regulations and internal rules.

## **11. Internal Audit**

An independent and objective assurance activity designed to add value to and improve the corporation's operations, and help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control and governance processes.

## **12. Substantial Shareholder**

A person or group of persons whether natural or juridical, owning such number of shares that will allow such person or group to elect at least one (1) member of the board of directors of a bank or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

## **13. Parent**

Parent is a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries.

## **14. Subsidiary**

Subsidiary shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by its parent corporation.

## 15. Affiliate

An affiliate shall refer to an entity linked directly or indirectly to a bank by means of:

- (i) Ownership, control as defined under Subsection X141.1 of the MORB, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa;
- (ii) interlocking directorship or officership, where the concerned director or officer owns; controls, or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity;
- (iii) common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the bank and at least twenty percent (20%) of the outstanding voting stock of the entity;
- (iv) management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity, or
- (v) permanent proxy or voting trusts in favor of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa.

## 16. Related Interest

Related interest shall refer to any of the following:

- 1) Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a director, officer or stockholder of the bank;
- 2) Partnership of which a director, officer, or stockholder of a bank or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;
- 3) Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;
- 4) Corporation, association or firm of which any or a group of directors, officers, stockholders of the bank and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm;
- 5) Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in Items "(2)", and "(4)";

- 6) Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the lending bank or which controls majority interest of the bank;
- 7) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the bank; and
- 8) Non-governmental organizations (NGOs)/ foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers of related banks.

## **17. Related Company**

Related company is another company which is:

- (i) its parent or holding company; or
- (ii) its subsidiary or affiliate; or
- (iii) a corporation where a bank or its majority stockholder own such number of shares that will allow/enable such person or group to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner.

## **18. Related Parties**

Related parties shall cover the Bank's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the Bank exerts direct/indirect control over or that exerts direct/indirect control over the bank; the Bank's directors, officers, stockholders and their related interests (DOSRI) and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the financial institution (FI), hence, is identified as a related party.

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

- (i) Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa;
- (ii) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
- (iii) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity; or

- (iv) Permanent proxy or voting trusts in favor of the bank constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

## **19. Close Family Members**

Close family members are persons related to the Bank's directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother-/sister-in law, grandparent-in-law, and grandchild-in-law of the FI's DOS.

For close family member purposes, Bank Officers refer to Assistant Manager and up.

## **20. Corresponding Persons in Affiliated Companies**

Corresponding persons in affiliated companies are the Directors, Stockholders appearing in GIS and Officers with rank of Vice President and up with significant influence/control in Treasury and Finance and their close family members up to second degree of affinity and consanguinity legitimate or common-law.

## **21. Related Party Transactions**

Related Party Transactions (RPTs) are transactions or dealings with related parties of the Financial Institutions including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:

- (i) On- and off-balance sheet credit exposures and claims and write-offs;
- (ii) Investments and/or subscriptions for debt/equity issuances;
- (iii) Consulting, professional, agency and other service arrangements/contracts;
- (iv) Purchases and sales of assets, including transfer of technology and intangible items (e.g, research and development, trademarks and license agreements)
- (v) Construction arrangements/contracts;
- (vi) Lease arrangements/contracts;
- (vii) Trading and derivative transactions;
- (viii) Borrowings, commitments, fund transfers and guarantees;
- (ix) Sale, purchase or supply of any goods or materials; and
- (x) Establishment of joint venture entities.

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

Guarantees include those issued by the Bank for the account of a related party; and those issued by the Bank for the account of non-related party where the beneficiary is a related party. Provided, that the non-related party is under the exclusive dealership agreement



with a related party; or more than 50% of its total revenue/purchases come from business dealings with a related party.

## **22. Control**

Control of an enterprise exists when there is:

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

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

## **23. Majority Stockholder or Majority Shareholder**

A person whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a bank.

## **24. Non-Executive Directors**

Non-executive directors shall refer to those who are not part of the day to day management of operations and shall include the independent directors. However, not all non-executive directors are considered independent directors.

## **IV. Rules of Interpretation**

1. All references to the masculine gender in the salient provisions of this Code of Corporate Governance shall likewise cover the feminine gender.
2. All doubts or questions that may arise in the interpretation or application of this Code of Corporate Governance shall be resolved in favor of promoting transparency, accountability and fairness to the stockholders and other stakeholders of the Bank.

## V. Corporate Governance

The Board of Directors (the “Board”) is primarily responsible for the overall governance of the Bank. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management.

### 1. Composition of the Board

The Board shall consist of at least five (5) and maximum of fifteen (15) members and at least one-third (1/3) but not less than two (2) members shall be Independent Directors. The members of the Board of Directors shall be elected annually by the stockholders entitled to vote and to serve until the election and qualification of their successors.

To the extent practicable, the members of the board of directors shall be selected from a broad pool of qualified candidates. Non-executive directors, who shall include independent directors, shall comprise at least majority of the board of directors to promote the independent oversight of management by the board of directors.

To the extent of the foreign participation in the equity of the bank, non-Filipino citizens may become members of the Board, provided a majority of the directors must be resident of the Philippines.

### 2. Independent and Non-Executive Directors

At least one-third (1/3) but not less than two (2) members of the Board of Directors shall be Independent Directors. Any fractional result from applying the required minimum proportion, i.e., one-third (1/3), shall be rounded-up to the nearest whole number.

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

- (i) Non-executive director may concurrently serve as director in a maximum of five (5) publicly listed companies; and
- (ii) An independent director may only serve as such for a maximum of cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the same Bank, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.

### **3. Multiple Board Seats**

The Board shall abide by the pertinent provisions governing “Interlocking Directorships/Officerships”, prescribed by the Bangko Sentral ng Pilipinas (BSP).

The Board shall adopt guidelines on the number of directorships that its members can hold in stock and non-stock corporations. The optimum number should take into consideration the capacity of a director to diligently and efficiently perform his duties and responsibilities.

The CEO and other executive directors may be covered by a lower indicative limit for membership in other boards. A similar limit may apply to independent or non-executive director who, at the same time, serve as full-time executives in other corporations. In any case, the capacity of the directors to diligently and efficiently perform their duties and responsibilities to the boards they serve should not be compromised.

### **4. The Chairperson of the Board of Directors and Chief Executive Officer**

4.1 The Bank shall retain the current leadership structure where the following are considered as having separate roles: the Chairman, Vice-Chairman and the CEO.

4.2 The roles of the Chairman and CEO should, as much as practicable, be separate to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board. A clear delineation of functions should be made between the Chairman and CEO upon their election.

4.3 The Chairperson of the board shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors.

4.4 The Chairperson of the board shall be a non-executive director or an independent director, and must not have served as CEO of the Bank within the past three (3).

4.5 The Chairperson the Board, or in his absence the Vice Chairman, shall be responsible for overall governance and the CEO shall take responsibility for day-to-day management of the Bank.

4.6 The Chairman or in his absence the Vice-Chairman shall be responsible for the efficient functioning of the Board. He shall set the agenda for and preside at all board meetings, in coordination with the CEO and the Corporate Secretary;

4.7 The duties and responsibilities of the Chairperson of the Board of Directors may include, among others, the following:

4.7.1 Ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;

- 4.7.2 Ensure a sound decision making process;
- 4.7.3 Encourage and promote critical discussion;
- 4.7.4 Ensure that dissenting views can be expressed and discussed within the decision-making process;
- 4.7.5 Ensure that members of the Board of Directors receive accurate, timely, and relevant information;
- 4.7.6 Ensure the conduct of proper orientation for the first time directors and provide training opportunities for all directors; and
- 4.7.7 Ensure conduct of performance evaluation of the board of directors at least once a year.

## **5. Qualification of Board of Directors**

In addition to the qualifications for membership in the Board provided for in the Corporation Code, Securities Regulation Code and other relevant laws, the Board may provide for additional qualifications which include, among others, the following:

- 5.1 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 must be considered: integrity/probity, physical/mental fitness, relevant education/financial literacy/training, possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind, and sufficiency of time to fully carry out responsibilities

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

An elected director has the burden to prove that he/she possesses all the foregoing minimum qualifications and none of the disqualifications by submitting the needed documentary requirements (*Appendix 101 of the MORB*). Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position and results in his/her removal from the Board.

- 5.2 Attended seminar on corporate governance for board of directors. A director shall submit to the Bangko Sentral a certification of compliance with the Bangko Sentral-prescribed syllabus on corporate governance for the first time directors and

documentary proof of such compliance: Provided: That the following persons are exempted from complying with the aforementioned requirement:

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

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

## **6. Disqualification of Board of Directors and Officers**

### **6.1 Permanent Disqualification**

The following shall be grounds for the permanent disqualification of directors and officers:

- 6.1.1 Any person who has been convicted by final judgment of a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Bldg. 22, violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees).
- 6.1.2 Any person who has been convicted by final judgment of a court sentencing them to serve a maximum term of imprisonment of more than six (6) years.
- 6.1.3 Any person who has been convicted by final judgment of the court for violation of banking laws, rules and regulations.
- 6.1.4 Any person who has been judicially declared as insolvent, spendthrift or incapacitated to contract.
- 6.1.5 A director, officers or employees of closed banks who were found to be culpable for such institution's closure as determined by Monetary Board.
- 6.1.6 A director and officers of banks found by Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory.

