May 7, 2019

PHILIPPINE STOCK EXCHANGE, INC.
6/F PSE Tower
5th Avenue corner 28th Street
Bonifacio Global City, Taguig City,
Philippines 1634

Attention: MS. JANET A. ENCARNACION
Head, Disclosure Department

PHILIPPINE DEALING & EXCHANGE CORP.
37F Tower 1, The Enterprise Center
Ayala Avenue Cor. Paseo de Roxas
Makati City

Attention: ATTY. JOSEPH B. EVANGELISTA
Head, Issuer Compliance and Disclosure Department

Dear Ms. Encarnacion and Atty. Evangelista:

Please find attached the updated Manual on Corporate Governance of Security Bank Corporation.

Thank you.

Very Truly Yours,

Michael A. Gamo
Assistant Corporate Secretary
ASSISTANT CORPORATE SECRETARY’S CERTIFICATE

I, MICHAEL A. GAMO, a citizen of the Philippines, of legal age, with postal address at the 8th Floor, Security Bank Centre, 6776 Ayala Avenue, Makati City, Philippines, after having been duly sworn in accordance with law do hereby certify as follows:

1) That I am the incumbent Assistant Corporate Secretary of Security Bank Corporation (SBC) and that as such I have in my control and custody the minute books and other records of SBC.

2) That the Board of Directors in its meeting held on February 19, 2019, the Board confirmed the approval of the Corporate Governance Committee dated February 19, 2019 of the revised Manual on Corporate Governance with revisions to include the relevant provisions of various BSP Circulars related to the specific duties and responsibilities of the Board of Directors, as follows:

Specific Duties and Functions of the Board of Directors – To approve and oversee the implementation of a sound Enterprise Risk Management policies

BSP Circular 981 on Guidelines on Liquidity Risk Management – The Board is ultimately responsible for the liquidity risk assumed by the bank and the processes used to manage it. The Board of Directors shall:

- Establish the bank’s tolerance for liquidity risk
- Approve the bank’s funding strategy
- Ensure coherence of the measures used to contain the liquidity risk within the stated tolerance level
- Maintain an appropriate structure for a day-to-day funds management of liquidity risk of the bank and its subsidiaries
- Ensure that the bank has competent senior personnel and appropriate resources
- Monitor the bank’s performance and overall liquidity risk profile; and
- Mandate and track the resolution of breaches in risk limits and actions taken on deviations from policies and procedures

BSP Circular No. 982 on Enhanced Guidelines on Information Security Management -
The Board, or an appropriate Board Committee, is responsible for overseeing the development, implementation and maintenance of the Bank’s Information Security Strategic Plan (ISSP) and Information Security Program (ISP)

BSP Circular No. 989 on Guidelines on the Conduct of Stress Testing Exercises -
The Board of Directors shall have the overall responsibility in ensuring that the stress framework is fully integrated into the Bank’s risk management framework and capital planning process, and adequately supports decision-making.

MAKATI CITY, FEBRUARY 22, 2019

MICHAEL A. GAMO
Affiant

SUBSCRIBED AND SWORN TO before me this 27 FEBRUARY 2019 affiant exhibiting to me his Social Security System ID No. 07-1406534-4 issued in Manila, Philippines.
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INTRODUCTION

Security Bank embraces and adheres to good corporate governance practices.

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

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

The main regulations which govern the Code of Corporate Governance or Corporate Governance Manual are:


To promote the development of a strong corporate governance culture and keep abreast with recent development in corporate governance, the Commission in its en banc meeting held on November 10, 2016 resolved to approve the Code of Corporate Governance for Publicly-Listed Companies (CG Code for PLCs).

The Code superseded the following Memorandum Circulars:

a. SEC Memorandum Circular No. 6 series of 2009 (Revised Code of Corporate Governance);
b. SEC Memorandum Circular No. 9 Series of 2011 (Term limits for Independent Directors);
c. SEC Memorandum Circular No. 20 Series of 2013 (All members of the Board of Directors and Key Officers of Publicly Listed Companies to attend Corporate Governance Trainings only with SEC accredited Training providers);
d. SEC Memorandum Circular No. 9 Series of 2014 (Amendment to the Revised Code of Corporate Governance); and
e. Parts VI (Duration of Training) and VII (Exemption from SEC Memorandum Circular 20 Series of 2013) of SEC Memorandum Circular No. 2 Series of 2015 (Additional Guidelines on Corporate Governance Training Programs and Lectures).

2. Revised Guidelines in Strengthening Corporate Governance in BSP-Supervised Financial Institutions

The Monetary Board, in its Resolution Nos. 111 and 277 dated 20 January 2012 and 16 February 2012, respectively, approved BSP Circular 749 (as amended by BSP Circular 757): the revised guidelines in strengthening corporate governance in BSP supervised financial institutions, as further amended by the Monetary Board in its Resolution No. 625 dated April 20, 2012. It is the thrust of the BSP to continuously
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strengthen corporate governance in its supervised financial institutions cognizant that this is central in sustaining the resiliency and stability of the financial system.

To comply with the aforementioned regulatory issuances and to be in line with best practices, Security Bank Corporation (SBC) and its subsidiaries adopted a formal and written Corporate Governance Manual.

In respect to the SEC Code on Corporate Governance, SBC adopts the comply and explain approach which combines voluntary compliance with mandatory disclosure. The Manual shall be updated as the need arises, i.e., to reflect applicable new regulatory issuances or amendment thereto or to be aligned with best practices. It is SBC’s desire that through this Manual, the principles of good corporate governance will be institutionalized in the entire Security Bank Group.
I. THE BOARD’S GOVERNANCE RESPONSIBILITIES

CORPORATE GOVERNANCE CHARTER

This Charter provides the corporate governance framework and sets the platform for corporate governance policies and practices that are in place in the Bank and to which both the Board collectively and the Directors individually are committed to consistently implement.

Policy Statement

The Board of Directors and Management, i.e., officers and staff, of Security Bank Corporation and its subsidiaries hereby commit to the principles and best practices that promote good corporate governance such as the “Principles for Enhancing Corporate Governance” issued by the Basel Committee on Banking Supervision as embodied in BSP Circular 749 (as amended by BSP Circular 757) - Revised Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions (BSFI) and the SEC Memorandum No. 19 Series of 2016 as contained in this Manual, and acknowledge that the same may properly guide the Bank in attaining its corporate goals and objectives.

The Shareholders, Board of Directors and Senior Management believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness and ensure compliance with corporate governance policies and practices within the organization.

Governance System

1. The Board of Directors has ultimate responsibility for the Bank's business and risk strategy, organization, financial soundness and governance. Accordingly, the Board should approve and monitor the overall business strategy of the Bank, thereby taking into account the Bank's long-term financial interests, its exposure to risk and its ability to manage risk effectively.

Moreover, the Board should approve and oversee the implementation of the Bank's:

- overall risk strategy, including its risk tolerance/appetite;
- policies for risk, risk management and compliance;
- internal control systems;
- corporate governance framework, principles and corporate values, including a code of conduct (or comparable document); and
- compensation system.
The board should also provide effective oversight of Senior Management. In discharging these responsibilities, the Board should:

- exercise sound objective judgment;
- have and maintain appropriate qualifications and competence, individually and collectively;
- follow appropriate governance practices for its own work as a board; and
- be supported by competent, robust and independent risk control functions that are subject to the Board's oversight.

The internal control system shall include oversight on the implementation of the key control functions, such as risk management, compliance and internal audit, and reviewing the corporation’s human resource policies, conflict of interest situations, compensation program for employees and management succession plan.

2. The Corporate Governance Committee assists the Board of Directors in the performance of its corporate governance responsibilities.

3. The Audit Committee assists the Board in the performance of its oversight responsibility for the institution's financial reporting policies, practices and control, and internal and external audit functions. It shall be responsible for the setting up of the internal audit department and for the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the audit committee.

4. The Risk Oversight Committee should be responsible for the oversight of Bank’s Enterprise Risk Management system to ensure its functionality and effectiveness.

5. The Corporate Secretary is responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the Bank;

6. The Chief Compliance Officer is the lead senior officer responsible for administering the compliance program, including compliance with the Corporate Governance Manual and the rules and regulations of regulatory agencies such as but not limited to BSP, SEC, PSE and AMLC.

7. The Chief Risk Officer is responsible for the identification, measurement, assessment, monitoring and management of the Bank’s financial risk limits (credit, market, liquidity, etc.).

8. The Chief Audit Executive is responsible for reviewing the adequacy of controls established to ensure compliance with policies, plans, procedures and business objectives, in accordance with its Charter.

9. The External Auditor is an audit professional who performs an audit in accordance with specific laws or rules on the financial statements of a company, government entity, other legal entity or organization, and who is independent of the entity being audited. Users of these entities’ financial information, such as investors,
government agencies, and the general public, rely on the external auditor to present an unbiased and independent audit report.

10. Management - a group of executives given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation. Under the direction of the Board, they should ensure that the Bank’s activities are consistent with the business strategy, risk tolerance/appetite and policies approved by the Board. In this regard, Senior Management should implement appropriate systems for managing both financial and non-financial risks to which the Bank is exposed, including a comprehensive and independent risk management function and an effective system of internal controls.

11. Risk governance framework shall refer to the framework through which the board of directors and management establish the BSFI’s strategy; articulate and monitor adherence to risk appetite and risk limits; and identify, measure, and manage risks.

**Corporate Governance Policies and Standards**

Good corporate governance and transparency are fundamental to achieving SBC’s vision of becoming one of the top five universal banks in the country.

SBC strives for excellence in its products and services and in the way, it does business throughout all its operations and this process commences with its Board of Directors, the Senior Management team and all its employees regardless of location through its BetterBanking endeavor. This applies equally to transparency, accuracy and integrity in reporting and meeting the expectations of regulators, shareholders and the public - regardless of whether this relates to financial performance reports and accounting procedures, product and standards, ethics in dealings with customers, co-workers and the public, or behaving in a safe and environmentally responsible manner.

SBC shall continually formulate and implement corporate governance policies that will strengthen and support the achievement of its corporate goals and objectives, of which increasing shareholders’ value, giving excellent service to customers and complying to laws, rules and regulations are of primary importance.

**Information Access Management**

To enable the Board to operate effectively and properly fulfill their duties and responsibilities, Management shall provide them access to complete, accurate and timely information about the matters to be taken up in their regular and special board meetings and in regular briefings/meetings with Senior Management. To achieve this, the Board ensures that an effective information framework exists throughout the organization and that a suitable information access system is in place to ensure that important information always reaches them on time.
The Board members should take responsibility for ensuring they have the right/necessary information. Information shall be submitted to the Board through formal and informal channels and both need to be structured and organized so that Management and support staff know exactly what information is to be provided. Reliance on information volunteered by Management would not be sufficient in all circumstances. Hence, the Board shall be given independent access to Management and the Corporate Secretary for information which may include the background or explanation on matters brought before the Board, disclosures, budgets, forecast and internal financial documents.

The members, either individually or as a Board, should have access to independent professional advice at the corporation's expense.

**Accountability and Audit**

The Board is primarily accountable to the stockholders. It should provide them with a balanced and comprehensible assessment of the corporation's performance, position and prospects on a periodic basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.

Management should formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal control in accordance with guidelines prescribed by applicable rules and regulations.

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

The Board, after consultation with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the Securities & Exchange Commission who shall undertake an independent audit of the Bank, and shall provide an objective assurance on the manner by which the financial statements are prepared and presented to the stockholders. The external auditor shall not, at the same time, provide internal audit services to the corporation. Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.

**Stockholders’ Rights and Protection of Stockholders’ Minority Interests**

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

i. Right to vote on all matters that require their consent and approval;

ii. Pre-emptive right to all stock issuances of the corporation;

iii. Right to inspect corporate books and records
iv. Right to information  
v. Right to dividends  
vi. Appraisal right

Pre-emptive right to all stock issuances of the corporation was waived. Article 7 of the Bank’s Articles of Incorporation states that no holder of shares of securities issued by the Corporation shall be entitled to pre-emptive rights with respect to shares issued by the Bank.

The Board should be transparent and fair in the conduct of the annual and special stockholders’ meetings of the corporation. 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.

All shareholders, including minority shareholders, shall have the right to nominate candidates for the Board of Directors.

**Governance Self-Rating System**

The Board may create an internal self-rating system that can measure the performance of the Board, board committees and Management in accordance with the criteria provided for in this Manual.

The creation and implementation of such self-rating system, including its salient features, maybe disclosed in the corporation’s annual report.

**Disclosure and Transparency**

The essence of corporate governance is transparency. The Bank shall therefore publicly and timely disclose all material information which could adversely affect its viability or the interests of its stockholders and other stakeholders. Such information should include, among others, earnings results, acquisition or disposition of assets, off-balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.

The Board shall therefore commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the Securities and Exchange Commission, Philippine Stock Exchange, Bangko Sentral ng Pilipinas, Bureau of Internal Revenue and other regulatory agencies, for the interest of its stockholders and other stakeholders.
INFORMATION ACCESS MANAGEMENT

Information Filtering

For the Board to operate effectively and properly fulfill their duties and responsibilities, Management shall provide them access to complete, accurate and timely information about the matters to be taken up in their regular and special board meetings and in regular briefings/meetings with Senior Management to allow proper analysis and decision-making. To achieve this, it is necessary for the Board to ensure that an effective information framework exists throughout the organization and that a suitable information access system is in place to ensure that important information always reaches them on time. The Board members should take responsibility for ensuring they have the right/necessary information. Information shall be submitted to the Board through formal and informal channels and both need to be structured and organized so that Management and support staff know exactly what information is to be provided.

Timely submission of information

Lengthy and complex documents and financial statements need to be provided to directors in sufficient time for the director to assimilate the information before any subsequent discussions.

Formal Information Channels

Information will be submitted to the Board through formal channels such as regular and special board meetings, regular briefings, structured presentations and other official documents.

Informal Information Channels

Information may also be submitted to the Board through informal channels such as telephone, e-mails, informal discussions and meetings with Management, informal gatherings, etc.

Information Framework

Information needs to be accurate, timely and meaningful. It is important to set up a structured process for handling information throughout the organization and ensuring that information that needs to be communicated to the Board members is done in an effective manner.
Regular Briefing Sessions

Board members should individually and collectively hold regular briefing sessions with Senior Management to ensure that they are in touch with current activities and events throughout the organization and to provide Management with information that they require to carry out their duties.
BOARD CHARTER

Compliance with the principles of good governance shall start with the Board of Directors. The Board Charter, which shall serve as a guide to the Board of Directors on how to discharge their functions, mainly states the roles, responsibilities and accountabilities of which the Board of Directors should consistently and properly perform.

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

Definition of Directors

Directors shall include:

1) directors who are named as such in the Articles of Incorporation;
2) directors duly elected in subsequent meetings of the stockholders or those appointed by virtue of the charter of government-owned banks; and
3) those elected to fill vacancies in the Board of Directors.

Executive Director (ED)

He is a director who is also the head of a department or unit of the corporation or performs any work related to its operation. He directly manages/has executive responsibility of day-to-day operations of a part or the whole of the organizations.

Non-Executive Director (NED)

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

Independent Director (ID)

In general, an independent director is a person who is independent of Management and the controlling shareholder, and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director. He lends impartial views on the assumptions, recommendations and reports submitted by Management and renders unbiased decisions on matters that pose potential conflict of interest (e.g. transactions with related parties).
Independent Directors shall possess a good general understanding of the industry and that independence and competence should go hand-in-hand. Non-executive directors, including independent directors, must possess the qualifications and stature that would enable them to effectively and objectively participate in the deliberations of the Board.

In particular, an independent director of a bank shall mean a person who –

(i) Is not, or has not been an officer or employee of the company unless there has been a change in the controlling ownership of the company;

(ii) Is not, and has not been in the three years immediately preceding the election, a director of the covered company; a director, officer, employee of the covered company’s subsidiaries, associates, affiliates or related companies; or a director, officer, employee of the covered company’s substantial shareholders and its related companies;

(iii) Is not a stockholder with shares of stock sufficient to elect one seat in the Board of Directors of the institution, or in any of its related companies or of its majority corporate shareholders;

(iv) Has not been appointed in the covered company, its subsidiaries, associates, affiliates or related companies as Chairman “Emeritus,” “Ex-Officio” Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three years immediately preceding his election;

(v) Is not a securities broker-dealer of listed companies and registered issuers of securities. “Securities broker-dealer” refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer;

(vi) Does not engage or has not engaged, whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with the covered company or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm’s length and could not materially interfere with or influence the exercise of his independent judgment;

(vii) Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the covered company, any of its related companies or substantial
shareholder, or is otherwise independent of Management and free from any business or other relationship within the three years immediately preceding the date of his election;

(viii) Is not affiliated with any non-profit organization that receives significant funding from the covered company or any of its related companies or substantial shareholders;

(ix) Is not employed as an executive officer of another company where any of the covered company’s executives serve as directors.

(x) 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;

(xi) Is not an owner of more than two percent (2%) of the outstanding shares of the covered company, its subsidiaries, associates, affiliates or related companies;

(xii) Is not a relative, legitimate or common-law of any director, officer or stockholder holding shares of stock sufficient to elect one seat in the Board of the Bank or any of its related companies or of any of its substantial shareholders. For this purpose, relatives refer to the spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister-in-law;

*Note: Related companies refer to (a) the covered entity’s holding/parent company; (b) its subsidiaries; and (c) subsidiaries of its holding/parent company*

The Board’s independent directors should serve for a maximum cumulative term of nine years. After which, the independent director should be perpetually barred from re-election as such in the same company, but may continue to qualify for nomination and election as a non-independent director. In the instance that a company wants to retain an independent director who has served for nine years, the Board should provide meritorious justification/s and seek shareholders’ approval during the annual shareholders’ meeting.

*Definition of Independence*

Independence, viewed in the light of the duties and responsibilities of the Board and its members, shall mean the freedom from any business or other relationship with the Bank which could interfere with the exercise of independent judgment in carrying out the responsibilities of a director.
Lead Independent Director

The lead independent director shall be designated from among the Independent Directors. He shall have sufficient authority to lead the Board in cases where Management has clear conflicts of interest. His functions include, among others, the following:

a) Serves as an intermediary between the Chairman and the other directors when necessary;
b) Convenes and chairs meetings of the non-executive directors; and
c) Contributes to the performance evaluation of the Chairman, as required.

Composition of the Board of Directors (BOD)

The BOD of the Bank consists of fifteen (15) directors, including independent directors. In accordance with regulations, membership to the Board shall be subject to the following limits and other requirements:

(a) The Board shall be composed of at least five (5) but not more than fifteen (15) members who are elected by the stockholders, Provided, That in the case of a bank merger or consolidation, the number of directors may be increased up to the total number of the members of the board of directors of the merging or consolidating bank as provided for in the respective Articles of Incorporation, but in no case to exceed twenty-one (21). The Board shall determine the appropriate number of its members to ensure that the number thereof is commensurate with the size and complexity of the Bank’s operations;

(b) At least three are independent directors, or such number as to constitute at least one-third (1/3) of the members of the Board, whichever is higher;

(c) Non-Filipino citizens may become members of the Board to the extent of the foreign participation in the equity of the Bank, Provided, majority of the directors are residents of the Philippines.

(d) Membership may be a combination of executive and non-executive directors (which include independent directors) in order that no director or small group of directors can dominate the decision-making process. To the extent practicable, the members of the board of directors shall be selected from a broad pool of qualified candidates. Majority of the member shall be non-executive directors, who shall include independent directors, shall possess the necessary qualifications and stature that would enable them to effectively participate in the deliberation and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances.

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

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

General Responsibility of the Board of Directors

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

The two key elements of the fiduciary duty of board members are the duty of care and the duty of loyalty. The duty of care requires board members to act on a fully informed basis, in good faith, with due diligence and care. In exercising the duty of loyalty, board members should act in the interest of the company and all its shareholders, and not those of the controlling company of the group or any other stakeholder.

The Board is primarily responsible for the governance of the Bank. It shall foster the long-term success of the Bank and secure its sustained competitiveness and profitability in a manner consistent with its corporate objectives and best interests of its stockholders and other stakeholders. The Board shall review and guide corporate strategy, major plans, set performance objectives, monitor implementation and corporate performance, and oversee major capital expenditures, acquisition and divestitures, in order to sustain the company’s long-term viability and strength. Further, the Board of Directors is also responsible for monitoring and overseeing the performance of Senior Management as the latter manages day to day affairs of the institution.

The Board shall periodically review the corporate vision and mission statements to ensure that they remain reflective of and accurately embody the Bank’s purposes, goals and direction.

While management of the day to day affairs of the Bank is the responsibility of Management, the Board is responsible for monitoring and overseeing management actions.

Accountability of the Board of Directors

The Board is primarily accountable to the stockholders and stakeholders in ensuring that the Bank is being run in a prudent and sound manner.
For the stockholders, the Board shall:

- Be transparent and fair in the conduct of the annual and special meetings of stockholders;
- Promote the rights of the stockholders, removing impediments to the exercise of the rights. Stockholders shall seek redress through the Bank’s Office of the Corporate Secretary or the Investor Relations Office for breach of their rights;
- Take appropriate steps to remove excessive or unnecessary costs or other administrative impediments to the meaningful participation of stockholders in meetings, whether in person or by proxy.
- Provide stockholders with accurate and timely information to enable them to make sound judgment on all matters brought to their consideration for approval;
- Provide the stockholders with a comprehensive and balanced assessment of the Bank’s performance, position and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.
- Treat all stockholders equally, without discrimination.

For the stakeholders, the Board shall:

- Provide its employees the necessary employee benefit programs for their safety, health and welfare. To equip the employees in carrying out its function and duties, the Bank offers continuous training and development.
- The Bank consider its employees as one of the most important asset, therefore it recognizes everyone’s contribution through rewards and compensation to encourage employees to perform better and motivates them to take a more dynamic role in the corporation.
- Recognize the important roles of its customers, creditors, Management and employees, the regulators, deposit insurer, suppliers, other business partners and the public at large in relation to the business and operations of the Bank.

Stakeholders refers to any individual, organization or society at large who can either affect and/or be affected by the company’s strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.
Specific Duties and Functions of the Board of Directors

To ensure a high standard of best practice for the Bank, its stockholders and other stakeholders, the Board shall conduct itself with honesty and integrity in the performance of its duties and functions:

(1) To approve and monitor the implementation of strategic objectives.

Consistent with the institution’s strategic objectives, business plans and programs, with guidelines for major capital expenditures, shall be established for the Bank including its trust operations, and initiatives thereto shall be implemented with clearly defined responsibilities and accountabilities. These shall take into account the Bank’s long-term financial interests, its level of risk tolerance and its ability to manage risks effectively. The board shall establish a system for measuring performance against plans through regular monitoring and reviews, with corrective action taken as needed.

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

The board shall actively engage in the affairs of the Bank and keep up with material changes in the BSFI’S business and regulatory environment as well as act in a timely manner to protect the long term interests of the Bank.

