



# Corporate Governance Manual

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CTBC Bank (Philippines) Corp.

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# Table of Contents

FOREWORD.....	4
I. INTRODUCTION.....	5
II. CORPORATE GOVERNANCE FRAMEWORK.....	6
Governance Landscape	
a. Corporate Structure.....	6
b. Attitude toward Regulators.....	6
c. Responsiveness to Complaints/Concerns.....	7
d. Risk Consciousness of Employees.....	7
e. Ethical Culture.....	7
f. Transparency Practices.....	7
BOARD OF DIRECTORS.....	9
A. Definition of Directors.....	10
B. Composition of the Board of Directors.....	12
C. Duties and Responsibilities of the Board of Directors/Director.....	13
D. Chairman of the Board.....	21
E. Qualifications of a Director.....	22
F. Disqualification of Director.....	23
G. Selection and/or Appointment.....	26
H. Officers.....	27
I. Chief Executive Officer.....	28
J. Corporate Secretary.....	29
K. Interlocking Directorships and/or Officerships.....	30
L. Board Meetings and Quorum Requirement.....	31
M. Remuneration of the Members of the Board and Officers.....	32
N. Continuing Education.....	32
III. BOARD LEVEL COMMITTEES.....	33
Executive Committee.....	33
Nomination, Remuneration and Governance Committee.....	34
Audit Committee.....	35
Risk Management Committee.....	37
Trust Committee.....	39
IV. CONTROLS AND INDEPENDENT OVERSIGHT.....	40
Accountability and Audit.....	43
External Auditor.....	44
Internal Auditor.....	47
Compliance Officer.....	48
Risk Governance.....	49
Risk Management Functions.....	50
Chief Risk Officers.....	50

V.	TRUST, OTHER FIDUCIARY BUSINESS AND INVESTMENT MANAGEMENT ACTIVITIES.....	51
	Statement of Principles.....	51
	Qualifications of Committee, Members, Officers and Staff.....	52
	Trust Committee.....	53
	Trust Officer.....	53
	Confirmation of the Appointment/Designation of Trust Officers and/or Independent Professional.....	54
VI.	STOCKHOLDERS' RIGHTS AND PROTECTION OF MINORITY SHAREHOLDERS.....	55
	a. Voting Right	
	b. Pre-Emptive Right	
	c. Power of Inspection	
	d. Right to Information	
	e. Right to Dividends	
	f. Appraisal Right	
VII.	CORPORATE GOVERNANCE SCORECARD/SELF-ASSESSMENT.....	57
	Governance Self-Rating System	
	Board Self-Assessment	
VIII.	REPORTORIAL , DISCLOSURE AND TRANSPARENCY.....	58
IX.	PENALTIES & ADMINISTRATIVE SANCTIONS FOR NON-COMPLIANCE .....	62
X.	ANNEXES.....	63
XI.	REFERENCE.....	64

## **FOREWORD**

Board oversight on good governance of the Bank is very essential for the stability and success of the institution. As such, part of the implementation of the governance structure, designated board committees ensures that their respective oversight covers all areas how the risks, the business and controls are effectively monitored and efficiently managed.

This Corporate Governance Manual aims to compile the regulatory requirements of the board of directors and provide reference as CTBC Bank (Philippines) Corp. continuously ensures to align the essential regulatory standards and promote the good corporate governance principles of transparency, accountability and fairness within the Bank.

# **I. INTRODUCTION**

CTBC Bank (Philippines) Corp adopts and promulgates the Manual on Corporate Governance which aims to institutionalize the principles of good corporate governance, specifying the responsibilities of the Board of Directors in managing the affairs of the Bank and strengthening the Bank's compliance with related laws and regulations.

The publication of this Manual is subject to the approval of the Board and submission to the Securities and Exchange Commission (SEC). The Board of Directors and Management, employees and shareholders of the Bank believe that corporate governance is a necessary component of what constitute sound strategic business management and will therefore undertake every effort necessary to create awareness and culture of good corporate governance values, principles and practices within the organization.

## **II. CORPORATE GOVERNANCE FRAMEWORK**

Good Corporate Governance is the foundation of safe and sound banking operations and a reflection of the collective values and competence of the board of directors and senior management team. It embodies the principles of fairness, accountability and transparency thus promoting the protection of the rights of all stakeholders and as stated in the Bank's Vision and Mission and Code of Ethics.

The Board is primarily responsible for the governance of the Bank. The Bank's financial condition, results of operations, current and potential level of risk exposures and the quality of the control environment are the ultimate responsibility of the board of directors. As such, Board Governance is the deciding component and a crucial part in the functions of the institution. Good governance ensures that objectives are realized, resources are well-managed, and the interests of the stakeholders are protected and reflected in the decisions and oversight on the effective implementation of the governance standards and principles.

The Bank sets and adopts the following factors to ensure good corporate governance and oversight to the implementation of its processes and performance.

### **GOVERNANCE LANDSCAPE**

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

#### **a.) CORPORATE STRUCTURE**

The Bank has a board-approved organizational structure that clearly defines the relationships between groups and divisions and the reporting lines from the staff level to the board. It has an established scope of accountability and responsibility of management as well as the extent of their respective authorities. Likewise, the organizational structure of the Bank clearly reflects the independence of the control functions (i.e. Internal Audit, Compliance and Risk Management). Any changes in the organizational structure and rationale for the change shall be approved by the Board of Directors.

#### **b.) ATTITUDE TOWARDS REGULATORS**

Board and Senior Management maintain constructive working relationship with regulatory/supervisory agencies. They understand the supervisory approach of the concerned regulatory agency to be able to fully utilize its assessment and recommendations. They are cooperative toward the regulator/supervisor by being transparent, cooperative and efficient in the implementation of the supervisory and management actions and promptly comply with all the directives.

### **c.) RESPONSIVENESS TO COMPLAINTS/CONCERNS**

The Bank has an established system for resolving complaints and concerns of stakeholders within defined timeframe. All complaints and concerns are properly monitored from receipt of the Bank, conduct of investigation and evaluation of the complaints until resolution and providing feedback to the clients and the regulatory agency. Complaints are accordingly reported to the Board of Directors.

### **d.) RISK CONSCIOUSNESS OF EMPLOYEES**

The Bank effectively cascades the overall objectives and strategies of the organization through several channels like trainings, reporting and email bulletins. The risk consciousness of the employees is reflected through the Bank's Three (3) pronged approach on compliance testing, risk management self-assessment tools and internal audit. Thus, the employees are encouraged to know and learn by understanding the regulatory requirements and reflective of the positive attitude to comply with the directives. They are aware that they own the regulatory compliance, initiates understanding the regulations and conscious of non-compliance consequences.

### **e.) ETHICAL CULTURE**

The ethical culture emanates from the board of directors and senior management in its implementation of the policies, as reflected in their strategic contributions, performance, guidance and decisions. Likewise, the Bank has a mechanism in place in terms of identifying, reporting and monitoring of unethical practices and the propriety of sanctions imposed on perpetrators. The Bank's Operational and Reputational Risk Management Department is responsible for the process in investigating incidents and handling instances of whistle blowing cases.

### **f) TRANSPARENCY PRACTICES**

The transparency practices reflect the Board of Directors and senior management's recognition of their accountability to different stakeholders. Disclosures to the public and to the regulators are at all times accurate, timely, clear and comprehensible. The quality of the disclosures to the public is assessed through the amount and accuracy of information reflected in the audited financial statements, income statements and published balance sheets annual reports and the Bank's website. The board and management treat the required disclosures under existing regulations and accounting standards, as the minimum rather than an exhaustive list of disclosure requirements. The Bank provides information on transactions that have material impact. Management shall likewise apprise regulators of significant transactions, business decisions or issues that may change the risk profile of the Bank. The management shall also take into account the results in the assessment of the corporate governance scorecard and annual self-assessment by the Board of Directors.

#### **f.1 COMMUNICATION PROCESS**

This manual shall be available for inspection by any stakeholders of the Bank at reasonable hours on business days and to the employees of the Bank via its distribution channel of all policies, procedures, laws and regulations.

All directors, senior management and employees of the Bank are tasked to ensure that all employees and related third parties have thorough understanding of the process of the manual that the Board of Directors and its committees are undertaking and to likewise enjoin compliance in the process.

## **f.2 ADEQUATE AND TIMELY INFORMATION**

To enable the members of the Board to properly fulfil their duties and responsibilities, Management provides them with complete, adequate and timely information about the matters to be taken in their meetings.

Reliance on information volunteered by Management would not be sufficient in all circumstances and further inquiries may have to be made by a member of the Board to enable him to properly perform his duties and responsibilities. Hence, the members should be given independent access to Management and the Corporate Secretary.

The information may include the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

The members, either individually or as a Board, and in furtherance of their duties and responsibilities, should have access to independent professional advice at the corporation's expense.



## **BOARD OF DIRECTORS**

The corporate powers of the Bank shall be exercised, its business conducted, and all its resources controlled through its board of directors.

The powers of the board of directors as conferred by law are original and cannot be revoked by the stockholders. The directors shall hold their office charged with the duty to exercise sound and objective judgment for the best interest of the institution.\*

It shall be the Board's responsibility to foster the long-term success of the Bank and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Bank, its shareholders and other stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

The Board of Directors is comprised of individuals with mixed and varied expertise and collectively reaches independent and sound decisions. They ensure that directors who are members of the board committees have the expertise and experience in providing sound displaying the required "independence" as well as ensuring that there is no conflict of interests.

## **A. DEFINITION OF DIRECTORS**

**Board of Directors** is the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts its business and controls its properties.

**Directors** – shall include:

- (1) Directors who are named as such in the Bank's Articles of Incorporation;
- (2) Directors duly elected in subsequent meetings of stockholders or those appointed by virtue of the charter of government-owned Banks; and
- (3) Those elected to fill the vacancies in the board of directors

**Independent Directors** shall refer to a person who –

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

(10)Is not employed as an executive officer of another company where any of the Bank's executives serve as directors

**Executive Director (ED)** is a director who has the executive responsibility and performs work related to the operations of the Bank's operations.