- 6.1.7 A director and officers of banks or any person found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

## **6.2 Temporary Disqualification**

The Board may provide for the temporary disqualification of a director or officers for any of the following reasons:

- 6.2.1 Any person who refuses to fully disclose the extent of their business interest or any material information to the appropriate department of the SES when required pursuant to a provision of law or of a circular, memorandum, rule of regulation of the BSP. The disqualification shall be in effect as long as the refusal persists.
- 6.2.2 A director who has been absent or who have not participated for whatever reasons in more than fifty percent (50%) of all meetings, both regular and special, of the board of directors during their incumbency, and a director who failed to physically attend for whatever reasons in at least twenty-five percent (25%) of all board meetings in any year, except that when a notarized certification executed by the corporate secretary has been submitted attesting that said directors were given the agenda materials prior to the meeting and that their comments/decisions thereon were submitted for deliberation/discussion and were taken up in the actual board meeting, said director shall be considered present in the board meeting. The disqualification shall apply for purposes of the succeeding election.
- 6.2.3 Any person who has been delinquent in the payment of their obligation.
- 6.2.4 Any person who has been convicted by a court for offenses involving dishonesty or breach of trust such as, but not limited to estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Bldg. 22, violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713, violation of banking laws, rules and regulations or those sentenced to serve a maximum term of imprisonment of more than six (6) years but whose conviction has not yet become final and executory.
- 6.2.5 Any person of closed banks pending their clearance by the Monetary Board.
- 6.2.6 A director disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board on recommendation by the appropriate department of the SES of such directors' election/re-election.

- 6.2.7 A director who failed to attend the special seminar for board of directors. This disqualification applies until the director concerned had attended such seminar.
- 6.2.8 Any person dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity or upon clearance, on their request, from the Monetary Board after showing good and justifiable reasons, or after the lapse of five (5) years from the time they were officially advised by the appropriate department of the SES of their disqualification.
- 6.2.9 Any person who is under a preventive suspension.
- 6.2.10 Any person with derogatory records as certified by, or on the official files of, the judiciary, NBI, Philippine National Police (PNP), quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities of foreign countries for irregularities or violations of any law, rules and regulations that would adversely affect the integrity of the director/officer or the ability to effectively discharge his duties. This disqualification applies until they have cleared themselves of the alleged irregularities/violations or after a lapse of five (5) years from the time the complaint, which was the basis of the derogatory record, was initiated;
- 6.2.11 Any person found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court.
- 6.2.12 Any person found by the Monetary Board to be unfit for the position of director or officer because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court.
- 6.2.13 Any person found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed, regardless whether the finding of the Monetary Board is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court. The disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid.

## **7. Responsibilities, Duties and Functions of the Board**

### **7.1 General Responsibility**

The Board of Directors is primarily responsible for approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance and corporate values. It should monitor and oversee the performance of senior management as the latter manages the day to day affairs of the institution. It is also the Board's responsibility to foster the long-term success of the Bank, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders.

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

### **7.2 Specific Duties and Responsibilities**

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

To ensure a high standard of best practice for the corporation, its stockholders and other stakeholders, the Board shall conduct itself with honesty and integrity in the performance of the following duties and responsibilities as embodied under the relevant sections of the Manual of Regulations for Banks (MORB):

#### **7.2.1 To define the Bank's corporate culture and values.**

It shall establish a code of conduct and ethical standards in the Bank and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the board of directors shall:

- 7.2.1.1 Approve a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the Bank as well as the corresponding disciplinary actions and sanctions. The code of conduct shall explicitly provide that directors, officers, and all personnel are expected to conduct themselves ethically and



perform their job with skill, due care, and diligence in addition to complying with laws, regulations, and company policies;

7.2.1.2 Consistently conduct the affairs of the Bank with a high degree of integrity and play a lead role in establishing the Bank's corporate culture and values. The board of directors shall establish, actively promote, and communicate a culture of strong governance in the Bank, through adopted policies and displayed practices. The board of directors shall ensure that the CEO and executive team champion the desired values and conduct, and that they face material consequences if there are persistent or high profile conduct and value breaches; and

7.2.1.3 Oversee the integrity, independence, and effectiveness of Bank's policies and procedures for whistle blowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or the board of directors itself. It shall prevent the use of the facilities of the Bank in the furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.

## **7.2.2 To approve Bank's objectives and strategies and in overseeing management's implementation thereof.**

In this regard, the board of directors shall:

7.2.2.1 Ensure that the Bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy;

7.2.2.2 Approve the Bank's strategic objectives and business plans. These shall take into account the Bank's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the board of directors shall establish a system for measuring performance against plans;

7.2.2.3 Actively engage in the affairs of the Bank and keep up with material changes in the Bank's business and regulatory environment as well as act in a timely manner to protect the long term interests of the Bank; and

7.2.2.4 Approve and oversee the implementation of policies governing major areas of the Bank's operations. The board of directors shall regularly review these policies, as well as evaluate control functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues.

**7.2.3 To appoint/select key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel.**

In this regard, the board of directors shall:

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

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

7.2.3.3 Oversee the performance of senior management and heads of control functions:

7.2.3.3.1 The board of directors shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards;

7.2.3.3.2 The board of directors shall hold members of senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the board of directors' performance expectations. These expectations shall include adherence to the Bank's values, risk appetite and risk culture, under all circumstances;

- 7.2.3.3.3 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; and
- 7.2.3.3.4 Non-executive board members shall meet regularly, other than in meetings of the audit, risk oversight, corporate governance, and related party transactions committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.
- 7.2.3.4 Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the board of directors shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions;
- 7.2.3.5 Ensure that personnel's expertise and knowledge remain relevant. The board of directors shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibility; and
- 7.2.3.6 Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the Bank at all times, and that all transactions involving the pension fund are conducted at arm's length terms.

**7.2.4 To approve and oversee implementation of the Bank's corporate governance framework.**

In this regard, the board of directors shall:

- 7.2.4.1 Define appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed:
  - 7.2.4.1.1 The board of directors shall structure itself in a way, including in terms of size and frequency of meetings, so as to promote efficiency, critical discussion of issues, and thorough review of matters. The board of directors shall meet regularly to properly discharge its functions, and likewise have discussions on values, conduct, and behaviors;
  - 7.2.4.1.2 The board of directors shall create committees to increase efficiency and allow deeper focus in specific

areas. The number and nature of board level committees would depend on the size of the Bank and the board of directors, the Bank's complexity of operations, as well as the board of directors' long-term strategies and risk tolerance;

7.2.4.1.3 The board of directors shall regularly review the structure, size and composition of the board of directors and board level committees with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation of the structure, size and composition of the board of directors and board-level committees shall be adopted which shall include, but not limited to, benchmark and peer group analysis. The results of assessment shall form part of the ongoing improvement efforts of the board of directors;

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

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

7.2.4.1.6 The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the CEO, the individual directors, and the Bank itself, which may be facilitated by the corporate governance committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each board member taking into account his or her performance in the board of directors and board-level committees; and

- 7.2.4.1.7 The board of directors shall maintain appropriate records (e.g., meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The board of directors shall also ensure that independent views in meetings of the board of directors shall be given full consideration and all such meetings shall be duly minuted.
- 7.2.4.2 Develop remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The board of directors shall ensure that the policy is consistent with the long-term interest of the Bank, does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities;
- 7.2.4.3 Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power;
- 7.2.4.4 Conduct and maintain the affairs of the Bank within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound practice;
- 7.2.4.5 Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities. The board of directors shall 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;
- 7.2.4.6 Oversee the development, approve, and monitor implementation of corporate governance policies. The board of directors shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement;
- 7.2.4.7 Approve an overarching policy on the handling of Related Party Transactions (RPTs) to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged.

In this regard:

- 7.2.4.7.1 The board of directors shall approve all material RPTs, those that cross the materiality threshold and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the board of directors. All final decisions of the board of directors on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholder's meetings and duly reflected in the minutes of board of directors and stockholders' meetings;
- 7.2.4.7.2 The board of directors shall delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the board of directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings;
- 7.2.4.7.3 The board of directors shall establish an effective system to:
  - 7.2.4.7.3.1 Determine, identify and monitor related parties and RPTs;
  - 7.2.4.7.3.2 Continuously review and evaluate existing relationships between and among businesses and counterparties; and
  - 7.2.4.7.3.3 Identify measure, monitor and control risks arising from RPTs. The system should be able to define related parties' extent of relationship with the Bank; assess situations in which a nonrelated party (with whom a Bank has entered into a transaction) subsequently becomes a

related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulators/supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the Bangko Sentral and audit functions for review. Any changes in the policies and procedures shall be approved by the board of directors.