(2) To approve and oversee the implementation of policies governing major areas of banking operations.

The board shall approve policies on all major business activities, e.g., investments, loans, asset and liability management, trust, business planning and budgeting. The board of directors shall ensure that corporate governance policies are followed and periodically reviewed for on-going improvement. The board shall accordingly define the Bank’s level of risk tolerance in respect of said activities. A mechanism to ensure compliance with said policies shall also be provided.

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

(3) To approve and oversee the implementation of a sound Enterprise Risk Management policies.

The board of directors shall be responsible for defining the Bank’s level of risk tolerance and for the approval and oversight of the implementation of policies and procedures relating to the management of risks throughout the institution, including its trust operations. The risk management policy shall include:
(a) a comprehensive risk management approach;
(b) a detailed structure of limits, guidelines and other parameters used to govern risk-taking;
(c) a clear delineation of lines of responsibilities for managing risk;
(d) an adequate system for measuring risk; and
(e) effective internal controls and a comprehensive risk-reporting process

The board of directors shall ensure that a robust internal reporting system is in place that shall enable each employee to contribute to the appreciation of the Bank’s overall risk exposures.

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

Liquidity Risk Management (Circular 981 Guidelines on Liquidity Risk Management)

The board is ultimately responsible for the liquidity risk assumed by the bank and the processes used to manage it. The board of directors shall:

- Establish the bank’s tolerance for liquidity risk;
- Approve the bank’s funding strategy;
- Ensure coherence of the measures used to contain liquidity risk within the stated tolerance level;
- Maintain an appropriate structure for day-to-day funds management and the management of liquidity risk of the bank and its subsidiaries;
- Ensure that the bank has competent senior personnel and appropriate resources;
- Monitor the bank’s performance and overall liquidity risk profile; and
- Mandate and track the resolution of breaches in risk limits and actions taken on deviations from policies and procedures.


The Board, or an appropriate Board Committee, is responsible for overseeing the development, implementation and maintenance of the Bank’s Information Security Strategic Plan (ISSP) and Information Security Program (ISP).

Conduct of Stress Testing Exercises (Circular 989 Guidelines on the Conduct of Stress Testing Exercises)
The Board of Directors shall have the overall responsibility in ensuring that the stress testing framework is fully integrated into the bank’s risk management framework and capital planning process, and adequately supports decision-making.”


- The Board and senior management are responsible for overseeing the implementation of a sound BCM process, which involves the creation and promotion of an organizational culture that places high priority on business continuity. This should be reinforced by providing sufficient financial and human resources associated with the Bank’s business continuity initiative.
- The Board shall approve the Business Continuity Management policies, standards and processes as endorsed by the senior management.

**Social Media Risk Management (Circular 949 Guidelines on Social Media Risk Management series of 2017)**

The bank should establish an appropriate framework that will result in sound social media governance and risk management. In this regard, the Board shall have the following responsibilities:

- Define the Bank’s risk tolerance level, understanding the nature and degree of risks the Bank will be exposed to and ensuring that these risks are properly addressed.

- Approve and oversee the design and implementation of the social media strategy, related standards, policies and procedures, and means to ensure compliance with said standards and/or policies as well as applicable laws and regulations.

**Operational Risk Management (Circular 900 Guidelines on Operational Risk Management series of 2016)**

The duties and responsibilities of the Board of Directors in relation to the management of risk include the establishment of a comprehensive and effective operational risk management framework as part of the enterprise-wide risk management system. In this regard, the board shall:

- Ensure that it is aware of and understands the nature and complexity of the major operational risks of the bank’s business and operating environment, including risks arising from transactions or relationships with third parties, vendors, suppliers including outsourced service providers, and clients of services provided. This should include understanding of both the financial and non-financial impact of operational risk to which the bank is exposed to;
Approve the operational risk management framework which shall form part of the bank’s enterprise-wide risk management system and shall cover all business lines and functions of the bank, including outsourced services and service provided to external providers. The organizational risk framework should include an enterprise-wide definition of operational risk consistent with the definition given in this section, governance and reporting structures including the roles and responsibilities of all personnel, feedback mechanism, as well as standards and tools for operational risk management. In this respect, the Board shall:

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

b. Approve appropriate thresholds or limit to ensure that the level of operational risk is maintained within tolerance and at prudent levels and supported by adequate capital. Relative to this the board shall approve policy on resolving limit breaches which should cover escalation procedures for approving or investigating breaches, approving authorities, and requirements in reporting to the appropriate level of management or the board;

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

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

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

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

g. Ensure that the operational risk management framework is subject to effective and comprehensive independent review, on a periodic basis, by operationally independent, appropriately trained, and competent staff to ensure that it remains commensurate with the bank’s risk profile and continues to be adequate and effective in managing operational risk. The review should take into account the changes in business and operating environment, material changes in systems, business activity or volume of transactions, quality of control environment, effectiveness of risk management or mitigation strategies, loss experience, and the frequency, volume or nature of breaches in limits or any policy.

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

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

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

For this purpose, the board shall approve appropriate hiring and selection policies and processes, adopt a continuing professional development program, and institutionalize a framework for continuing assessment of fitness and propriety of employees. These policies, processes and programs should reinforce the conduct and values being promoted in the organization.
Further, the board shall oversee the design and implementation of remuneration policies. It shall ensure that the remuneration policies do not encourage excessive risk-taking or provide incentives to people to perform contrary to the desired risk management values. It shall also ensure that remuneration policies are appropriate and aligned with the bank’s long-term strategic direction and risk appetite, as well as with relevant legal or regulatory requirements;


To establish an effective IT governance framework, the Board of Directors shall have the following responsibilities:

- The ultimate responsibility of the Board is to understand the IT risks confronted by the Bank and ensuring that they are properly managed;
- Approve the design and implementation of the IT Risk Management Systems (ITRM) and the IT strategic plan that is aligned with the institution’s business strategy;
- Delegate an IT Steering Committee (ITSC) or its equivalent IT oversight function to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. The Board shall ratify the ITSC Charter which contain the roles and responsibilities of the IT Steering Committee.
- The Board or Senior Management shall appoint an independent Information Security Officer (ISO) who will be responsible and accountable for the organization-wide IS program. The ISO shall report directly to the Board or Senior Management and have sufficient independence to perform his mandate.

(4) To oversee selection and performance of Senior Management.

It is the primary responsibility of the Board of Directors for approving the selection to appoint competent Management team at all times, monitor and assess the performance of the Management team and heads of control functions led by the Chief Executive Officer (CEO) based on established performance standards that are consistent with the Bank’s strategic objectives, and conduct regular review of the Bank’s policies with the Management team.

   a. The board of directors shall adopt policies aimed at ensuring that board of directors members 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 BSFI’s operations.
b. The board of directors shall apply fit and proper standards on key personnel. Integrity, technical expertise and experience in the institution’s business, either current or planned, shall be the key considerations in the selection process. And because mutual trust and a close working relationship are important, the members of Senior Management shall uphold the general operating philosophy, vision and core values of the institution. The board of directors shall replace members of Senior Management, when necessary, and have in place an appropriate plan of succession.

c. The board of directors shall regularly monitor the actions of Senior Management and ensure that these are consistent with the policies that it has approved. It shall put in place formal performance management framework to ensure that the Management, including the Chief Executive Officer, and personnel’s performance is at par with the standards set. The performance standards shall be consistent with the Bank’s strategic objectives and business plans, taking into account the Bank’s long-term financial interests. Results of the performance evaluation shall form part of the assessment of the continuing fitness and propriety of Management, including the Chief Executive Officer, and personnel in carrying out their respective duties and responsibilities.

d. The board of directors shall regularly meet with Senior Management to engage in discussions, question and critically review the reports and information provided by the latter. The board of directors shall set the frequency of meeting with Senior Management taking into account the size, complexity of operations and risk profile of the Bank.

The board of directors shall regularly review policies, internal controls and self-assessment functions (e.g., internal audit, risk management and compliance) with Senior Management to determine areas for improvement as well as to promptly identify and address significant risks and issues.

Management of human resource-related risk

- Recruitment and Selection. The Board shall establish efficient process that will facilitate timely recruitment and selection of personnel from a broad pool of candidates with appropriate educational background, skills, experience and competencies to fulfill the duties and responsibilities of the function.

- Performance Management. The board shall establish effective performance management framework that will ensure that personnel’s performance is at par with the standards set by the board/senior management. Results of performance evaluation should be linked to other human resource activities such as training and development, remuneration, and
succession planning. These should likewise form part of the assessment of the continuing fitness and propriety of personnel in carrying out their respective duties and responsibilities.

The assessment of continuing fitness and propriety of personnel should take into account factors that may affect the performance of an individual. For instance, the financial circumstances of an employee who will be responsible for the custody of, or handling of cash related transactions, shall be taken into consideration in the evaluation of his continuing qualification.

- **Training and Development.** The board shall establish training and development programs that will ensure continuing development of employees’ knowledge, competence, and skill. Results of gaps assessment in the performance evaluation/appraisal process can be used in the creation of training and development programs for employees.

- **Remuneration and compensation.** The board shall establish sound remuneration and compensation policies that can be used by the institution to attract/recruit and retain highly qualified workforce. Said policies should appropriately motivate personnel and discourage excessive risk taking. This can be achieved through timely assessment of performance and competencies based on set standards. Results of performance assessment/appraisal can be used in the organization’s remuneration decisions.

- **Succession Planning.** The board shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for key and or critical positions in an organization, through systematic evaluation process and training. This will require identifying critical skills and competencies; assessing gaps; and designing developing, and delivering training and development programs to build or improve critical skills and competencies. The program should be adequately documented to facilitate monitoring and assessment of its implementation.

- **Adequacy of complement.** The board shall establish effective strategic manpower planning to ensure that there is adequate and right manpower complement to meet the strategic goals and operational plans of the organization.

- **Disciplinary Actions.** The board, officers and all employees are expected to conform to prescribed ethical culture and guidelines, meet performance standards, and to behave ethically/appropriately in the workplace. Disciplinary or corrective actions may be taken to improve/arrest unacceptable behavior or performance. Disciplinary action must be in accordance with the laws and the applicable rules.
Separation from service. The board shall establish policies and procedures governing the separation of employees from service (e.g., termination, dismissal, retrenchment, retirement, or resignation), which should include transfer of accountabilities and/or salient information (e.g., client data, business strategies and formula, other trade secrets, etc.) to the successor, and clearance requirements. Policies may also include “non-compete” clauses, in accordance with existing laws.

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

The board of directors shall ensure that Senior Management’s expertise and knowledge shall remain relevant given the Bank’s strategic objectives, complexity of operations and risk profile.

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

Since reputation is a very valuable asset, it is in the institution’s best interest that in dealings with the public, it observes a high standard of integrity. The board of directors shall lead in establishing the tone of good governance from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior for itself, the Senior Management and other employees. The board of directors shall:

(a) Articulate clear policies on the handling of any transaction with DOSRI and other related parties ensuring that there is effective compliance with existing laws, rules and regulations at all times and no stakeholder is unduly disadvantaged. In this regard, the Board of Directors shall define “related party transaction”, which is expected to cover a wider definition than DOSRI under existing regulations and a broader spectrum of transactions (i.e., not limited to credit exposures), such that relevant transactions that could pose material risk or potential abuse to the Bank and its stakeholders are captured.

(b) 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:

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 RPT5 shall also be approved by the board of directors. All final decisions of the board of directors on material RPTS, including important facts about the
nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders’ meetings and duly reflected in the minutes of board of directors and stockholders’ meetings.

The board of directors shall delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the board of directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.

The board of directors shall establish an effective system to:

(i) Determine, identify and monitor related parties and RPTs;

(ii) Continuously review and evaluate existing relationships between and among businesses and counterparties; and

(iii) Identify, measure, monitor and control risks arising from RPTS. The system should be able to define related parties' extent of relationship with the BSFI; assess situations in which a nonrelated party (with whom a BSFI has entered into a transaction subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulatory supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the Bangko Sentral and audit functions for review. Any changes in the policies and procedures shall be approved by the board of directors.

The board of directors shall maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPT5 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 BSFI is well insulated from any going concern issue of related parties.

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.

(c) Require the Bank’s stockholders to confirm by majority vote, in the annual stockholders’ meeting, the Bank’s significant transactions with its DOSRI and other related parties.

Credit Risk Environment (Circular 855 Guidelines on sound credit risk management practices Series of 2014)

The role of the Board in establishing appropriate credit risk environment shall be the following:

- Approval and regular review of credit risk strategy and credit policy;
- 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;
- It 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.
- Board and Senior Management shall ensure that adequate resources and appropriate level of staffing are allocated to execute all kinds of credit activities.
- The credit risk management organization shall be classified according to the function of activities to properly segregate accountabilities. The Board shall ensure that no individual is assigned in conflicting responsibilities, and effectively monitor and control the risks taken.

(d) Articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the institution, or unethical conduct.

(e) Articulate policies that will prevent the use of the facilities of the Bank in furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.


- It shall be the ultimate responsibility of the Board of directors to fully comply with the AMLA provisions and Implementing Rules and Regulations. It shall further ensure that oversight on the covered person’s AML/CTF compliance management is adequate.
(f) Explicitly discourage the taking of excessive risks as defined by internal policies and establish an employees’ compensation scheme effectively aligned with prudent risk taking. The compensation scheme shall be adjusted for all types of risk and sensitive to the time horizon of risk. Further, the grant of compensation in forms other than cash shall be consistent with the overall risk alignment of the Bank. The Board of Directors shall regularly monitor and review the compensation scheme to ensure that it operates and achieves the objectives as intended.

(g) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the bank at all times. Further, the Board of Directors shall ensure that all transactions involving the pension fund are conducted at arm’s length terms.

(h) Allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the Board of Directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, Senior Management and/or the Board itself. As such, it shall oversee the integrity, independence, and effectiveness of BSFI’s policies and procedures for whistleblowing.

(i) Articulate policies in communicating corporate values, codes of conduct and other standards in the Bank as well as the means to confidentially report concerns or violations to an appropriate body.

Financial Consumer Protection (Circular 857 Series of 2014)

The Board of directors is ultimately responsible in ensuring that consumer protection practices are embedded in the Bank’s business operations. The bank must adhere to the highest service standards and embrace a culture of fair and responsible dealings in the conduct of their business through the adoption of a bank’s Financial Consumer Protection Framework that is appropriate its structure, operations, and risk profile. The Bank’s Financial Consumer Protection Framework shall be embodied in its Board-approved Financial Consumer Protection Manual.

- The board and senior management are responsible for developing the bank’s consumer protection strategy and establishing an effective oversight over the consumer protection programs.

- The board shall be primarily responsible for approving and overseeing the implementation of the Bank’s consumer protection policies as well as the mechanism to ensure compliance with said policies.
• The board is responsible for developing and maintaining a sound Consumer Protection Risk Management Systems (CPRMS) that is integrated into the overall framework for the entire product and service life-cycle.

• The board and senior management should periodically review the effectiveness of the CPRMS, including how findings are reported and whether the audit mechanisms in place enable adequate oversight. The Board and senior management must also make certain that CPRMS weaknesses are addressed and corrective actions are taken in a timely manner.

(6) To ensure proper communication with various stakeholders

(a) The Board shall establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Bank.

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

(7) To define appropriate governance policies and practices for the Bank and for its own work and to establish means to ensure that such are followed and periodically reviewed for ongoing improvement.

The board of directors, through policies and its own practices, shall establish and actively promote, communicate and recognize sound governance principles and practices to reflect a culture of strong governance in the Bank as seen by both internal and external stakeholders.

(a) The board of directors shall ensure that the Bank’s organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability, especially between the roles of the Chairman of the Board of Directors and Chief Executive Officer/President.

(b) The board of directors shall maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities.

(c) The board of directors shall structure itself in a way, including in terms of size, frequency of meetings and the use of committees, so as to promote efficiency, critical discussion of issues and thorough review of matters. It shall meet regularly to properly discharge its functions. It shall also ensure that independent views in board meetings shall be given full consideration and all such meetings shall be duly minuted.
(d) The board shall conduct and maintain the affairs of the institution within the scope of its authority as prescribed in its charter and in 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 banking practice. The board shall appoint a Compliance Officer who shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. The Compliance Officer shall be vested with appropriate authority and provided with appropriate support and resources.

(e) The board of directors shall establish a system of checks and balances which applies in the first instance to the Board itself. Among the members of the Board, an effective system of checks and balances must exist. The system shall also provide a mechanism for effective check and control by the Board over the Chief Executive Officer and key managers and by the latter over the line officers of the Bank. Checks and balances in the Board shall be enhanced by appointing a chairperson who is a non-executive, whenever possible.

(f) The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the Chairman, the Chief Executive Officer, the individual directors, and the Bank itself, which may be facilitated by the Nominations and Remuneration Committee or external facilitators. The composition of the Board shall also be reviewed regularly with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation shall be adopted which shall include, but not limited to, the setting of benchmark and peer group analysis.

Every three years, the assessment of performance of the Chairman, individual members of the Board and BOD-level committees should be supported by an external facilitator, who can be any independent third party such as, but not limited to, a consulting firm, academic institution or professional organization.

(g) The Board shall ensure that individual members of the Board and the shareholders are accurately and timely informed. It shall provide all its members and to the shareholders a comprehensive and understandable assessment of the Bank’s performance, financial condition and risk exposures. All members of the Board shall have reasonable access to any information about the institution at all times. It shall also provide appropriate information that flows internally and to the public.

(8) To constitute committees to increase efficiency and allow deeper focus in specific areas.

The board of directors shall create committees that focus on specific board functions to aid in the optimal performance of its roles and responsibilities, the number and nature of which would depend on the size of the Bank and the Board, the complexity of operations, long-term strategies and risk tolerance level of the Bank.
(a) The board of directors shall 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. The Board of directors shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.

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

(b) The board of directors shall ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee’s fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.

(c) The board of directors shall constitute, at a minimum, the following committees:

(i) Audit Committee,
(ii) Risk Oversight Committee,
(iii) Corporate Governance Committee.

(9) To effectively utilize the work conducted by the internal audit, risk management and compliance functions and the external auditors.

The board of directors shall recognize and acknowledge the importance of the assessment of the independent, competent and qualified internal and external auditors as well as the risk and compliance officers in ensuring the safety and soundness of the operations of the Bank on a going-concern basis and communicate the same through-out the Bank. This shall be displayed by undertaking timely and effective actions on issues identified.
The board of directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.

Further, the board must ensure that non-executive board members shall meet regularly, other than in meetings of the audit and risk oversight committees, in the absence of Senior Management and any Executive Directors, with the external auditor and heads of the internal audit, compliance and risk management functions. The meetings should be chaired by the lead Independent Director.

Other Duties in accordance with the requirements defined in BSP Circular 972 “Enhanced Guidelines in Strengthening Compliance Framework”

Ensure that compliance program is defined for the BSFI and that compliance issues are resolved expeditiously. The Corporate Governance, chaired by an independent Director, shall oversee the compliance program.

The board of directors shall ensure that BSFI personnel and affiliated parties adhere to the pre-defined compliance standards of the BSFIs rests collectively with senior management, of which the CCO is the lead operating officer on compliance. Senior management, through the CCO, should periodically report to the board of directors or through the corporate governance committee matters that affect the design and implementation of the compliance program. Any changes, updates and amendments to the compliance program must be approved by the board of directors. However, any material breaches of the compliance program shall be reported to and promptly addressed by the CCO within the mechanisms defined by the compliance manual.

Act on the delegated authority of the Stockholders on the appointment/re-appointment of the external auditors of the Bank based on the recommendation of the Bank’s Audit Committee.

(10) To perform independent oversight over controls and system of checks and balances to ensure high quality of the external audit function in relation to the audited financial statements of the Bank, such as:

(a) Adequate governance structures and control processes related to the different activities of the Bank are established and complied with, including:

a. Systems that accurately identify and measure all material risks and adequately monitor and control these risks;
b. 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;

c. The evaluation of the quality of assets and their proper recognition and measurement; and

d. Requirements on the gathering and disclosure of material and relevant information on financial accounts including related party transactions.

(b) 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:

a. Reviewing and approving written policies related to fair valuations;

b. Continuing review of significant valuation model performance for issues escalated for resolution and all significant changes to valuation policies;

c. Ensuring adequate resources are devoted to the valuation process;

d. 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;

e. Ensuring independence in the valuation process between risk taking and control units;

f. Ensuring appropriate internal and external audit coverage of fair valuations and related processes and controls;

g. Ensuring consistent application of accounting standards and disclosures within the applicable accounting framework;

h. Ensuring the identification of significant differences, if any, between accounting and risk management measurements and their proper documentation and monitoring; and

i. Ensuring adequate documentation of significant differences between the valuations used for financial reporting purposes and for regulatory purposes.

(c) Appropriate management information systems are established; and
(d) The interests of stakeholders are adequately protected

Management oversight and control culture. (Internal Control Framework – Circular 871 series of 2015)

The Board of Directors and senior management shall be responsible for promoting high ethical and integrity standards; establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud.

The board of directors shall be 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. The board of directors shall also 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.

On a periodic basis, the board of directors shall:

(1) Conduct discussions with management on the effectiveness of the internal control system;

(2) Review evaluations made by the audit committee on the assessment of effectiveness of internal control made by management, internal auditors and external auditors;

(3) Ensure that management has promptly followed up on recommendations and concerns expressed by auditors and supervisory authorities on internal control weaknesses; and

(4) 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.

In addition, the board of directors shall likewise 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.

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

(a) To define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account the nature and complexity of operations, size and the types of risks to which the Bank and its subsidiaries are exposed. The board shall also establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements.

(b) The board of directors shall ensure that the group’s corporate governance framework includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions.

(c) To define the level of risk tolerance for the group, which shall be linked to the process of determining the adequacy of capital of the group.

(d) To ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems.

(e) To establish a system for monitoring compliance of each entity in the group with all applicable policies, practices and systems.

(f) To define and approve policies and clear strategies for the establishment of new structures.

(g) To understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company bank. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group’s capital, risk profile and funding under normal and contingent circumstances.

(h) To develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.

(i) To require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the Board approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the Board.

(j) To disclose to the Bangko Sentral ng Pilipinas (BSP) all entities in the group (e.g., owned directly or indirectly by the parent company bank and/or its subsidiaries/affiliates including special purpose entities (SPEs), and other entities that the Bank exerts control over or those that exert control over the Bank, or those that are related to the Bank and/or its subsidiaries/affiliates either through common ownership/directorship/officership) as well as all significant transactions between entities in the group.
involving any BSP regulated entity. For this purpose, significant shall refer to transactions that would require board approval based on the Bank’s internal policies or as provided under existing regulations: Provided, that the Bank shall continue to submit any report required under existing regulations covering transactions between companies within the group.

Responsibilities of a Director/Board Member

To ensure a high standard of best practice for the Bank, its stockholders and other stakeholders, the Board shall conduct itself with honesty and integrity in the performance of its duties and functions:

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

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

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

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

3. To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the public.

A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.