**Non-Executive Director (NED)** refers to those who are not part of the day to day management of the Bank's operations.

## **B. COMPOSITION OF THE BOARD OF DIRECTORS (BOD)**

The Board shall be organized and the members shall be elected/appointed by the shareholders for a term of one year based on the procedures and qualification as specified in the Articles of Incorporation of the Bank, Banking Laws and Corporation Code. The Board shall be composed of seven (7) members as set forth in the Articles and By-laws of the Bank.

The members of the Board 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.

At least one-third (1/3) but not less than two (2) members of the board of directors shall be independent directors: Provided, that any fractional result from applying the required minimum proportion, i.e. one-third (1/3), shall be rounded up to the nearest whole number.

The Board may consider guidelines on the number of directorships for its members. The optimum number is related to the capacity of a director to perform his duties diligently in general. The Chief Executive Officer and other executive directors may submit themselves to a low indicative limit on membership in other corporate Boards. The same low limit may apply to independent, non-executive directors who serve as full-time executives in other corporations. In any case, the capacity of directors to serve with diligence shall not be compromised

## C. DUTIES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS/DIRECTOR

### SPECIFIC DUTIES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

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. (Cir 969)

- 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 system of checks and balances;
- It shall establish a sound corporate governance framework
- It shall approve the selection of the CEO and key members of senior management and control functions and oversee their performance.

#### ***a. The Board of Directors shall define the Bank's corporate culture and values.***

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

- (1) Approve a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the Bank as well as the corresponding disciplinary actions and sanctions. The code of conduct shall explicitly provide that directors officers and all personnel are expected to conduct themselves ethically and perform their job with skill, due care and diligence in addition to complying with laws, regulations and company policies;
- (2) Consistently conduct the affairs of the Bank with a high degree of integrity and play lead roles 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 the material consequences if there are persistent or high profile conduct and value breaches.
- (3) Oversee the integrity, independence and effectiveness of the Bank's policies and procedures for whistleblowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or 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.

**b. The board of directors shall be responsible for approving Bank's objectives and strategies and in overseeing management's implementation thereof; In this regard, the Board shall:**

- (1) Ensure that the Bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.
- (2) Approve the Bank's strategic objectives and business plans. These shall take into account the Bank's long-term financial interests, its level of risk tolerance and ability to manage risks effectively. In this respect, the board of directors shall establish a system for measuring performance against plans.
- (3) Actively engage in the affairs of the of the Bank and keep up with material changes in the Bank's business and regulatory environment as well as act in a timely manner to protect the long term interest of the Bank.
- (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 the control functions (ie. Internal audit, risk management and compliance) with senior management to determine the areas for improvement as well as to promptly identify and address significant risks and issues.

**c. The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of the control functions and for the approval of a sound remuneration and other incentives policy for personnel. In this regard, the board of directors shall:**

- (1) Oversee the 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 close working relationships are important, the members of the senior management shall uphold the general operating philosophy, vision and core values of the Bank.
- (2) Approve and oversee the implementation of the 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.
- (3) Oversee the performance of senior management and heads of control functions:
  - a. The board of directors shall regularly monitor and assess the performance of the management team and heads of the control functions based on approved performance standards;
  - b. The board of directors shall hold members of the senior management accountable for their actions are not aligned with the board of directors' performance expectations.

These expectations shall include adherence to the Bank's values, risk appetite and risk culture, under all circumstances.

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

**d. The board of directors shall be responsible for approving and overseeing implementation of the Bank's corporate governance framework. In this regard, the Board of directors shall:**

- (1) Define appropriate governance structure and practices for its own work, and ensure its that such practices are followed and periodically reviewed;
  - a. The board of directors shall structure itself in a way, including in terms of size and frequency of meetings, so as to promote efficiency, critical discussion of issues, and thorough review of the matters. The board of directors shall meet regularly to properly discharge its functions, and likewise have discussions on values, conduct and behaviors.
  - b. The board of directors shall create committees to increase efficiency and allow deeper focus in specific areas. The number and nature of the 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.
  - c. The board of directors shall regularly review the structure, size, and composition of the board of directors and board-level committees with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation of the structure, size, and composition of the board of directors and board level committees shall be adopted which shall include, but not limited to, benchmark and peer group analysis. The results of assessment shall form part of the ongoing improvement efforts of the board of directors.
  - d. The board of directors shall adopt policies aimed at ensuring that the members of the board of directors are able to commit to effectively discharge their responsibilities,

which shall include policy on the number of directorship positions and/or other internal/external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the Bank's operations.

- e. The board of directors shall ensure that individual members of the board of directors and shareholders are accurately and timely informed of a comprehensive and understandable assessment of the Bank's performance, financial condition, and risk exposures. All the 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 in public.
  - f. The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the CEP, the individual directors and the Bank itself, which may be facilitated by the corporate governance committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each board member taking into account his or her performance in the board of directors and board-level committees.
  - g. The board of directors shall maintain appropriate records (eg. Meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The board of directors shall also ensure that independent views in meetings of the board of directors shall be given full consideration and all such meetings shall be duly minuted.
- (2) Develop a remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The board of directors shall ensure that the policy is consistent with the long term interest of the Bank, does not encourage excessive risk taking and is not in conflict with the directors fiduciary responsibilities.
  - (3) Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.
  - (4) Conduct and maintain the affairs of the Bank within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. 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.
  - (5) Maintain, periodically update, organizational rules, by-laws or other similar documents setting out its operations, rights, responsibilities and key activities. The board of directors shall ensure that the Bank's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability.
  - (6) Oversee the development, approve and monitor implementation of corporate governance policies. The board of directors shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.
  - (7) Approve an overarching policy on the handling of 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:



- a. The board of directors shall approve all material RPTs, those that cross the materiality threshold and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the Board of Directors. All final decisions of the board of directors on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders meetings and duly reflected in the minutes of board of directors and stockholders meeting.
  - b. The board of directors shall delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the board of directors.
  - c. The board of directors shall establish an effective to:
    - i. Determine, identify and monitor related parties and RPTs;
    - ii. Continuously review and evaluate existing relationships between and among businesses and counterparties;
    - iii. Identify, measure, monitor and control risks arising from RPTs. The system should be able to define related parties' extent of relationship with the Bank; assess situations in which a non-related party (with whom the Bank has entered into 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.
  - d. The board of directors shall maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the Bank is well insulated from any going concern issue of related parties.
  - e. The board of directors shall oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The board of directors should ensure that senior management addresses legitimate issues on RPT that are raised. The board of directors should take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals.
- (8) Define an appropriate corporate governance framework for a subsidiary (CTP) of a non-Bangko Sentral regulated Parent Company:

- a. The board of directors shall define and approve policies and clear strategies for the establishment of new structures (eg. Subsidiaries/Affiliate of the Bank). The Board of Directors shall also report to the Bangko Sentral any plan to create additional group structures.
  - b. The board of directors shall understand the roles, relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risks exposures affect the Bank's capital, risk profile and funding under normal and contingent circumstances.
- e. *The board of directors shall be responsible for approving Bank's risk governance framework and overseeing management's implementation thereof. In this regard, the board of directors shall:***
- a. 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 risks.
  - b. Approve and oversee adherence to the risk appetite statement (RAS), risk policy and risk limits.
  - c. Oversee the development of, approve and oversee the implementation of policies and procedures relating to the management of risks throughout the Bank.
  - d. Define organizational responsibilities following the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions for the second line of defense and the internal audit function for the third line of defense. In this regard:
    - i. 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 to carry out their responsibilities independently, objectively and effectively.
    - ii. The board of directors shall ensure that non-executive board members meet regularly, with the external auditor and heads of internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees, in the absence of senior management.

In reference to the Securities and Exchange Commission (SEC), It is the Board's responsibility to foster the long-term success of the corporation, 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. *(SEC Circular No.9. 2014).*

1. Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest and highly motivated management officers. Adopt an effective succession planning program for the management.
2. Provide sound strategic policies and guidelines to the corporation on major capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and

monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management overall performance.

3. Ensure the corporation's faithful compliance with all applicable laws, regulations and best practices.
4. Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the corporation. If feasible, the corporation CEO or chief financial officer shall exercise oversight responsibility of this program.
5. Identify the stakeholders in the community in which the corporation operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
6. Adopt a system of check and balance within the board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the corporation's internal control system in order to maintain its adequacy and effectiveness.
7. Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the corporation to anticipate and prepare for possible threats to its operational and financial viability.
8. Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board.
9. Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.
10. Establish and maintain an alternative dispute resolution system in the corporation that can amicably settle conflicts or differences between the corporation and its stockholders and the corporations and its third parties, including the regulatory authorities.
11. Meet at such times or frequency as may be needed. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration.
12. Keep the activities and decisions of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules and regulations.
13. Appoint a Compliance Officer who shall have the rank of at least a vice president. In the absence of such appointment, the Corporate Secretary preferable a lawyer, shall act as a compliance officer.

### **SPECIFIC DUTIES AND RESPONSIBILITIES OF A DIRECTOR**

The position of a director is a position of trust. Thus, the members of the board of directors are expected at all times to exercise their duties with honesty and integrity. Following are his/her duties and responsibilities to the Bank:

1. To remain fit and proper for the position for the duration of his term.
2. To conduct fair business transactions with the bank and to ensure that personal interest does not bias board decisions.
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 depositors, investors, borrowers, other clients and the general public.
4. To devote time and attention necessary to properly discharge their duties and responsibilities.
5. To act judiciously.
6. To contribute significantly to the decision-making process of the board.
7. To exercise independent judgment.
8. To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation, by-law, the requirements of the BSP and where applicable, the requirements of other regulatory agencies.
9. To observe confidentiality.

## **D. CHAIRMAN OF THE BOARD**

The Chairman of the Board of Directors shall provide for the leadership in the board of directors. He ensures effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors.

Following are the responsibilities:

1. Ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
2. Ensure a sound decision making process;
3. Encourage and promote critical discussion;
4. Ensure that dissenting views can be expressed and discussed within the decision making process;
5. Ensure that members of the board of directors receives accurate, timely and relevant information;
6. Ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
7. Ensure conduct of performance evaluation of the board of directors at least once a year.
8. Ensure that the meetings of the Board are held in accordance with the by-laws or as the Chair may deem necessary;
9. Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the Directors, and;
10. Maintain qualitative and timely lines of communication and information between the Board and Management.