7.2.4.7.4 The board of directors shall maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the Bank is well insulated from any going concern issue of related parties; and

7.2.4.7.5 The board of directors shall oversee the integrity, independence, and effectiveness of the policies and procedures for whistle blowing. The board of directors should ensure that senior management addresses legitimate issues on RPT that are raised. The board of directors should take responsibility for ensuring that the staff who raise concerns are protected from detrimental treatment or reprisals.

7.2.4.8 Define an appropriate corporate governance framework for group structures, which shall facilitate effective oversight over entities in the group. The board of directors of the parent company shall ensure consistent adoption of corporate governance policies and systems across the group.

In this regard:

7.2.4.8.1 The board of directors shall define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account nature and complexity of operations, size and the types of risks to which the Bank and its subsidiaries are exposed. The

board of directors shall also establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements;

7.2.4.8.2 The board of directors shall define the risk appetite for the group, which shall be linked to the process of determining the adequacy of capital of the group;

7.2.4.8.3 The board of directors shall ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems;

7.2.4.8.4 The board of directors shall define and approve policies and clear strategies for the establishment of new structures;

7.2.4.8.5 The board of directors shall understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group's capital, risk profile and funding under normal and contingent circumstances. The board of directors shall ensure that the group's corporate governance framework includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions;

7.2.4.8.6 The board of directors shall develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group; and

7.2.4.8.7 The board of directors shall require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board of directors approved policies, practices and strategies and to require said



groups to report the results of their assessment directly to the board of directors.

**7.2.5 The board of directors shall be responsible for approving Bank's risk governance framework and overseeing management's implementation thereof.**

In this regard, the board of directors shall:

- 7.2.5.1 Define the Bank's risk appetite. In setting the risk appetite, the board of directors shall take into account the business environment, regulatory landscape, and the Bank's long term interests and ability to manage risk;
- 7.2.5.2 Approve and oversee adherence to the risk appetite statement (RAS), risk policy, and risk limits;
- 7.2.5.3 Oversee the development of, approve, and oversee the implementation of policies and procedures relating to the management of risks throughout the Bank; and
- 7.2.5.4 Define organizational responsibilities following the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions for the second line of defense, and the internal audit function for the third line of defense.

In this regard:

- 7.2.5.4.1 The board of directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively; and
- 7.2.5.4.2 The board of directors shall ensure that non-executive board members meet regularly, with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees, in the absence of senior management.

**7.2.6. Establishment of a comprehensive and effective operational risk management framework as part of the enterprise-wide-risk management system.**

In this regard, the Board of Directors shall:

7.2.6.1 Ensure that it is aware of and understands the nature and complexity of the major operational risks in the BSFI's business and operating environment, including risks arising from transactions or relationships with third parties, vendors, suppliers including outsourced service providers, and clients of services provided. This should include understanding of both the financial and nonfinancial impact of operational risk to which the BSFI is exposed to;

7.2.6.2 Approve the operational risk management framework which shall form part of the BSFI's enterprise-wide risk management system and shall cover all business lines and functions of the BSFI, including outsourced services and services provided to external parties. The operational risk management framework should include an enterprise-wide definition of operational risk, which should be consistent with the definition under section 2 of this circular, governance, and reporting structures including the roles and responsibilities of all personnel, feedback mechanism, as well as standards and tools for operational risk management. In this respect, the board shall:

7.2.6.2.1 Define the operational risk management strategy and ensure that it is aligned with the BSFI's overall business objectives. Relative to this, the board should set and provide clear guidance on the BSFI's operational risk appetite (i.e. the level of operational risk the BSFI is willing to take and able to manage in pursuit of its business objectives as well as the type of risks that are not acceptable to the board and management), which should consider all material risk exposures as well as the BSFI's financial condition and strategic direction;

7.2.6.2.2 Approve appropriate thresholds or limits to ensure that the level of operational risk is maintained within tolerance and at prudent levels and supported by adequate capital. Relative to this, the board shall approve policy on resolving limit breaches which should cover escalation

procedures for approving or investigating breaches, approving authorities, and requirements in reporting to the appropriate level of management or the board;

7.2.6.2.3 Ensure that operational risk is appropriately considered in the capital adequacy assessment process;

7.2.6.2.4 Ensure that it receives adequate information on material developments in the operational risk profile of the BSFI, including pertinent information on the current and emerging operational risk exposures and vulnerabilities as well as information on the effectiveness of the operational risk management framework. The board must challenge the quality and comprehensiveness of the operational risk information it receives. It should also be satisfied with the reliability of the said information and the monitoring system for operational risk;

7.2.6.2.5 Ensure that business objectives, risk appetite, the operational risk management framework, and the respective roles and responsibilities of personnel and officers at all levels in terms of implementing the operational risk management framework, are properly disseminated, clearly communicated/discussed, and understood by personnel concerned;

7.2.6.2.6 Provide senior management with clear guidance and direction regarding the principles underlying the operational risk management framework. The board shall ensure that senior management appropriately implements policies, processes and procedures, and provides feedback on the operational risk management process. In this regard, the board shall establish a feedback and reporting system that will allow employees to raise their concerns without fear of negative consequences; and

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

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

7.2.6.3 Provide adequate oversight on all outsourcing activities and ensure effective management of risks arising from these activities. In this regard, the board of directors shall approve a framework governing outsourcing activities, which includes a system to evaluate the risk and materiality of all existing and prospective outsourcing engagements and the policies that apply to such arrangements;

7.2.6.4 Ensure observance of expectations and requirements prescribed under relevant laws, rules and regulations, industry set standards, and policies on internal control, internal audit, and disclosure;

Promote a culture of high standards of ethical behavior. The board shall adopt a code of conduct of ethical behaviors with corresponding disciplinary actions for non-compliance, which should cover, among others, guidance and protocols on conflicts of interest situations, safeguarding of confidential information, and use of sensitive information. The board should likewise institute tools, methodologies, and practices in order to ensure compliance and adherence to the standards by all employees including the senior officers and the board itself. In this regard, employees should be required to acknowledge in writing that they have read, understood, and will observe the code of conduct;

7.2.6.5 Ensure that business and risk management activities, including the operational risk management function, are carried out by adequate and qualified staff with the necessary experience, technical capabilities, and competence. Moreover, the board shall ensure that employees and officers in all areas of operations have a high degree of integrity.

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

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

7.2.6.6 Ensure that all units in the organization have adequate resources, including personnel complement, and are supported by appropriate technological systems. The use of technological systems must be commensurate to the activities being undertaken; and

7.2.6.7 Oversee implementation of a sound business continuity management framework. The board should create and promote an organizational culture that places high priority on business continuity. This shall include providing sufficient financial and human resources associated with the BSFI's business continuity initiatives.

7.2.6.8 conflicts of interest situations, safeguarding of confidential information, and use of sensitive information. The board should likewise institute tools, methodologies, and practices in order to ensure compliance and adherence to the standards by all employees including the senior officers and the board itself. In this regard, employees should be required to acknowledge in writing that they have read, understood, and will observe the code of conduct;

7.2.6.9 Ensure that business and risk management activities, including the operational risk management function, are carried out by adequate and qualified staff with the necessary experience, technical capabilities, and competence. Moreover, the board shall ensure that employees and officers in all areas of operations have a high degree of integrity.

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

Further, the board shall oversee the design and implementation of remuneration policies. It shall ensure that the remuneration policies do not encourage excessive risk-taking or provide incentives to people to

perform contrary to the desired risk management values. It shall also ensure that remuneration policies are appropriate and aligned with the BSFI's long-term strategic direction and risk appetite, as well as with relevant legal or regulatory requirements;

7.2.6.10 Ensure that all units in the organization have adequate resources, including personnel complement, and are supported by appropriate technological systems. The use of technological systems must be commensurate to the activities being undertaken; and

7.2.6.11 Oversee implementation of a sound business continuity management framework. The board should create and promote an organizational culture that places high priority on business continuity. This shall include providing sufficient financial and human resources associated with the BSFI's business continuity initiatives.

## **8. Duties and Responsibilities**

### **8.1 Specific Duties and Responsibilities of the Chairperson of the Board of Director**

#### **8.2.1 To provide leadership in the board of directors**

The chairperson of the Board shall ensure effective functioning of the Board, including maintaining a relationship of trust with board members.