4. To devote time and attention necessary to properly discharge their duties and responsibilities.
Directors should devote sufficient time to familiarize themselves with the institution’s business.

They must be constantly aware of the institution’s condition and be knowledgeable enough to contribute meaningfully to the Board’s work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the Board.

5. **To act judiciously.**

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

6. **To contribute significantly to the decision-making process of the Board.**

   Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such board.

7. **To exercise independent judgment.**

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

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

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

9. **To observe confidentiality.**

   Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They may not disclose said information to any other person without the authority of the Board.
Directors and/or Board members are mandated to uphold and promote the principles of the Bank’s Code of Business Ethics for Members of the Board of Directors approved by the Board on April 30, 2013 incorporated in this Manual as Annex 1.
CHAIRMAN OF THE BOARD OF DIRECTORS

The role of the Chairman of the Board and the Chief Executive Officer (CEO) shall be kept separate to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board. The Chairperson of the board of directors shall be a non-executive director or independent director, and must not have served as CEO of the BSFI within the past three (3) years.

Duties and Responsibilities of the Chairman of the Board

The Chairman of the Board shall:

1. Provide leadership in the Board of Directors.

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

2. Ensure that the Board takes an informed decision.

   The Chairperson of the Board shall ensure a sound decision making process and he should encourage and promote critical discussions and ensure that dissenting views can be expressed and discussed within the decision-making process.

3. Ensure that meetings of the Board are held in accordance with the By-laws or as the Chair may deem necessary;

4. 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;

5. Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;

6. Maintain open and timely lines of communication and information between the Board and Management.

7. Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;

8. Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
9. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;

10. Assures the availability of proper orientation for first-time directors and continuing training opportunities for all directors; and

11. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on.

**Deliverables of the Chairman of the Board**

1) Lead in setting the long-term strategy and updating the mission and vision statements of the institution;

2) Compliance of members to assignments on meetings per agenda, in accordance with By-laws and regulatory requirements;

3) Lead in compliance with the principles of good governance;

4) Lead in maintaining good corporate citizenship.
TRAINING POLICY FOR BOARD OF DIRECTORS

General Policy Guidelines:

1. As deemed necessary, funds shall be allocated by the Treasurer or its equivalent officer for the purpose of conducting an orientation program or workshop to operationalize the Corporate Governance Manual.

2. The Corporate Governance Committee shall submit the recommendations for continuing education of Board members to improve the effectiveness in the performance of their functions and in particular in consideration of their assignment to Board committees.

3. The Committee can seek the assistance of the Bank’s Academy in identifying the Board members’ training needs and look for or develop programs designed to meet specific board needs thereby deepening the Board’s knowledge of the Bank’s operations, financial status, risk exposures, the industry and external forces and developments, and create a healthier working relationship between Management and the Board.

4. The Training Program for the Board of Directors shall cover the pre-requisite seminar before assumption of BOD office/function and continuing education and developmental training conducted by qualified professionals.

5. Orientation Program for the new Directors shall cover SEC-mandated topics on corporate governance and the introduction to the Company’s business, Articles of Incorporation, and the Code of Conduct which shall take at least eight hours. The annual continuing training program of Directors, which shall be at least for four hours shall cover courses on corporate governance matters relevant to the company, including audit, internal controls, risk management, sustainability and strategy.

6. Senior Management shall provide training support to the BOD through regular briefings on new regulatory issuances and updates on status of compliance program and other business initiatives.

7. A training plan shall be crafted through the Bank’s Academy, subject to approval of the Corporate Governance Committee and Confirmation of the Board of Directors. (Please refer to sample Training Plan, which is subject to availability in the market.)
SAMPLE TRAINING PLAN FOR BOARD MEMBERS

A. Pre-requisite Training

A director shall be required to attend a special seminar on corporate governance which shall be conducted by a BSP duly recognized/accredited private or government institute, before assuming and performing his function as such.

B. Continuing Developmental Education

Through External Seminars/Trainings:

i. Financial Literacy Programs
   - Assessing the Quality of Earnings and Financial Position
   - Overview of Philippine and International Financial Reporting Standards
   - Risk Oversight: Creating the Risk Intelligent Board
   - Internal Control Concepts

ii. Director Development
   - Board Fiduciary Duties
   - Board Form and Function
   - Executive Development and Succession Strategies
   - Executive and Director Compensation
   - Developing a Value-Driven Board Evaluation Program

iii. Customized Training Program
   - The board’s role in the development of strategy
   - Improving the Board’s decision-making process
   - Understanding enterprise risk and creating the “risk intelligent” board
   - Value-driven ethics and compliance programs
   - Assessing earnings quality
   - The board’s role in responding to a crisis
   - Executive development and succession planning
   - Emerging trends in executive compensation
   - The board’s role in mergers and acquisitions
- Assessing fraud risk and setting the tone at the top
- Managing competing values in environments of dynamic change
- Industry-specific and competitive developments

*During Senior Management Meetings/Briefings*

i. Regulatory Update
ii. Ethics and Compliance Program Oversight
Conduct of Board Meetings

The Board shall hold regular and special meetings in accordance with the By-Laws. Unless otherwise stated in the By-Laws, a quorum at any meeting shall consist of a majority of the entire membership of the Board and a majority of such quorum shall decide every question or matter duly submitted at such meeting.

a. Full board of directors’ meetings

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

A director with a material interest in any transaction affecting the corporation should abstain from taking part in the deliberations for the same. The abstention of a Director from participating in the deliberation of related party transactions, self-dealings or any transactions or matters on which he has material interest is a fundamental principle to be observed to ensure that the Board is acting in the best interest of the Bank and the shareholders.

Meeting of Non-Executive Director

The non-executive directors (NEDs) conducts a periodic meeting with the external auditor and heads of the internal audit, compliance and risk functions, without any executive director’s present to ensure that proper checks and balances are in place within the corporation. The meeting shall be chaired by the lead Independent Director.
Policy Statement on Diversity of Experience and Background of the Board of Directors:

The Bank recognizes and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, competence and knowledge, background, age, ethnicity, gender and other qualities of directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires to be effective.

Objective on Gender Diversity

The Board has a specific objective to maintain at least 2 female Board members in the total number of directors, and to take opportunities to increase over time the number of female Board members where that is consistent with skills, experience and other diversity requirements as well as global best practice.

Multiple Board Seats

The Board shall consider the number of directorship that its members can hold in other corporations. The Nominations and Remuneration Committee shall consider the following guidelines in addressing the competing time commitment of a director with multiple board seats:

- The nature of the business of the corporations which he is a director;
- Age of the director;
- Number of directorships/active memberships and officerships in other corporations or organizations; and
- Possible conflict of interest.

The optimum number shall be related to the capacity of a director to perform his duties and responsibilities diligently and efficiently.

The Chief Executive Officer and other Executive Directors shall be covered by a lower indicative limit of not more than five (5) memberships in other publicly listed companies. This limit shall likewise apply to independent or non-executive directors who, at the same time, serve as full-time executives in other corporations. Should this number be breached, the same should be approved by the Nominations and Remuneration Committee and confirmed by the Board of Directors. In any case, the capacity of the directors to diligently and efficiently perform their duties and responsibilities to the boards they serve should not be compromised. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the nonexecutive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement.
A director shall notify the Board where he is an incumbent director before accepting a directorship in another company. The Board, through the Nominations and Remuneration Committee shall assess the Director’s present responsibilities and commitment to assess if the director can still adequately perform his duties and responsibilities to the Bank.

Newly elected/appointed director or officer shall disclose concurrent position he holds in other company whether publicly listed or not.

**Policy Statement on Remuneration**

The Board, through the Nominations and Remuneration Committee implements and approve remuneration policy for key officers and board members that is aligned with the long-term interests of the Bank including the overall business and risk strategy.

Its component shall include, fixed remuneration, performance based bonus, regular bonuses, incentives and other benefits. Nominations and Remuneration Committee determines appropriate remuneration based on specific financial and non-financial metrics to measure performance and set specific provisions for employees with significant influence on the overall risk profile of the corporation.

Key considerations in determining proper compensation:

- a. The level of remuneration is commensurate to the responsibilities of the role;

- b. No director shall participate in deciding his own remuneration;

- c. Remuneration pay-out schedules shall be sensitive to risk outcomes over a multi-year horizon

- d. Remuneration of employees assigned in control functions such as Audit, Risk and Compliance, shall be determined independent of any business line being overseen, and performance measures are based principally on the achievement of their objectives.

**Compensation and Other Benefits of Directors and Officers**

To protect the funds of depositors and creditors, the Monetary Board may regulate/restrict the payment by the bank of compensation, allowances, fees, bonuses, stock options, profit sharing and fringe benefits to its directors and officers in exceptional cases and when the circumstances warrant, such as, but not limited to, the following:
a. When the bank is under controllership, conservatorship or when it has outstanding emergency loans and advances and such other forms of credit accommodation from the Bangko Sentral which are intended to provide it with liquidity in times of need;

b. When the institution is found by the Monetary Board to be conducting business in an unsafe or unsound manner;

c. When it is found by the Monetary Board to be in an unsatisfactory financial condition such as, but not limited to, the following cases:

(1) Its capital is impaired;

(2) It has suffered continuous losses from operations for the past three (3) years;

(3) Its composite CAMEL(S) rating in the latest examination is below “3”; and

(4) It is under rehabilitation by the Bangko Sentral/PDIC which rehabilitation may include debt-to-equity conversion, etc.

In the presence of any one (1) or more of the circumstances mentioned above, the Monetary Board may impose the following restrictions in the compensation and other benefits of directors and officers:

a. In the case of profit sharing, the provision of Sec. X146 shall be observed except that for purposes of this Section, the total amount of unbooked valuation reserves and deferred charges shall be deducted from the net income.

b. Except for the financial assistance to meet expenses for the medical, maternity, education and other emergency needs of the directors or officers or their immediate family, the other forms of financial assistance may be suspended.

c. When the total compensation package including salaries, allowances, fees and bonuses of directors and officers are significantly excessive as compared with peer group averages, the Monetary Board may order their reduction to reasonable levels: Provided, That even if a bank is in financial trouble, it may nevertheless be allowed to grant relatively higher salary packages in order to attract competent officers and quality staff as part of its rehabilitation program.
NOMINATION & ELECTION POLICY

To encourage shareholder’s participation in the nomination and election of Directors to the Board, procedures has been established and duly disclosed in the Bank’s website.

The Nominations Process:

1. The nomination of a director shall be conducted by the Nominations and Remuneration Committee prior to a stockholders’ meeting.

2. The Committee itself may likewise identify and recommend qualified individuals for nomination and election to the Board.

3. The Committee may make use of professional search firms or other external sources to search for qualified candidates to the Board.

4. All shareholders shall have the right to nominate, elect, remove and replace directors, and vote on certain corporate acts in accordance with the Corporation Code.

5. Nominations shall be submitted to any of the members of the Nominations Committee, or to the Office of the Corporate Secretary at least 2 weeks before the Board meeting scheduled in February. The Board will approve during the February Board meeting, upon the endorsement of the Nominations Committee, the list of nominees for election during the April meeting of shareholders.

6. All nominations or recommendations shall be signed by the nominating stockholders, together with an acceptance and conformity of the nominees. No nominee shall qualify to be elected as Director unless this requirement is complied with.

7. The Nominations and Remuneration Committee shall pre-screen the qualification and prepare a final list of candidates. This will ensure that only those who possess all qualifications and none of the disqualifications may be elected to the Board. The Committee shall put in place screening policies and parameters that meet the minimum requirements as provided by the Bank’s By-Laws, Manual of Corporate Governance, and relevant rules and regulations.

In the evaluation of nominees, the Committee shall consider the benefits of a diverse Board for competitive advantage. A diverse Board makes use of differences in skills, regional and industry experience, background, race, gender and other qualities of directors. These differences will be considered in determining the optimum composition of the Board and should be balanced appropriately.
8. The final list of qualified nominees shall be recommended to the Board of Directors for approval. The Board shall recommend to the stockholders the qualified nominees included in the final list for election during the annual meeting of shareholders.

9. The Committee shall prepare a list of candidates which shall contain all the information about all nominees for director as required by SEC and BSP rules for filing and distribution to all shareholders through the SEC Information Statement. The list should indicate the nominees for independent director. The name of the person or group of persons who recommended the nomination of the independent director shall be identified, including any relationship with the nominee.

10. Only nominees whose names appear in the List shall be eligible for election to the Board of Directors. After the list of candidates is approved by the Board of Directors for endorsement to the shareholders for approval, additional nominations shall not be entertained. No further nominations will also be allowed during the actual meeting of shareholders, unless there is a withdrawal of acceptance of the nomination or a nominee is no longer available for whatever reason.

The Voting Process:

1. Any stockholder who is not delinquent in his subscription shall be allowed to vote either in person or by proxy executed by the stockholder.

2. The stockholders shall elect the members of the Board by Ballot. Proxy forms shall be tallied for the votes for Board members.

3. A stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he sees fit, as long as the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Bank multiplied by the whole number of directors to be elected.

If the votes cast are in excess of the allowable limit, there shall be a pro-rata adjustment of the votes to conform with the allowable limit.

4. If there are more nominees that the Board seats for election, the following guidelines shall prevail:
   - There shall be two pools for directors for election. The first pool will refer to Regular Directors. The second pool will refer to Independent Directors.

The Bank will comply with the regulations on required number of Independent Directors in the Board (currently at 1/3).
• If the excess nominees refer to the Regular Pool of Directors, the directors with the highest votes allowed to cover the number of regular directors will be elected.

• Directors in the regular pool of directors who miss the cut-off will not be allowed to take the Board seats allotted for Independent Directors, even if their votes come in higher than the nominees for Independent Directors.

• If the excess nominees refer to the Independent Directors:
  - The directors with the highest votes among the independent directors get to fill in the seats allotted for the independent directors as required by regulations
  - After filling in the required slots for independent directors and there remains a vacancy among the slots for regular directors, these open slots can be filled in by the Independent Director nominees.
SELECTION/ APPOINTMENT/ DISQUALIFICATIONS OF DIRECTORS

Criteria for the Selection/Appointment of a Director

A director shall have the following minimum qualifications:

(i) He shall be at least a college graduate or equivalent academic degree;
(ii) He shall be at least twenty-five (25) years old and not more than 75 years old;
(iii) He must have attended a special seminar on corporate governance for board of directors conducted or accredited by the BSP;
(iv) He must be fit and proper for the position of a director of the Bank, i.e., with integrity and probity, competence, education, diligence and business experience/training, and physical and mental fitness;
(v) He shall be assiduous;
(vi) With practical understanding of the business of the Bank, collective working knowledge, experience or expertise that is relevant to the Bank;
(vii) Membership in good standing in relevant industry, business or professional organizations;
(viii) Holder of at least one (1) share of stock of the Bank;
(ix) Such other qualifications as may be required by the Corporation Code, Securities Regulation Code and other relevant laws;
(x) Not permanently or temporarily disqualified as director per Subsection X143.1 of the Manual of Regulations for Banks (MORB) and SEC Memorandum Circular No. 19, series of 2016; and
(xi) Board seats in other publicly listed companies shall not exceed five (5), with due consideration of the capacity of the director to perform his duties and responsibilities diligently and efficiently, the nature and complexity of the business and absence of conflict of interest.

Term Limit of Independent Directors

In selecting independent directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry-out his duties and responsibilities. The rules and regulations of the SEC governing public and listed companies on the maximum number of companies of the conglomerate in which an individual can serve as an independent director shall apply to independent directors of all types of banks. The maximum term of the Independent Director is nine (9) years, to wit:
1. An independent director can be elected to only five (5) companies of the conglomerate (parent, subsidiary or affiliate);

2. An Independent Director shall serve the company for a maximum of nine-years cumulative term, reckoning of the nine-year term is from 2012;

3. After which, the Independent Director shall be perpetually barred from re-election as such in the same company, but may continue to qualify as non-independent director;

4. In the instance that the Company wants to retain the Independent Director who has served for nine years, the Board should provide meritorious justification/s and seek shareholder’s approval during the annual stockholders’ meeting.

Conglomerate refers to a group of corporations that has diversified business activities in varied industries, whereby the operations of such businesses are controlled and managed by a parent corporate entity.

Processes Adopted in the Selection/Appointment of Directors

- The same process enumerated in the above section - Nomination and Election Policy shall apply

- The Office of the Corporate Secretary shall:
  
  (1) Furnish all of the first-time directors with a copy of the general responsibility and specific duties and responsibilities of the Board of Directors and of a director, and
  
  (2) Submit the bio-data of the elected director to the Supervision and Examination Sector of the BSP together with the duly notarized authorization form with a request for the Monetary Board’s confirmation of the election/appointment of the directors within ten (10) banking days from date of election;
  
  (3) Submit the Certificate of Qualification of the Independent Directors to SEC together with the company’s Information Statements (SEC Form 20-IS) and before the election of the Independent Director.
  
  (4) Secure consent of the nominated Director/individual for election/re-election, prior to disclosing any of his/her information.

- If after evaluation, the BSP shall find grounds for the disqualification, the director so elected/appointed may be recommended for removal from office.
Criteria for the Re-Appointment of a Director

The fifteen (15) directors shall hold office for a term of one (1) year or until his successor shall have been elected and shall have qualified.

A director may be re-appointed to the Board, provided that he has fully satisfied the following requirements:

i. Compliance with Fit and Proper Rule of the BSP;

ii. Compliance with required number and mode of attendance in regular and special meetings;

iii. Active participation in Board and Committee meetings and exercise of sound and independent judgment in the exercise of his Board roles and responsibilities such as approval of strategic objective of the Bank, definition of level of risk and tolerance for business activities, appointment of competent Management, leading in establishing good governance from the top, ensuring that the Bank continuously provide services and facilities that are supportive to national economy, etc.

iv. Disqualification Criteria should not be met; and

v. Board seats in other publicly listed companies shall not exceed five (5), with due consideration of the capacity of the director to perform his duties and responsibilities diligently and efficiently, the nature and complexity of the business and absence of conflict of interest.

Additional Criteria for the Re-Appointment of Independent Director:

An independent director may be re-appointed to the Board, provided that he has further fully satisfied the following requirements:

vi. Board seats should not exceed five (5) within the institution’s conglomerate; and

Processes Adopted in the Re-Appointment of Directors

- The Corporate Governance Committee shall conduct an annual performance evaluation of the Board of Directors collectively and the Directors individually every month of March;

- If the Director satisfactorily meets all the performance criteria, the Committee shall recommend the re-appointment/re-election of said director/s to the Board for approval to nominate/appoint him as such, subject to approval by the stockholders in the annual stockholders meeting.
Grounds for the Permanent Disqualification of a Director

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

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

b. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC, BSP or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) Engaging in or continuing any conduct or practice in any of the capacities mentioned in subparagraphs (a) and (b) of this paragraph, or willfully violating the laws that govern securities and banking activities.

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

c. Persons 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;

d. Any person who has been adjudged by final judgment or order of the SEC, BSP, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law, rule, regulation or order administered by the SEC or BSP;

e. Any person judicially declared as insolvent; spendthrift or incapacitated to contract;
f. Persons who have been convicted by final judgment of the court for violation of banking laws, rules and regulations;

g. Directors, Officers or employees of closed banks who were found culpable for such institution’s closure as determined by the Monetary Board;

h. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated previously;

i. Conviction by final judgment of an offense punishable by imprisonment for more than six years, or a violation of the Corporation Code committed within five years prior to the date of his election or appointment; and

j. Other grounds as the SEC or BSP may provide.

In addition to the aforementioned grounds, an independent director shall also be permanently disqualified as such when:

i. The independent director becomes an officer, employee or consultant of the Bank during his tenure; and

ii. The nine (9) year maximum cumulative term limit has been reached, counting from January 2012 election in accordance with SEC Memorandum Circular No. 4 Term Limit of Independent Directors, unless the Board provides meritorious justification/s with the approval of the shareholders to extend the term of the Independent Director.

**Processes Adopted for the Permanent Disqualification of Directors**

- The Board of Directors and Management shall be responsible for determining the existence of the ground for permanent disqualification of a director and for reporting the same to the BSP within seventy-two (72) hours from knowledge thereof.

- In the event of approval by the Monetary Board of said permanent disqualification case, the Board of Directors shall be immediately informed and directed to act on it not later than the following board meeting. The Corporate Secretary shall report to the Governor of the BSP the action taken by the Board on the director involved.
Without prejudice to the authority of the Monetary Board, the Board of Directors may direct the Corporate Governance Committee to conduct its own investigation on the director involved and shall impose the appropriate sanction as set forth in this Manual.

**Grounds for the Temporary Disqualification of Directors**

The Board may provide for the temporary disqualification of a directors and officers for any of the following grounds:

1. Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations, to fully disclose the extent of their business interest or any material information to the appropriate department of the SES - BSP when required pursuant to a provision of law or circular, memorandum, rule or regulation of the BSP. This disqualification shall be in effect as long as his refusal persists;

2. Absence in more than fifty percent (50%) of all meetings, both regular and special, of the Board of Directors during his incumbency, or any twelve (12) month period during said incumbency unless the absence is due to illness, death in the immediate family or serious accident. The disqualification should apply for purposes of the succeeding election;

3. Dismissal or termination for cause as director of any publicly-listed company, public company, registered issuer of securities and holder of a secondary license from the Commission. The disqualification should be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;

4. If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with;

5. Persons who are delinquent in the payment of their obligations as defined in MORB X143.1(b)3(a). The disqualification shall be in effect as long as the delinquency persists;

6. Persons who have been convicted by a Court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 2, violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under section 7 of RA No. 6713, violation of banking laws, rules and regulations or those sentenced to serve a maximum term of imprisonment of more than six (6) years but whose conviction has not yet become final and executory;

7. Directors and officers of closed banks pending their clearance by the Monetary Board;
viii. Directors who failed to attend the special seminar for Board of directors required under Item “c” of Subsec X141.2 of the MORB. This disqualification applies until the director concerned had attended such seminar;

ix. Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity or upon clearance, on their request, from the Monetary Board after showing good and justifiable reasons, or after the lapse of five (5) years from the time they were officially advised by the appropriate department of the SES – BSP of their disqualification;

x. Persons with derogatory record as certified by, or on the official files of, the judiciary, the National Bureau of Investigation (NBI), the Philippine National Police (PNP), quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities of foreign countries for irregularities or violations of any law, rules and regulations that would adversely affect the integrity of the Director/ officer or the ability to effectively discharge his duties. These disqualifications apply until they have cleared themselves of the alleged irregularities/ violations or after a lapse of five (5) years from the time the complaint, which was the basis of the derogatory record, was initiated;

xi. Directors and officers of the Bank found by the Monetary Board as administratively liable for violations of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court;

xii. Directors and officers of the Bank or any person found by the Monetary Board to be unfit for the position of director or officer because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or an offense/ violation involving dishonesty or breach of trust, and which finding of said government agency is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court;

xiii. Directors and officers of the Bank found by the Monetary Board as administratively liable for violations of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed, regardless whether the finding of the Monetary Board is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court; The disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid.

xiv. Being under preventive suspension by the Bank;

xv. 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.