## **QUALIFICATIONS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS**

1. He must be a non-executive director or an independent director
2. He must not have serve as CEO of the Bank within the past three (3) years.
3. The positions of Chairman and the CEO shall not be held by one (1) person.

## **E. QUALIFICATIONS OF A DIRECTOR**

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:

1. College education or equivalent academic degree;
2. Practical understanding of the business of the corporation;
3. Membership in good standing in relevant industry, business or professional organizations; and
4. Previous business experience.

A director shall have the following minimum qualifications:

1. He shall be at least twenty-five (25) years of age at the time of his election or appointment.
2. He shall be at least a college graduate or at least five (5) years experience in business.
3. He must have attended a special seminar on corporate governance for board of directors conducted or accredited by BSP. If have not attended, should attend within six (6) months from date of election.
4. He must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness, relevant education/financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.

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

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

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

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

## **F. DISQUALIFICATION OF DIRECTORS**

### **TEMPORARY DISQUALIFICATION**

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

1. Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations. The disqualification shall be in effect as long as the refusal persists.
2. Absence in more than fifty (50) percent of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident.
3. Dismissal or Termination for cause as director of any corporation covered by this Code. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.
4. If the beneficial equity ownership of an independent director in the corporation or its subsidiaries or affiliates exceed two (2) percent of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.
5. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent

Further, following conditions will be noted for temporary disqualification of directors per BSP regulations include:

1. Persons who refuse to 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 or regulation of the BSP. This disqualification shall be in effect as long as the refusal persists.
2. Directors who have been absent or who have not participated for whatever reasons in more than fifty (50) percent of all meetings, both regular and special, of the board of directors during their incumbency, and directors who failed to physically attend for whatever reasons in at least twenty-five (25)% of all board meetings in any year, except that when a notarized certification executed by the corporate secretary has been submitted attesting that said directors were given the agenda materials prior to the meeting and that their comments/decisions thereon were submitted for deliberation / discussion and were taken up in the actual board meeting, said directors shall be considered present in the board meeting. This disqualification applies only for purposes of the immediately succeeding election.
3. Persons who are delinquent in the payment of their obligations.
4. Persons who have been convicted by a court offenses involving dishonesty or breach of trust.

5. Directors of closed banks pending their clearance from the Monetary Board.
6. Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board on recommendation by the appropriate department of SES of such director's election or re-election.
7. Directors who failed to attend the special seminar for board of directors required. (Corporate Governance Seminar). This disqualification applies until the director concerned has attended such seminar.
8. Persons dismissed/terminated from employment for cause.
9. Those under preventive suspension.
10. Persons with derogatory records as certified by the judiciary.
11. Directors found by Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed.
12. Directors who are found by the Monetary Board to be unfit for the position of director because they were found to be administratively liable by another government agency for violation of banking laws and which finding of said government agency is pending appeal before the court.

Directors found by the Monetary Board as administratively liable for the violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed.

## **PERMANENT DISQUALIFICATION**

The following shall be grounds for permanent disqualification of a director:

1. Any person convicted by final judgment or order by competent judicial or administrative body of any crime that
  - a. Involves the purchase or sale of securities, as defined in the Securities Regulation Code.
  - b. Arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker or;
  - c. Arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
2. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from acting as:
  - b. Acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, and futures commission merchant, commodity trading merchant advisor or floor broker.
  - c. Acting as director of the Bank, quasi-bank, trust company, investment house or Investment Company.
  - d. Above or wilfully violating the laws that govern the securities and banking activities.
3. Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts.
4. Any person who has been adjudged by final judgment or order of the Commission, court or competent administrative body to have willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rules, regulation or order;
5. Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation.
6. Any person judicially declared insolvent.



7. Any person found guilty by final judgment or order by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct as enumerated in the sub-paragraphs to above.
8. Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment.

Directors permanently disqualified by the Monetary Board from holding a director position:

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

For the Removal, the Bank through Notice and Hearing adopts the provisions in this Corporate Governance Manual, Administrative Sanctions as stipulated in the SEC Circular 6 of 2009 and the Bank's By-Laws, Article VI Section 3 of the By-Laws provides:

*"Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Bank would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. "*

## **G. SELECTION AND/OR APPOINTMENT**

### **INDEPENDENT DIRECTOR**

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:

1. A non-executive director may concurrently serve as director in a maximum of five (5) publicly listed companies. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the non-executive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement; and

2. An independent director of a Bank may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the 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.

### **DIRECTORS**

The Bank ensures that the selection, election and re-election process for the members of the board of directors is adequate, fair and reflective of the standards set by the board. The Bank's Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension is through the Appointment by the parent bank and approved by the Board of Directors and in accordance with this Corporate Governance Manual and in the provision of our By-Laws.

## **H. OFFICERS**

### **Definition**

Officers shall include the Chief Executive Officer (CEO), 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 by the Bank's By-Laws or are generally known to be the officers of the Bank, 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 shall not be considered as an officer, unless the duties of his position in the board of directors include functions of management such as those ordinarily performed by regular officers. 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.

### **Qualifications of an Officer**

An officer must be fit and proper for the position he is appointed to. Following are considered:

1. **Integrity/Probity** – assessed through officer's market reputation, observed conduct and behaviour, as well as his ability to 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.
2. Education/Training
3. Possession of Competencies relevant to the function such as knowledge and experience, skills and diligence.

### **Duties and Responsibilities of Officers**

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

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

#### **(2) To oversee the day-to-day management of the bank.**

Bank officers shall ensure that bank's activities and operations are consistent with the bank's strategic objectives, risk strategy, corporate values and policies as approved by the board of directors. They shall establish a bank-wide management system characterized by strategically aligned and mutually reinforcing performance standards across the organization.

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

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

#### **(4) To promote and strengthen checks and balances systems in the bank**

Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective discharge of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.

## **I. CHIEF EXECUTIVE OFFICER**

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

One of the critical duties and responsibilities of the Board of Directors is the selection of the Chief Executive Officer (CEO) and the members of the management team.

Members of the Management Team are primarily tasked to:

- a. Oversee the implementation of approved business plans and strategies and management of the Bank's day to day operations;
- b. Translate to their performance the fitness and propriety of the management on effectively achieving the Bank's objectives;
- c. Cascade the tone of governance and culture of control within the Bank;
- d. Ensure that the reports and information package submitted by the management to the board also reflect the quality and extent of its performance;
- e. Involve in the development of strategies and in monitoring achieving of the business plans;
- f. Effectively monitor adherence to the policies and procedures and promptness of actions to address the deficiencies and weaknesses noted.
- g. Plans provided to retain competent staff and attract new employees who believe and adhere to the values of the organization and inform the board on a timely basis of the Bank's operating performance as well as the development in the business environment.
- h. Responsible for the implementation and consistent adherence by all personnel to the policies approved by the board of directors in relation to controls, independent oversight and checks and balances systems, ensuring among others that:
  - (i) Financial statements are prepared in accordance with the accounting standards on the prescribed financial reporting framework. Documentation sufficient to support the financial statements is maintained. This responsibility includes ensuring that the external auditor who audits and reports on the financial statements has complete and unhindered access to, and is provided with, all necessary information that can materially affect them and, consequently, the auditor's report on them, to the extent allowed by law. Management also has the responsibility to provide all information to regulatory agencies that are entitled to such information by law or regulation.
  - (ii) Management is responsible for maintaining, monitoring and evaluating the adequacy and effectiveness of the internal control system on an ongoing basis, and for reporting on the effectiveness and sustainability of the FI's risk management and control procedures and infrastructure. In fulfilling its duties and responsibilities, management should take all necessary measures to ensure that there is continuous, adequate and effective internal audit process.
- i. Effective oversight on the Bank's disclosure practices.

## **J. CORPORATE SECRETARY**

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

- (i) 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 official records of the corporation;
- (ii) Be loyal to the mission, vision and objectives of the corporation;
- (iii) Work fairly and objectively with the Board, Management, stockholders and other stakeholders;
- (iv) Have appropriate administrative and interpersonal skills;
- (v) If he is not at the same time the corporation's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
- (vi) Have a working knowledge of the operations of the corporation;
- (vii) 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;
- (viii) Attend all Board meetings, except when justifiable causes, such as illness, death in immediate family and serious accidents, prevent him from doing so;
- (ix) Ensure that all Board procedures, rules and regulations are strictly followed by the members;

The Corporate Secretary is an officer of the Bank and perfection in performance and no surprises are expected of him. Likewise, his loyalty to the mission, vision and specific business objectives of the corporate entity come with his duties.

## **K. INTERLOCKING DIRECTORSHIPS AND/OR OFFICERSHIPS**

In order to safeguard against the excessive concentration of economic power, unfair competitive advantage or conflict of interest situations to the detriment of others through the exercise by the same person or group of persons undue influence over the policy making and/or management functions of similar financial institutions and other companies.

### **Interlocking Directorships**

1. Monetary Board of BSP approval is required for concurrent directorships between banks or between a bank and a quasi-bank or a non-bank financial institution.
2. No Monetary Board approval is required for concurrent directorships between entities not involving an investment house shall be allowed in the following cases:
  - a. Banks not belonging to the same category: Provided, that not more than one (1) bank shall have quasi-banking functions;
  - b. A bank and a NBFi;
  - c. A bank and one (1) or more of its subsidiary bank/s, QB/s and NBFi/s.

For purposes of the foregoing, a husband and his wife shall be considered as one (1) person.

### **Interlocking Directorships and Officerships**

To prevent any conflict of interest resulting from the exercise of directorship coupled with the reinforcing influence of an officers' decision making and implementing powers, the following rules shall be observed:

1. Monetary Board approval is required for concurrent directorship and officership between banks or between a bank and a QB or an NBFi; and
2. No Monetary Board approval is required for concurrent directorship and officership between a bank and one (1) or more of its subsidiary bank/s, QBs and NBFIs other than investment house shall be allowed.