#### **8.2.2 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.

### **8.2 Specific Duties and Responsibilities of a Director**

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

A director has the following specific duties and responsibilities:

**8.2.1 To remain fit and proper for the position for the duration of his term.**

A director should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance.

**8.2.2 To conduct fair business transactions with the Bank and to ensure that personal interest does not bias board decisions.**

A director 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.

**8.2.3 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.

**8.2.4 Disclosure and Transparency of Directors**

In relation to Securities issuance by the Bank, a director should immediately disclose to the Bank his/her direct and indirect ownership in the Securities of the Bank.

Any acquisition, disposal, or change in the shareholdings of the director/s should be immediately disclosed to the Bank without a need for demand from the Bank.

A director must not deal in the Bank's securities during the period within which a material non-public information is obtained and up to two (2) full Trading Days after the price sensitive information is disclosed.

**8.2.5 To devote time and attention necessary to properly discharge his duties and responsibilities.**

A director should devote sufficient time to familiarize themselves with the institution's business. He must be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the board's work. He must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations.

#### **8.2.6 To act judiciously.**

A director before deciding on any matter brought before the BOD, should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

#### **8.2.7 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.

#### **8.2.8 To exercise independent judgment.**

A director should view each problem/situation objectively. If a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take position even though it might be unpopular. Corollary, he should support plans and ideas that he thinks will be beneficial to the institution.

#### **8.2.9 To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation and by-laws, the requirements of the BSP and where applicable, the requirements of other regulatory agencies.**

A director should also keep himself informed of the industry developments and business trends in order to safeguard the institution's competitiveness.

#### **8.2.10 To observe confidentiality.**

A director must observe the confidentiality of non-public information acquired by reason of their position as directors. He must not disclose said information to any other person without the authority of the board.

## **9. Internal Control Responsibilities of the Board**



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

9.1 The minimum internal control mechanisms for the performance of the Board's oversight responsibility include:

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

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

9.1.3 Evaluation of proposed senior management appointments;

9.1.4 Selection and appointment of qualified and competent management officers; and

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

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

## **10. Election**

10.1 It is the Board's responsibility to nominate directors, who will, in turn, be elected by the shareholders. The Board will nominate a slate, which will include individuals who have diverse talents, backgrounds and perspectives, and who can work effectively as a team, with each one able and willing to add value and contribute meaningfully to board decisions.

- 10.2 Each director should represent the interest of the company as a whole and should be in a position to participate independently and objectively.
- 10.3 The Board shall ensure that election practices are reviewed and, if needed, amended to correct practices that foster factionalism and partisanship within the Board.
- 10.4 The Nomination Compensation and Remuneration Committee (NCRC) shall conduct a detailed evaluation of the nominees for Directorship prior to their nomination; A re-assessment shall be done upon their re-election giving consideration to the result of annual Board, Peer and Self-Assessments.
- 10.5 Result of the annual Board, Board Committee, Peer and Self-Assessments, shall be furnished to the Corporate Governance Committee and the Board and shared with the Nomination, Compensation, and Remuneration Committee (NCRC) for consideration/appropriate action.

## **11. Orientation and Training**

- 11.1 The Bank shall provide for an adequate orientation process for new directors prior to new director's full assumption of duties and/or attendance to their first Board meeting.
- 11.2 The Board shall observe a development and education program for each individual director and for the Board as a team.
- 11.3 The Bank will perform an analysis of the training needs of Directors through the Annual Self- Assessment of each Director. It allows the director's self-assessment of his/her training/seminar need in terms of corporate governance, and significant new banking rules and regulations.
- 11.4 The Bank will also look into the best practices in the industry as regard to the trainings for Directors.
- 11.5 Compliance Division shall coordinate with Human Resource Management Development Division in looking for appropriate trainings for Directors and facilitating the registration in the identified Training/Seminar based on the result of Self-assessment and survey in the industry.

## **12. Disclosure of Directors' Biographical Information**

- 12.1 The Board will ensure that sufficient and uniform biographical data accompany the names of nominated directors to allow shareholders to properly assess their qualification, for purposes of election.

### **13. Board Meetings and Quorum Requirement**

- 13.1 Board meetings shall be held, as much as possible, on a monthly basis, and at the very least on a quarterly basis, to enable directors to discharge their responsibilities properly.
- 13.2 The members of the Board should attend its regular and special meetings in person or through teleconferencing conducted in accordance with the rules and regulations of SEC.

The meetings of the board of directors may be conducted through modern technologies such as, but not limited to teleconferencing and video conferencing as long as the director who is taking part in said meetings can actively participate in the deliberations on matters taken up therein: Provided, that every member of the board of directors shall participate in at least fifty percent (50%) and shall physically attend at least twenty-five (25%) of all meetings of the board of directors every year: Provided, further, that the absence of a director in more than fifty percent (50%) of all regular and special meetings of the board of directors during his/her incumbency is a ground for disqualification in the succeeding election.

Board-level committees shall meet as prescribed in their respective charters. Participation of Committee members may likewise be in person or through modern technologies: Provided, that the attendance and participation of members in committee meeting shall be considered in the assessment of continuing fitness and propriety of each director as member of board-level committees and the board of directors.

- 13.3 Independent directors should always attend Board meetings. Unless otherwise provided in the by-laws, their absence shall not affect the quorum requirement. However, the Board, may, to promote transparency, require the presence of at least one (1) independent director in all its meetings.
- 13.4 Directors shall rigorously prepare for board meetings so that they can devote their undivided attention and actively participate in meetings.
- 13.5 To monitor the directors' compliance with the attendance requirements, the Bank shall submit to SEC, on or before January 30 of the following year, a sworn certification about the directors' record of attendance in Board meetings. The certification may be submitted through SEC Form 17-C (Please refer to **Annex 1**) or in a separate filing.

### **14. Access to Senior Management and Information**

- 14.1 The Board shall have access to senior management.
- 14.2 Board of Directors shall be given sufficient information about the Bank's operations, in order for them to fully exercise their governance functions.

## **15. Remuneration of Board of Directors and Officers**

- 15.1 The Board shall set levels of compensation for the Bank sufficient and competitive enough to attract and retain the services of qualified and competent directors and officers.
- 15.2 A portion of the remuneration of executive directors may be structured or be based on the Bank's and individual performance
- 15.3 The Bank shall establish formal and transparent procedures for the development of a policy on executive remuneration or determination of remuneration levels for individual directors and officers depending on the particular needs of the Bank. No director shall participate in deciding on his remuneration.
- 15.4 The Board may pay directors in the form of equity and/or cash.
- 15.5 Benefits in kind shall be provided, the coverage of which shall vary depending on whether the Board member is an executive director or a non-executive director.
- 15.6 The Bank's annual reports and information and proxy statements shall include a clear, concise and understandable disclosure of all fixed and variable compensation that maybe paid, directly or indirectly, to its directors and top four (4) management officers during the preceding fiscal year. However, in consideration of the security and privacy concerns and the fact that there is no regulatory requirement to disclose detailed compensation of the Board and the top four management officers, the Bank shall confine itself with the required minimum disclosures and follow current industry practice on disclosure which do not provide detailed/granular disclosures of compensation.
- 15.8 To protect the funds of the Bank, the Commission may, in exceptional cases, e.g. when the Bank is under receivership or rehabilitation, regulate the payment of the compensation, allowances, fees and fringe benefits to its directors and officers.

## **16. Performance Evaluation**

### **Board of Directors**

- 16.1 The Board shall institute an internal self-rating system that can measure the performance of the Board and Management. It shall conduct an annual review of performance, measuring results against target and other appropriate criteria defined by the Board.

- 16.2 The creation and implementation of such self-rating system, including its salient features, may be disclosed in the Bank's annual report.
- 16.3 The Board shall also establish and maintain an annual review process by which it can evaluate the CEO's performance in executive sessions. A subsequent dialogue with the CEO shall be conducted.
- 16.4 The board of directors through the corporate governance committee or external facilitators shall create and control the methods and criteria for evaluating performance and effectiveness of the board as a body, as well as its various committees, the CEO, the individual directors, the Board Advisers and the bank itself. (Please refer to **Annexes 2 to 7** for the assessment forms).
- 16.5 Board Assessment
- 16.5.1 Each director will assess the performance of the Board as a whole.
- 16.6. Self-Assessment
- Each member of the Board shall assess his/her own performance.
- 16.7. Peer Assessment
- Each director will assess the performance of his/her peer.
- 16.8. Board Committee Assessment
- Each member of the Board Committee will assess the performance of the Committee he/she is a member. This is in addition to the assessment made by the Chairman of the Committee.
- 16.9 Results of the annual Board, Board Committee, Peer and Self-assessments, shall be furnished to the Corporate Governance Committee and the Board and shared with the Nomination, Compensation and Remuneration Committee (NCRC) for consideration/appropriate action.