In addition to the aforementioned grounds, an Independent Director shall likewise be temporarily disqualified as such when:

xvi. His beneficial equity ownership in the Bank or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification as an independent director shall be lifted if the ownership limit is later complied with; and

**Processes Adopted for the Temporary Disqualification of Directors**

- The Board of Directors and Management shall be responsible for determining the existence of the ground for temporary disqualification of a director of the Bank and for reporting the same to the BSP within seventy-two (72) hours from knowledge thereof.

- In the event of approval by the Monetary Board of said temporary disqualification case, the Board of Directors shall be immediately informed and directed to act on the disqualification not later than the following board meeting. The Corporate Secretary shall report to the Governor of the BSP the action taken by the Board on the director involved.

- Without prejudice to the authority of the Monetary Board, the Board of Directors may direct the Corporate Governance Committee to conduct its own investigation on the director involved and shall impose the appropriate sanction as set forth in this Manual. A temporarily disqualified director shall be granted sixty (60) days to correct his disqualification and any unjustified failure or refusal to do so, shall render the disqualification permanent.

**Grounds for the Suspension of Directors**

The Board shall provide for the suspension of a director for any of the following infraction as a penalty or sanction for his:

(a) Violation of the provisions of the Manual of Regulations for Banks (MORB):

   (i) At the discretion of the Monetary Board and based on the seriousness and materiality of the acts or omission, a penalty of suspension may be imposed upon a director of a bank that conduct business in an unsafe and unsound manner (Section X149.9 of the MORB);

   (ii) Second offense violation of Section X235.5 of the MORB on delivery of securities;
(iii) Second offense violation of Section X237.3 of the MORB on money market placements of rural banks;

(iv) Second offense and/or subsequent violation/s of Section X238.3 of the MORB on securities custodianship operations;

(v) Second offense and/or subsequent violation/s of Section X388.5 of the MORB on investment in debt and readily marketable equity securities; and

(vi) Second offense and/or subsequent violation/s of Section X441.29 of the MORB on securities guardianship and securities registry operations.

(b) Non-compliance with any of the provisions of the Bank’s Manual on Corporate Governance; and

(c) If the cause for the director’s temporary disqualification occurs after his confirmation by the BSP, the director is considered suspended.

Processes Adopted in the Suspension of Directors

- The Board of Directors and Management shall be responsible for determining the existence of the ground for suspension/disqualification of a director of the Bank and for reporting the same to the BSP within seventy-two (72) hours from knowledge thereof.

- In the event of approval by the Monetary Board of said suspension case, the Board of Directors shall be immediately informed and directed to act on the disqualification not later than the following board meeting. The Corporate Secretary shall report to the Governor of the BSP the action taken by the Board on the director involved.

- Without prejudice to the authority of the Monetary Board, the Board of Directors may direct the Corporate Governance Committee to conduct its own investigation on the director involved and shall impose the appropriate sanction as set forth in this Manual. A temporarily disqualified director shall be granted sixty (60) days to correct his disqualification and any unjustified failure or refusal to do so, shall render the disqualification permanent.

Requirements for the Reinstatement of Directors

A director who has been temporarily disqualified shall be re-instated upon full service of the preventive suspension and fulfillment of such other conditions imposed as sanction or penalty against him, Provided, That
the approval of the majority of the members of the Board has been obtained, Provided finally, That such reinstatement has been duly approved by the Monetary Board of the BSP in accordance with regulations.

Processes Adopted in the Reinstatement of Directors

- The Corporate Secretary shall notify the Board of Directors in writing that the director concerned has served his suspension.
- The Board shall resolve if the director shall be reinstated or not. If the resolution is to reinstate the concerned director, it shall be approved by a majority of the Board of Directors.
- The Corporate Secretary shall submit in writing to the Monetary Board (MB) a notification that the director has fully served his suspension together with the recommendation to reinstate the director as resolved by a majority of the Bank’s Board of Directors.
- Upon receipt of MB approval, the Corporate Secretary shall serve a written notification to the concerned director of his reinstatement.

Grounds for the Removal of Directors

A director may be removed from the Board with or without cause, Provided, That the removal without cause may not be used to deprive minority stockholders or members of the right of representation to which they may be entitled under the Corporation Code of the Philippines.

A director may likewise be removed from office due to the following causes:

(i) If the director resigns;
(ii) If the director fails to comply with the prescribed attendance in board meetings;
(iii) If the director becomes bankrupt or makes any compromise or arrangements with his creditors;
(iv) If the director suffers from mental disorder; and
(v) If the director is permanently disqualified.

Processes Adopted in the Removal of Directors

A director of the Bank may be removed from office by a vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock, either at a regular or special meeting called for that purpose.

- The Corporate Secretary shall send a notice of meeting to stockholders for the proposed removal of the director involved. Notice of the time and place of such meeting, as well as of the intention to propose such removal, must be given by publication or by written notice prescribed in the Corporation Code of the Philippines.
• A special meeting of the stockholders of the Bank for the purpose of the removal of the director involved must be called by the Corporate Secretary on order of the President or on the written demand of the stockholders representing or holding at least a majority of the outstanding capital stock of the Bank.
• Should the Corporate Secretary fail or refuse to call the special meeting upon such demand or fail or refuse to give the notice, or if there is no secretary, the call for the meeting may be addressed directly to the stockholders by any of the stockholder of the Bank signing the demand.

CONFIRMATION OF ELECTION/APPOINTMENT OF DIRECTORS/OFFICERS

Confirming Authority. The election/appointment of directors/officers shall be subject to confirmation by the following:

- Monetary Board – Directors and Chief Executive Officer
- SES Committee – Treasurer and heads of internal audit, risk management and compliance functions, Trust Officers and other officers with rank of senior vice president and above (or equivalent ranks)

The bank shall report to the appropriate department of the SES, any succeeding resignation, retirement, or replacement of directors/officers as mentioned within twenty (20) banking days after such resignation/retirement/replacement.

The election/appointment of abovementioned directors/officers shall be deemed to have been confirmed by the Bangko Sentral, if after sixty (60) banking days from receipt of the complete required reports, the appropriate supervising department of the SES does not advise the bank concerned against said election/appointment.

However, the confirmation by the Monetary Board/ SES Committee of the elections/appointment to abovementioned position levels shall not be required in the following cases:

1. Re-election of a director (as a director) in the same bank or election of the same director in another bank, QB, trust corporation, and non-bank financial institution with trust authority within a banking group;

2. Re-election of an independent director (as an independent director or not) in the same bank or election of the same director (as an independent director or not) in another bank, QB, trust corporation and non-bank financial institution with trust authority within a banking group;

3. Promotion of an officer, other than to that which requires (a) prior Monetary Board approval, or (b) a different set of minimum qualifications, or (c) a different level of confirming authority as provided above, in the same bank or appointment/transfer to another bank, QB, trust corporation and non-bank financial institution with trust authority within a banking group;
Provided, that the director/ officer concerned has been previously confirmed by the Monetary Board, or if previously confirmed by the SES Committee, his/ her re-election/ promotion/ transfer requires the same level of confirming authority as provided above; provided further, that said director/ officer has had continuous service within the same Bank of banking group. This exemption shall apply to directors/ officers confirmed by the Monetary Board/ SES Committee starting 01 January 2011.

The appointment of officers below the rank of Senior Vice President (SVP) other than the Treasurer, trust officer, and heads of internal audit, risk management, and compliance functions regardless of rank shall be subject neither to Monetary Board approval nor BSP confirmation.

A director/ officer whose election/ appointment was not confirmed for failure to submit the complete documentary requirements shall be deemed removed from office after due notice to the board of directors of the bank, even if he has assumed the position to which he was elected/ appointed, pursuant to section 16 of R.A. No. 8791.

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 of undue influence over the policymaking and/or management functions of similar financial institutions while at the same time allowing banks, QBs and non-bank financial institutions (NBFIs) without quasi-banking functions to benefit from organizational synergy or economies of scale and effective sharing of managerial and technical expertise, the following regulations shall govern interlocking directorships and/or officerships within the financial system consisting of banks, QBs and NBFIs. For purposes of this Section, QBs shall refer to investment houses, finance companies, trust entities and all other NBFIs with quasi-banking functions while NBFIs shall refer to investment houses, finance companies, trust entities, insurance companies, securities dealers/brokers, credit card companies, non-stock savings and loan associations (NSSLAs), holding companies, investment companies, government NBFIs, asset management companies, insurance agencies/brokers, venture capital corporations, FX dealers, money changers, lending investors, pawnshops, fund managers, mutual building and loan associations, remittance agents and all other NBFIs without quasi-banking functions.

a. Interlocking offi cerships

A concurrent officership in different FIs may present more serious problems of selfdealing and conflict of interest. Multiple positions may result in poor governance or unfair competitive advantage. Considering the full-time nature of officer positions, the difficulties of serving two (2) offices at the same time, and the need for effective and efficient management, the following rules shall be observed: As a general rule, there shall be no concurrent officerships, including secondments, between banks or, between a bank and a QB or an NBFI. For
this purpose, *secondment* shall refer to the transfer/detachment of a person from his regular organization for temporary assignment elsewhere where the seconded employee remains the employee of the home employer although his salaries and other remuneration may be borne by the host organization.

As a general rule, there shall be no concurrent officerships between banks or, between a bank and a QB or an NBFI.\(^1\)

In the case of non-governmental organizations (NGOs)/foundations that are engaged in retail microfinance operations, as defined under Subsec. X326.1.e(9), bank officers are prohibited from holding officership position or other positions that may cause them to be involved in the daily microfinance operations of related NGOs/ foundations.

However, subject to prior approval of the Monetary Board, concurrent officerships, including secondments, may be allowed in the following cases:

(1) Between a bank and not more than two (2) of its subsidiary bank/s, QB/s, and NBFI/s, other than investment house/s; or

(2) Between a bank and not more than two (2) of its subsidiary QB/s and NBFI/s; or

(3) Between two (2) banks, or between a bank and a QB or an NBFI, other than an investment house: *Provided*, That at least twenty percent (20%) of the equity of each of the banks, QBs or NBFIs is owned by a holding company or a bank/QB and the interlocking arrangement is necessary for the holding company or the bank/QB to provide technical expertise or managerial assistance to its subsidiaries/affiliates. Aforementioned concurrent officerships may be allowed, subject to the following conditions:

(a) that the positions do not involve any functional conflict of interests;

(b) that any officer holding the positions of president, chief executive officer, chief operating officer or chief financial officer or their equivalent may not be concurrently appointed to any of said positions or their equivalent;

(c) that the officer involved, or his spouse or any of his relatives within the first degree of consanguinity or affinity or by legal adoption, or a corporation, association or firm wholly- or majority-owned or controlled by such officer or his relatives enumerated above, does not own

\(^1\) Bank officers, who concurrently held officership position or other positions that caused them to be involved in the daily microfinance operations of related NGOs/ foundations, were given up to 30 September 2011 to relinquish such officer position.
in his/its own capacity more than twenty percent (20%) of the subscribed capital stock of the entities in which the bank has equity investments; and

(d) that where any of the positions involved is held on full-time basis, adequate justification shall be submitted to the Monetary Board; or

(4) Concurrent officership positions in the same capacity which do not involve management functions, i.e., internal auditor, days, assistant corporate secretary and security officer, between a bank and one or more of its subsidiary QB/s and NBFI/s, or between bank/s, QB/s and NBFI/s, other than investment house/s: Provided, That at least twenty percent (20%) of the equity of each of the banks, QBs and NBFIs is owned by a holding company or by any of the banks/QBs within the group.

(5) Concurrent officership positions as corporate secretary or assistant corporate secretary between bank/s, QB/s and NBFI/s, other than investment house/s, outside of those covered under Item 4 of this Section: Provided, That proof of disclosure to and consent from all of the involved FIs, on the concurrent officership positions, shall be submitted to the Bangko Sentral.

b. Secondment

A BSFI may second or transfer its employee to another entity for temporary assignment. Provided, That: it has a board-approved policy on secondment and that the transfer of the employee is approved by the appropriate authority of the BSFI. Provided further, That: the secondee or the transferred employee shall relinquish all his duties, responsibilities, and authorities in the BSFI, and shall receive remuneration and other incentives from the host entity. BSFIs shall submit a notice within ten (10) banking days from the approval of secondments of employees to the appropriate supervising department of the SES.

c. Representatives of government

The provisions of this Section shall apply to persons appointed to such to such positions as representatives of the government or government-owned or controlled entities unless otherwise provided under existing laws.
CHIEF EXECUTIVE OFFICER

The role of the Chief Executive Officer (CEO) shall be kept separate from that of the Chairman of the Board of Directors to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board.

Duties and Responsibilities of the Chief Executive Officer (CEO)/President

As stated in the Bank’s By-Laws, the President, subject to the control of the Board of Directors shall be the Chief Executive Officer of the Bank. As such, he shall have direct and immediate charge of the business, affairs and property of the Bank, with the following roles accountabilities:

Roles:

1. Lead, in conjunction with the Board, the development and execution of the institution’s long-term strategy with a view to creating shareholder value;

2. Determine the corporation’s strategic direction and formulates and implements its strategic plan on the direction of the business;

3. Be ultimately responsible for all day-to-day management decisions and for implementing the institution’s long and short term plans, in accordance with its strategy;

4. Act as a direct liaison between the Board and Management of the institution and communicate to the Board on behalf of Management; Provides the Board with timely information and interfaces between the Board and the employees;

5. Effectively communicate, on behalf of the institution, to shareholders, employees, Government authorities, other stakeholders and the public;

6. Set the tone of good governance from the top;

7. Have a good working knowledge of the corporation’s industry and market and keep up-to-date with its core business purpose;

8. Oversee the operations of the corporation and manage human and financial resources in accordance with the strategic plan; and

9. Build the corporate culture and motivates the employees of the corporation.
Accountabilities:

*To the Board of Directors:*

1) Ensure that the institution maintains high standards of corporate governance, corporate citizenship and social responsibility wherever it does business;

2) Properly advise and provide sufficient information to enable the Directors to make appropriate judgments and decisions;

3) Ensure the integrity of all public disclosure by the institution

*To Management and Employees:*

1. Ensure proper dissemination of adequate information of all material undertakings and activities of the institution and all material external factors affecting it.

2. Direct, evaluate and guide the work of the key officers of the corporation.

*To the Government:*

Ensure the institution’s compliance with all laws, rules and regulation.

**Deliverables of the Chief Executive Officer**

1) Communicate and implement the vision, mission, values of the Bank, including overall strategy and promotes any organization or stakeholder change in relation to the same; and the attainment of long-term sustainability for the benefit of all stakeholders;

2) Key Result Areas (KRAs) covering financial perspective, risk management perspective, employee perspective, customer perspective and society perspective.
Organizational Structure of the Board and Board Committees
BOARD COMMITTEES

To aid in complying with the principles of good corporate governance, the Board shall constitute, at a minimum, the following committees which shall report regularly to the Board of Directors:

(a) CORPORATE GOVERNANCE COMMITTEE

Purpose

The Corporate Governance Committee shall assist the Board of Directors in fulfilling its corporate governance responsibilities. The Committee shall be responsible for ensuring the Board’s effectiveness and due observance of corporate governance principles and guidelines.

Committee Members

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

The members of the Committee shall be appointed and replaced by the Board. The Board shall designate the Chairman of the Committee, who shall be an independent director.

Procedures

The Corporate Governance Committee shall meet at least 4 times on an annual basis. The Committee may invite Executive Directors or management to participate in meetings from time to time.

A quorum shall comprise a majority of members.

An agenda shall be prepared for each meeting and distributed in advance of the meeting. Minutes of the meeting shall be prepared and circulated to all directors after each meeting. The Committee shall provide a summary of the actions taken at each Committee meeting, which shall be presented to the Board at the next Board meeting.

The Bank’s Corporate Secretary will provide assistance to the Committee in the preparation of the Agenda and Minutes of Meeting.
Authority and Responsibilities

The Corporate Governance Committee shall:

- Be responsible for ensuring the Board’s effectiveness and due observance of corporate governance principles and guidelines

- Oversee the periodic performance evaluation of the Board and its committees.

- Decide on the manner by which the Board’s performance may be evaluated, with the objective performance criteria approved by the Board. Performance indicators shall address how the Board has enhanced long-term shareholders’ value.

- Oversee the management of the Bank’s compliance function, ensuring that the Bank complies to all applicable laws, regulations, codes of conduct and standards of good practice

- Recommend continuing education program for directors

- Adopt internal guidelines that may be required in the exercise of its functions, including guidelines that address the competing time commitments for directors with multiple board seats.

Annual Performance Evaluation and Charter Review

The Corporate Governance Committee shall evaluate its performance as a Committee on an annual basis.

The Committee shall likewise review and re-assess, at least annually, the adequacy of this Charter and recommend to the Board of Directors for approval any amendments to this Charter.

(b) NOMINATIONS AND REMUNERATION COMMITTEE

PURPOSE:

The Nominations and Remuneration Committee shall review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval. It shall assess the effectiveness of the Board’s processes and procedures in the election and replacement of directors.

It shall likewise establish a formal and transparent procedure for developing policy on remuneration of directors and officers to ensure that compensation is consistent with the Bank’s culture, strategy and the business environment on which the Bank operates.
COMMITTEE MEMBERS

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

The members of the Committee shall be appointed and replaced by the Board, The Board shall designate the Chairman of the Committee, who shall be an independent director.

PROCEDURES

The Nominations and Remuneration Committee shall meet at least 4 times on an annual basis. The Committee may invite Executive Directors or management to participate in meetings from time to time.

A quorum shall comprise a majority of members.

An agenda shall be prepared for each meeting and distributed in advance of the meeting. Minutes of the meeting shall be prepared and circulated to all directors after each meeting. The Committee shall provide a summary of the actions taken at each Committee meeting, which shall be presented to the Board at the next Board meeting.

The Bank’s Corporate Secretary will provide assistance to the Committee in the preparation of the Agenda and Minutes of Meeting.

AUTHORITY AND RESPONSIBILITIES

The Nominations and Remuneration Committee shall be responsible for:

- Defining the general profile of the Board members that the Bank may need, ensuring that the nominees have the appropriate knowledge, competencies and expertise that will complement the existing skills of the Board;
- Determining the nomination, election and replacement process for the Bank’s directors;
- Review and evaluation of the qualifications of all persons nominated to the Board, as well as those nominated to other positions requiring appointment by the Board of Directors,
- Oversee the periodic performance evaluation of Board members and executive management, deciding whether or not a director is able to and has been adequately carrying out his/her duties as director based on its own assessment or the assessment of external facilitators, bearing in mind the
director’s contribution and performance (e.g., competence, candor, attendance, preparedness and participation);

- Recommend assignment to Board committees, succession plan for Board members and senior officers,
- Recommend a formal and transparent procedure for developing a policy on remuneration of directors and officers that is consistent with the Corporation’s culture, strategy, the business environment on which it operates, and commensurate with corporate and individual performance. And shall work closely with the Bank’s Risk Oversight Committee in evaluating the incentives created by the remuneration system.
- Oversee the management of the Personnel Committee.

ANNUAL PERFORMANCE EVALUATION AND CHARTER REVIEW

The Corporate Governance Committee shall evaluate its performance as a Committee on an annual basis.

The Committee shall likewise review and re-assess, at least annually, the adequacy of this Charter and recommend to the Board of Directors for approval any amendments to this Charter.

(c) RISK OVERSIGHT COMMITTEE

1. Purpose

   The Risk Oversight Committee (ROC) shall be responsible for the development and oversight of the risk management program of the Bank and its Subsidiaries.

2. Committee Membership

   The Risk Oversight Committee shall be composed of members consisting of:
   1. At least three (3) members, majority of whom should be independent directors, including the chairman;
   2. The Chairman who should not be the Chairman of the Board or of any other committee;
   3. At least one member of the committee who must have relevant knowledge and experience on risk and risk management;

   The Committee members will be designated by the Board of Directors.
Rules

- The Risk Oversight Committee shall meet quarterly, with authority to convene additional meetings as circumstances require, and to invite members of management of the Bank and its Subsidiaries to participate from time to time.
- The majority of the members of the Committee shall constitute a quorum.
- An agenda will be prepared for each meeting and distributed in advance of the meeting along with appropriate briefing materials.
- Minutes of the meeting shall be prepared and circulated to all members after each meeting.
- The Risk Oversight Committee will report to the Board the matters discussed at each of its meeting, including all actions taken at the meeting.
- Risk Management Group will be responsible for preparing and disseminating the agenda and minutes of the meeting.

3. Authority and Responsibilities

For the risk oversight function, the Risk Oversight Committee shall:

1. Develop a formal enterprise risk management plan which contains the following elements:
   1. Common language or register of risks
   2. Well-defined risk management goals, objectives and oversight
   3. Uniform processes of assessing risks and developing strategies to manage prioritized risks
   4. Designing and implementing risk management strategies
   5. Continuing assessments to improve risk strategies, processes and measures

2. Oversee the implementation of the enterprise risk management plan through a Risk Oversight Committee. The ROC conducts regular discussions on the Bank and its Subsidiaries’ prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks.

3. Evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The ROC revisits defined risk management strategies, looks for emerging or changing material exposures and stays abreast of significant developments that seriously impact the likelihood of harm or loss.

4. Advise the Board on its risk appetite levels and risk tolerance limits.
5. Review at least annually the Bank and its Subsidiaries’ risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Bank and its Subsidiaries.

6. Assess the probability of each identified risk becoming a reality and estimate its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Bank and its Subsidiaries and its stakeholders.

7. Provide oversight over management’s activities in managing credit, market, liquidity, operational, legal and other risk exposures of the Bank and its Subsidiaries. This function includes regularly receiving information on risk exposures and risk management activities from management.

8. Report to the Board on a regular basis, or as deemed necessary, the Bank and its Subsidiaries’ material risk exposures, the actions taken to reduce the risks and recommend further action or plans as necessary.

9. Review and when necessary, refine its Charter annually to ensure relevance and adequacy.

For Capital Management matters, the Risk Oversight Committee shall:

- Approve the recovery plan and the annual internal capital target levels as documented in the ICAAP;
- Approve policies and where applicable, implementing guidelines as recommended for capital oversight purposes;
- Ensure the proper and consistent implementation of any Board approved Capital plan.
- Report to the Board of Directors of the Bank and its Subsidiaries, the overall capital levels of the Bank and its Subsidiaries, and endorse recommendations of any plans and actions to improve the capital structure of the Bank and its Subsidiaries.

For Outsourcing matters, the Risk Oversight Committee shall:

- Oversee the Outsourcing Committee in its role of managing and reviewing outsourcing contracts with third party providers;
- Approve policies recommended by the Outsourcing Committee to ensure effective management of risks arising from outsourced activities.
Report to the Board of Directors of the Bank its Subsidiaries, the overall impact of outsourcing activities of the Bank and its Subsidiaries, and endorse recommendations of any plans and actions to improve the outsourcing process of the Bank and its Subsidiaries.