## **L. BOARD MEETINGS AND QUORUM REQUIREMENT**

It is included in the Bank's By-Laws a provision that meetings of the board of directors shall be held only within the Philippines, except in case of Banks with head office located outside the Philippines, which may be held in their respective places of business.

### **a. Full board of directors meetings**

The meetings of the board of directors which 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 percent (25%) of all meetings of the board of directors every year: Provided, further, that the absence of a director in more than fifty percent (50%) of all regular and special meetings of the board of directors during his/her incumbency is a ground for disqualification in the succeeding election.

### **b. Board-level committee meetings**

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

## **M. REMUNERATION OF THE MEMBERS OF THE BOARD AND OFFICERS**

The Board of Directors shall approve remuneration and other incentives policy that is appropriate and consistent with the Bank's operating and risk culture, long-term business and risk appetite, performance and control environment. The policy shall cover all employees and should be designed to encourage good performance that supports the interest of the bank and its stakeholders. It shall be aligned with prudent risk taking and explicitly discourage excessive risk taking as defined by internal policies.

The NRCG shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes, at least annually, to ensure that it operates and achieves the objectives as intended. (Please see criteria for consideration in the design of the remuneration and policy manual in Circular 969)

### **ON LOANS, ADVANCES AND CREDIT ACCOMMODATIONS TO OFFICERS**

The Bank may grant loans, advances or any other forms of credit accommodations to their officers as part of the board approved remuneration and incentive program. The Board of directors shall ensure that these credit accommodations are granted for legitimate purposes, such as among others, financing the housing, transportation and other personal needs of the officers.

In this regard, the board of directors shall identify specific purposes eligible for said credit accommodations to officers to promote good performance and acceptable risk-taking behavior consistent with the Bank's operating and risk culture, long term business and risk appetite, performance and control environment.

Bank shall submit the board approved purposes for the grant of loans, advances or any other forms of credit accommodations to officers for approval of the Bangko Sentral. The guideline and contractual provisions implementing said defined purposes, and any subsequent changes thereto shall on the other hand be approved by the board of directors or the board level committee. Existing financing programs that shall change any of the provisions of the earlier approved program shall submit for approval of the Bangko Sentral the board approved purposes for the grant of loans, advances or any other forms of credit accommodations to officers.

## **N. CONTINUING EDUCATION**

To further ensure fitness and propriety of the Board and Management, Directors are encouraged to ensure that they attend training programs to continuously keep them informed and abreast with the fast changing times and regulations.

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



### **III. BOARD-LEVEL COMMITTEES**

The Board constitutes the proper committees to assist it in enhancing good corporate governance values and principles. The board of directors may delegate some of its functions, but not its responsibilities, to board-level committees. In this regard, the board of directors shall:

- a. Approve, review and update, at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures. Said documents will articulate how the committee will report to the full board of directors, what is expected of the committee members and tenure limits for serving on the committee. The board of directors shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.
- b. Appoint members of the committee taking into account the optimal mix of skills and experience to allow the board of directors, through the committees, to fully understand and objectively evaluate the relevant issues. In order to promote objectivity, the board of directors shall appoint independent directors and non-executive members of the board of directors to the greatest extent possible. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such directors' independence cannot accept membership in committees that perform independent oversight/control functions such as Audit, Risk Oversight and Corporate Governance, Related Party Transactions Committees ( as may be applicable), without prior approval of the Monetary Board.
- c. Ensure that each committee shall maintain appropriate records (e.g Minutes of the meetings or summary of matters revised and decisions taken) of their deliberations and decisions. Such records shall document the committees' fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.

#### **1. EXECUTIVE COMMITTEE (EXCOM)**

The Executive Committee is composed of three (3) members of the Board of Directors, headed by the Chairman of the Board.

EXCOM acts on behalf of the Board of Directors should an urgent matter arise that requires a decision before a full Board is next scheduled to meet. This include the power to direct and transact all business and affairs of CTBC BANK (Philippines) CORP. except as limited by Bank's Articles of Incorporation or By-Laws or by applicable law or regulation and on decisions on any matter related to mergers and acquisitions of the Bank, to issuance of debts instruments and of share capital of the Bank. It is also authorized to act immediately in order to protect the Bank or its important interests from loss or damage and these acts and decisions shall be reported and ratified at the next Board Meeting. Further, it has the authority to investigate any matters within

its responsibilities and to obtain such information as it may require from any Director, Officer or Employee, Attorney, Consultant or Agent of the Bank.

## **2. NOMINATION, REMUNERATION AND GOVERNANCE COMMITTEE (NRGC)**

The Nomination, Remuneration and Governance Committee (NRGC) is composed of four (4) members of the board, who shall all be non-executive directors, majority of whom are independent directors.

NRGC also functions as the Bank's "Committee on Corporate Governance" and Compensation and Remuneration Committee", this committee role includes the following:

### **A. Oversee the nomination of the process for members of the board of directors and for positions appointed by the Board of Directors. The Committee shall:**

*> Review and evaluate the qualifications of all persons nominated to the board of directors as well as those nominated to the board of directors as well as those nominated to other positions requiring appointment by the board of directors.*

*>Recommend to the board of directors matters pertaining to the assignment to board committees, as well as succession plan for the members of the board of directors and senior management.*

### **B. Oversee the continuing education program for the board of directors. The Committee shall:**

*> Ensure allocation of sufficient time, budget and other resources for the continuing education of directors, and draw on external expertise as needed.*

*>Establish and ensure effective implementation policy for on-boarding/orientation program for first time directors and annual continuing education for all directors.*

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

### **C. Oversee the performance evaluation process. The Committee shall:**

*>Oversee the periodic evaluation of contribution and performance (e.g. competence, candor, attendance, preparedness and participation) of the board of directors, board level committees and senior management.*

*>Internal guidelines shall be adopted that address the competing time commitments of directors serving on multiple boards.*

**D. Oversee the design and operation of the remuneration and other incentives policy. The Committee shall:**

*>Ensure that the remuneration and other incentives policy is aligned with operating and risk culture as with the strategic and financial interest of the Bank;*

*>Promotes good performance and conveys acceptable risk taking behaviour defined under its Code of Ethics and complies with legal and regulatory requirements.*

*>Work closely with the Bank's risk oversight committee in evaluating the incentives created by the remuneration system. The risk oversight committee shall examine whether incentives provided by the remuneration system take into consideration risk, capital and the likelihood and timing of earnings.*

*>Monitor and review the remuneration and other incentives policy including plans, processes and outcomes to ensure that it operates and achieves the objectives as intended.*

**3. AUDIT COMMITTEE (AUDIT COM)**

The Audit Committee shall be composed of at least three (3) members of the board who do not hold executive positions in the Bank and who are not members of the Executive and Trust Committees of the Bank, majority of whom shall be independent directors, including the Chairman.

Audit Committee Chairman:

- a. Is not or has not been a member of the Executive Committee of the Board of Directors, an officer or employee of CTBC Bank (Philippines) Corp., its subsidiaries or its affiliates or related interests during the past three (3) years counted from the date of his election;
- b. Is not a director or officer of the related companies of CTBC Bank (Philippines) Corp's majority stockholder;
- c. Is not a stockholder with shares of stock sufficient to elect one seat in the board of directors of CTBC Bank (Philippines) Corp, or in any of its related companies or of its majority corporate shareholders;
- d. Is not a relative, legitimate or common-law of any director, officer or majority stockholder of the Bank or any of its related companies. For this purpose, relatives refer to the spouse, parent, child, brother, sister, parent-in-law, son/daughter-in-law, and brother-/sister-on-law;
- e. Is not acting as a nominee or representative of any director or substantial shareholder of the Bank, any of its related companies or any of its substantial shareholders;

- f. Is not retained as professional adviser, consultant, agent or counsel of CTBC Bank (Philippines) Corp, any of its related companies or any of its substantial shareholders, either in personal capacity or through his firm; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with CTBC Bank (Philippines) Corp 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.

Each member of the Audit Committee shall have adequate understanding at least or competence at most of the Bank's operations, financial management systems and environment and preferably with accounting, auditing or related financial management expertise or experience commensurate with the size, complexity of the operations and risk profile of the Bank.

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

Duties and Responsibilities of the Audit Committee:

**A. Oversee the financial reporting framework.**

The Committee shall oversee the financial reporting process, practices and controls. It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.

**B. Monitor and evaluate the adequacy and effectiveness of the internal control system.**

The committee shall oversee the implementation of internal control policies and activities. It shall also ensure that periodic assessment of the internal control system is conducted to identify the weaknesses and evaluate its robustness considering the Bank's risk profile and strategic direction.

**C. Oversee the Internal Audit Function.**

The Committee shall be responsible for the appointment/selection, remuneration and dismissal of internal auditor. It shall review and approve the audit scope and frequency. The Committee shall ensure that the scope covers the review of the effectiveness of the Bank's Internal Controls, including financial, operational and compliance controls and risk management system.

It shall functionally meet with the head of Internal Audit and such meetings shall be duly minuted and adequately documented. In this regard, the Audit Committee shall review and approve the performance and compensation of the Head of Internal Audit and budget of the Internal Audit Function.

**D. Oversee the External Audit Function.**

The Committee shall be responsible for the appointment, fees and replacement of external auditor. It shall review and approve the engagement contract and ensure that the scope of audit likewise cover areas specifically prescribed by the Bangko Sentral and other regulators.

**E. Oversee Implementation of Corrective Actions.**

The Committee shall receive key audit reports and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors and other control functions.

**F. Investigate Significant Issues/Concerns Raised.**

The Committee shall have explicit authority to investigate any matter within its terms of reference, have full access to and cooperation by management, and have full discretion to invite any director or executive officer to attend its meetings.

**G. Establish Whistleblowing Mechanism.**

The Committee shall establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective actions. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action and subsequent resolution of complaints.

**4. RISK MANAGEMENT COMMITTEE**

The committee shall be composed of at least three (3) members of the Board of Directors, majority of whom shall be independent directors, including the Chairperson.

The Chairperson shall not be the chairperson of the board of directors, or any other board-level committee.