### **Board Advisers**

- 16.11 The Board shall evaluate and provide rating of the performance of the Board Advisers. Result of performance evaluation shall be reported to the Corporate Governance Committee and the Board and shared with the Nomination, Compensation and Remuneration Committee (NCRC) for consideration/appropriate action.
- 16.12 The Board shall regularly review its performance evaluation process and disclose it to the public.

## **Management Consultants**

- 16.13 The Management shall evaluate and provide rating of the performance of the Management Consultants. Result of performance evaluation shall be reported to the Senior Executive Team and shared with the Nomination, Compensation and Remuneration Committee (NCRC) for consideration/appropriate action.

## **17. Board Committees**

The Board shall constitute the proper committees to assist it in good corporate governance.

### **17.1 Corporate Governance Committee (CGCom)**

#### **17.1.1 Purpose and Objective**

The Corporate Governance Committee shall assist the Board of Directors in fulfilling its corporate governance responsibilities and in providing oversight in the implementation of the Bank's Compliance System.

#### **17.1.2 Composition**

The members of the CGCOM are appointed annually by the Board. It shall be composed of at least five (5) members of the board of directors, at least three (3) members shall all be non-executive directors, majority of whom shall be independent directors, including the chairperson. All decisions or resolutions of the Committee shall have the affirmative vote of at least a majority of the members of the Committee.

#### **17.1.3 Duties and Responsibilities**

The detailed duties and responsibilities of the Corporate Governance Committee shall be contained separately in its Charter.

#### **17.1.4 Frequency of Meetings**

The Committee meeting may be conducted through modern technologies such as, but not limited to, teleconferencing and video-conferencing as long as the committee members attending

the meeting can actively participate in the deliberations on matters taken up. Notwithstanding, every Committee member shall participate in at least fifty percent (50%) and shall physically attend at least 25% of all Committee meetings every year.

The twenty-five percent (25%) physical attendance requirement is lifted during periods of national emergencies, public health emergencies and major disasters among others that affect mobility, activity and access to the Bank.

## **17.2 Audit Committee**

### **17.2.1 Purpose and Objective**

The Audit Committee represents and assists the Board in its general oversight of the Bank's financial reporting policies, practices and control and internal and external audit functions. It shall be responsible for the setting up of the internal audit department and for the appointment, removal and remuneration of the Chief Audit Executive as well as the appointment of the independent external auditor who shall both report directly to the Audit Committee.

Management is responsible for:

1. the preparation, presentation and integrity of the company's financial statements;
2. accounting and financial reporting principles; and
3. the Bank's internal controls and procedures designed to promote efficiency and effectiveness of operations and compliance with accounting standards and applicable laws and regulations. The Bank's independent auditing firm is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards.

The Audit Committee serves a board level oversight role where it oversees the relationship with the independent external auditor, receives information and provides advice, counsel and general direction, as it deems appropriate, to management and the auditors, taking into account the information it receives, discussions with the auditor, and the experience of the Committee's members in business, financial and accounting matters.

### **17.2.2 Composition**

The Audit Committee shall be composed of at least three (3) members of the board of directors, who shall all be non-executive directors, majority of whom shall be independent directors, including the Chairperson.

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

### **17.2.3 Duties and Responsibilities**

The detailed duties and responsibilities of the Audit Committee shall be contained separately in its Charter.

### **17.2.4 Frequency of Meetings**

The Committee will meet monthly or at least twelve (12) times a year, with authority to convene additional meetings, as circumstances require. The meeting may be conducted through modern technologies such as, but not limited to, teleconferencing and video-conferencing as long as the committee members attending the meeting can actively participate in the deliberations on matters taken up. Notwithstanding, every Committee member shall participate in at least fifty percent (50%) and shall physically attend at least twenty five percent (25%) of all Committee meetings every year.

## **17.3 Board Risk Oversight Committee (BROC)**

### **17.3.1 Purpose and Objective**

The Board of Directors (BOD) is primarily responsible for promoting a risk management culture in the Bank by establishing and maintaining a sound risk management system. The BOD delegates to the BROC the power to approve procedures for implementing risk and capital management policies.

The Board Risk Oversight Committee (BROC) shall assist the Board with its oversight function to:

1. Identify and evaluate risk exposures;
2. Develop risk management strategies;
3. Implement and periodically review the risk management framework; and
4. Promote a risk management culture in the Bank.



### **17.3.2 Composition**

The BROC shall be composed of at least three (3) members of the board of directors, majority of whom shall be independent directors, including the Chairperson. The Risk Oversight Committee's chairperson shall not be the Chairperson of the Board of Directors, or any other board-level Committee.

The Risk Oversight Committee shall possess a range of expertise and adequate knowledge on risk management issues and practices. It shall have access to independent experts to assist it in discharging its responsibilities.

### **17.3.3 Duties and Responsibilities**

The detailed duties and responsibilities of the Board Risk Oversight Committee shall be contained separately in its Charter.

### **17.3.4 Frequency of Meetings**

The Committee shall meet monthly or as often as necessary. Risk Management Group, under the Chief Risk Officer, will handle the administrative work of the committee.

The Committee meeting may be conducted through modern technologies such as, but not limited to, teleconferencing and video-conferencing as long as the committee members attending the meeting can actively participate in the deliberations on matters taken up. Notwithstanding, every Committee member shall participate in at least fifty percent (50%) and shall physically attend at least twenty five percent (25%) of all Committee meetings every year.

## **17.4 Nomination, Compensation and Remuneration Committee (NCRC)**

### **17.4.1 Purpose and Objective**

The Nomination, Compensation and Remuneration Committee (NCRCCom) shall be responsible for the selection process for vacancies in the Board of Directors (BoD) and Senior Officers and review of the Bank's compensation policies, succession plan and Human Resource Management & Development Division's outsourced activities.

### **17.4.2 Composition**

The NCRC shall be composed of at least five (5) members of the Board of directors, at least two (2) of whom are independent directors.

### **17.4.3 Duties and Responsibilities**

The detailed duties and responsibilities of the Nomination, Compensation and Remuneration Committee shall be contained separately in its Charter.

The Human Resource Management & Development Division (HRMDD) shall act as the Secretariat.

### **17.4.4 Frequency of Meetings**

The NCRCOM meets quarterly but meetings may be set more frequently to enable the Committee to properly discharge their duties and responsibilities.

The Committee meeting may be conducted through modern technologies such as, but not limited to, teleconferencing and video-conferencing as long as the committee members attending the meeting can actively participate in the deliberations on matters taken up. Notwithstanding, every Committee member shall participate in at least fifty percent (50%) and shall physically attend at least twenty five percent (25%) of all Committee meetings every year.

## **17.5 Executive Committee (ExCom)**

### **17.5.1 Purpose and Objective**

The Executive Committee (ExCoM) is empowered to approve and/or implement all corporate acts within the competence of the Board of Director (BOD) except those acts expressly reserved by the Corporation Code of the Board.

### **17.5.2 Composition**

The ExCoM shall be composed of at least five (5) members, with at least three (3) coming from the Board of Directors.

### **17.5.3 Duties and Responsibilities**

The detailed duties and responsibilities of the Executive Committee shall be contained separately in its Charter.

#### **17.5.4 Frequency of Meetings**

The Committee meeting shall be held every Thursday.

The Committee meeting may be conducted through modern technologies such as, but not limited to, teleconferencing and video-conferencing as long as the committee members attending the meeting can actively participate in the deliberations on matters taken up. Notwithstanding, every Committee member shall participate in at least fifty percent (50%) and shall physically attend at least twenty five percent (25%) of all Committee meetings every year.

### **17.6 Trust and Investments Committee (TIC)**

#### **17.6.1 Purpose and Objective**

The Trust and Investment Committee is a Board oversight Committee that is primarily responsible for overseeing the fiduciary activities of the Bank.

#### **17.6.2 Composition**

The members of the TIC are appointed annually by the Board of Directors. It shall be composed of at least five (5) members which shall include the President, the Trust Officer and three (3) members of the Board of Directors who are not concurrent members of the Audit Committee and at least one (1) of whom shall be an Independent Director. The members of the TIC shall preferably have expertise and/or experience in trust or investment management activities or such professional experience in the relevant fields of banking, finance, economics, law, and risk management.

The President, the Trust Officer, or officers holding equivalent positions, shall not be appointed as the Chairman of the TIC. All decisions or resolutions of the TIC shall have the affirmative vote of at least a majority of the members of the Committee. TIC members who are officers of related companies or may be involved/interested in any transaction either for himself or thru a firm where he is a partner or has effective control shall inhibit from confirming or voting on proposals/transactions concerning said companies.

#### **17.6.3 Duties and Responsibilities**

The detailed duties and responsibilities of the Trust and Investment Committee shall be contained separately in its Charter.