The Outsourcing Committee, composed of the Legal and Regulatory Affairs Group Head and its designated bank officers, meets on a monthly basis to review potential and existing service providers of the Bank and its Subsidiaries.

(d) AUDIT COMMITTEE

I. PURPOSE

The Audit Committee (Committee) is appointed by the Board of Directors (Board) of Security Bank Corporation for the following purpose:

1. To monitor and evaluate the adequacy, effectiveness and efficiency of the following:

   a. Integrity of the Bank’s financial statements;
   b. Bank’s internal control system including financial reporting process, information technology, governance and management of risks;
   c. The Bank’s process in monitoring compliance with applicable laws, rules and regulations, internal policies and its own code of business conduct; and
   d. Conduct of operations and safeguarding and effective use of assets.

2. Perform oversight function over the following:

   a. Internal audit function and independence of auditors;
   b. Internal audit service provider (if any) and its independence; and
   c. External audit function and external auditor’s qualifications, independence and performance.

3. Fulfilment of other responsibilities included in this document (Charter).

II. MEMBERSHIP

1. The Committee shall be composed of at least three (3) members of the Board who are non-executive directors, two (2) of whom shall be independent directors, including the Chairman, preferably with accounting, auditing and finance expertise or experience.
2. The Chief Executive Officer, Chief Financial Officer, and/or Treasurer, or officers holding equivalent positions shall not be appointed as members of the Committee.

3. All members including the Chairman shall be appointed by the Board from among its members for one (1) year term and can also be replaced or removed by the Board anytime.

4. The Chairman should not be the chairman of the Board or of any other committees.

5. Each Committee member should have an understanding of the detailed responsibilities of committee membership.

6. The Secretary of the Committee shall be the Chief Audit Executive or any person appointed by the Committee. The Secretary shall be responsible in managing the activities of the Committee particularly in coordinating the Committee meetings, preparing the minutes of meetings and safekeeping of records of the Committee.

III. STRUCTURE

A. Regular Audit Committee Meeting

1. The Committee shall hold meetings of not less than four (4) times a year. Special meetings may be convened as required. The CAE or external auditor may initiate a separate meeting or executive sessions with the Committee.

2. The meetings can be held at such date, time and place the Committee considers appropriate.

3. A quorum for any meeting will be two (2) members.

4. Resolutions at a meeting of the Committee shall be passed by a majority of votes of the members participating in such meetings.

5. The Committee may invite members of management, auditors or others to attend meetings and provide pertinent information as necessary.

6. The meeting can be held in person, or via tele or video conferencing.

7. Meeting agendas will be prepared by the Chief Audit Executive or the appointed Committee Secretary and provided in advance to all members, along with appropriate briefing materials.

8. Minutes of meeting will be prepared.
B. Non-Executive Directors (NED) Meeting with the Audit Committee

1. The Audit Committee meets with the Board at least every quarter without the presence of the Chief Executive Officer (CEO) or other senior management.

2. The non-executive Directors (NED), should have separate periodic meetings with the external auditor and head of the internal audit, compliance and risk functions, without any executive directors present to ensure that proper checks and balances are in place within the bank. The meeting should be chaired by the lead independent director.

C. Authority

The Committee has explicit authority to conduct or authorize investigations within its terms of reference. It is empowered by the Board to:

1. Have resources and authority appropriate to discharge its responsibilities as defined in this Charter, including the authority to engage external auditors for special audits, reviews and other procedures and to obtain advice from special council and other experts or consultants to assist in any investigations without the need for Board approval;

2. Have full access to properties, records and information of the Bank;

3. Have full discretion to invite any director, executive officer, employees or external parties/counsel to attend its meetings and seek any information it requires;

4. Receive regularly from Management on information on risk exposure and risk management activities;

5. Preapprove all auditing and permitted non-audit services to be performed by external auditing firms;

6. Resolve any disagreements between management and the internal and external auditors regarding audit issues and/or financial reporting;

7. Delegate authority to the CAE and other sub-committees;
8. Enter into service level agreements with the Audit Committees of the Bank’s subsidiaries and affiliates with regards to the shared services of the Internal Audit function and other dependencies on the activities of the Audit Committee of the Bank; and

9. 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.

IV. OPERATIONS

The Committee shall have the following duties and responsibilities:

A. General Procedures

1. Review and reassess the adequacy of the Committee charter at least annually and request for re-approval of the Board the revised Charter, if any. Ensure appropriate disclosures as may be required by law or regulations arising from such revisions

2. Perform an annual self-evaluation assessing the performance of the Committee, its Chairman and members, in relation to its/his purposes and duties and responsibilities set forth in this Charter.

3. Timely escalate to the Board any Committee recommendations or decisions requiring ratification or approval by the Board as stated in this Charter.

4. Submit an annual report to the Board with regards to the overall assessment of the Bank’s internal control system.

B. Financial Statements

1. Review and approve for endorsement the interim and annual audited financial statements and reports prior to submission to the Board, with particular focus on the following matters:

   a. Significant accounting and reporting issues;
   b. Any change/s in accounting policies and practices;
   c. Major judgemental areas;
   d. Significant adjustments resulting from the audit;
   e. Going concern assumptions;
   f. Compliance with accounting standards/financial reporting regulation;
   g. Compliance with tax, legal and regulatory requirements; and
h. Unusual or complex transactions including all related party transactions.

2. Discuss the external auditor’s attestation and report on management’s internal control with regards to the following:

   a. All critical accounting principles and practices;
   b. All alternative treatments of financial information within generally accepted accounting principles (GAAP) and the International Accounting Standards (IAS) that have been discussed with the management and its implications; and
   c. Other material written communications between the external auditor and management including, but not limited to, the management letter, audit adjustments and other schedules.

C. Internal Control

1. Review and monitor the adequacy and effectiveness of the internal control system, including information technology, security and control.

2. Ensure that there is an annual review of the effectiveness of the Bank’s internal controls, including financial, operational and compliance controls, and risk management, through the review of reports of the external and internal audit.

3. Through reports received from the Internal Audit function, ensure that management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations including reporting of significant matters to the Board.

D. Internal Audit and Internal Audit Service Provider

1. Periodically review and approve the Internal Audit Charter.

2. Review and concur in the appointment, re-appointment, replacement, or dismissal of CAE and key internal auditors. For purposes of this Charter, key internal auditors refer to the Department Heads.

3. The CAE reports functionally to the Audit Committee and administratively to the Executive Director.

4. Report to the Board the annual performance appraisal of the CAE and recommend for approval of the Board the annual remuneration of the CAE and key internal auditors.

5. Ensure that the internal auditors has sufficient knowledge, skills, experience and professional certifications to effectively discharge their functions.
6. Review and ensure that budget, resources, plan and activities and organizational structure will support the internal audit function.

7. Select and oversee the performance of the internal audit service provider.

8. Ensure that the internal audit service provider (if any) has adequate manpower resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.

9. Ensure that the internal and external auditors are independent and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.

10. Monitor and review the effectiveness of performance of internal audit function and internal audit service provider, if any, including its independence and reporting relationships.

11. Ensure the independence of the internal audit service provider by clearly establishing and identifying reporting line of the internal auditor and to enable him to properly fulfil his duties and responsibilities and that he is free from interference by outside parties.

12. Review the effectiveness of the internal audit function, including compliance with the standards such as Internal Auditor’s International Standards for the Professional Practice of Internal Auditing (ISPPIA), Bank’s Code of Ethics, best practices and other supplemental standards issued by the regulatory authorities/government agencies, as well as with relevant Code of Ethics.

13. Review and approve the annual internal audit risk assessment and plan to ensure its conformity with the objectives of the Bank. The plan which is based on robust risk assessment shall include the audit scope, frequency, resources and budget necessary to implement it. Any significant change to the audit plan shall be likewise approved by the Committee.

14. Review periodically the implementation and accomplishment of the approved audit plan.

15. Review final audit reports and ensure that 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 the auditors.

16. Ensure that internal auditors have free and full access to all the Bank’s records, properties and personnel relevant to their audit including any interference in establishing the audit scope, conducting the audit work and communicating the audit results.
17. Review discoveries of fraud and violations of laws and regulations as raised by the internal audit function.

E. External Audit

1. Review the appointment, re-appointment or discharge of auditors, as well as audit fees, prior to endorsement to BOD for approval.

2. Select and oversee the performance of external auditor. Ensure that they have free and full access to all Bank’s records, properties and personnel to enable them to fulfil their audit function.

3. Oversee the resolution of disagreements, if any, between management and the external auditors.

4. Review the performance of the external auditors at least annually including technical competence, integrity, independence, objectivity and overall effectiveness of the external audit process.

5. Discuss with the external auditors the nature, proposed audit scope, approach and expenses of the audit, including coordination of audit effort with internal audit.

6. Ensure the rotation of the lead audit partner every five (5) years.

7. Evaluate and determine the non-audit work, if any, of the External Auditor, and periodically reviews the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the bank’s overall consultancy expenses. The committee should disallow any non-audit work that will conflict with his duties as an External Auditor or may pose threat to his independence. The non-audit work, if allowed, should be disclosed in the bank’s Annual Report and Annual Corporate Governance Report.

F. Other Responsibilities

1. Institute and oversee special investigations as needed.

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

V. REPORTING PROCESS

1. Report to the Board about committee activities and issues in relation to the quality or integrity of the Bank’s financial statements as reported by the internal and external auditors and engagement of independent external auditors.

2. Report to the board of directors the status of accomplishments of the outsourced internal audit activities (if any) including significant findings noted during the conduct of the internal audit.

3. The Committee shall also provide an avenue of communication between the management, the external and internal auditors and the Board.

(e) RELATED PARTY TRANSACTIONS COMMITTEE

PURPOSE

The Related Party Transaction Committee (RPTC) Charter sets out the authority, composition, meetings, duties and responsibilities of the RPTC of Security Bank Group.

AUTHORITY

The RPTC shall assist the Board of Directors (“Board”) in fulfilling its oversight responsibilities in ensuring that 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 stakeholders. This shall include, among others:

- Adoption and proper implementation of a group-wide RPT policy, encompassing all entities within the SBC Group, which shall:
  
  i. Take into account their size, structure, risk profile and complexity of operations;
  
  ii. Identify, prevent or manage potential or actual conflicts of interest, which may arise;
  
  iii. Set materiality threshold and excluded transactions;
  
  iv. Set internal limits for individual and aggregate exposures;
v. Implement effective whistleblowing mechanisms as provided in the Bank’s Code of Discipline for Employees and Board;

vi. Include measures to restitute losses and other remedies for abusive RPTs

Formulation and appropriate implementation of clear guidelines in ensuring that RPTs are conducted in the regular course of business and not undertaken on more favourable economic terms to such related parties than similar transactions with non-related parties under similar circumstances

- Establishment of an effective system 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 Committee shall also provide an avenue of communication between related parties, management, Compliance Office, the external and internal auditors and the Board.

**COMPOSITION**

The RPTC shall be composed of at least three (3) members of the Board, two of whom shall be independent directors, including the chairperson, and one non-executive director. Each Committee member should have an understanding of the detailed responsibilities of committee membership.

The Chairperson and members of the Committee shall be appointed and replaced by the Board.

The Compliance Officer or Internal Auditor may sit as resource persons in the Committee.

The Secretary of the Committee shall be the designated officer under the Office of the Corporate Secretary. He shall ensure that the notice and agenda of the meeting, with relevant supporting papers, are furnished to the RPTC members prior to each meeting.

The Corporate Governance Officer shall ensure completeness and propriety of the agenda for the regular or special RPTC meeting.

MEETINGS

The Committee shall meet monthly. Special meetings may be convened as required.

A quorum for any meeting will be a majority of the RPTC. In case a member has conflict of interest in a particular RPT, he shall not participate in the evaluation and abstain from voting for approval of the transaction.

The Committee may invite members of management, auditors or others to meetings and provide pertinent information as necessary.

The meeting can be held in person, or via tele or video conferencing.

Meeting agendas will be prepared and provided in advance to all members, along with appropriate briefing materials.

Minutes of meeting shall be submitted to the Board for approval or notation.

5. DUTIES AND RESPONSIBILITIES

The Committee shall have the following duties and responsibilities:

- Evaluate on an on-going basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured; Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors;

- Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee takes into account, among others, the following:
• The related party’s relationship to the company and interest in the transaction;

• The material facts of the proposed RPT, including the proposed aggregate value of such transaction;

• The benefits to the corporation of the proposed RPT;

• The availability of other sources of comparable products or services; and

• An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The company should have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs;

• Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the company’s RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the company’s affiliation or transactions with other related parties;

• Report to the Board of Directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties;

• Ensure that RPTs, including write-off exposures, are subject to periodic independent review and audit process;

• Oversee implementation of RPT management system, including the periodic review of RPT policies and procedures

• Perform other oversight functions as requested by the Board.

6. ANNUAL PERFORMANCE EVALUATION AND CHARTER REVIEW

The Corporate Governance Committee shall evaluate its performance as a Committee on an annual basis.
The Committee shall likewise review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors for approval any amendments to this Charter.

**CORPORATE SECRETARY**

The Corporate Secretary is an officer of the Bank who works fairly and objectively with the Board, Management, stockholders and other stakeholders.

The qualifications of the Corporate Secretary include:

- Should be a Filipino citizen and a resident of the Philippines;
- Must have appropriate administrative and interpersonal skills;
- Have a working knowledge of the operations of the Bank;
- If he is not at the same time the Bank’s legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
- He must also have some financial and accounting skills.
- **Should be a separate individual from the Compliance Officer.**
- **Should annually attend a training on corporate governance.**

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

a. Assists the Board and the Board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its committees to set agendas for those meetings;

b. Ensuring that the materials for the Board meeting agenda shall be made available to the Board members at least five (5) business days before the Board meeting;

c. Safekeeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the corporation;
d. Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the corporation, and advises the Board and the Chairman on all relevant issues as they arise;

e. Works fairly and objectively with the Board, Management and stockholders and contributes to the flow of information between the Board and Management, the Board and its committees, and the Board and its stakeholders, including shareholders;

f. Advises on the establishment of board committees and their terms of reference;

g. Informs members of the Board, in accordance with the By-laws, of the agenda of their meetings at least five (5) working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;

h. Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;

i. Performs required administrative functions;

j. Oversees the drafting of the By-laws and ensures that they conform with regulatory requirements;

k. Annual submission of the Integrated Annual Corporate Governance Report (IACGR) to SEC and PSE and advisement letter on directors’ attendance within five (5) days from the end of the year.

l. Furnishes all of the first-time directors with a copy of the general responsibility and specific duties and responsibilities of the Board of Directors and of a director;

m. Submits the bio-data of the elected director to the Supervision and Examination Sector of the BSP together with the duly notarized authorization form with a request for the Monetary Board’s confirmation of the election/appointment of the directors within ten (10) banking days from date of election; If after evaluation, the BSP shall find grounds for the disqualification, the director so elected/appointed may be recommended for removal from office.

n. Performs such other duties and responsibilities as may be provided by the SEC.

o. Acts as the Secretary to the Corporate Governance Committee.
CHIEF COMPLIANCE OFFICER

To ensure adherence to corporate principles and best practices, the Board of Directors shall designate a Chief Compliance Officer who is a Senior Officer or its equivalent position with adequate stature and authority in the Bank. He/She is a member of the Bank’s Management team in charge of the Compliance Function. He is primarily liable to the corporation and its shareholders, and not to the Chairman or President of the Bank. He should annually attend a training on corporate governance. He/she has, among others, the following duties and responsibilities:

a. Ensures proper onboarding of new directors (i.e., orientation on the company’s business, charter, articles of incorporation and by-laws, among others);

b. Ensures the attendance of board members and key officers to relevant trainings;

c. Monitors, reviews, evaluates and ensures the compliance by the corporation, its officers and directors with the relevant laws, this Manual, rules and regulations and all governance issuances of regulatory agencies;

d. Reports the matter to the Board if violations are found and recommends the imposition of appropriate disciplinary action;

e. Ensures the integrity and accuracy of all documentary submissions to regulators;

f. Interacts with the BSP, SEC and PSE on compliance-related matters, including documentary submissions;

g. Appears before the SEC when summoned in relation to compliance with the Corporate Governance Code;

h. Forges a strategic alliance with the other Bank Control Units relative to its common role and interest of instilling the appropriate control discipline amongst the various business and operations units;

i. Performs investigations for perceived systemic prevalence of risks and addresses identified breaches through implementation of action items in coordination with the business and operating units;

j. Implements a comprehensive compliance training program for all Officers and Staff with respect to the compliance program and the identified business risks;

k. Identifies possible areas of compliance issues and works towards the resolution of the same;
I. Fosters a strong working relationship with the regulators (Central Point of Contact, Supervision and Examination Sector and the Anti-Money Laundering Specialist Group) and the Association of Bank Compliance Officers (ABCOMP); and

m. Performs such other duties and responsibilities as may be provided by the SEC/BSP.

The appointment of the Compliance Officer shall be immediately disclosed to the Securities and Exchange Commission on SEC Form 17-C. All correspondences relative to these functions as such shall be addressed to said Officer.
SUCCESSION PLAN FOR BOARD OF DIRECTORS

1. The succession plan shall consider the following:
   a) The regular Board members are those with stake or shareholdings in the Bank.

      The succession plan of the President & CEO, who is a mandatory member, is covered by the Succession Plan for Senior Management.

2. The Nominations and Remuneration Committee and Senior Management shall work closely in identifying and coming up with a pool of qualified individuals for the Executive, Non-executive and Independent Director’s (ID) seat. Sources of possible Directors are
   a. Regulated pool of accredited regular and independent directors, if any;
   b. Directors of listed companies.

   **Board Refreshment Policy**

   a) The new board members elected starting in 2017 shall not stand for election for any term that begins after his 75th birthday.

   b) Existing board members beyond the age of 70 who have been with the Board prior to 2017 shall be allowed an extension of 10 years.

   c) Existing board members below the age of 70 who have been with the Board prior to 2017 shall be allowed an extension of 10 years after they reach the age of 75.
II. DISCLOSURE AND TRANSPARENCY

REPORTORIAL OR DISCLOSURE SYSTEM OF THE BANK’S CORPORATE GOVERNANCE POLICIES

The reports or disclosures required under this Manual shall be prepared and submitted to the Securities and Exchange Commission (SEC), Bangko Sentral ng Pilipinas (BSP) and the Philippine Stock Exchange (PSE), as the case may be, in accordance with existing regulations, by the responsible department/officer or through the Bank’s Chief Compliance Officer.

All material information, i.e., anything that could potentially affect share price shall be publicly disclosed. The Bank is prohibited from communicating material non-public information about itself to any person, unless the Bank is ready to simultaneously disclose the material non-public information to the Philippine Stock Exchange. This rule does not apply if the disclosure is made to (a) a person who is bound by duty to maintain trust and confidence to the Bank such as but not limited to its auditors, legal counsels, investment bankers, financial advisers and (b) a person who agrees in writing to maintain in strict confidence the disclosed material information and will not take advantage of it for his personal gain.

Material information for disclosure shall include earnings results, acquisition or disposal of assets, board changes, related party transactions, shareholdings of directors and changes to ownership, remuneration (including stock option) of all directors and Senior Management, corporate strategy, off-balance sheet transactions, as well as items covered in the Disclosure Rules of the Philippine Stock Exchange.

All disclosed information shall be released via the approved stock exchange procedure for Bank announcements as well as through the annual report.

The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information for the interest of the shareholders.

Policy statement on disclosure of non-financial information

It is appropriate for shareholders and stakeholders to be informed of the Bank’s strategic goal and objectives and how well it manages its business and improve sustainability. This information is reflected through the Global Reporting Initiative framework which the Bank has adopted to communicate with the public regarding the Bank’s contribution to economy, environment, social and governance.

More than reporting and keeping the stakeholders informed of the Bank’s activities, it recognizes the importance on the interdependence between business and society, and promotes a mutually beneficial relationship that allows the company to grow its business, while contributing to the advancement of the society where it operates.
Policy on Acquisition/Sale of Significant/Material Assets

The company should make a full, fair, accurate and timely disclosure to the public of every material fact or event that occurs, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders.

The disclosure on the acquisition or disposal of significant assets includes, among others, the rationale, effect on operations and approval at board meetings with independent directors present to establish transparency and independence on the transaction.

Moreover, the offeree company should appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.
TRADING IN SECB SHARES

As a publicly listed company, the Bank shall strictly observe the prohibition on insider trading under Section 27 of the Securities Regulation Code (SRC). Towards this end and consistent with the principles of fair dealing and transparency in the securities market, a Director or Officer with the rank of Senior Vice President and up, when dealing in the Bank’s shares shall:

1. Notify the Board through the Office of the Corporate Secretary (OCS) of his intention to deal in SECB shares at least one (1) day prior to trading. Notification may be done verbally or in writing, detailing the (a) transaction date (b) number of shares (c) transaction type whether buying or selling (d) transaction price per share and (e) name of broker-dealer through whom transaction will be effected.

2. Submit the necessary SEC Form 23A (Initial Statement of Beneficial Ownership of the Securities) and/or SEC Form 23B (Statement of Changes in Beneficial Ownership of Securities) to the Securities and Exchange Commission and the Philippine Stock Exchange within three (3) business days from initial acquisition or changes (subsequent acquisition or disposal). Likewise, he shall coordinate with the OCS to ensure the timely filing of said reports.

The Bank shall likewise strictly prohibit the short selling of SECB shares by any of its Director or Officer in accordance with the applicable provisions of the SRC and its Amended Implementing Rules and Regulations.\(^2\)

Compliance with the foregoing requirements shall not preclude the Bank from filing a suit against any of its Director or Officer to recover any profit realized by them from any purchase and sale, or any sale and purchase of SECB shares within any period of less than six (6) months in accordance with the provisions of Section 23.2 of the SRC. No such suit shall be filed where the shares was acquired in good faith, in connection with a debt previously contracted, and after the lapse of two (2) years from the date when such profit was realized.

\(^2\) As defined in SRC Rule 24.2-2 (1), the term “short sale” shall mean any sale of a security which the seller does not own or any sale which is consummated by the delivery of a security borrowed by, or for the account of the seller. A person shall be deemed to own a security if: (1) he or his agent has title to it; (2) he has purchased, or has entered into an unconditional contract, binding on both parties thereto, to purchase it and has not yet received it; (3) he owns a security convertible into or exchangeable for it and has tendered such security for conversion or exchange; (4) he has an option to purchase or acquire it and has exercised such option; or (5) he has rights or warrants to subscribe to it and has exercised such rights or warrants to subscribe to it and has exercised such rights or warrants provided, however, that a person shall be deemed to own securities only to the extent he has a net long position in such securities.
Disclosure Requirement on the Bank’s Corporate Website

Pursuant to SEC Memorandum Circular No. 11 series of 2014, the following information are the minimum recommended topics to be posted in the Bank’s website:

**Our Business**
The Company’s Business Operations

**Our Company**
1. The Company’s Corporate or Business Profile;
2. The Company’s Mission, Vision and Values;
3. The Company’s Board of Directors, Management Team and Executive Officers;
4. The Company’s Organizational Chart;
5. The Company’s Conglomerate Map or Group Corporate Structure;
6. The Company’s Shareholdings Structure; and
7. The Company’s Articles of Incorporation and By-Laws and all amendments thereto.