The members of the committee shall possess a range of expertise as well as adequate knowledge on risk management issues and practices. It shall have access to Independent Experts to assist it in the discharging its responsibilities.

It shall oversee the system of limits to discretionary authority that the board delegates to the management, ensure that the system remains effective, that the limits are observed and that the immediate corrective actions are taken whenever limits are breached. The Bank's Risk Management Units and the Chief Risk Officer shall communicate formally and informally to the Risk Management Committee any material information relative to the discharge of its function.

**Duties and Responsibilities of the Risk Management Committee:**

**A. Oversee the Risk Management Framework.**

The committee shall oversee the enterprise risk management framework and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.

**B. Oversee Adherence to Risk Appetite.**

The committee shall ensure that the current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control and performance of management, among others.

**C. Oversee the Risk Management Function.**

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

## **5. TRUST COMMITTEE (TRUST COM)**

The Trust Committee is composed of five (5) members, including the President, the trust officer and directors who are appointed by the Board of Directors on a regular rotation basis and who are not officers of the Bank proper. No member of the Audit Committee shall concurrently be designated as member of the Trust Committee.

The Trust Committee duly constituted and authorized by the Board of Directors shall act within the sphere of authority as provided in the By-Laws and/or delegated by the Board such as but not limited to the following:

- a. The acceptance and closing of trust and other fiduciary accounts;
- b. The initial review of assets placed under the trustee's fiduciary custody;
- c. The investment, reinvestment and disposition of funds or property;
- d. The review and approval of transactions between trust and/or fiduciary accounts, and;
- e. The review of trust and other fiduciary accounts at least once every twelve (12) months to determine the advisability of retaining or disposing of the trust or fiduciary assets and/or whether the account is being managed in accordance with the instrument creating the trust or other fiduciary relationship.

*(Full details to refer to Section IV of this manual on Trust and Other Fiduciary Business and Investment Management Activities)*

#### **IV. 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.

In this respect, the following are the board's roles:

- a. Ensure 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;
- b. Ensure that the Bank has a strong, adequate and effective internal control system environment that sets the tone of control consciousness among the personnel. This system shall be assessed to determine whether this still meets its objectives and remain commensurate with the size and complexity of the Bank's operations. The board may depend on the reports of the internal and external audit functions with respect to their assessment of the internal control system as well as the reports of the compliance and risk management functions with respect to the impact of the identified deficiencies/ weaknesses of the Bank's operations;
- c. Approve the mandates of the difference oversight units and review the same on a regular basis and approve any changes thereto;
- d. Ensure that these control units/functions have appropriate stature in the organization and that they should be independent of operations under the scope of their review and free from any influence that could materially impair their judgment. The heads of these functions should have direct access to the board of directors without impediment;
- e. Non-executive board members are also expected to meet regularly, other than in meetings of the audit and risk oversight committees, in the absence of the senior management, with the external auditor and heads of the internal audit, compliance and risk management functions to discuss issues that may warrant closer attention;
- f. Provide adequate resources to the independent oversight functions including having sufficient number of personnel with collective qualifications and competencies necessary in carrying out the mandate of the respective functions. Thus, the board should ensure that there is an established system to assess the adequacy of the resources of these independent oversight functions;
- g. Appoint the heads of the internal audit, compliance and risk management units and select the external auditors;
- h. Evaluate and ensure that the scope of review of the independent oversight functions and coverage comprehensively covers the key risk areas of the Bank;
- i. Minutes of board meeting indicate management's commitment to address the issues cited by the external audit, compliance, internal audit and risk management units. Timelines on the implementation of actions done by the management are clear and adequately communicated to the responsible units. Decisions to disregard recommendations by these units should be adequately supported, explained and documented.
- j. Regularly review the independence and effectiveness of the control functions. The Board should be satisfied that the compensation of the individuals performing these functions is reflective of the importance of the function and is consistent with the objectives of carrying-out their duties and responsibilities.
- k. Adequate governance structures and control processes related to the different activities of the FI



are established and complied with, including:

- Systems that accurately identify and measure all material risks and adequately monitor and control these risks;
- Adequate internal controls, organizational structures and accounting procedures leading to a suitable control environment aimed at meeting the Bank's prescribed corporate strategy, performance, information system and compliance objectives;
- The evaluation of the quality of assets and their proper recognition and measurement; and
- Requirements on the gathering and disclosure of material and relevant information on financial accounts including related party transactions.

l. Adequate governance structures and control processes for areas or exposures that may pose significant risk to the Bank such as fair value measurement and financial instruments. The Board's oversight responsibilities for the Bank's use of fair value accounting include:

- Reviewing and approving written policies related to fair valuations;
- Continuing review of significant valuation model performance for issues escalated for resolution and all significant changes to valuation policies;
- Ensuring adequate resources are devoted to the valuation process;
- Articulating the Bank's tolerance for exposures subject to valuation uncertainty and monitoring compliance with the Board's overall policy settings at an aggregate firm wide level.
- Ensuring independence in the valuation process between risk taking and control units;
- Ensuring appropriate internal and external audit coverage of fair valuations and related processes and controls;
- Ensuring consistent application of accounting standards and disclosures within the applicable accounting framework;
- Ensuring the identification of significant differences, if any, between accounting and risk management measurements and their proper documentation and monitoring, and;
- Ensuring adequate documentation of significant differences between the valuations used for financial reporting purposes and for regulatory purposes.

m. Appropriate management information systems are established

n. The interests of stakeholders are adequately protected.

o. BSP Circular 871 issued in 2015 provides Management Oversight and Control Culture. Following are further reiteration of the responsibilities of the Board of Directors and Senior Management, these include:

1. Responsible for promoting high ethical and integrity standards;
2. Establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control;
3. Design and implement processes for the prevention and detection of fraud;

Board of Directors shall be:

1. Ultimately responsible for ensuring that senior management establishes and maintains an adequate, effective and efficient internal control framework commensurate with the size, risk profile and complexity of operations of the Bank.
2. Ensure that the internal audit function has an appropriate stature and authority within the Bank and is provided with adequate resources to enable it to effectively carry out its assignments with objectivity.
3. Shall on a periodic basis be able to :
  - a. Conduct discussions with the management on the effectiveness of the internal control system;
  - b. Review evaluations made by the audit committee on the assessment of effectiveness of internal control made by management, internal auditors and external auditors;
  - c. Ensure that management has promptly followed up on recommendations and concerns expressed by auditors and supervisory authorities on internal control weaknesses; and
  - d. Review and approve the remuneration of the head and personnel of the internal audit function. Said remuneration shall be in accordance with the Bank's remuneration policies and practices and shall be structured in such a way that these do not create conflicts of interest or compromise independence and objectivity;
  - e. Commission an assessment team outside of the organization to conduct an independent quality assurance review of the internal audit function at least every five (5) years;

The control environment of the corporation consists of the following:

1. The Board which ensures that the corporation is properly and effectively managed and supervised;
2. A management that actively manages and operates the corporation in a sound and prudent manner;
3. The organizational and procedural controls supported by effective management information and risk management reporting systems;
4. Independent audit mechanism to monitor the adequacy and effectiveness of the corporation's governance, operations and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.
  - a. The minimum internal control mechanisms for the performance of the Board's oversight responsibility may include:
    - i. Definition of the duties and responsibilities of the CEO who is ultimately accountable for the corporation's organizational and operational controls;
    - ii. Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO;
    - iii. Evaluation of proposed senior management appointments;
    - iv. Selection and appointment of qualified and competent management officers; and
    - v. Review of the Bank's Human Resources policies, conflict of interest situation, and

- compensation program for employees and management succession plan.
- b. The scope and particulars of the systems effective organizational and operational controls may differ among corporations depending on, among others, the following factors:
  - i. Nature and complexity of the business and the business culture
  - ii. Volume, size and complexity of transactions
  - iii. Degree of risks involved
  - iv. Degree of centralization and delegation of authority
  - v. Extent of regulatory compliance
- c. A corporation may establish an internal audit system that can reasonably assure the Board, Management and stockholders that its key organizational and operational controls are faithfully complied with.

## **ACCOUNTABILITY AND AUDIT**

The Board is primarily accountable to the stockholders and other stakeholders. It should provide them with a balanced and comprehensible assessment of the corporation's performance, position and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law. Thus, it is essential that Management provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders and other stakeholders.

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

- a. The extent of its responsibility in the preparation of the financial statements of the corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained.
- b. An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the corporation for the benefit of all stockholders and other stakeholders;
- c. On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that covers the corporation's governance, operations and information systems, including the reliability and integrity of financial operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;
- d. The corporation should consistently comply with the financial reporting requirements of the Commission;

## **EXTERNAL AUDITOR**

An External Auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the Bank. An External Auditor shall be approved by the stockholders upon recommendation of the Audit Committee.

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

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

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

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

Per BSP Memorandum 2014-011, following are the Roles of the Bank's External Auditor:

- c. The objectives of the external auditor are to: (1) form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework based on an evaluation of the conclusions drawn from the audit evidence obtained; and (2) Express that opinion clearly through a written report that also describes the basis for the opinion.
- d. In forming this opinion, the external auditor shall identify and assess the risks of material misstatements in the Bank's financial statements, taking into consideration the Bank's operations, controls environment and its components as well as the Bank's financial reporting systems. The assessment shall also take into account the qualitative aspects of the Bank's accounting practices, including indicators of the possible biases in management's judgments. The external auditor should likewise, assess and communicate to the Audit Committee the results of its assessment on the capability of the Bank's management, the strength of the Bank's control environment
- e. The external auditor shall conclude whether it has obtained reasonable assurance that the financial statements, as a whole, are free from material misstatement, whether due to fraud or error. That conclusion shall include an evaluation of the following:
  - i. Whether sufficient appropriate audit evidence has been obtained;
  - ii. Whether uncorrected misstatements are material, individually or in aggregate; and
  - iii. Compliance with the applicable framework.

If material error or fraud is discovered, the external auditor shall immediately bring such information to the attention of the Audit Committee. Moreover, the external auditor

shall report to the BSP such material error or fraud and other matters as prescribed under existing regulations.