#### **17.6.4 Frequency of Meetings**

The TIC shall meet monthly or more frequently if necessary. Special meetings may also be called by the Chairman as necessary.

The meetings may be conducted through modern technologies such as, but not limited to, teleconferencing and video-conferencing as long as the committee members attending the meeting can actively participate in the deliberations on matters taken up.

Every TIC member shall participate in at least fifty percent (50%) and shall physically attend at least twenty five percent (25%) of all committee meetings every year.

In general, proposals are taken up en banc by the TIC. However, under exceptional circumstances, routing of proposals may be allowed provided that, more than fifty percent (50%) of the TIC members shall approve the proposal.

## **17.7 Related Party Transactions Committee (RPTCom)**

### **17.7.1 Purpose and Objective**

The Related Party Transactions Committee shall assist the Board of Directors in fulfilling its corporate governance responsibility related to the safety and soundness of the Bank's transaction/s with Related Parties, and ensure that such are conducted at arm's-length terms and conditions pursuant to relevant laws, regulations and Bank policies.

### **17.7.2 Composition**

The RPTCom shall be composed of at least three (3) members of the Board of Directors, two (2) of whom shall be independent directors including the Chairperson. The RPTCom shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members. In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction. The Heads of Compliance Division and Internal Audit Division shall act as resource persons to the Committee.

### **17.7.3 Duties and Responsibilities**

The detailed duties and responsibilities of the Related Party Transactions Committee shall be contained separately in its Charter.

### **17.7.4 Frequency of Meetings**

The RPT Committee shall meet once a month. Special meetings may also be called by the Chairman as necessary.

The Committee meeting may be conducted through modern technologies such as, but not limited to, teleconferencing and video-conferencing as long as the committee members attending the meeting can actively participate in the deliberations on matters taken up. Notwithstanding, every Committee member shall participate in at least fifty percent (50%) and shall physically attend at least twenty five percent (25%) of all Committee meetings every year.

## **18. Board Advisers**

The Bank's board of directors significantly benefits from inputs of all the advisers who are considered specialists and experts. They were carefully selected because they fill in gaps of knowledge in view of their specific fields of expertise, and also because of the trust reposed on them by the Bank's Board of Directors.

The Board shall nominate qualified Board Advisers who have diverse talents, backgrounds and perspectives who are able and willing to add value to the Board.

### **18.1 Procedures in the Selection/Engaging Board Advisers**

- 18.1.1 It is the Board who will elect and approve the engagement of Board Advisers.
- 18.1.2 The Board shall nominate qualified Board Advisers who have diverse talents, backgrounds and perspectives who are able and willing to add value to the Board.
- 18.1.3 Board Advisers are carefully selected to fill in gaps of knowledge in view of their specific fields of expertise and trust reposed on them by the Bank's Board of Directors.
- 18.1.4 The Board Advisers should have the right and sufficient expertise that can greatly reduce risk and improve the quality of the Board's decisions in times of crises.
- 18.1.5 The Nomination Compensation and Remuneration Committee (NCRC) shall conduct a detailed evaluation of the nominees for Board Advisers prior to their engagement.

### **18.2 Terms of Engagement/Duties and Responsibilities of Board Advisers**

- 18.2.1 The ADVISER shall assume advisory role whose duty is to provide expert advice and insights on matters within their expertise during discussions in the Board or Committee meetings.
- 18.2.2 The ADVISER may be consulted from time to time by the Board, Board Committee or Bank's Management.
- 18.2.3 The ADVISER shall avoid any conflict of interest by immediately making known to the Board and/or Board Committee his interest in the matter being discussed.
- 18.2.4 The ADVISER shall keep himself abreast of latest developments in his field, the banking industry, economic climate, the relevant regulatory issuances and best practices for relevant and sound advice/inputs.
- 18.2.5 The ADVISER agrees to perpetually keep in strictest confidence all information/data that may be obtained or gathered in the course of his rendition of advisory role to the Board of Directors and/or Board Committee and Management. The ADVISER undertakes not to disclose or even discuss with third parties any and all kind of information acquired by virtue of this Contract regarding the BANK or its subsidiary/ies and affiliates without prior written permission of the BANK or its subsidiaries and affiliates.
- 18.2.6 The ADVISER undertakes to abide by the applicable provisions of R.A. 1405 (Law on Secrecy of Bank Deposits) as well as to any other law and/or Rules and Regulations issued by the Bangko Sentral ng Pilipinas (BSP) that may also be applicable to this Contract.
- 18.2.7 The Parties shall comply with applicable provisions of R.A. 10173 (Data Privacy Act of 2012), its implementing rules and regulations, and the issuances and circulars of the National Privacy Commission, as well as other applicable personal data privacy and security laws and regulations ("Privacy Laws").

### **18.3 Remuneration of Board Advisers**

- 18.3.1 The ADVISER shall receive an honorarium at the current rate per Board or Board Committee meeting attended plus a performance bonus as may be approved by the Board subject to applicable taxes.
- 20.3.2 The ADVISER shall not be entitled to the usual benefits accorded to the permanent and/or casual employee of the BANK.

## **18.4 Periodic Performance Evaluation**

- 18.4.1 The Board shall conduct an annual review of performance of the Board Advisers, measuring against the criteria defined by the Board.
- 18.4.2 Each director will assess the performance of each Board Adviser every end of the year to be facilitated by Compliance Division.
- 18.4.3 Over-all Evaluation shall have the following qualitative rating:  
Excellent, Very Good, Good, Needs Improvement, Unsatisfactory
- 18.4.4 Result of performance evaluation shall be reported to Corporate Governance Committee and the Board.

## **18.5 Period of Engagement**

- 18.5.1 The engagement of Board Adviser is renewable every year upon approval of the Board.
- 20.5.2 Basis for the renewal of Board Adviser's contract is dependent on the result of Board Adviser's performance evaluation.
- 20.5.3 A re-assessment shall be done upon their re-engagement giving consideration to the result of annual Performance Evaluation.

## **19. Management Consultants**

The Bank's management significantly benefits from inputs of Consultants who provide expert advice professionally in view of their specific field of expertise. Consultants are selected on the bases of their wide range of banking experience having been Senior Executives of the bank for the past several years.

### **19.1 Procedures in the Selection/Engaging Management Consultants**

- 19.1.1 It is the management who will elect and approve the engagement of Consultants.
- 19.1.2 The management shall nominate qualified Consultants who have sufficient backgrounds and expertise on specific area of banking operation who are able and willing to add value to the Management.
- 19.1.3 Consultants are carefully selected to fill in gaps of knowledge in view of their specific fields of expertise and trust reposed on them by the Bank's Management.

19.1.4 The Consultants should have the right and sufficient expertise that can greatly reduce risk and improve the quality of the Management's decisions in times of crises.

19.1.5 The Nomination Compensation and Remuneration Committee (NCRC) shall conduct a detailed evaluation of the nominees for Consultants prior to their engagement.

## **19.2 Terms of Engagement/Duties and Responsibilities of Management Consultants**

19.2.1 The Consultant shall assume advisory role whose duty is to provide expert advice and insights on matters within their expertise when so needed by the Management.

19.2.2 The Consultant may be consulted from time to time by the Bank's Management.

19.2.3 The Consultant shall avoid any conflict of interest by immediately making known to the Bank his interest in the matter being discussed.

19.2.4 The Consultant shall keep himself abreast of latest developments in his field, the banking industry, economic climate, the relevant regulatory issuances and best practices for relevant and sound advice/inputs.

19.2.5 The Consultant agrees to perpetually keep in strictest confidence all information/data that may be obtained or gathered in the course of his rendition of advisory role to the Bank's Management. The Consultant undertakes not to disclose or even discuss with third parties any and all kind of information acquired by virtue of this Contract regarding the BANK or its subsidiary/ies and affiliates without prior written permission of the BANK or its subsidiaries and affiliates.

19.2.6 The Consultant undertakes to abide by the applicable provisions of R.A. 1405 (Law on Secrecy of Bank Deposits) as well as to any other law and/or Rules and Regulations issued by the Bangko Sentral ng Pilipinas (BSP) that may also be applicable to this Contract.

19.2.7 The Parties shall comply with applicable provisions of R.A. 10173 (Data Privacy Act of 2012), its implementing rules and regulations, and the issuances and circulars of the National Privacy Commission, as well as other applicable personal data privacy and security laws and regulations ("Privacy Laws").



### **19.3 Remuneration of Management Consultants**

19.3.1 The Consultant shall receive a remuneration as approved by the Bank's Management subject to applicable taxes.

19.3.2 The Consultant shall not be entitled to the usual benefits accorded to permanent and/or casual employee of the BANK.