**Corporate Governance**
Manual on Corporate Governance
Code of business conduct and ethics
Annual Corporate Governance Report (ACGR)
1. ACGR for 2012;
2. Updates and changes as of December 31, 2013;
3. Consolidated Changes in the ACGR for 2013;
4. Updates and Changes as of present date; and
5. Consolidated Changes in the ACGR for 2014 and so on and so forth until ACGR is required.

**Board Committees**
1. Board Committees;
2. Board Committee Members; and
3. Board Committee Charters

**Corporate Social Responsibility**
The Company’s Corporate Social Responsibility Initiatives
Enterprise Risk Management

The Company’s Risk Management System

Company’s Policies

1. Whistle Blowing Policy;
2. Conflict of Interest Policy;
3. Insider Trading Policy;
4. Related Party Transactions Policy;
5. Policy and Data Relating to Health, Safety and Welfare of Employees, including company sponsored trainings.

Company Disclosures

SEC Filings

1. SEC Form 17- A (Annual Report);
2. SEC Form 17- Q (Quarterly Report);
3. SEC Form 17- C (Current Report);
4. SEC Form 20- IS (Information Statement);
5. SEC Form 23- A/B (Statement of Beneficial Ownership);
6. General Information Sheet

Notice of Annual or Special Stockholder’s Meetings
Minutes of all General or Special Stockholder’s Meetings
Other Disclosures to SEC, PSE and Other Pertinent Agencies

Press Materials/ News

Materials provided in briefings to analysts and media

Investor Relations

Investor Relations Programs
Share Information

1. Total Outstanding Shares;
2. Exchange where listed; and
3. Top 20 Stockholders

All required information must be retained in the company’s website for a period of five (5) years.
### Reportorial Requirements

**a) BSP**

i. **Annual Report on Group Structure (Conglomerate Mapping)**
   - Should be updated annually and submitted to the Central Point of Contact of the BSP within thirty (30) calendar days after end of every calendar year.

ii. **Material Related Party Transaction Report**
   - Should be submitted to the Central Point of Contact of the BSP within twenty (20) calendar days after end of the reference quarter.

**b) Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE)**

i. **Integrated Annual Corporate Governance Report (IACGR)**
     - **Annual, every 30th of May**
     - This report shall be submitted simultaneously to SEC and PSE.
     - Three copies are required to be submitted to SEC with at least one duly notarized copy bearing the original and manual signature of the following:
       a. **Chairman of the Board**;
       b. **Chief Executive Officer or President**;
       c. **All Independent Directors**;
       d. **Compliance Officer**; and
       e. **Corporate Secretary**
     - **One copy shall be submitted to PSE via the EDGE system**
• The IACGR with accessible link shall be posted to the Bank’s website within two (2) business days from submission.

ii. Manual on Corporate Governance

Any amendments to the Manual on Corporate Governance must be submitted to the SEC and PSE within five (5) days from the approval of the Board of Directors.

Submission of the Updated Corporate Governance Manual shall include the following:

a. Copy of the revised manual;
b. Secretary’s Certificate attesting to the resolution of the BOD to approve the revisions.
c. Cover letter duly signed by the Chief Compliance Officer
d. SEC Form
III. INTERNAL CONTROL AND RISK MANAGEMENT FRAMEWORK

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 the Board, Senior Management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate and complied with. It shall further provide an independent and objective assurance, and consulting services designed to add value and improve the company's operations.

Internal audit plans should cover at the minimum:

- The evaluation of the adequacy and effectiveness of controls that cover governance, operations and information systems
- Reliability and integrity of financial and operational information, effectiveness and efficiency of operations,
- Protection of assets
- Compliance with contracts, laws, rules and regulations.

A separate internal audit function is essential to monitor and guide the implementation of company policies. It helps the company accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of the company's governance, risk management and control functions. The following are the functions of the internal audit, among others:

a. Provides an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in (1) promoting the right values and ethics, (2) ensuring effective performance management and accounting in the organization, (3) communicating risk and control information, and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;

b. Performs regular and special audit as contained in the annual audit plan and/or based on the company’s risk assessment;

c. Performs consulting and advisory services related to governance and control as appropriate for the organization;

d. Performs compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;
e. Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the company;

f. Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;

g. Evaluates specific operations at the request of the Board or Management, as appropriate; and

h. Monitors and evaluates governance processes.

The Bank’s internal audit activity may be a fully resourced activity housed within the organization or may be outsourced to qualified independent third-party service providers.

The Internal Auditor shall report to the Audit Committee. The Internal Auditor should submit to the Audit Committee and Management an annual report on the internal audit department’s activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual report should include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management.

The Internal Auditor should certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. Disclosure to the Board and Management should be initiated by the Internal Auditor for the reasons of his non-compliance with said standards.
CHIEF AUDIT EXECUTIVE

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

The CAE, in order to achieve the necessary independence to fulfill his/her responsibilities, directly reports functionally to the Audit Committee and administratively to the CEO. The following are the responsibilities of the CAE, among others:

- Periodically reviews the internal audit charter and presents it to Senior Management and the Board Audit Committee for approval;
- Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization’s goals;
- Communicates the internal audit activity’s plans, resource requirements and impact of resource limitations, as well as significant interim changes, to Senior Management and the Audit Committee for review and approval;
- Spearheads the performance of the internal audit activity to ensure it adds value to the organization;
- Reports periodically to the Audit Committee on the internal audit activity’s performance relative to its plan; and
- Presents findings and recommendations to the Audit Committee and gives advice to Senior Management and the Board on how to improve internal processes.
EXTERNAL AUDITOR

The 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 selected and appointed by the Board of Directors upon recommendation of the Audit Committee.

The external auditor of the Bank shall not at the same time provide the services of an internal auditor to the same client. The Bank shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor or does not pose a threat to his independence.

The Bank’s external auditor shall be rotated or the handling partner shall be changed every five (5) years or earlier or the signing partner of the external auditing firm assigned to the Bank should be changed with the same frequency.

The reason/s for the resignation, dismissal or cessation from service and the date thereof 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 or practices, financial statement disclosure or auditing scope or procedure.

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.

In carrying out the audit of the Bank’s financial statements, the external auditor shall:

i. 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 financial reporting framework and BSP rules and regulations may differ, external auditors are expected to look into the soundness of the assumptions and methodologies used under both regimes. In addition,
external auditors should also consider the adequacy and propriety of documentation of significant differences between the valuations used for financial reporting purposes and for regulatory purposes.

ii. 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 arm's length terms.

iii. document its discussion with the Bank’s Board of Directors and the Audit Committee. Where there are differences between 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.

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.
CHIEF RISK OFFICER

The Bank shall appoint a Chief Risk Officer (CRO), or any equivalent position, who is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources and support to fulfill his/her responsibilities, subject to the Bank’s size, risk profile and complexity of operations. He 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 access 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.

Further, the CRO should have the knowledge and skills necessary to oversee the BSFI’s risk management activities. He should have the ability to interpret and articulate risk in a clear and understandable manner.

The CRO has the following functions, among others:

a. Support the Board of Directors in the development of the risk appetite and the Risk Appetite Statement (RAS) of the Bank, and for translating the risk appetite into a risk limit structure.

b. Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;

   Enterprise Risk Management is a process, effected by an entity’s Board of Directors, Management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives.

c. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board Risk Oversight Committee;

d. Collaborates with the CEO in updating and making recommendations to the Board Risk Oversight Committee;
e. Suggests ERM policies and related guidance, as may be needed; and

f. Provides insights on the following:
   - Risk management processes are performing as intended;
   - Risk measures reported are continuously reviewed by risk owners for effectiveness; and
   - Established risk policies and procedures are being complied with.

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

There should be clear communication between the Board Risk Oversight Committee and the CRO.

**RISK MANAGEMENT**

The risk management function involves the following activities, among others:

a. Defining a risk management strategy;

b. Identifying and analyzing key risks exposure relating to economic, environmental, social and governance (EESG) factors and the achievement of the organization’s strategic objectives;

c. Evaluating and categorizing each identified risk using the company’s predefined risk categories and parameters;

d. Establishing a risk register with clearly defined, prioritized and residual risks;

e. Developing a risk mitigation plan for the most important risks to the company, as defined by the risk management strategy;

f. Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Board Risk Oversight Committee; and

g. Monitoring and evaluating the effectiveness of the organization’s risk management processes.
VI. CULTIVATING A SYNERGIC RELATIONSHIP WITH SHAREHOLDERS

SHAREHOLDER’S RIGHTS

The Bank recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors. Therefore, the Board shall respect the rights of the stockholders as provided for in the Corporation Code:

1. Right to Nominate:

   All shareholders, including minority shareholders, shall have the right to nominate candidates for the Board of Directors.

   The list of names of the nominees to the Board of Directors shall be filed and submitted to the Corporate Governance Committee through the Office of the Corporate Secretary at least thirty (30) business days prior to the annual stockholders’ meeting wherein they will be elected.

2. Voting Right

   Shareholders have the right to vote on all matters that require consent or approval.

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

   Cumulative voting shall be used in the election of directors.

   A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

   Stockholders who cannot attend meetings have the right to appoint a proxy. The exercise of the proxy rights shall not be unduly restricted and any doubt about the validity of the proxy should be resolved in the stockholders’ favor.

3. Pre-emptive Right

   Article Seventh of the Bank’s Articles of Incorporation states that no holder of shares of securities issued by the Corporation shall be entitled to pre-emptive rights with respect to shares issued by the company.
The Articles of Incorporation shall lay down the specific rights and power of shareholders with respect to the shares they hold, all of which shall be protected by law so long as they shall not be in conflict with the Corporation Code.

4. Power of Inspection

All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporate Code at reasonable hours on business days.

All shareholders shall also be furnished with annual reports, including financial statements, without costs or restrictions.

5. 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 be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.

The minority shareholders shall have access to any and all information relating to matters for which the Management is accountable for and to those relating to matters for which the Management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders’ meeting, being within the definition of “legitimate purposes”.

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.

6. Rights to Dividends

Shareholders shall have the right to receive dividends subject to the discretion of the Board and prior approval by the Bangko Sentral ng Pilipinas.

The fundamental philosophy for the Bank’s dividend policy is sustainability with payouts referenced against the Bank’s capital management process.
7. Appraisal Right

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

- In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening the term of corporate existence;

- In case of sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and

- In case of merger or consolidation.

It shall be the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholders’ rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders’ voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments shareholders participating in meetings and/or voting in person. The directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

Notice of Annual & Special Shareholder’s meeting

For stockholders to be able to exercise their right especially in the holding of meeting, the Bank prepares and sends the notice of the meeting at least 28 days prior the meeting. The notice incorporates the required information such as:

1. Date and location.
2. Meeting agenda and its rationale and explanation;
3. Annual Report and ratification of the acts of the Board of Directors, all the management Committees and Officers which include:
4. President and CEO Annual report of the operating performance of the company.
5. All Acts, resolutions and proceedings adopted and/or implemented by the Board of Directors, Board and Management Committees, Officers and agents of the Bank;

6. Significant transactions with DOSRI and other related parties; and

7. Election of Directors including their profile

8. Other matters that need to be deliberated on and approved or ratified by the stockholders, such as:
   - Appointment of the Bank’s External Auditor.
   - Material Related Party Transactions

The notice of the meeting is duly disclosed in the Bank’s website.

The result of the votes taken during the most recent annual or special stockholders meeting shall be posted in the Bank’s website on the next working day. Further, minutes of the annual and special stockholders meeting shall be made available on the Bank’s website within five business days from the end of the meeting.

**Alternative Dispute Resolution**

The Bank establish a venue and system that allow stockholders and stakeholders to communicate their concern including issues or situations where their rights were violated. The following alternative dispute resolution systems are available:

<table>
<thead>
<tr>
<th>Alternative Dispute Resolution System</th>
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<tr>
<td>Corporation and Stockholders</td>
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<tr>
<td>The Office of the Investor Relations and the Office of the Corporate Secretary attend to stockholders’ concerns.</td>
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<tr>
<td>Corporation and Third Parties</td>
</tr>
<tr>
<td>The authorized officers of the Bank meet with concerned third parties to discuss, resolve conflicts and arrive at a compromise.</td>
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<tr>
<td>Corporation and Regulatory Authorities</td>
</tr>
<tr>
<td>Compliance Office acts as Liaison to regulatory agencies with primary objectives of identifying and averting potential issues and resolving actual audit exceptions by providing substantive explanation and documentation to avoid monetary and administrative sanctions.</td>
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</table>
INVESTOR RELATIONS OFFICE

The Bank’s Investor Relations Office is designed to ensure constant engagement with its stockholders. The Investor Relations Office provides an avenue to receive feedback, complaints and queries from shareholders it also assures their active participation with regard to activities and policies of the Bank. Further, it shall ensure all information regarding the activities of the Bank are properly and timely communicated to shareholders. The Investor Relations Officer shall be present at every shareholders meeting.
Whistle-Blowing Mechanism

Employees are encouraged to report in good faith suspected employee offenses or irregularities to their immediate superior for proper disposition. If the immediate superior cannot act on the said offense due to his involvement, the employee may elevate the same to any of the authorities. As reporting party, who may only divulge information that is of his personal knowledge, said employee is prohibited to act on his own by conducting any investigative activity nor participate in any investigative activity other than the one conducted by the duly authorized investigating body. At any rate, due process shall at all times be observed at any stage of the investigation on the acts exposed by the whistleblower.

The Bank shall prohibit discrimination, harassment and retaliation against any employee who reports suspected employee offenses or irregularities. Management shall ensure that a whistleblower’s safety and well-being is adequately protected up to the maximum extent allowed by the SBC Code of Conduct.
V. DUTIES TO STAKEHOLDERS

Consistent with the Board’s duties and responsibilities to its various stakeholders enumerated under Section 1 of this Manual, the Board adopts the following mechanisms and frameworks aid in fulfilling its duties to its stakeholders:

- The Board establishes programs to provide a mechanism on the fair treatment and protection of stakeholders.

- The Board likewise adopts a transparent framework and process that allow stakeholders to communicate with the company and to obtain redress for the violation of their rights.

- The Board identifies the company’s various stakeholders and promotes cooperation between them and the company in creating wealth, growth and sustainability.

- The Board establishes policies, programs and procedures that encourage employees to actively participate in the realization of the company’s goals and in its governance.

The Board also sets the tone and makes a stand against corrupt practices by adopting an anti-corruption policy and program. This is being disseminated to employees across the organization through trainings to embed them in the company’s culture.

Governance Policy on Money-Laundering, Fraud, and Corruption

Money Laundering

1. It is the policy of the Bank to conduct business in conformity with high ethical standards to protect the reputation and integrity of the banking system from becoming a vehicle or conduit for or a victim of financial crime and to protect the diverse interests of the institution’s stakeholder groups.

   Employees are required to report to prescribed channels if they become aware of any circumstances leading them to suspect that any transaction might involve the payment or the receipt of proceeds of any unlawful activity.

Fraud

2. The Bank is committed to the highest standards of moral and ethical behavior and is opposed to any unethical behavior such as fraud and corruption.
The Bank considers all forms of fraud as extremely serious offenses and is committed to preventing, deterring and eliminating fraud and/or corrupt conduct, whether committed for the benefit of or to the detriment of the institution.

The Bank considers any act(s) of fraud or other wrongful acts committed by its officers and staff to be reprehensible and in response will take all necessary disciplinary action it deems appropriate.

Corruption

3. Neither the Bank nor any third party acting on the Bank’s behalf shall offer, promise, authorize or pay anything of significant value to any “government official” or any other person or entity including those in the private or commercial sector, where it is intended to induce the recipient to misuse his or her position or to obtain an improper “business advantage.”

No Bank employee shall request or accept a bribe. No gift of cash or any cash equivalent is ever permitted to be given to or for the benefit of any third party, or requested or accepted by any Bank employee, unless specifically authorized by the Bank’s policy.
PART VI: COMMUNICATION PROCESS AND ENFORCEMENT POLICY FOR NON-COMPLIANCE WITH THE CODE

COMMUNICATION PROCESS

This Manual shall be available for inspection by any stockholder of the Bank at reasonable hours on business days.

All directors, executives, division and department heads are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.

The SEC stamped received copy shall be posted on the Bank’s website within two days from submission to SEC. It shall likewise be posted on the Central Document Library (CDL) and Compliance Office’s SharePoint, which shall only be available for "read purposes" only. The printing or reproduction of the Corporate Governance Manual by any employee or Officer of the Bank is strictly prohibited.

Compliance Office shall ensure timely issuance of e-mail notification on revisions to the Manual with direct reference to updated postings in the aforementioned media.
PENALTIES 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, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of this Manual;

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

The commission of a third violation of this Manual by any member of the Board of the Bank or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.

The Chief Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

-End of Document-
PART VII: ANNEXES

Annex 1
Code of Business Ethics for Members of the Board of Directors

Statement of Policy

It is the policy of the Security Bank Group of Companies to maintain its excellent reputation for ethical behavior and fair dealings in the conduct of its business. Board members are expected to behave in an ethical manner, and comply with the requirements of laws and regulations. Directors represent the ultimate tone at the top, and when directors act in an ethical manner, they send a clear signal to the whole team.

This Code of Business Ethics will serve as guide to the Board members of the Group on their business conduct, establish an agreed set of ethical principles, promote and maintain confidence and trust in the Security Bank Group, and prevent the development and acceptance of unethical practices by the Group.

The Code of Business Ethics shall apply to all members of the Board of Directors of the Security Bank Group. All members of the Board shall uphold and promote the principles of this code.

Principles of the Code of Business Ethics

Members of the Board shall observe the highest standards of ethical conduct. They will avoid any action or inaction, which could in any way, impair the Bank’s capacity to carry out its duties, or compromise its reputation for integrity, fairness, honesty and transparency.

A Board Member is expected to:

- Be fit and proper for the duration of his term. He shall:
  - Possess unquestionable credibility to make decisions objectively and resist undue influence;
  - Treat board directorship as a profession and have clear understanding of his duties and responsibilities, as well as his role in promoting good governance;
  - Maintain his professional integrity, exercising objective independent judgement on corporate affairs requiring Board decision;
o Continuously seek to enhance his skills, knowledge and understanding of the activities that the Bank/subsidiary is engaged in, or intends to pursue so as to meaningfully contribute to the Board’s work;

o Safeguard the institution’s competitiveness with his working knowledge of the statutory and regulatory requirements, the contents of the institution’s articles and by-laws, the requirements of the BSP and other regulatory agencies, as well as the developments in the industry through continuing professional development activities.

o Devote time and attention necessary to properly discharge duties and responsibilities;

o Attend and actively participate in Board and Committee meetings, requesting and reviewing materials, making reasonable inquiries, and requesting explanations.

- Act in a financially responsible manner, understanding financial reports, audit reports and other financial materials that are presented to the Board

- Act judiciously. He shall:
  
  o Thoroughly evaluate the issues before deciding on matters brought before the Board for decision making;
  
  o Understand the financial, strategic and other implications of decisions.

- Use his position appropriately. He shall:
  
  o Treat other directors with professionalism, courtesy and respect;
  
  o Work cooperatively with fellow members towards agreed goals while accepting the obligation to be independent in judgement and actions;
  
  o Use the Group’s resources or time for official purposes and not for personal gain, for the benefit of persons or organizations not connected with the Group, or for the benefit of competition;
  
  o Conduct fair business transactions and ensure that personal interest does not bias Board decisions, nor would the position be used to seek an undue advantage for yourself, family members and associates;
o Where possible, avoid situations that would compromise his impartiality or give rise to a conflict of interest. If such transactions with conflict of interest cannot be avoided, these should be done in the regular course of business and upon terms not less favorable to the institution than those offered by others;

o Promptly and fully disclose to the Chairman of the Board, the Chairman of the Corporate Governance Committee or the Corporate Secretary, any conflict of interest, whether of an actual or potential nature, and whether involving his personal (including family or close personal friends) or business affairs;

o When encountering potential conflicts of interest, depending on assessed significance, take one of the following courses of action (in order of increasing significance): (a) refrain from voting on a relevant matter during a Board meeting, (b) withdraw from discussion of relevant matter(s) during a Board meeting, (c) take a leave of absence from the Board for a period, or (d) resign from the Board.

- Act with honesty and good faith, with loyalty and in the best interest of the institution and its stakeholders. He shall:
  
o Be open and transparent in his dealings;

  o Avoid activities that may bring disrepute to the institution and to himself;

  o Not engage in any outside business, professional or other activities that would directly or indirectly materially adversely affect the institution;

  o Give due regard to the rights and interests of other stakeholders;

  o Deal fairly with customers, suppliers, competitors and employees, not taking unfair advantage of stakeholders through manipulation, concealment, abuse of privileged information, misrepresentation of materials facts or any unfair dealing practices;

  o Promote and respect safety and health of all employees, customers and other third parties with whom he comes in contact with;

  o Provide equal opportunities to all employees and aspirants for employment, irrespective of gender, religion or race, with merit being the sole discriminating factor;

- Encourage the reporting of any illegal or unethical behavior. He shall:
  - Promote ethical behavior and take steps to ensure that the Company encourages employees to (a) talk to appropriate personnel when in doubt about the best course of action in a particular situation, (b) report violations of laws, rules, regulations, or the Company’s Code of Conduct, and (c) inform employees that the Company will not allow retaliation for reports made in good faith.

- Use information appropriately. He shall:
  - Ensure information gained as a Director is only applied to proper purposes and is kept confidential and not used for personal benefit;
  - Exercise discretion regarding Board information which is not in the public domain, as well as information handled via facsimile or other electronic transmission devices to ensure that this is not inadvertently made available to unauthorized parties;
  - Strictly maintain confidentiality of Information, even if he is no longer a member of the Board;
  - Not give tips to others on trading of shares on the basis of material information before it is made publicly available. Such information includes news about acquisitions, investments, new business relationships, financial results, important management changes, and other information that has the potential to affect the stock price of publicly listed Security Bank Corporation.

- Ensure compliance with regulatory/legal requirements. He shall:
  - Ensure and actively promote compliance by employees, officers and other directors with laws, rules and regulations applicable to the company, including insider trading laws;
  - Ensure appropriate disclosures to the Company Secretary on details of outside employment, business interests or interests of any of family members which may be in conflict or potential conflict with businesses of the Security Bank Group.

- Exercise due care in accepting gifts, favors and entertainment.
o Accepting occasional gifts and entertainment in role as director may be appropriate in developing business relationships;

o Gifts and entertainment should further the business interests, and should not be lavish or in excess of the generally accepted business practices in the industry;

o Soliciting or requesting personal gifts, entertainment or services is not acceptable;

o Accepting gifts of cash or cash equivalents is also always unacceptable;

o Position should not be exploited to provide individual preferential treatment from vendors in pricing or terms.