- f. In particular, the external auditor shall evaluate whether in view of the requirements of the applicable financial reporting framework:
  - i. The financial statements adequately disclose the significant accounting policies selected and applied;
  - ii. The accounting policies selected and applied are appropriate and consistent with the applicable financial reporting framework;
  - iii. The accounting estimates made by management are reasonable;
  - iv. The methodologies, assumptions and valuation practices including provisioning for loan losses are appropriate and consistent with the applicable financial reporting framework;
  - v. The information presented in the financial statements are relevant, reliable, comparable and understandable;
  - vi. The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
  - vii. The terminologies used in the financial statements, including the title of each financial statement, are appropriate.
- g. In carrying out the audit of the Bank's financial statements, the external auditor recognizes that the Bank have characteristics that generally distinguish them from most other business enterprises, and which the external auditor takes into account in accessing the level of inherent risk. Examples of key audit areas and exposures that merit special audit consideration for the Bank include but not limited to, impairment and loan loss provisioning, financial instruments measured at fair value, liabilities, related party transactions and disclosures.
  - i. BSP requires the external auditors to assess the Bank's compliance with certain BSP rules and regulations as prescribed under existing regulations. In this respect, the BSP requires external auditors to directly report to the BSP material breaches in said rules and regulations such as but not limited to capital adequacy ratio and loans and other risk assets review and classification. While the provisioning requirements under the prescribed reporting financial reporting framework and BSP rules and regulations differ, external auditors are expected to look into adequacy and propriety of documentation of significant differences between the valuations used for financial reporting purposes and for regulatory purposes.
  - ii. External auditors should also assess the adequacy and propriety of disclosures on related party transactions, The external auditors should exercise sound judgment on whether mere compliance with disclosure requirements prescribed under the applicable financial reporting framework already provide

sufficient information to make a conclusion on whether the transactions are done at arms' length terms.

- h. While the external auditor has the sole responsibility for the audit report and for determining the nature, timing and extent of audit procedures, much of the work of internal auditing can be useful to the external auditor in the audit of the financial statements. The external auditor, therefore, as part of the audit assesses the internal audit function insofar as the external auditor believes that it will be relevant in determining the nature, timing and extent of the external audit procedures.
- i. Judgment permeates the external auditor's work. The auditor uses professional judgment in areas such as:
  - i. Assessing inherent and control risk and the risk of material misstatement due to fraud or error;
  - ii. Deciding upon the nature, timing and extent of the audit procedures;
  - iii. Evaluating the results of those procedures; and
  - iv. Assessing the reasonableness of the judgments and estimates made by management in preparing the financial statements.

While many areas of financial reporting require significant judgments (i.e. by management when implementing the standards and auditors when interpreting the standards during the audit process), the BSP expects that similar transactions will be accounted for in a manner that is consistent with the accounting standards and consistent across the financial institutions.

- j. External audits performed in accordance with auditing and ethics standards are an important element in enhancing market confidence. This is particularly the case with respect to valuations of financial instruments, including disclosures about the valuation methodologies, and the extent of off-balance sheet risks to which the Bank is exposed. Auditors play an important role in encouraging consistent and meaningful disclosures about valuation processes.
- k. The external auditor should maintain an attitude of professional skepticism throughout the planning and performance of the audit, recognizing that circumstances may exist that cause the financial statements to be materially misstated. Specific areas where professional skepticism is particularly important include, among others, fair value measurements, related party relationships and transactions, going concern assessments, and in auditing significant unusual or highly complex transactions.

Furthermore, the external auditor should consider the supervisory issues raised by the BSP especially in its assessment of the going concern assumption, particularly in the evaluation of the liquidity and solvency of the Bank.

- l. The external auditor should promote a two-way communication with those charged with the governance of the Bank.
  - i. The responsibilities of the external auditor in relation to the financial statement audit and an overview of the planned scope and timing of the audit;

- ii. Information relevant to the external audit; and
  - iii. Timely observations arising from the external audit that are significant and relevant to the Bank's financial reporting process, including inappropriate accounting treatment that may result in tax violation.
- m. The external auditor should document its discussion with the Bank's Board of Directors and the Audit Committee. Where there are differences BSP regulations and the applicable financial reporting framework, as when there is more than one option allowed, discussions on the treatment adopted in the financial statements should be duly minuted. The external auditors are nonetheless expected to recommend compliance with BSP-prescribed accounting treatment particularly when such is likewise acceptable under the applicable financial reporting framework.
- n. The external auditor is expected to charge only reasonable audit fees. In determining reasonable fees the following may be considered:
- i. Expected hours needed to complete the scope of work envisioned in the audit plan;
  - ii. Complexity of the activities and structure of the company;
  - iii. Level of internal audit assistance
  - iv. Level of fees being charged by other audit firms; and
  - v. Quality of audit services
- In this respect, the external auditor is expected to ensure that the audit fees will be set at an amount that will not in any way compromise the quality of the audit.
- o. The external audit team is expected to be composed of members whose collective skills and competence are commensurate with the size and complexity of operations of the Bank.

## **INTERNAL AUDITOR**

The Bank shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which its Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.

The Internal Auditor shall report to the Audit Committee. An annual report is submitted to the Audit Committee and Senior Management on the department's activities, purpose, authority, responsibility, and performance relative to audit plans and strategies approved by the Audit Committee.

The Internal Auditor shall have full access to all the company's records, properties and personnel relevant to the internal audit activity.

The Internal Auditor shall not install nor develop procedures, prepare records or engage in other activities which he normally reviews or appraises. The internal audit activities are being conducted in accordance with the Standards for the Professional Practice of Internal Auditing.

The minimum internal control mechanisms for management's operational responsibility shall center on the President, being ultimately accountable for the Bank's organizational and procedural controls.

The internal audit examinations cover, at least:

- a. The evaluation of adequacy and effectiveness of controls encompassing the organization's governance, operations, information systems (including reliability and integrity of financial and operational information);
- b. Effectiveness and efficiency of operations;
- c. Safeguarding of assets; and
- d. Compliance with laws, rules and regulations and contracts.

There shall be status reports that summarize recommendations, officers responsible and implementation dates.

The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.

## **COMPLIANCE OFFICER**

The Board shall appoint a Compliance Officer who shall report directly to the Audit Committee and Nomination, Remuneration and Governance Committee, in which the Bank's Chairman of the Board of Directors is one of the members. He shall perform the following duties:

1. Monitor compliance by the corporation with this Corporate Governance Manual and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation; (SEC and/or BSP)
2. Appear before the Securities and Exchange Commission when summoned in relation to compliance with this Corporate Governance Manual; and on similar matters that needs to be clarified by the same.
3. Determine violation/s of the Manual and recommend penalty for violation thereof for further review and approval of the Board;
4. Issue a certification every January 30<sup>th</sup> of the year on the extent of the corporation's compliance with this Corporate Governance Manual for the completed year and, if there any deviations, explain the reason for such deviation.



## **RISK GOVERNANCE**

This pertains to the effectiveness and extent of board oversight over the Bank's risk management system from strategic goal setting to addressing the weaknesses/deficiencies noted. The following are the primary duties and responsibilities of the board relative to the risk governance include but not limited to the following:

- a. Identify and understand the types of risks that may affect the financial institution as well as the systems, tools and methodologies that the Bank has to measure and manage the risks;
- b. Set strategic goals for the Bank and clearly define the level of the Bank's risk tolerance given the scope and complexity of the Bank's operations as well as its capability to manage risk;
- c. Assess that the goals and level of risk tolerance have been considered in the business decisions of the board with respect to the transactions and exposures of the Bank;
- d. Aware of any changes in the Bank's strategies, risk tolerance levels and authorization limits for management and/or personnel;
- e. Ensure that the Bank's policies, practices, methodologies and limits are commensurate given the Bank's size and complexity;
- f. Require the regular updating of policies and procedures taking into account the developments in the business environment and in the risk appetite of the Bank;
- g. Require the management to establish a process for determining the Bank's desired level of capital given the qualified and unquantified risk exposures such as capital management process, effective loan review and provisioning system for prompt and accurate impairment losses are reflected in the books of the banks and effected as capital adjustments, among others;
- h. Challenge the proposals, assumptions and recommendations of management indicating the board's understanding of the risk exposures and how these affect the safety and soundness of the Bank;
- i. Require the risk management function to include in its review new strategies or business initiatives and risk tolerance levels of the Bank; as well as assess the adequacy of the resources of the risk management unit/function which includes having sufficient number of personnel with collective qualifications and competencies necessary in carrying out its function. Thus, the Board should ensure that there is an established system to assess whether the risk management function has adequate resources to perform its mandate and ensure that there is a system that will assess the performance of the risk management function;

Other Duties and Responsibilities based on the recent relevant issuances:

- j. Ensure adherence to the duties and responsibilities of the board of directors in relation to the effective management of risk include the establishment of a comprehensive and effective operational risk management framework as part of the enterprise wide risk management system (Circular 900)
- k. Ensure adherence to the duties and responsibilities of the board of directors in relation to the transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders (Circular 895)
- l. Responsible for the approval and regular review of credit risk strategy and credit policy, as well as

the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of the Bank. The Board shall ensure that the system provides for adequate policies, procedures and processes to identify, measure, monitor and control all credit risks inherent in the Bank's products and activities, both at the individual and portfolio levels on a consistent and continuing basis; that an independent assessment of the system is periodically performed, the results of which shall be reported to it or to a board level committee for appropriate actions. (Circular 855)

J. Ensure adherence to the duties and responsibilities of the board of directors in relation to the Information Technology Risk Management considered a component and integrated with the Bank's risk management program. (Circular 808)

### **RISK MANAGEMENT FUNCTIONS**

The risk management function is generally responsible for:

- a. Identifying the key risk exposures and assessing and measuring the extent of the risk exposures of the bank and its trust operations
- b. Monitoring the risk exposures and determining the corresponding capital requirement in accordance with the BASEL capital adequacy framework and based on the Bank's internal capital adequacy assessment on an on-going basis.
- c. Monitoring and assessing decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures and
- d. Reporting on a regular basis to senior management and to the board of directors of the results of the assessment and monitoring.

