

PHILIPPINE NATIONAL BANK
REVISED CORPORATE GOVERNANCE MANUAL
JUNE 2012

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1. INTRODUCTION

The Board of Directors and Management, i.e., officers and staff, of the Philippine National Bank commit themselves to **adhere to the highest principles of good corporate governance as embodied in the Bank's Amended By-Laws, Code of Conduct and this Revised Corporate Governance Manual. The Bank subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business; dealing fairly with its clients, investors, stockholders, the communities affected by its activities and various public; professionalism among its Board of Directors, executives and employees in managing the Bank, its subsidiaries and affiliates; and respect for the laws and regulations of the countries affecting its businesses. Internally, it follows a philosophy of rational check and balances as well as a structured approach to its operating expenses.**

The Board and Management believe that corporate governance is a necessary component of sound strategic business management and will, therefore, undertake every effort necessary to create awareness within the organization to ensure that the principles of fairness, accountability and transparency are indispensable in conducting the day-to-day business of the Bank.

The Bank's operations is managed through properly established organizational structure and adequate policies and procedures embodied in manuals approved by the management committees and the board. These manuals are subjected to periodic review and update to be consistent with new laws and regulations and generally conform to international best practices. This Manual describes the role and responsibilities as well as the scope of activities of the principal parties that directly or indirectly influence the corporate governance practices of the Bank, primarily the Board of Directors, each member of the Board, the Chief Compliance Officer, the Chief Risk Officer, the Corporate Secretary, Internal and External Auditors, as well as constituting at a minimum, the Board Audit & Compliance, Risk Oversight and Corporate Governance/Nomination Committees, that directly engaged in monitoring and controlling business risks.

To further strengthen good corporate governance, the Board of Directors appointed the Chief Compliance Officer as the Corporate Governance Executive in July 2011 tasked to assist the Board and Corporate Governance/Nomination Committee in the discharge of their corporate governance oversight functions.

This Manual should be read in conjunction with the BSP Manual of Regulations for Banks, BSP Circular No. 749 Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions, as amended by BSP Circular No. 757 and SEC Memorandum Circular No. 6 Revised Code of Corporate Governance.

2. OBJECTIVE

This Manual seeks to institutionalize the principles of good corporate governance in the entire organization.

3. COMPLIANCE SYSTEM

3.1. Board of Directors

Compliance with the highest standards in corporate governance principally starts with the Board of Directors which has the responsibility to foster the long-term success of the Bank and secure its sustained competitiveness in accordance with its fiduciary responsibility. In the same manner, every employee of the entire organization is expected to embrace the same degree of commitment to the desired level of corporate standards.

3.1.1. Qualifications of Directors (renumbered from 3.2.1.1)

- 1) Holder of at least one (1) share of stock of the Bank;
- 2) He shall be at least a college graduate or have at least five (5) years experience in business to substitute for such formal education;
- 3) He shall be at least twenty-five (25) years old at the time of his election or appointment;
- 4) He must have attended a special seminar on corporate governance for board of Directors conducted or accredited by the BSP **and SEC**: Provided, That incumbent Directors must attend said seminar within a period of six (6) months from date of election;
- 5) He shall have proven to possess integrity and probity, **physical/mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience** ;
- 6) He shall be assiduous in his work habits;
- 7) Practical understanding of the business of the Bank; and
- 8) Membership in good standing in relevant industry, business or professional organizations.

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

3.1.2. Qualifications of Independent Directors (renumbered from 3.2.1.2)

An Independent Director **shall** refer to a person who –

- 1) Is not **or has not been**, an officer or employee of the bank, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of election.
- 2) **Is not a director or officer of the related companies of the bank's majority stockholder.**
- 3) **Is not a stockholder with shares of stock sufficient to elect one seat in the board of directors of the bank, or in any of its related companies or of its majority corporate shareholders.**
- 4) **Is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or a stockholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies.**
- 5) **Is not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders; and**
- 6) **Is not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the bank or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms length and could not materially interfere with or influence the exercise of his judgment.**

3.1.3. **Term Limits for Independent Directors** (renumbered from 3.2.1.3)

- 1) **Independent Director (ID) can be elected to only five (5) companies of the conglomerate, parent bank and its subsidiaries and affiliates.**
- 2) **Independent Director of a bank may only serve as such for a total of five (5) consecutive years. ID shall be ineligible for reelection unless he has undergone a "cooling off" period of two (2) years.**
- 3) **After the two (2)-year "cooling off" period, an ID can be re-elected and serve for another five (5) consecutive years and shall be perpetually barred from being elected as such after serving for ten (10) years.**

3.1.4. Disqualifications of Directors **(renumbered from 3.2.1.5)**

A. Permanent Disqualification

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

The disqualification shall also apply if such person is currently the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, the 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, or has otherwise been restrained from engaging in any activity involving securities and banking; or such person is currently 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.