- Demonstrate leadership and stewardship. He shall:
  
  o Promote and support the application of the values of the Security Bank Group;

  o Act in accordance with this Code of Business Ethics.

Where issues arise that cannot be specifically foreseen in this Code, directors shall be expected to exercise sound judgement and behavior, consistent with the General Principles mentioned above.

Upon completion of engagement as a director, he is expected to:

(a) Immediately deliver to the Company all property in his possession that belongs to the Company;

(b) Not to represent himself as being in any way connected with the Company (other than as owner of financial interests such as shares);

(c) Repay to the Company any amount due and payable to the Company.

Enforcement

Any member of the Board requiring clarification of this Code may contact the Corporate Secretary or any officer specifically designated by the Board of Directors.

Directors should communicate any suspected violations of this Code promptly to the Chairman of the Board, or the Chairman of the Corporate Governance Committee for deliberation of non-compliance issues for sanctions and penalties.
The Board shall oversee that there is a proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies. The Company’s ethics policy shall be communicated across all the group through awareness campaign and continuous training.
Annex 2 – Performance Evaluation

Annex 2.a - Board of Directors

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<th>1. Membership</th>
<th>Met</th>
<th>Not Met</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>a. At least 5 and maximum of 15</td>
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<tr>
<td>b. At least 20% but not less than 2 independent directors</td>
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<td>c. Sufficient number of non-executive members</td>
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<td>d. No individual or small group dominates decision making</td>
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<td>e. Majority are residents of the Philippines</td>
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<tr>
<td>f. Organization has clear definition and delineation of lines of responsibility esp. between Chairman and President/CEO</td>
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<td></td>
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<tr>
<td>g. Chairman is non-executive</td>
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<thead>
<tr>
<th>2. Conduct of Board Meetings</th>
<th>Met</th>
<th>Not Met</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Compliance to Charter and regulations in conduct of affairs of bank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of meetings per Charter</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual number of meetings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. All board/committee meetings are minuted and documented</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Appropriate records are maintained</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Conducted through modern technologies (ie. teleconferencing/videoconferencing) that allows active participation of directors who are not physically present during meetings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Maintain and periodically update organizational rules, by-laws or other documents setting out its organization, rights, responsibilities or key activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. Structure itself into committees to promote efficiency and critical discussion of issues and thorough review of matters</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
g. Appoint members of committees considering optimal mix of skills and experience of board members

h. Approve, review and update (at least annually) or whenever there are significant changes, the respective charters of each committee

i. Independent views in board meetings are given full consideration

### 3. Meetings with Senior Management

a. Set frequency of meetings with senior management for discussion and review of management reports

b. Set frequency of review of policies, self-assessment functions (internal audit, risk oversight and compliance) to determine areas of improvement and to promptly identify and address significant risks and issues

### 4. Meetings of Non-Executive Directors

Meet regularly, other than meetings of Audit and Risk Oversight, in the absence of Senior Management, with the External Auditor, Heads of Internal Audit, Compliance and Risk Management

### Board Roles and Responsibilities

**Approve strategic objectives of the institution**

* approve policies on all major business activities
* approve major capex, equity investments and divestments
* regular monitoring and review of performance against objectives

**Define the level of risk tolerance for activities**

* approve policies/procedures on risk management, including trust
* ensure adequate resources allocated to risk management
* establish authority limits for lending, investing, and other risk areas

* provide mechanism to ensure compliance with policies

Appoint competent management team; replace when necessary

* ensure relevance of senior management's expertise and knowledge

* assess and monitor performance of management team ensuring consistency with approved policies

* put in place formal performance standards for assessment of Senior Mgmt.

* regularly meet with senior management for discussion and review of reports and information provided

* set the frequency of meeting with senior management for discussions and review of performance

* conduct regular review of Bank's policies, internal controls and self-assessment functions (i.e. Internal Audit, Risk Management and Compliance)

* have an appropriate succession plan in place

* appoint Chief Risk Officer and Compliance Officer who shall be vested with authority, support and resources

Ensure that Bank continuously provides services and facilities that are supportive to national economy lead in establishing tone of good governance from the top

* Set in place policies covering:

a. DOSRI and related party transactions ensuring regulatory compliance and no stakeholder is unduly disadvantaged

b. Definition of related party transactions to capture relevant transactions that could pose material risk or potential abuse
<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>c. Acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest and unethical conduct</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Prevention of the use of the facilities of the Bank for the furtherance of criminal improper or illegal activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Explicitly discourage taking of excessive risks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. Employees’ compensation scheme aligned with prudent risk taking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Transactions of the pension fund are conducted at arm’s length terms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>h. Allowing employees to communicate, with protection from reprisals, legitimate concerns about illegal, unethical or questionable practices directly to the Board or any independent unit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. Means to confidentially report concerns or violations to appropriate body</td>
<td></td>
<td></td>
</tr>
<tr>
<td>j. How concerns raised by employees above shall be investigated and addressed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>k. Communication of corporate values, codes of conduct and other standard</td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Regularly monitor and review compensation scheme to ensure it operates and achieves the objectives as intended</td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Ensure fully funded pension funds &amp; recognition of appropriate liability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>* System of checks and balances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. For the Board among its members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. For the Board over the CEO and key managers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. For the key managers over the line officers of the Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Annual (at least) assessment of performance and effectiveness</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Of the Board as a body</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Of various Board committees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Of board composition for balanced membership</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
d. Evaluation process in place via peer group analysis or benchmarking

* Confirm performance ratings given by President or Senior Management to:

a. Chief Risk Officer

* Understandable assessment of bank’s financial condition and risk exposures

* Reasonable access to any information about bank at all times

Define an appropriate corporate governance framework that will contribute to effective oversight over entities in the group

* Approve appropriate corporate governance policies, practices and structures that will enable oversight of entire group

* Ensure appropriateness of policies, practices and structures in the light of growth, increased complexities and geographical expansion of the group

* Define level of risk tolerance of the group, linked to adequacy of capital of the group

* Ensure adequate resources are available for all entities in the group to effectively implement and meet governance policies, practices and systems

* Establish system of monitoring compliance of each entity in the group with applicable policies, practices, systems

* Define and approve policies and clear strategies for the establishment of new Structures

Understand legal and operational implications of group structure and how various profiles of risk exposures affect the group’s capital, risk profile under normal and contingent circumstances

* Develop sound and effective systems for generation and sharing information within the group, management of risks and effective supervision of the group
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(6) Enhancement of Shareholder Value</strong></td>
<td></td>
</tr>
<tr>
<td>Market Capitalization - end of year</td>
<td></td>
</tr>
<tr>
<td>Market Capitalization - start of year</td>
<td></td>
</tr>
<tr>
<td>Improvement in Shareholder Value</td>
<td></td>
</tr>
<tr>
<td>Share price - end of year</td>
<td></td>
</tr>
<tr>
<td>Share price - start of year</td>
<td></td>
</tr>
<tr>
<td>Improvement in share price</td>
<td></td>
</tr>
</tbody>
</table>

**Audit Comments on Oversight Responsibility of the Board**

Based on 2016 BSP advance report on examination, no adverse comments related to the Oversight responsibility of the Board.
## Annex 2.b - Individual Director

### RATING CRITERIA/SHEET

#### INDIVIDUAL DIRECTOR

**A. Fit and Proper (considering: integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/diligence/knowledge experience)**

<table>
<thead>
<tr>
<th>Met</th>
<th>Not Met</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* unquestionable credibility for objective decision making
* resists undue influence
* clear understanding of duties and responsibilities
* clear understanding of role in promoting good governance
* maintains professional integrity

Possess qualifications and none of disqualifications as indicated in CorGov Manual

### B. Attendance

<table>
<thead>
<tr>
<th># of Meetings</th>
<th>Attendance</th>
<th>% Attendance</th>
<th>Met</th>
<th>Not Met</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Annual Shareholders' Meeting</td>
<td>_____</td>
<td>_____</td>
<td>_____</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Board Meetings</td>
<td>_____</td>
<td>_____</td>
<td>_____</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Committee Meetings</td>
<td>_____</td>
<td>_____</td>
<td>_____</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Number of Other Board Memberships in SBC Subsidiaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SBC - Foundation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Remarks

**A. C. Competence**

<table>
<thead>
<tr>
<th>Remarks</th>
<th>Met</th>
<th>Not</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Continuously seeks to enhance his skills, knowledge and understanding of bank activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Up to date with respect to BSP Circulars and other regulatory issuances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Well-informed of industry developments and business trends</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Understanding of the Bank’s Articles and By-laws</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**B. D. Preparedness/Diligence**

<table>
<thead>
<tr>
<th>Remarks</th>
<th>Met</th>
<th>Not</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Time and attention devoted to properly discharge duties and responsibilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Sufficient time devoted to familiarize self with Bank’s business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Thorough evaluation of issues, asking questions and seeking clarification when needed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**C. E. Participation**

<table>
<thead>
<tr>
<th>Remarks</th>
<th>Met</th>
<th>Not</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Active participation in the Board and Committee meetings, requesting and reviewing meeting materials, asking questions and requesting explanations</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**D. F. Judgment**
(1) thoroughly evaluate issues, asking questions and seeking clarifications when necessary before deciding on any matter raised

(2) Independent judgment with objective view of problem/situation

(3) state position of disagreement, even if unpopular

(4) support plans and ideas that are beneficial to the institution

G. Candor, Fairness and Transparency

(1) Board decisions not biased by personal decisions

(2) Conflict of interest situations are avoided, or if not avoided, transactions are done in regular course of business and upon terms that are not less favorable to the bank than those offered to others

(3) Act in the best interest of the Bank and other stakeholders

(4) Observe confidentiality with respect to non-public information by reason of position as director

Additional Items For Independent Directors  (check for compliance)

(1) is not or has not been a member of the executive committee of the Board

(2) is not an officer or employee of the Bank, its subsidiaries or affiliates or related interests

(3) is not a director or officer of related companies of the company's majority Shareholders

(4) is not a stockholder with shares sufficient to elect one seat to the Board of the company, or its related companies, or its majority corporate shareholders
(5) is not a relative within the 4th degree, legitimate or common law of a director, officer or stockholder holding shares sufficient to elect one seat in the board of the bank or its related companies

(6) is not acting as nominee or representative of any director or substantial shareholder of the Bank, its related companies, or any of its substantial shareholders

(7) is not a retained professional adviser, counsel, consultant, agent of the Institution

Term as independent director
(maximum = 9 years)

where substantial shareholder = 10% holdings or ability to elect one board seat
Annex 2.c - Chief Executive Officer

Rating Sheet for the Chief Executive Officer

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Target</th>
<th>Met</th>
<th>Not Met</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Perspective</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic/Operating Plan in place</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE leadership</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NIAT contribution</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Capitalization improvement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risk Management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal Audit Rating</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Audit Rating</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Regulatory Audit Rating (CAMELS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AMLA Rating</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory Compliance/Penalties</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Manpower Perspective</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor-Management Relations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Turnover/Attrition Rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Retention Programs</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Training and Development</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Succession Planning</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health and Safety</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Customer Perspective</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Share</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer base</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Presence (distribution channels)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alternative Channels</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Service quality rating</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New products/programs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Businesses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Society Perspective</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental Compliance</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Community Activities</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Image/Reputation</td>
<td></td>
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</tbody>
</table>
# Annex 2.D
## Rating Sheet for the Corporate Governance Committee

### (1) Membership

<table>
<thead>
<tr>
<th>Met</th>
<th>Not Met</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least three (3) members of the Board of Directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two independent directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chairman is independent director</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(with MB approval for independent directors if needed per BSP Cir. #757)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### (2) Procedures

<table>
<thead>
<tr>
<th>Met</th>
<th>Not Met</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Review (at least) of Charter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of meetings per Charter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual number of meetings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriate records are maintained</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### (3) Responsibilities and Administration

Review and evaluate qualifications of

- Persons nominated to the Board
- Those nominated to other positions requiring appointment by the Board
- Propose objective performance criteria for Board approval

Oversee periodic evaluation /assessment of

- The Board
- Board members
- Its committees
- Executive Management
- Self-assessment of itself (annual)
Recommend:

* Guidelines that address multiple board seats
* Continuing education of directors
* Assignment to Board committees
* Succession plan for the Board members and senior officers
* Self-assessment of itself (annual)
* Remuneration for Board members commensurate with corporate and individual performance

Report to the Board results of assessment on review of group structure, controls and activities to assess consistency of board approved policies, practices and strategies for the compliance function
### Annex 2.e

#### Annex G - Rating Sheet for the Risk Oversight Committee

<table>
<thead>
<tr>
<th>(1) Membership</th>
<th>Met</th>
<th>Not Met</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least 3 members of the Board of Directors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At least one independent director</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chairman is a non-executive member</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members possess a range of expertise and adequate knowledge of risk exposures (with MB approval for independent directors if needed per BSP Cir. #757)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(2) Procedures</th>
<th>Met</th>
<th>Not Met</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Review (at least) of Charter</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of meetings per month</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual number of meetings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriate records are maintained</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CRO and Risk management unit communicate formally and informally to Committee any material information relative to the discharge of its function</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(3) Responsibilities</th>
<th>Met</th>
<th>Not Met</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop written plan defining practical strategies for managing and controlling major</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oversee implementation of risk management plan via regular discussions on current risk exposures from regular management reports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessment of how concerned units/offices reduced these risks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluate risk management plan for continued relevance, effectiveness and comprehensiveness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revisit strategies for emerging or changing exposures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oversee system of limits of discretionary authority delegated to management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensure system remains effective and that limits are observed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensure that immediate corrective action is taken when limits are breached</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identify and evaluate exposures, with priority over risks most likely to occur and are</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regularly report to the Board the entity's over-all risk exposure, actions taken to reduce the risks and recommend further action or plans as necessary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Report to the Board results of assessment on review of group structure, controls and activities to assess consistency of board approved policies, practices and strategies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approve the policies and implementing guidelines as may be recommended for risk management purposes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oversee the management of the Risk Management Division</td>
<td></td>
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</tr>
</tbody>
</table>
### Annex 2.f

**Rating Sheet for the Audit Committee**

<table>
<thead>
<tr>
<th></th>
<th>Met</th>
<th>Not Met</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(1) Membership</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At least 3 members of the Board</td>
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<td>With 2 independent directors</td>
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<tr>
<td>With non-executive Board members</td>
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<tr>
<td>Chairman is independent director</td>
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<td>With accounting, auditing or related financial mgt. expertise/experience</td>
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<td>CEO/CFO/Treasurer are NOT audit Committee members not audit Committee members</td>
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<tr>
<td>Not a member of Trust Committee (with MB approval for independent directors if needed per BSP Cir. #757)</td>
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<td><strong>(2) Procedures</strong></td>
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<tr>
<td>Annual Review (at least) of Charter</td>
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<td>Number of meetings per Charter</td>
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<td>Actual number of meetings</td>
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<tr>
<td>Appropriate records are maintained</td>
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<td><strong>(3) Responsibilities</strong></td>
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<tr>
<td>Set up of Internal Audit Department</td>
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<tr>
<td>Appointment of internal auditor</td>
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<tr>
<td>Appointment of external auditor</td>
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<tr>
<td>Internal/external auditor report to Audit Committee</td>
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<tr>
<td>Appointment/dismissal of external auditors are made by independent and non-executive committee members</td>
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<tr>
<td>Monitor and evaluate internal control system for adequacy and effectiveness</td>
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</tbody>
</table>
Review financial reports by external auditors before the board submission
Review and approve audit scope and frequency receive key audit reports
Ensures that senior management is taking necessary corrective action in a timely manner to address weaknesses/non-compliance
With full access to and cooperation by management
Provided with adequate resources to effectively discharge its functions
Annual (at least) review of internal controls (financial, operational, compliance controls) and risk management
Report to the Board results of assessment on review of group structure, controls and activities to assess consistency of board approved policies, practices and strategies
Evaluate and determine non-audit work, if any, of the external auditor, and periodically reviewing the non-audit fees to be paid to the external auditor and to the Bank's overall consultancy expenses.
Disallow any non-audit work that will conflict with the duties as external auditor or may pose threat to his independence. The non-audit work, if any, if allowed should be disclosed in the bank's annual report.
Annex 3.1

Policy on Related Party Transactions

I. Objective

To put in place a sound and effective system of identifying, evaluating, approving, reporting and monitoring related parties and related party transactions in consonance with prescribed laws and regulations.

II. Scope

This Policy shall cover transactions or dealings with the Security Bank Corporation’s (SBC’s) related parties regardless of whether or not a price is charged, and the guidelines and procedures to identify, prevent or manage and report potential or actual conflicts of interest which may arise from credit, counterparty, reputational or material/special risk or potential abuse of any of the following persons, viz:

A. Employees in relation to their personal investments in the SBC Group or in the transactions or deals administered by the SBC Group;
B. Directors, Officers, Stockholders and Related Interest as defined under DOSRI rules;
C. Clients in relation to huge ticket transactions with high reputational risk
D. Creditors in relation to borrowings, commitments, fund transfers and guarantees
E. Suppliers of goods, materials and services
F. Third Parties and other stakeholders in relation to independent evaluation of bids/prices

This policy shall not replace the existing Policy Regarding Conflict of Interest.

In addition, this Policy shall apply to all subsidiaries, affiliates and/or entities within the SBC Group to ensure the effective corporate governance oversight by the Board over the entire group.

III. Definition of Terms

A. Related parties shall cover the following:

1. subsidiaries and affiliates of SBC;
2. any party that SBC exerts direct/indirect control over or that exerts direct/indirect control over SBC;
3. subsidiaries, affiliates and special purpose entities of number 2;
4. directors, officers, stockholders and related interests (DOSRI) of SBC with RI limited to 1st degree relatives;

5. close family members of SBC’s directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common law, viz:

   a) spouse
   b) parent
   c) child
   d) brother
   e) sister
   f) grandparent
   g) grandchild
   h) parent-in-law
   i) son-/daughter-in-law
   j) brother-/sister-in-law
   k) grandparent-in-law
   l) grandchild-in-law

Common law relatives arise from “live-in relationship.”

6. Corresponding persons in affiliated companies or DOS of the affiliated companies and their close family members.

7. Other person/juridical entity whose interests may pose potential conflict with the interest of SBC. This pertains to Board-identified related parties.

8. Entities linked to the bank, directly or indirectly, through any of the following:

   a. Ownership, control or power to vote, of 10% to less than 20% of the outstanding voting stock of the borrowing entity or vice versa;

   b. Interlocking directorship or officership (SVP and up) (except in cases involving independent directors or directors holding nominal share in the borrowing corporation);

   c. Common stockholders owning at least 10% of the outstanding voting stock of the bank and 10% to less than 20% of the outstanding voting stock of the borrowing entity;
d. Permanent proxy or voting trusts in favor of the bank constituting 10% to less than 20% of the outstanding voting of the borrowing entity vice versa.

B. **Control of an enterprise** exists when there is:

   a) Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or

   b) Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or

   c) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or

   d) Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or

   e) Any other arrangement similar to any of the above.

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

   Should SBC choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, SBC shall submit a written commitment that:

   a. shares owned or held are exclusively for investment purposes;
   b. the SBC stockholder will not serve on the board of directors and will not nominate any candidate to serve on the board or otherwise seek board representation;
   c. the SBC-stockholder will have only limited contacts with bank management that are customary for interested shareholders;
   d. the SBC-stockholder will engage only in normal and customary transactions with the enterprise; and
   e. SBC will not pledge the shares acquired to secure a loan with any institution.

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

D. **Affiliate** shall refer to an entity linked directly or indirectly to a bank by means of:
1. Ownership, control or power to vote of at least 20% of the outstanding voting stock of the borrowing entity, or vice-versa;

2. Interlocking directorship or officership, where the concerned director or officer owns, controls or has the power to vote of at least 20% of the outstanding voting stock of the borrowing entity;

3. Common stockholders owning at least 10% of the outstanding voting stock of the bank or at least 20% of the voting stock of the borrowing entity;

4. Management contracts or any arrangements granting power to the bank to direct or cause the direction of management and policies of the borrowing entity;

5. Permanent proxy or voting trusts in favor of the bank constituting at least 20% of the outstanding voting stock of the borrowing entity, or vice versa.

Note: In cases where the borrowing entity is linked to the lending bank both as DOSRI and as a subsidiary or affiliate, the DOSRI rules shall apply.

E. Related party transactions are transactions or dealings with related parties of SBC, including its trust department, regardless of whether or not a price is charged.

1. These shall include, but not limited to the following:
   a) On- and off-balance sheet credit exposures and claims and write-offs;
   b) Investments and/or subscriptions for debt/equity issuances;
   c) Consulting, professional, agency and other service; arrangements/contracts;
   d) Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements);
   e) Construction arrangements/contracts;
   f) Lease arrangements/contracts;
   g) Trading and derivative transactions;
   h) Borrowings, commitments, fund transfers and guarantees;
   i) Sale, purchase or supply of any goods or materials; and
   j) Establishment of joint venture entities.
2. RPTs shall include outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party when there is/are alteration/s to the terms and conditions, or increase in exposure level after the non-related party becomes a related party.

The prospective treatment should, however, be without prejudice to supervisory actions that may be enforced for transactions noted to have not been conducted on an arm's length basis.

3. RPT shall exclude transactions concerning

- deposit operations,
- regular trade transactions involving purchases and sales of debt securities traded in an active market, and
- those granted under BSP-approved fringe benefit programs, except those with credit card lines with amounts falling under the materiality threshold as defined in this policy.

F. **Materiality threshold for RPTs** pertains to a level where omission or misstatement of the transaction could pose significant risk to SBC and could influence the economic decisions of its board of directors.

Materiality threshold is set at Php 25Million, except for DOSRI transactions which is governed by DOSRI rule. These transactions, including DOSRI (regardless of the amount) shall be reviewed and endorsed by the Related Party Transaction Committee before submitting to the Board of Directors for approval.

These thresholds shall be reviewed semi-annually and may be changed upon discretion of the Board as may be needed for proper risk management.

**IV. Policies**

Security Bank Corporation (SBC), being an advocate of good corporate governance recognizes that Related Party Transactions (RPTs) may give rise to a conflict of interest. In this regard, The Bank, through its Board of Directors (Board), shall ensure effective conduct of robust due diligence and sound reporting and monitoring of transactions of the Bank with Related Parties under the following minimum guidelines and requirements:

A. **Arms-length terms** - RPTs shall be reviewed to ensure that they are conducted in the regular course of business and not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances.
The price discovery mechanisms used and the results obtained should also be disclosed in the proposal. This may include acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.