Risk management personnel shall possess sufficient experience and qualifications, including knowledge on the banking business, the developments in the market, industry and product lines, as well as mastery of risk disciplines. They shall have the ability and willingness to challenge business lines regarding all aspects of risk arising from the bank's activities.

### **CHIEF RISK OFFICER**

The Bank shall appoint a Chief Risk Officer (CRO) or any equivalent position, which shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions. This independence shall be displayed in practice at all times as such, albeit the CRO may report to the President or Senior Management, he shall have direct access to the board of directors and the risk oversight committee without any impediment. In this regard, the board of directors shall confirm the performance ratings given by the President or senior management to the CRO.

The CRO shall have sufficient stature, authority and seniority within the Bank. This will be assessed based on the ability of the CRO to influence decisions that affect the bank's exposure to risk. The CRO shall have the ability, without compromising his independence, to engage in discussions with the board of directors, chief executive officer and other senior management on key risk issues and to

assess such information as he deems necessary to form his or her judgment. The CRO shall meet with the board of directors/risk oversight committee on a regular basis and such meetings shall be duly minuted and adequately documented.

CROs shall be appointed and replaced with prior approval of the board of directors. In cases, when the CRO will be replaced, the bank shall report the same to the Supervision and Examination Sector (SES) of the Bangko Sentral ng Pilipinas within five (5) days from the time it has been approved by the board of directors.

## V. TRUST, OTHER FIDUCIARY BUSINESS AND INVESTMENT MANAGEMENT ACTIVITIES

**STATEMENT OF PRINCIPLES.** The cardinal principle common to all trust and other relationships is fidelity. Policies predicated upon this principle shall be directed towards observance of the following:

1. **PRUDENT ADMINISTRATION.** The Trust Investment Management and other Fiduciary Accounts shall be administered in conformity with the intention and purpose of the client as manifested in the terms of the agreement, and with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would exercise in the conduct of an enterprise of like character and with similar aims.
2. **UNDIVIDED LOYALTY AND UTMOST CARE.** In the discharge of fiduciary responsibility, the interests of the clients shall be placed above those of the bank. Clear policies and procedures shall be developed in dealing with conflict of interest situations. The Fiduciary assets shall be objectively and fairly administered, invested and distributed giving due regards to the beneficiaries' respective interests.
3. **NON-DELEGATION OF RESPONSIBILITIES.** The Administration of the Trust, Investment Management or Fiduciary Responsibilities or the performance of acts that should be personally performed shall not be delegated as the client's confidence is reposed on the Trust Entity.
4. **PRESERVING AND PROTECTING PROPERTY.** Reasonable care and diligence shall be observed to preserved and protect the property entrusted. Fiduciary Assets shall be kept legally separate and distinct from proprietary assets and from one fiduciary/trust/investment management account to another.
5. **KEEPING AND RENDERING ACCOUNTS.** A true accurate account or record of transactions entered into shall be kept. Reports on Trust, Investment and Investment Management and Other Fiduciary Accounts shall be rendered to the trustor, principal, beneficiary or other party in interest, or the court concerned or any party duly designated by a court order, as the case may be, in accordance with Sec X421 and X425. Likewise, all material facts within

the knowledge or reasonably discoverable by the Trust Entity, particularly information that would enable clients to make well-informed decisions, shall be promptly transmitted/relayed to clients for them to protect their interests.

Practices shall be carried out in accordance with the basic standards (Appendix 83 of MORB 2) and Risk Management Guidelines for Trust, other fiduciary and investment management accounts.

For purposes of regulating the operations of trust and other fiduciary business and investments management activities, unless the context clearly connotes otherwise, the following shall have the meaning indicated.

TRUST ENTITY refer to (a) a bank or a non-bank financial institution, through its specifically designated business unit to perform trust functions or (b) Trust Corporation, authorized by the Bangko Sentral ng Pilipinas (BSP) to engage in Trust and Other Fiduciary Business under Section 79 or RA 8791 or to perform Investment Management Services under Section 53 of RA 9791.

#### **QUALIFICATIONS OF COMMITTEE MEMBERS, OFFICERS AND STAFF**

The TRUST ENTITY shall be staffed by persons of competence, integrity and honesty. Directors, committee members and officers charged with the administration of trust and other fiduciary activities shall, in addition to meeting the qualification standards prescribed for directors and officers of bank or for qualified 'INDEPENDENT PROFESSIONALS', possess the necessary technical expertise and relevant experience in such business which may be indicated by any of the following:

- a. At least one (1) year of actual experience in Trust, Other Fiduciary Business or Investment Management Activities;
- b. At least three (3) years of professional experience in relevant field such as banking, finance, economics, law and risk management.
- c. Completion of at least ninety (90) training hours on trust, other fiduciary business or investment management activities acceptable to BSP; or
- d. Completion of a relevant global or local professional certification program.
- e. A Trust Committee member should be familiar with Philippine Laws, Rules and Regulations on Trust Business, as well as uphold at all times ethical and good governance standards.

The trust officer who shall be appointed shall POSSESS ANY OF THE FOLLOWING:

- a. At least five (5) years of actual experience in trust operations;
- b. At least three (3) years of actual experience in trust operations and must have 1) completed at least ninety (90) training hours in trust, other fiduciary business or investments management activities acceptable to the BSP OR 2) completed a relevant global or local professional certification program; OR
- c. At least five (5) years of actual experience as an officer of a bank/NBFI and must have: 1) completed at least ninety (90) training hours in trust, other fiduciary

business, or investment management activities acceptable to the BSP OR 2) completed a relevant global or local professional certification program.

For the purpose of this subsection, actual experience refers to exposures in Trust Operations either as officer of a Trust Entity or a member of the Trust Committee. (Circular 766)

### **TRUST COMMITTEE**

The Trust Committee is a special committee which reports directly to the Board of Directors and is primarily responsible for overseeing the fiduciary activities of the Bank in discharging of its function, it shall:

1. Ensure that fiduciary activities are conducted in accordance with applicable laws, rules and regulations and prudent practices;
2. Ensure that policies and procedures that translate the Board's Objectives and Risk Tolerance into Prudent Operating Standards are in place and continue to be relevant, comprehensive and effective;
3. Oversee the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities;
4. Adopt an appropriate organizational structure/staffing pattern and operating budgets that shall enable the Trust Department to effectively carry out its functions;
5. Oversee and evaluate performance of the Trust Officer;
6. Conduct regular meetings at least once every quarter, or more frequently as necessary, depending on the size and complexity of the fiduciary business; and
7. Report regularly to the BOD on matters arising from fiduciary activities

### **TRUST OFFICER**

The Management of day-to-day fiduciary activities shall be vested in the Trust Officer. In this regard, the Trust Officer shall:

8. Ensure adherence to the basic standards in the administration of Trust, Other Fiduciary and Investment Management Accounts pursuant to Appendix 83 of the MORB;
9. Develop and implement relevant policies and procedures on fiduciary activities;
10. Observe sound risk management practices and maintain necessary controls to protect assets under custody and held in trust or other fiduciary capacity;
11. Carry out investment and other fiduciary activities in accordance with agreement with clients and parameters set by the Trust Committee as approved by the Board of Directors;
12. Report regularly to the Trust Committee on Business Performance and Other Matters requiring its attention;
13. Maintain adequate books, records and files for each Trust or other fiduciary account and provide timely and regular disclosures to clients on the status of their accounts;
14. Submit periodic reports to regulatory agencies on the conduct of the Trust Operations

## **CONFIRMATION OF THE APPOINTMENT / DESIGNATION OF TRUST OFFICER AND/OR INDEPENDENT PROFESSIONAL**

An Independent Professional and Trust Officer must be fit and proper to discharge their respective functions. In determining whether a person is fit and proper for the position, regard shall be given to the following: Integrity/Probity, Physical / Mental Fitness, Competence, Relevant Education / Financial Literacy/Training, Diligence and Knowledge/Experience.

The appointment or designation of independent professional and Trust Officer shall be subject to confirmation by the Monetary Board. The Biodata of the proposed independent professional and Trust Officer shall be submitted to BSP in a prescribed form indicated in Appendix 6 of MORB within seven(7) banking days from approval by the Board of Directors or its functional oversight equivalent which shall include the Country Head in case of foreign banks. Moreover, the independent professional and trust officer shall certify that he/she possesses the qualifications as herein prescribed and that all the information thereby supplied are true and correct.

If after evaluation, the Monetary Board shall find grounds for disqualification, the concerned bank shall be informed thereof and the independent professional and trust officer so appointed or delegated shall be removed from office even if he/she has assumed the position to which he/she was appointed or delegated.

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

A. The Board shall respect the rights of the stockholders as provided for in the Corporation Code; namely:

### **1. RIGHT TO VOTE ON ALL MATTERS THAT REQUIRES THEIR CONSENT OR APPROVAL**

Shareholders shall have the right to elect, remove and replace directors and vote in certain corporate acts in accordance with the Corporation Code.

- a. Cumulative voting shall be used in the election of directors.
- b. A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

### **2. PRE-EMPTIVE RIGHT TO ALL STOCK ISSUANCES OF THE CORPORATION**

Unless otherwise determined by the Board of Directors, no holder of stock of the Bank shall be entitled as such, as a matter of right, to purchase or subscribe for any stock of any class which the Bank may issue or sell, whether or not exchangeable for any stock of the Bank of any class or classes and whether out of un-issued shares authorized by the articles of incorporation of the Bank as originally filed or by any

### **3. RIGHT TO INSPECT CORPORATE BOOKS AND RECORDS**

All shareholders shall be allowed to inspect corporate books and records including minutes of the Board meetings and stock registries in accordance with the provisions of the Corporation Code and shall be furnished with annual report, including financial statements, without cost or restrictions.

### **4. RIGHT TO INFORMATION**

The shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of the Bank's shares, dealings with the Bank, relationships among directors and key officers, and the aggregate compensation of directors and officers.

The minority shareholders shall have access to any and all information relating to matters for which the management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".