### **19.4 Periodic Performance Evaluation**

19.4.1 The Bank's Management shall conduct an annual review of performance of the Consultants, measuring against the criteria defined by the Management.

19.4.2 Over-all Evaluation shall have the following qualitative rating:

Excellent, Very Good, Good, Needs Improvement, Unsatisfactory

19.4.3 Result of performance evaluation shall be reported to Nomination and Compensation and Remuneration Committee (NCRC).

### **19.5 Period of Engagement**

19.5.1 The contract of Consultant is one year or as may be agreed upon.

19.5.2 Basis for the renewal of Consultant's contract is dependent on the result of performance evaluation.

19.5.3 A re-assessment shall be done by the Nomination Compensation and Remuneration Committee prior to their re-engagement giving consideration to the result of Annual Performance Evaluation.

## **20. The Corporate Secretary**

The Corporate Secretary, who should be a Filipino citizen and a resident of the Philippines, is an officer of the Bank. He shall -

20.1 Be responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the Bank;

20.2 Be loyal to the mission, vision and objectives of the Bank;

20.3 Work fairly and objectively with the Board, Management, stockholders and other stakeholders;

- 20.4 Have appropriate administrative and interpersonal skills;
- 20.5 Be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
- 20.6 Have a working knowledge of the operations of the Bank;
- 20.7 Inform the members of the Board, in accordance with the by-laws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- 20.8 Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent him from doing so;
- 20.9 Ensure that all Board procedures, rules and regulations are strictly followed by the members; and

## **21. Qualifications and Duties of Bank Officers**

### **21.1 Qualifications of a Bank Officer**

A Bank Officer shall have the following minimum qualifications:

- a. He shall be at least twenty-one (21) years of age;
- b. He shall be at least a college graduate, or have at least five (5) years experience in banking or trust operations or related activities or in a field related to his position and responsibilities, or have undergone training in banking or trust operations acceptable to the appropriate department of the SES: Provided, however, That the trust officer who shall be appointed shall possess any of the following:
  - (1) at least five (5) years of actual experience in trust operations;
  - (2) at least three (3) years of actual experience in trust operations and must have:
    - (a) completed at least ninety (90) training hours in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
    - (b) completed a relevant global or local professional certification program; or

- (3) at least five (5) years of actual experience as an officer of a bank and must have:
  - (a) completed at least ninety (90) training hours in trust, other fiduciary business, or investment management activities acceptable to the Bangko Sentral; or
  - (b) completed a relevant global or local professional certification program; and
- c. He must be fit and proper for the position he is being proposed/appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered: integrity/probity, education/training, and possession of competencies relevant to the function such as knowledge and experience, skills and diligence.

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

An appointed officer has the burden to prove that he/she possesses all the foregoing minimum qualifications and none of the disqualifications by submitting the needed documentary requirements (*Appendix 6 of the MORB*). Non-submission of complete documentary requirements within the prescribed period shall be construed as his/ her failure to establish his/her qualifications for the position and results to his/her removal therefrom.

## **21. 2 Duties and Responsibilities of a Bank Officer**

The following are the duties and responsibilities of a Bank Officer:

### **21.2.1 To set the tone of good governance from the top.**

Bank officers shall promote the good governance practices within the bank by ensuring that policies on governance as approved by the board of directors are consistently adopted across the bank.

### **21.2.2 To oversee the day-to-day management of the bank.**

Bank officers shall ensure that bank's activities and operations are consistent with 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.

**21.2.3 To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency.**

Bank officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each bank personnel. Bank officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the board of directors for the performance of the bank.

**21.2.4 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.

## **22. The Bank's Compliance System**

### **22.1 The Compliance Function**

Compliance is a line driven function. It is a collective and shared responsibility of everyone, from its Board of Directors, to Management, and to all its employees. The main goal of the compliance function is to ensure that business operations are conducted in accordance with laws, regulations, rules, codes of conduct, sound policies and standards of good practice. It is the direct responsibility of each line manager.

Since compliance is a collective responsibility of all people in the organization there is an imperative need for a comprehensive manual on the compliance function for everyone's guidance and thereby helps ensure that operations are compliant with laws, regulations, rules, policies and standards. This Manual shall be the "Compliance Program Manual of the Bank".

The Compliance Program shall serve as guide in implementing the Bank's Compliance System in a logical, sequential, risk-oriented order and in an effective and efficient manner. It is designed to specifically identify and mitigate business risks which may erode the franchise value of the bank.

The Compliance Program is designed to achieve the following objectives:

- a. To define the Compliance Function, its implications for the Bank and to identify the units/persons responsible for its performance;
- b. To define the role of the Board of Directors, the Corporate Governance Committee and Senior Management in the conduct of the compliance function;
- c. To establish the duties and responsibilities of the Compliance Officer, other personnel of Compliance Division, to spell out the mandate of Compliance Division, and the responsibilities and duties of the Compliance Coordinating Officers of Head Office and branches;
- d. To identify relevant laws and regulations; analyze the corresponding risks of non-compliance, and prioritize addressing the compliance risks involved;
- e. To provide the methodology for assigning risk ratings of laws and regulations, etc. and present the initial set of risk ratings for subsisting laws and regulations; and
- f. To provide guidelines for periodic compliance testings with applicable legal and regulatory requirements, the frequencies of which shall be commensurate with identified risk levels; and the reporting of results to the Board through the Corporate Governance Committee and to appropriate levels of Management.

The Bank is committed to adhere to the principles of sound and prudent banking practices in the conduct of its business. It is also committed to adhere to the high standards and accepted practices of good corporate governance as collectively defined by the BSP and its supervised institutions.

## **22.2 The Chief Compliance Officer**

The Board of Directors is primarily responsible for the corporate governance of the Bank. As part of this responsibility, the Board shall oversee the implementation of the Compliance Program and ensure that compliance risks are appropriately managed and that compliance issues are resolved expeditiously.

The Board shall appoint a Chief Compliance Officer who shall hold the position of at least Vice President or its equivalent. The Chief Compliance Officer shall functionally report to the Board of Directors thru the Corporate Governance Committee. The Chief Compliance Officer shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. He should have the skills and expertise to provide

appropriate guidance and direction to the Bank on the development, implementation and maintenance of the compliance program.

The Corporate Governance Committee shall exercise oversight over the Bank's Compliance function. The Chief Compliance Officer shall periodically report to the Board on the status of compliance function through the Corporate Governance Committee.

The Chief Compliance Officer shall appear before SEC when summoned in relation to the compliance of the Code of Corporate Governance; and issue a certification every January 30<sup>th</sup> of the year on the extent of the Bank's compliance with the Code of Corporate Governance for the completed year and, if there are any deviations explain the reason for such deviation.

## **23. The Bank's Risk Management System**

### **23.1 Risk Management Function**

The Bank considers the understanding and the management of risk as a key part of its business strategy. The Risk Management Division (RSK) is mandated to strengthen the Bank's risk management infrastructure to meet the requirements of its business. It implements the risk management directives of the Board and the Board Risk Oversight Committee (BROC) by:

- Formulating and recommending policies to manage market, liquidity, credit, operational, information technology, and trust risks arising from the business of the Bank;
- Implementing the risk management framework approved by the Board of Directors;
- Actively promoting a culture of risk awareness and risk management; and
- Coordinating with the concerned business units of the Bank on the adequacy of the Bank's capital in absorbing the risks present in the Bank's business.

The RSK reports to the Board through the BROC and is independent from the risk-taking business units of the Bank.

RSK prepared the "Risk Management Manual" which is a collection of the policies and exposure guidelines governing the business activities of the Bank. It has been prepared to:

- a. Document the policies for the prudential management of risks arising from bank activities;
- b. Document levels of authority and responsibility of risk management;
- c. Document a framework to ensure that risk management decisions are made within the abovementioned policies; and
- d. Define reporting requirements to monitor bank risks.

### **23.2 The Chief Risk Officer**

The Chief Risk Officer shall be appointed and replaced with prior approval of the Board of Directors. The CRO shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions. The CRO may report to the President or Senior Management and shall have a direct access to the Board of Directors and Risk Oversight Committee.

The Chief Risk Officer 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 comprising his independence, to engage in discussions with the Board of Directors, Chief Executive Officer and other senior management on key risk issues and to access such information as he deems necessary to form his or her judgment.

## **24. The Bank's Code of Conduct and Ethical Standards**

The Board shall adopt a code of conduct of ethical behaviors with corresponding disciplinary actions for non-compliance; it shall ensure that business and risk management activities, including the operational risk management function, are carried out by adequate and qualified staff with the necessary experience, technical capabilities, and competence; it shall oversee the design and implementation of remuneration policies; it shall ensure that all units in the organization have adequate resources; and the board shall oversee implementation of a sound business continuity management framework.