B. **Conflicts of interest** - Evaluation of RPTs shall cover identification and prevention or management of potential or actual conflicts of interest which may arise.

   a) The members of the board, stockholders, and management shall disclose to the Board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting SBC. The disclosure shall include a description of his material interest, the nature of the RPT and the amount involved.

   b) Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the Bank.

   c) However, where there is no Director or Officer directly involved or will be involved in the RPT, it shall be the primary responsibility of the Relationship Managers (RMs) or the person in-charge with handling client accounts in the respective Business/Operation Units of the Bank and its subsidiaries and/or affiliates, to ensure that Related Parties and Related Party Transactions are properly identified and evaluated.

C. **Related Parties database** –

   1. Credit Division - Head Office Operations Group shall build-up and maintain the Related Parties database which shall be periodically reviewed and updated to capture organizational and structural changes in SBC and its related parties.

   2. The designated officers of the following groups shall provide the list of related parties and the extent of their relationship with SBC and type and amount of exposures, viz:

      a) Human Resources Development Division – for officers and staff of SBC and its subsidiaries

      b) Office of the Corporate Secretary – for Board of Directors of SBC and its subsidiaries

      c) Business and operating units – for clients (individual or juridical entity)

         i. Relationship Managers and Account Officers shall secure relevant updates on the business and personal affiliations of the clients and provide immediate update to respective risk control units such as ERED, BREAD and Credit Division.
D. Review and Approval

1. The Related Party Transaction Committee shall review all credit and non-credit transactions with a related party that cross the materiality threshold.

2. The Board of Directors shall approve the following:
   a) all material credit and non-credit related party transactions endorsed by the Related Party Committee;
   b) any renewal or material changes in the terms and conditions of related party transactions;
   c) all DOSRI transactions regardless of amount as required under existing rules;
   d) all write-offs of exposures to related parties;
   e) breaches in internal limits for individual and aggregate exposures to related parties
   f) governing policies on related party transactions and all subsequent changes thereto

3. All material related party transactions shall be confirmed by a majority vote of stockholders in the annual stockholders’ meeting

E. Disclosure, Minutes and Reporting to Stockholders

1. All final decisions of the board 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 and stockholders’ meetings.

2. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.

F. Internal limits for aggregate exposures

Aggregate limit/exposures to all related parties shall be set at five percent (5%) of capital.

Breaches in limits shall be reported to the Board of Directors with the decision of the Board to accept the exposure or to take steps to address the breaches, as may be necessary, duly documented in the minutes of meetings.
G. **Whistle blowing mechanisms**

The whistleblowing mechanisms provided in the Bank’s Codes of Conduct for the employees and the Board shall apply.

H. **Write-off and recovery of costs/losses** - The existing policy on write-off and recovery of receivables shall apply.

The Bank’s Code of Conduct shall be applied in handling personnel, officers or directors, who have been remiss in their duties in handling RPTs.

I. **Capital Planning** - 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 SBC is well-insulated from any going concern issue of related parties.

V. **Governance Framework**

A. **Board of Directors**

The board of directors shall have the overall responsibility in ensuring that 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. Towards this end, the board of directors shall carry out the following duties and responsibilities:

1. To observe good governance and 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. A group-wide RPT policy shall be adopted, encompassing all entities within the group, taking into account their size, structure, risk profile and complexity of operations.

2. To 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.

3. To establish an effective system to:
a) Determine, identify and monitor related parties and RPTs;
b) Continuously review and evaluate existing relationships between and among businesses and counterparties; and

c) Identify, measure, monitor and control risks arising from RPTs.

4. To delegate to appropriate management level committee or key officers the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors. (Attached Annex I)

5. To maintain adequate capital against risks associated with exposures to related parties.

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

7. To constitute an RPT Committee and to provide adequate resources to said Committee, including the authority to procure the assistance of independent experts, if necessary, to assess the fairness of RPTs.

B. RPT Committee

1. Composition

a) The RPT Committee shall be composed of at least three (3) members of the board of directors, two (2) of whom shall be independent directors, including the chairperson.

b) The Committee shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members. In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction.

c) The Compliance Officer or Internal Auditor may sit as resource persons in said Committee.

2. Responsibilities

The RPT Committee shall:
a. Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the board and regulators/supervisors.

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

   i. The related party’s relationship to the bank and interest in the transaction;

   ii. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;

   iii. The benefits to the bank of the proposed RPT;

   iv. The availability of other sources of comparable products or services;

   v. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The bank shall have in place an effective price discovery system and have exercised due diligence in determining a fair price for RPTs.

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

2. Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the bank's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the bank's affiliation or transactions with other related parties.

3. Report to the board of directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
4. Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.

5. Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

C. Senior Management and Self-Assessment Functions

1. Senior management shall:
   a) implement appropriate controls to effectively manage and monitor RPTs on a per transaction and aggregate basis;
   b) monitor exposures to related parties on an ongoing basis to ensure compliance with SBC's policy and BSP's regulations.

2. Internal Audit shall:
   a) conduct a periodic formal review of the effectiveness of SBC's system and internal controls governing RPTs to assess consistency with the board-approved policies and procedures;
   b) submit and discuss the resulting audit reports, including exceptions or breaches in limits, to the Audit Committee.

3. Compliance Office shall:
   a) ensure that SBC complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties;
   b) aid in the review of the Bank's transactions and identify any potential RPT that would require review by the Board or RPT Committee;
   c) ensure that the RPT policy is periodically assessed and kept updated and is properly implemented throughout SBC Group.
VI. Disclosure and Regulatory Reporting

A. Disclosure in SBC’s Annual Report of the following:

1. overarching policies and procedures for managing RPTs, including managing of conflicts of interest or potential conflicts of interest;
2. responsibility of RPT Committee;
3. nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments, of material RPTs.

B. Reports

1. Internal

Report on Individual and Aggregate Exposure Limits per Related Party including status thereof for reporting to the RPTC and to the BOD.

Source/Preparer: Business & Support Units per Section VII of the policy

Frequency & Due Date: Monthly every 10th working day of the month

2. Bangko Sentral ng Pilipinas (BSP)

<table>
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<tr>
<th>Report Name</th>
<th>Schedule of Reporting</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>Report on Conglomerate Structure (Annex A)</td>
<td>within 30 calendar days after the end of every calendar year</td>
<td>Annual Report; Shall indicate disclosure on beneficial owners of shareholdings that are in the name of PCD Nominee Corporation</td>
</tr>
<tr>
<td>Report on Material Related Party Transactions (Annex B)</td>
<td>within 20 calendar days after the end of each reference quarter</td>
<td>Quarterly Report; Shall indicate:</td>
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</table>
(This replaces the Intragroup Transaction Report required per BSP Circular 749)

1. Material RPTs of SBC and
2. Material RPTs of SBC’s non-bank financial subsidiaries and affiliates

Transactions concerning deposit operations, credit card availments, regular trade transactions involving purchases and sales of debt securities traded in an active market, are excluded from the reporting requirement to BSP. Provided, that credit card lines with amounts falling within the definition of "material transactions" shall be reported to the BSP upon approval of the line.

Lease contracts and other similar contracts with recurring payment transactions shall only be reported once, upon approval of said transaction by the board of directors. In case the parties involved in the transactions are both supervised by the BSP, only the lessor, in case of a lease contract, or the party engaging/requesting for the services of the other bank, in case of other contracts, shall submit the report.

VII. Effectivity of the Policy

This policy shall supersede the Revised Related Party Transaction Policy approved by the Board of Directors on December 11, 2015 and shall take effect upon approval of the Board of Directors.
Annex 3.2

PERSONAL INVESTMENT POLICY

I. POLICY STATEMENT

Directors, officers and personnel (DOP) of Security Bank Corporation and its subsidiaries (collectively SBC Group) may make investments for their personal or family accounts as long as they are consistent with appropriate ethical considerations, laws and regulations including this Policy, viz:

A. All personal investments must be based solely on publicly available information. Obtaining an advance knowledge over a material information in the course of the performance of related functions shall not be used to gain a price advantage in making investment. This shall include refraining from engaging in insider trading, trading during black-out period and front-running.

B. All personal investments shall not be in conflict with the activities of the SBC Group in relation to the achievement of business goals and fulfilment of customer responsibilities. The DOP’s investment must only emanate from his capacity as an employee of an entity within the SBC Group and not as an investor acting in behalf of a separate entity outside the SBC Group.

C. All personal investments should be above board.

The DOP of SBC Group should not use their positions to obtain favored treatment to buy or sell commodities, currencies or securities for their own, or family accounts. SBC Group personnel engaged in investment research may not deal in securities which they anticipate recommending for purchases or sale.

D. All personal investments must generally be oriented towards a philosophy of investment as distinguished from short-term or speculative trading.

This policy provides minimum standards and specifies investment practices which are either prohibited or subject to special constraints.

II. DEFINITION

A. Personal Investment Transactions are investment transactions of DOP of SBC Group, covering:
1. one’s own account or
2. jointly with any of the members of DOP’s immediate family sharing the same household (first level of consanguinity and affinity) under “and”, “or”, “and/or”, “in trust for the account of”, as follows:

   a) For single employees – parents
   b) For married employees – spouse, children, parents, parents-in-law

3. any account, other than a customer account, over which the DOP has direct or indirect power to make investment, or any other transactions or decisions

B. Allowable Personal Investment Transactions are classified into:

1. Covered Transactions

   These are transactions involving investment instruments or commodity which are actively traded in the market, managed and controlled by any member of the SBC Group and entered into by covered persons as defined in this policy and thus require prior approval:

   a. investment transactions geared towards long-term investments i.e. with tenors/holding period of fifteen (15) days or more, such as:

   i. Security Bank shares of stock
   ii. Other Publicly Listed Companies shares of stock underwritten by SBC subsidiary investment house or chosen as investment instrument for/by customers by member/s of SBC Group as Fund Manager/Trustor/Broker
   iii. Non-PDEX listed transactions
   iv. Fixed Income Securities not convertible to equity e.g. Treasury bills, foreign exchange treasury notes, foreign currency government bonds, foreign currency corporate bonds

   b. foreign exchange buy or sell for non-trade purposes.

2. Excluded Transactions

   These are personal investment transactions on investment instruments which are not actively traded in the market, regardless if entered into by covered persons as defined in this policy or by any SBC Group DOP, and thus do not require prior approval:
a. time deposits and certificates of deposit in local or foreign currency;

b. long-term insurance contracts;

c. dividends and subscriptions to rights issues on existing holdings;

d. SBC stock and options on said stock as long as one does not possess material non-public information about Security Bank;

e. open-ended investment schemes such as unit trusts or mutual funds, and any other investment which the Bank may declare to be excluded.

C. Restricted Personal Investment Transactions are transactions prohibited from being executed or entered by Restricted Persons due to conflict of interest. These primarily pertain to:

1. Derivative transactions prohibited to be executed by officers and staff of Treasury Group and Treasury Operations and

2. Trading in SECB shares during black-out period prohibited to be executed by covered persons under Section IV.a.

D. Covered Persons are Directors, officers and personnel (DOP) SBC Group whose functions involve participation in research, advisory, recommendation or decision-making in investment activities for the account of SBC Group or their customers.

Covered persons are required to secure prescribed approval before executing specific personal transactions.

E. Restricted Persons are Directors, officers and personnel (DOP) of SBC Group who are absolutely prohibited from engaging in certain transactions at certain circumstances due to conflict of interest.

F. Short term or Speculative Trading is defined as trading transactions with tenor/holding period of less than fifteen (15) days.

G. Insider Trading is an unlawful activity committed by an insider who pertains to a director or officer or person performing similar functions, or a person controlling the issuer, when he gives access to material information about the issuer or the security that is not generally available to the public or,
He sells or buys a security of the issuer, while in possession of material information with respect to the issuer or the security that is not generally available to the public (Section 3.8 of the Securities Regulations Code).

In addition, trade transactions of insider's spouse or relatives by affinity or consanguinity within the second degree, legitimate or common-law shall be considered in determining commission of insider trading (Rule 27 of Implementing Rules & Regulations, Securities Regulations Code - SRC IRR).

H. Black-out period is defined as the period wherein certain covered persons are not allowed to engage in trading of SECB shares due to the material information that such persons have access to.

This shall commence five (5) days before the date of material non-public information is disclosed to the Philippine Stock Exchange (PSE) and up to two (2) days thereafter.

I. Front Running is the unethical practice of a broker trading an equity in his personal account based on advanced knowledge of pending orders from the brokerage firm or from clients, allowing him to profit from the knowledge.

### III. CONTROLLED INVESTMENT PRACTICE

A. Prohibition on Insider Trading – Pursuant to Section 27 of the Securities Regulation Code (SRC), Security Bank Group strictly observes the prohibition on insider trading. Certain Restricted Persons are prohibited to engage in trading of SECB shares during the black-out period which commences five (5) days before the date of disclosure of the material non-public information up to two (2) full trading days thereafter. Transactions of Restricted Persons that are made during the said period shall be halted with or without their consent.

A. Directors, officers and personnel of SBC group shall deal or trade SECB and other PLC shares with SBC's brokerage house i.e. SB Equities, Inc. only. Dealing of securities may be coursed through other accredited brokerage/investment house subject to prior notification to the Chief Compliance Officer and submission of an accomplished Authority to Access Account Information (Form 6). Except in the case of Covered Persons of SBEI Inc. who are governed by SRC rules and regulations (i.e. Traders/salesman engaged in Equities, who are only allowed to maintain one dealing account with his employing broker which shall be registered under his name).

B. All covered investment transactions of covered persons shall require approval of the respective appropriate officer. To avoid conflict of interest or appearance of conflict of interest, certain Restricted Persons are absolutely prohibited from investing on some investment products of the Bank. (Refer to Section IV A and B).
## IV. APPROVAL MATRIX

### A. COVERED TRANSACTIONS

<table>
<thead>
<tr>
<th>Covered Transactions</th>
<th>Covered Persons</th>
<th>Approving Authority</th>
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<tbody>
<tr>
<td>a) Trading of SECB Shares</td>
<td>1. Directors, Officers (SVP and up)</td>
<td>Chief Compliance Officer</td>
</tr>
<tr>
<td></td>
<td>2. Officers and staff of the following:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>i. Investor Relations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ii. Compliance Office</td>
<td></td>
</tr>
<tr>
<td></td>
<td>iii. Office of Corporate Secretary</td>
<td></td>
</tr>
<tr>
<td></td>
<td>iv. Corporate Communication</td>
<td></td>
</tr>
<tr>
<td></td>
<td>v. Financial Control Division</td>
<td></td>
</tr>
<tr>
<td></td>
<td>vi. Office of Chief Finance Officer</td>
<td></td>
</tr>
<tr>
<td></td>
<td>vii. Asset Management Group</td>
<td></td>
</tr>
<tr>
<td></td>
<td>viii. Trust</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ix. Members of ALCO</td>
<td></td>
</tr>
<tr>
<td></td>
<td>x. Members of the Management Committee</td>
<td></td>
</tr>
<tr>
<td></td>
<td>xi. Office of the Chairman</td>
<td></td>
</tr>
<tr>
<td></td>
<td>xii. Permanent Resource Person of ALCO such as Head of Market &amp; Liquidity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Directors, Officers and staff of SB Capital (SBCIC)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. members of his immediate family sharing the same household of the above-mentioned individuals as defined in Section II.A.2 of this policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Other SBC Group’s personnel who possess or are recipient of material non-public information related to SECB shares</td>
<td></td>
</tr>
</tbody>
</table>
### Rational:

These covered persons have access to material information regarding the SBC Group and/or SECB shares which are not generally available to the public.

**Note:** Trading of SECB shares is prohibited during the black-out period as defined in Sec. II.H.

<table>
<thead>
<tr>
<th>6. Directors, Officers and staff of SB Equities and their immediate family members sharing the same household as mentioned individuals as defined in Section II.A.2 of this policy</th>
<th>Associated Person (pursuant to SRC Ruling)</th>
</tr>
</thead>
</table>

#### b) Trading of other PLCs shares

Officers and staff of the following:

1. SBC Asset Management Group
2. SBC Trust Group
3. SBC Treasury Group
4. SB Capital Investment Corporation

**Rational:**

These covered persons perform functions which involve investment advisory/research, mergers and acquisitions, venture capital, fund/portfolio management, underwriting, dealing or trading of securities, commodities, futures or other property of SBC for the account of clients.

5. Officers and Staff of SB Equities

**c) Treasury Products**
<table>
<thead>
<tr>
<th>Covered Persons</th>
<th>Officers and staff of Treasury and Treasury Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rational:</td>
<td>Covered Persons - Treasury personnel act as dealers/traders/salespersons of FX currency.</td>
</tr>
<tr>
<td></td>
<td>Covered Persons - Treasury Operations personnel have access to financial information regarding FX currency trading transactions of the Bank and its clients</td>
</tr>
</tbody>
</table>

1. All transactions regardless of amount shall require prior approval from the Chief Finance Officer (CFO) or President and CEO.

2. Copy of the approval shall be submitted to the Compliance Officer or the Associated Person.

Notation of the RPT Committee:

Compliance Office shall submit a monthly report of all Foreign Exchange buy and sell transactions executed by Treasury and Treasury Operations for notation of the RPT Committee.

Up to P25Mn:
b. Foreign Currency Government Bonds

c. Foreign Currency Corporate Bonds

(iii) Derivatives

<table>
<thead>
<tr>
<th>Restricted Transactions</th>
<th>Restricted Persons</th>
<th>Approving Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Derivative transactions</td>
<td>Officers and staff of Treasury Group and Treasury Operations Division</td>
<td>None/Not allowed</td>
</tr>
<tr>
<td>2. Trading of SECB shares during black-out period</td>
<td>Covered Persons under Section IV. a</td>
<td>None/Not allowed</td>
</tr>
</tbody>
</table>
V. PROHIBITED PRACTICES

The following practices are **strictly prohibited** for all SBC Group personnel:

- **Misuse of Material Non-Public Information or Inside Information**

  Information about a company that is not known by the investing public, the knowledge of which might influence the price of the securities of that company, may not be used by Security Bank Group’s Directors, Officers and Personnel for their Personal Transactions nor disclosed to others including the immediate family members or even within Security Bank other than on a “need to know” basis.

  It is Security Bank’s policy to use confidential information received from a customer only for the specific purpose intended when the information was given. To prevent misuse of material non-public information, policies and procedures will be set up to ensure that sensitive information known to persons in one part of the business is not made known to others so that decisions made are based only on information known to that business. Such procedures shall include restricted access to credit files and confidential documents, restricted participation in “deal teams,” and need-to-know information sharing.

- **Breach of Customer Confidentiality**

  Our customers have the right to expect confidentiality, and every effort must be made to avoid a failure to fulfill this expectation. Public or private discussion of the affairs of customers should always be avoided. Information about former, current and prospective Security Bank customers must be kept confidential except when an obligation to report the activities to the appropriate authorities exists. These are as follows:

  1. The information concerns illegal activities by the customer;
  2. Disclosure is required by law;
  3. The customer permits disclosure of the information.

- **Conflicts of Interest**

  Security Bank employees shall not buy or sell a commodity or currency, nor buy or sell, nor subscribe to, a security on the basis of knowledge:
- Of a probable change in investment attitude and consequent action by Security Bank with respect to a commodity, currency or security

- That Security Bank is effecting or proposes to effect transactions in the commodity, currency or security, or other transactions which may affect the price of the commodity, currency or security to a material degree

- That Security Bank is contemplating a transaction of any kind that would have a material effect on a particular commodity, currency or security.

Note: Please refer to the Conflict of Interest Policy

- **Abuse of Position**

  SBC Group personnel should not use their positions to obtain favored treatment to buy or sell commodities, currencies or securities for their own, or family accounts. SBC Group personnel engaged in investment research may not deal in securities which they anticipate recommending for purchases or sale.

VI. **ENFORCEMENT POLICIES AND PROCEDURES**

A. **Acknowledgment Receipt of Personal Investment Policy**

  All Security Bank personnel are required to acknowledge receipt and understanding of the Security Bank’s Personal Investment Policy. All SBC personnel are required to submit Form 1 to the Human Resources Development Division (HRDD). The same shall form part of the employee’s 201 file. (Form 1)

B. **Acknowledgment as Covered Person**

  All Covered Persons will be notified of their status as such by HRDD and acknowledge said appointment in writing at the point of hiring or upon assuming a rank and/or function that would result in a covered person status. The form is required to be renewed annually (Form 7).

C. **Reportorial Requirement**

  1. In Trading of SECB shares, the following reportorial requirement must be observed:
a) Covered Persons shall submit to the Compliance Office or Corporate Secretary the Notice of Opening an Account with a Security Bank-owned Vehicle, i.e., SB Equities, Inc. (Form 3) should they intend to invest or trade in SECB shares.

b) Covered Persons who intends to trade on SECB shares shall:

i. notify the Office of the Corporate Secretary one day prior to trading;

ii. submit to the Office of the Corporate Secretary within 3 days after the trading, viz:

   ▪ duly-filled-up SEC Form (23 A/ Form 23 B) by Directors and Officers (SVP and up) and their immediate family members sharing the same household

   ▪ prescribed SEC B Trading form (Form 6) for covered persons under Section IV.a). 2 and 3

iii. submit to Office of the Corporate Secretary monthly report of all SECB transactions every 5th working day of the immediately succeeding month

2. Covered Persons who will invest or trade securities other than SECB shares with an outside firm must obtain approval of the Chief Compliance Officer and submit a Notice of Opening an Account with an outside firm (Form 4). Upon notification to the third-party firm, employee shall submit to Compliance Office an accomplished Authority to Access Account Information (Form 5).

3. Covered persons shall transact all foreign exchange buy and sell transactions at the Employees Desk of the Main Office Branch (MOB) - please refer to the Guidelines for the Employee Desk for SBC Employees by Human Resources Development Division.

   The MOB Branch Channel Manager (BCM) shall be responsible for:

   a) Ensuring that all covered persons foreign exchange transactions are properly approved before processing and
b) Submitting monthly details of all foreign exchange transactions to Compliance Office every fifth working day of the immediately succeeding month.

D. Access

A Covered Person is required to provide a written authorization to the Compliance Officer, if deemed necessary, for the full access of Security Bank to any and all information concerning his account, whether in-house or with a third-party. (Form 5)

F. Compliance Requirement

All Security Bank personnel are expected to have a thorough knowledge and understanding of this Personal Investment Policy, with the obligation to comply with its provisions. In case of doubt on the propriety of any proposed Personal Transaction, the Compliance Office may be consulted.

G. Records

All forms shall be safekept by Compliance Office.

H. Sanctions and Penalties

Any employee or officer who violates the Personal Investment Policy shall be subject to disciplinary action under the Bank’s Code of Conduct without prejudice to the penalty imposed under the Revised Securities Act of the Philippines for insider trading, which set a fine of not less than P50,000.00 nor more than P5,000,000.00 or imprisonment of not less than 7 years nor more than 21 years or both in the discretion of the court.

VI. AMENDMENT AND APPROVAL

Proposed changes on the Personal Investment Policy and any of its guidelines, procedures and appendices shall be elevated/approved as follows:

1. Periodic review by Compliance Office
2. Approval by the Corporate Governance Committee (CORGOV) and confirmed by the Bank’s Board of Directors