### **5. RIGHT TO DIVIDENDS; AND**

Shareholders shall have appraisal right or to receive dividends subject to the discretion of the Bank. The Bank shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except:

- a. When justified by definite corporate expansion projects or programs approved by the Board or
- b. When the Bank is prohibited under the any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent is not secured:
- c. When it can be clearly shown that such retention is necessary under special circumstances obtaining in the Bank, such as when there is a need for special reserve for probable contingencies or a need to meet the minimum capitalization as prescribed by the BSP.

## **6. APPRAISAL RIGHT**

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

- a. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence:
- b. In case of sale, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
- c. In case of merger or consolidation.

The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the corporation. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the 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.

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

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

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



## **VII. CORPORATE GOVERNANCE SCORECARD/SELF-ASSESSMENT**

### **GOVERNANCE SELF-RATING SYSTEM**

The Board, using such resources or methods as it determines, is responsible to annually assess the effectiveness of the Board, Board Committees and each Director's contribution. The purpose of the evaluation process is to increase the overall effectiveness of the Board, not to target individual Board members.

The Directors participate in the evaluation. Each Director evaluates the performance of the Board as a whole, as an individual director, the Chairman of the Board, the Chief Executive Officer and Board Committees. The assessments are made as derived from the Board of Directors and Directors' Duties and Responsibilities as stated in this manual and in their respective charters. The results of the evaluation are used constructively by the Nomination, Remuneration and Governance Committee to discuss improvements with the Board and to provide developmental feedback to individual Directors.

### **BOARD SELF-ASSESSMENT**

#### **LOCAL REGULATOR REQUIREMENTS:**

1. General Evaluation of the Board
2. Individual Self-Assessment by Directors
3. Qualitative Self-Assessment
4. Evaluation of the Board Chairman
5. Evaluation of the Chief Executive Officer
6. Board Committee Assessments
  - Executive Committee Assessment (ExCom)
  - Nomination & Remuneration Governance Committee (NRGC)
  - Audit Committee (Audit Com)
  - Risk Management Committee (RMC)
  - Trust Committee (Trust Com)

## VIII. REPORTORIAL, DISCLOSURE & TRANSPARENCY REQUIREMENTS

The essence of corporate governance is transparency. The more transparent the internal workings of the corporation are, the more difficult it will be for Management and dominant stockholders to mismanage the corporation or misappropriate its assets.

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

The Board shall therefore commit at all times to full disclosure of material information dealings. It shall cause the filling 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.

REQUIRING BANGKO SENTRAL CONFIRMATION		
DIRECTORS	Requirements	Submission Details
1. Letter request for Bangko Sentral confirmation signed by Authorized Officer, with an affirmative statement that the institution has conducted a fit and proper test on the director/s concerned.	Authorized Signatory is the Chief Executive Officer (CEO).  <b>Except for appointment of CEO</b> , in which case the authorized signatory shall be the <b>Chairman of the Corporate Governance Committee or of the Board of Directors, as may be applicable.</b>  If with <b>Interlocks</b> requiring Monetary Board approval, the following shall be submitted: a. Letter request for Monetary Board approval with justification; and b. Bio-Data.	To be submitted twenty (20) business days from date of election/re - election/appointment/promotion to the appropriate supervising department of the SES. (For CTBC Philippines – Central Point of Contact Department 2)
2. Secretary's Certificate attesting to the resolution of the stockholders or board of directors approving the election.		
3. Bio-Data with a photograph (2"x2") taken within the last six (6) months.	Colored  Bio-Data shall be updated and submitted in cases of change of name due to change in civil	

	status and change of residential address, within twenty (20) banking days from the date of change occurred, and in cases of requests for prior Monetary Board approval of Interlocks.	
4. Certification under Oath of the director concerned that he/she possesses all the qualifications and none of the disqualifications to become a director.		
5. For <b>first time directors</b> in a particular bank/banking group as defined in Subsec X148.1. - Certification under oath of compliance with the Bangko Sentral prescribed syllabus on on-boarding/orientation program. - Certification under oath that the director has received copies of the general responsibilities of the board of directors and of a director and that he/she fully understands and accepts the same. - Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the director concerned.		To be submitted twenty (20) business days from date of election/re - election/appointment/promotion to the appropriate supervising department of the SES. (For CTBC Philippines – Central Point of Contact Department 2)
6. For <b>Independent Directors</b> , Certification under oath that he/she is an independent director as defined in BSP regulations.		
7. For <b>Re-elected Directors</b> , Secretary's Certificate on the attendance by the director concerned to the board meetings held for the last twelve (12) months covering the term of service, indicating percentage of attendance to board of directors.		
<b>REQUIRING BANGKO SENTRAL CONFIRMATION</b>		
	Requirements	Submission Details
<b>CHIEF EXECUTIVE OFFICER and OTHER OFFICERS ENUMERATED IN SUBSEC X148.1 (Appendix 98) – (eg. Treasurer, Trust Officer, Heads of Internal Audit, Risk Management and Compliance Functions and other Officers with rank of Senior Vice President and above.</b>		
1. Letter request for Bangko Sentral confirmation signed by authorized	Authorized signatory is the CEO	To be submitted twenty (20) business days from date of

officer with an affirmative statement that the institution has conducted a fit and proper test on the officer/s concerned.		election/re - election/appointment/promotion to the appropriate supervising department of the SES. (For CTBC Philippines – Central Point of Contact Department 2)
2. Secretary's Certificate attesting to the resolution of the board of directors approving the appointment		
3. Bio-data with a photograph (2"x2") taken within the last six (6) months.		
4. Certification under oath of the officer concerned that he/she possesses all the qualifications and none of the disqualifications to become an officer		
5. For <b>first time officers</b> to be subject to Bangko Sentral confirmation in a particular bank with Trust Authority as defined in Sec X148.1		
6. Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the officer concerned.		
7. Brief description of his/her duties and responsibilities.		
8. Alien Employment Permit issued by the Department of Labor and Employment for foreigner appointed as officers		

<b>SEC Requirement</b>
<p><b>1. Certification of Independent Directors</b> (Certificate of Qualification)<sup>1</sup></p> <p>Ref: SEC Notice dated Oct 20, 2006</p> <p><b>Submission Deadline:</b> 30 days from date of election/appointment to SEC / PSE.</p>
<p><b>2. SEC Form 20-IS<sup>2</sup></b></p>

Information Statement Pursuant to Section 20 of the Securities Regulation Code.
3. SEC Form 17-C <sup>3</sup> Current Report under Section 17 of the Securities Regulation Code and SRC Rule 17 (B) (3)
* PSE Disclosure shall be simultaneous with the reports to SEC via ODISys.

## **IX. Penalties & Administrative Sanctions for Non-Compliance with the Manual**

To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Bank's directors, officers, staff and the subsidiaries and affiliates in case of violation to any of the provision of this manual.

1. In case of first violation, the subject person shall be reprimanded.
2. Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.
3. For third violation, the maximum penalty of removal from office shall be imposed.

Administrative Sanctions per SEC Circular 6 of 2009:

A fine of not more than two hundred thousand pesos (P200,000.00) shall, after due notice and hearing, be imposed for every year that a covered corporation violates the provisions of SEC Circular 9 of 2009, without prejudice to the other sanctions that the Commission may be authorized to impose under the law; provided, however, that any violation of the Securities Regulation Code punishable by a specific penalty shall be assessed separately and shall not be covered by the abovementioned fine.

Other reference on the Penalties and Sanctions may refer to RA No. 7653 or the New Central Bank Act and Circular 496 and Circular 875 on BSP Supervisory Enforcement Policy.

## X. Annexes

1. Annexes A to E refer to the Charters Tab of this Corporate Governance Manual.

- Annex A - Executive Committee Charter
- Annex B – Nominations, Remuneration and Governance Committee Charter
- Annex C – Audit Committee Charter
- Annex D – Risk Management Committee Charter
- Annex E – Trust Committee Charter

2. Board Assessment Forms

- Annex F – General Evaluation of the Board
- Annex G– Individual Self-Assessment by Directors
- Annex H – Qualitative Assessment
- Annex I - Evaluation Sheet for Board Chairman
- Annex J – Evaluation Sheet for Chief Executive Officer
- Annex K - ExCom Assessment Sheet
- Annex L - Nominations, Remuneration and Governance Committee Assessment Sheet
- Annex M - Audit Committee Assessment Sheet
- Annex N - Risk Management Committee Assessment Sheet
- Annex O - Trust Committee Assessment Sheet
- Annex P – Trust Officer Evaluation Sheet
- Annex Q – Assessment Table of Assessing Performance of Directors
- Annex R – Assessment Table of Assessing Performance of Subsidiaries

3. Directors' Kit

- Annex R – Sworn Certification of Independent Director
- Annex S –SEC Form 20-IS
- Annex T – SEC Form 17-C
- Annex U– Verification Statement & Acknowledgement of Board's Duties and Responsibilities
- Annex V - Authorization Form for Querying the BSP Watchlist File
- Annex W– Sworn Certification by the Independent Director
- Annex X– Copy of BSP Bio-Data

## XI. Reference

### REFERENCE

- Board and Organizational Governance. 2011 Institute of Governance.
- CTP USA Corporate Governance Manual
- Securities & Exchange Commission
  - Memorandum Circulars 6 Series of 2009
  - Memorandum Circular 9 Series of 2009
  - Memorandum Circular 9 Series of 2011
  - Memorandum Circular 9 Series of 2014
- Manual of Regulations for Banks (2012), Sec X141 – X 145
- BSP Issuances
  - Circular Letter 2011-045 issued July 1, 2011
  - Circulars 749 issued February 27, 2012, BSP Circulars 757 & 758 issued May 8 & 11, 2012, BSP Circular 766 issued in August 17, 2012, BSP Circular 793 issued in July 5, 2013
  - Memorandum No. 2013-002 issued in January 11, 2013 and M2014-011 issued in March 14, 2014.
  - Circular No. 808 issued August 22, 2013
  - Circular No. 855 issued October 29, 2014
  - Circular No. 840 issued July 2, 2014
  - Circular No. 871 issued March 5, 2015
  - Circular No. 875 issued April 15, 2015
  - Circular No. 895 issued December 14, 2015
  - Circular No. 900 issued January 1, 2016
  - Circular No. 969 issued August 22, 2017