- 3) Any person convicted by final judgment or order by a competent court or administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- 4) Any person who has been adjudged by final judgment or order of the SEC, or by a competent court or administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or Bangko Sentral ng Pilipinas (BSP), or any of their rules, regulations or orders;

- 5) Any person earlier elected as Independent Director of the Bank who becomes an officer, employee or consultant of the Bank;
- 6) 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 in sub-paragraphs (1) to (5) above;
- 7) Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment; and
- 8) Any person judicially declared to be insolvent.

B. Temporary Disqualification

- 1) Refusal to fully disclose the extent of his business interests or any material information as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists;
- 2) Absence or non-participation for whatever reason/s for more than fifty percent (50%) of all regular and special meetings 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. This disqualification applies for purposes of the succeeding election;
- 3) Dismissal or termination for cause as Director of any corporation covered by the Corporation Code. This disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;
- 4) If the beneficial equity ownership of an Independent Director in the corporation or its subsidiaries and affiliates exceeds two (2) percent of its subscribed capital stock. This disqualification shall be lifted if the limit is later complied with;
- 5) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final;

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

3.1.5. **Composition of the Board of Directors and the Independent Directors**

The Board shall be composed of at least five (5), but not more than eleven (11) members who are elected by the stockholders: **Provided, That in case of a bank merger or consolidation, the number of directors maybe increased up to the total number of the members of board of directors of the merging or consolidating bank as provided for in their respective Articles of Incorporation, but in no case to exceed twenty one (21). The members of the board of directors shall be selected from a broad pool of qualified candidates. A sufficient number of qualified non-executive members shall be elected to promote the independence of the board from the views of senior management. For this purpose, non-executive members of the board of directors shall refer to those who are not part of the day to day management of banking operations and shall include the independent directors.**

The Bank shall have three (3) independent directors which constitutes the twenty percent (20%) of the members of the board of directors. **Any fractional result from applying the required minimum proportion shall be rounded-up to the nearest whole number.**

3.1.6. General Principles

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

3.1.6.2. The principle of fairness refers to the protection of the rights of all shareholders, treatment in share purchases, issuance of reports to all and by and large the specific policies on the treatment of stakeholders.

3.1.6.3. Transparency refers to the adherence to the disclosure standards on the issuance of periodic reports regarding material information and the over-all performance of management. It also covers the standards used both by the internal and external auditors in reporting their audit findings.

3.1.6.4. In accepting memberships in other corporate boards, the members of the Board of Directors of PNB shall always be guided by the basic consideration of how much time they can effectively discharge their duties in PNB as well as in the other corporate boards.

3.1.7. **Powers**, Duties and **Responsibilities** of the Board **of Directors**

3.1.7.1. **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.

3.1.7.2. General Responsibility of the Board of Directors

- 1) The board of directors is primarily responsible for approving **and overseeing the implementation of the bank's strategic objectives, risk strategy,** corporate governance **and corporate values.** Further, the board of directors is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day to day affairs of the institution
- 2) The Board shall formulate the Bank's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor Management's performance.
- 3) It shall be the Board's responsibility to foster the long-term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives, for the best interest of the Bank, its stockholders, **its depositors and other creditors, its** management and employees, **the regulators, deposit insurer and the public at large.**

3.1.7.3. Internal Control Responsibilities of the Board

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

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

- 1) Definition of the duties and responsibilities of the CEO who is ultimately accountable for the Bank's organizational and operational controls;
- 2) Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO;
- 3) Evaluation of proposed senior management appointments;
- 4) Selection and appointment of qualified and competent management officers; and
- 5) Review of the bank's human policies, conflict of interest situations, compensation program for employees, and management succession plan.

3.1.7.4. **Specific** Duties and **Responsibilities** of the Board **of Directors**

To ensure high standards of best practices for the Bank and its stockholders, the Board should conduct itself with honesty and integrity in the performance of, among others, the following duties and **responsibilities**:

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

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

The Board shall review and approve the budget prepared by Management as well as the revisions thereto and shall monitor actual performance against the budget.

- 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 and accordingly define the bank's level of risk tolerance in respect of business 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 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 bank, including its trust operations.**
- 4) Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Bank, **including its trust operations** to anticipate and prepare for possible threats to its operational and financial viability;
- 5) Adopt and maintain adequate risk management policy. The risk management policy shall include:
 - a comprehensive risk management approach;
 - a detailed structure of limits, guidelines and other parameters used to govern risk-taking;
 - a clear delineation of lines of responsibilities for managing risk;
 - an adequate system for measuring risk; and
 - the effective internal controls and a comprehensive risk-reporting process.
- 6) **To oversee selection and performance of senior management. It is the primary responsibility of the board of directors** to appoint competent, professional, honest, and highly-motivated management team at all times; adopt an effective succession planning program for management; **monitor and assess the performance of the management team based on established performance standards that are consistent with the bank's strategic objectives, and conduct regular review of bank's policies with the management team.**
- 7) **To consistently conduct the affairs of the bank with a high degree 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.**
- 8) **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.
- 9) To constitute committees to increase efficiency and allow deeper focus in specific areas. The board of directors shall create committees, the number and nature of which would depend on the size of the bank and the board, the complexity of operations, long-term strategies and risk tolerance level of the bank.
- (a) The board of directors shall 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;
- (b) The board of directors shall appoint members of the committees taking into account the optimal mix of skills and experience to allow the members to fully understand, be critical and objectively evaluate the issues. In order to promote objectivity, the board of directors, shall appoint independent directors and non-executive members of the board to the greatest extent possible while ensuring that such mix will not impair the collective skills, experience, and effectiveness of the committees. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight and Corporate Governance/Nomination Committees, without prior approval of the Monetary Board;
- (c) 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; and
- (d) The board of directors shall constitute the committees
- 10) To effectively utilize the work conducted by the internal audit, risk management and compliance functions and the external auditors. The board of directors shall recognize and acknowledge the importance of the assessment of the