### **The Bank's Code of Discipline**

The business of banking is built on confidence. To inspire such confidence would require a commitment from each and every staff member to adhere to high standards of personal integrity and professional conduct. The Code of Discipline was designed to maintain, if not enhance further the noble attributes. Application of this Code could result in administrative impositions. But this should be viewed as having been made for the paramount interest of both the Bank and its personnel.

The clear objective is to improve the service and make the one concerned a better member of the society.

The following are the Bank's Code of Discipline:

**a. Trust and Confidence**

The Bank reposes its trust and confidence on an employee by the assignment to him of designated responsibilities. On the part of the employee, he has the corresponding obligation to preserve that trust.

**b. Work Performance**

One's value as an employee depends on the dedication and efficiency he devotes to his duties. In every instance, due diligence is required from him. It therefore becomes incumbent on the part of the Bank to take appropriate administrative action whenever any of the following acts or omissions becomes present:

- Abandonment of work;
- Failure or refusal to discharge one's duties;
- Incompetence or inefficiency in the performance of duties;
- Insubordination; and
- Neglect or negligence in performance of duties.

**c. Conduct and Behavior**

The Bank strives to maintain a work environment descriptive of professionalism, yet wholesome and cordial. Personnel should do their part in projecting a positive image of the Bank. They should avoid deviations from norms of conduct committed during office hours or within Bank premises.

**d. Compliance with Office Rules**

No organization can function effectively without rules and regulations to govern punctuality, attendance, security and deportment. These rules are meant to be complied with and the Bank will have no alternative course but to take necessary measures for any violations.

**25. Related Party Transactions**

The Board of Directors of Bank of Commerce recognizes that certain transactions involving Related Parties present a heightened risk of conflicts of interests or the



perception thereof. To ensure such Transactions with Related Parties, as these terms are adequately defined, are entered into on an arm's length basis and are consistent with the Bank's and its stakeholders' best interests, the Board has created the Related Party Transactions Committee (RPTCom) that is tasked to vet all Related Party Transactions (RPT) within the threshold set in the Policy on Related Party Transactions. The duties and responsibilities of the RPTCom are discussed in the RPTCom Charter (Please refer to **Annex 6**). The definition of Related Parties and the guidelines in handling related party transactions are discussed in the Operating Policies and Procedures on Related Party Transactions (Please refer to **Annex 6**).

## **26. Accountability and Audit**

One of the most important recognized responsibilities of the Board is to protect shareholder value through adequate financial controls. Thus, the Board shall foster and encourage a corporate environment of strong internal controls, fiscal accountability, high ethical standards and compliance with the law and code of conduct. The Board has the special duty to its shareholders of presenting a balanced and understandable assessment of the Bank's performance and position on a quarterly basis including interim and other reports that could adversely affect the business, as well as reports to regulators that are required by law.

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

### **26.1. Financial Reporting and Transparency**

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

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

26.1.2 The Board shall accurately disclose to its acknowledged publics all material information, to include its financial situation, performance ownership, and the Bank' governance practices.

26.1.3 This disclosure will include any material, foreseeable risks for the Bank.

26.1.4 All parties with a legitimate interest in the Bank shall be given fair, timely and cost efficient access to relevant information.

## **26.2. Internal Control**

26.2.1 The Board shall be responsible for ensuring that an adequate and effective system of controls is in place for safeguarding the Bank's/client's assets.

26.2.2 The Board shall manage the major risks – as defined in the Bank's manual of operations and risk management – faced by the Bank.

26.2.3 It will ensure that reports accurately reflect the financial condition of the Bank and the results of its operations.

## **26.3. Accounting Standards**

26.3.1 The Board should ascertain for itself that financial information is being prepared, disclosed and audited in accordance with high quality standards of accounting, financial and non-financial disclosure and audit.

## **26.4. Auditor Independence**

26.4.1 The Board shall engage the services of an external auditor who will regularly conduct independent audit and provide objective assurance on the manner by which financial statements are being prepared and presented.

## **27. Stockholders' Right and Protection of Minority Stockholders' Interest**

27.1 The Board shall respect the rights of the stockholders as provided for in the Corporation Code, namely:

27.1.1 Right to vote on all matters that requires their consent or approval;

27.1.2 Pre-emptive right to all stock issuances of the Bank;

27.1.3 Right to inspect Bank books and records;

27.1.4 Right to information;

27.1.5 Right to dividends; and

27.1.6 Appraisal right.

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

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

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

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

## **28. STAKEHOLDERS**

28.1 The Board shall identify the corporation's stakeholders in the community in which it operates or are directly affected by its operations and formulate a clear policy of accurate, timely and effective communication with them.

28.2 The Board shall recognize the rights of the stakeholders as established by law and shall encourage active cooperation with them in promoting the sustainability of financially sound, as well as socially responsible, endeavors.

28.3 The Board shall require the bank's stockholder to confirm by majority vote, in the annual stockholder's meeting, the bank's significant transactions with its DOSRI and other related parties.

## **VI. Guidelines in Assessing the Quality of Corporate Governance in BSP Supervised Financial Institutions**

### **Purpose of the Guidelines**

1. The Supervision Guidelines (SG) aim to provide framework for assessing the quality of corporate governance in BSP supervised financial institutions (FIs) and for assigning the corresponding “Management” component rating in the CAMELS rating system.
2. The SG is applicable to all types of FIs. The supervisory expectations and standards set-out in this SG apply to the Board of Directors of FIs, unless stated otherwise.

### **Components of “Management” Rating**

Rating shall be based on the evaluation of four (4) factors that characterizes the quality of governance in an FI as follows:

#### **a. Governance Landscape**

This pertains to the corporate structure and organizational culture of the FI that sets the stage for good governance. This is seen in the propriety of the organizational structure and the general attitude of the board and management towards all stakeholders including regulators and customers. This factor also covers the level of risk consciousness of employees and how such manifests in the performance of their duties and responsibilities.

#### **b. Fitness and Propriety of Board and Management**

This pertains to the characteristics and propriety of the composition of the board and management. BSP has set minimum qualifications for the members of the board of directors, FIs are expected to meet the provisions of existing regulations and set its own specific qualifications and standards for the position. Supervisors on the other hand, should evaluate whether these qualifications as well as the policies and practices in the selection, election and re-election of the members of the board of directors, are appropriate for the size, risk profile and complexity of operations of the FI. Further, supervisors should also assess the comprehensiveness of the bank’s continuing education/training program for directors aimed at ensuring that they are kept up-to-date on the developments in the financial industry.

#### **c. Risk Governance**

This pertains to the effectiveness and extent of board oversight over the FI’s risk management system (RMS) from strategic goal setting to addressing the weaknesses/deficiencies noted. Under the existing CAMELS rating system, supervisors assess the RMS of FIs per specific risk exposure (e.g., credit, market, liquidity), which assessment also feeds into the “Management” component rating. Albeit it is recognized

that the components of the CAMELS rating system are interrelated such that RMS weaknesses manifested in the specific risk areas may be attributed to weak “Management”, this SG provides a structure for evaluating the extent to which the deficiencies/weaknesses will feed into the Management rating.

#### d. Controls and Independent Oversight

This pertains to the effectiveness of the oversight of the board of directors over internal controls and independent oversight bodies such as the compliance, internal audit, risk management and external audit functions. The role of the board of directors in this respect starts from ensuring that the internal independent oversight functions have clear mandates and reporting lines within the organization to ensure that follow-up actions are taken on the concerns raised.

Each factor will be rated using a scale of 1 to 5 with 5 being the highest rating.  
(Please refer to **Annex 8** for the **BSP Memorandum 002 Series of 2013**)

### VII. Adequate and Timely Information

1. To enable the members of the Board to properly fulfill their duties and responsibilities, Management should provide them with complete, adequate and timely information about the matters to be taken in their meetings.
2. Reliance on information volunteered by Management would not be sufficient in all circumstances and further inquiries may have to be made by a member of the Board to enable him to properly perform his duties and responsibilities. Hence, the members should be given independent access to Management and Corporate Secretary.
3. The information may include the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.
4. The members, either individually or as a Board, and in furtherance of their duties and responsibilities, should have access to independent professional advice at the Bank’s expense.

### VIII. References:

*SEC Memorandum Circular Nos. 6 Series of 2009 - Revised Code of Corporate Governance dated June 22, 2009*

*SEC Memorandum Circular Nos. 9 Series of 2014 - Amendment to the Revised Code of Corporate Governance dated May 6, 2014*

*Bangko Sentral ng Pilipinas (BSP 2013) Manual of Regulations for Banks - Subsection X406.2 - Composition of Trust Committee*

*BSP Circular 2017-969 – Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions.*

*Republic Act No. 8791 - General Banking Law of 2000*

*Bank's Compliance Program*

*Bank's Risk Manual*

*Bank's Code of Discipline*

*Board Committee Charters*