independent, competent and qualified internal and external auditors as well as the risk and compliance officers in ensuring the safety and soundness of the operations of a bank on a going-concern basis and communicate the same through-out the bank. Further, non-executive board members shall meet regularly, other than in meetings of the audit and risk oversight committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.

- 11) **In group structures, the board of directors of the parent bank 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 bank shall ensure consistent adoption of corporate governance policies and systems across the group and shall carry-out the duties and responsibilities.**
- 12) Implement a process for the selection of Directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies;
- 13) Ensure the Bank's faithful compliance with all applicable laws, regulations and best business practices;
- 14) Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Bank;
- 15) Identify the sectors in the community in which the Bank operates or which are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them;
- 16) Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the Bank's internal control system in order to maintain its adequacy and effectiveness;
- 17) Formulate and implement policies and procedures that will ensure the integrity and transparency of related party transactions between and among the corporation and its joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and Directors, including their spouses, children and dependent siblings and parents, and of interlocking Director relationships by members of the Board;

- 18) Constitute a Board Audit and Compliance Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities;
- 19) Establish and maintain an alternative dispute resolution system in the Bank that can amicably settle conflicts or differences between the Bank and its stockholders, and the Bank and third parties, including the regulatory authorities;
- 20) Meet at such times or frequency as may be needed. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration;
- 21) Keep the activities and decisions of the Board within its authority under the Amended Articles of Incorporation and Amended By-Laws, and in accordance with existing laws, rules and regulations; and
- 22) Appoint a Compliance Officer who shall have the rank of at least a Vice President.

3.1.8. Specific Duties and Responsibilities of the Chairman of the Board of Directors: (per Section 5.4 of the Amended By-Laws of Philippine National Bank dated September 21, 2006.)

- 1) To call meetings of stockholders;
- 2) To convene the Board of Directors whenever he may deem it necessary, either on his own initiative, or upon the request of the President, or two member of the Board;
- 3) To preside over all meetings of the stockholders and the Board of Directors;
- 4) **To provide leadership in the board of directors. The chairperson of the board shall ensure effective functioning of the board, including maintaining a relationship of trust with board members;**
- 5) **To ensure that the board takes an informed decision. The chairperson of the board shall ensure a sound decision making process and he should encourage and promote critical discussions and ensure that dissenting views can be expressed and discussed within the decision-making process; and**
- 6) To perform such other functions as are assigned to him by law or by the Board of Directors

3.1.9. Specific Duties and Responsibilities of a Director

A Director's office is one of trust and confidence. A Director should act in the best interest of the Bank in a manner characterized by transparency, accountability and fairness. He should also exercise leadership, prudence and integrity in directing the Bank towards sustained stability and progress.

A Director should observe the following norms of conduct:

- 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 or that of his colleagues 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.

If an actual or potential conflict of interest may arise on the part of a Director, he should fully and immediately disclose it and should not participate in the decision-making process. A Director who has a continuing material conflict of interest should seriously consider resigning from his position.

- 3) **To act honestly and in good faith with loyalty and in the best interest of the bank, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public. A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.**

- 4) To devote time and attention necessary to properly discharge their duties and responsibilities. **Directors should devote sufficient time to familiarize themselves with the institution's business. They must be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the board's work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the board.**
- 5) To act judiciously after thorough consideration of all aspect of each matter for resolution. Before deciding on any matter brought before the Board of Directors, **every director should thoroughly** evaluate the issues, ask questions and seek clarifications when necessary.
- 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 or 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 Bank.
- 8) To have a working knowledge of the statutory and regulatory requirements affecting the Bank, including the contents of its Amended Articles of Incorporation and Amended By-Laws, **the requirements** of the **BSP**, SEC 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 **bank's** competitiveness.
- 9) To observe confidentiality. **Directors must observe the confidentiality of non-public information acquired by reason of their position as directors.** Director should not reveal confidential information to unauthorized persons without the authority of the Board.

3.1.10. **Limitation on nationality of directors.**

Non-Filipino citizens may become members of the board of directors of a bank to the extent of the foreign participation in the equity of the bank, pursuant to Section 23 of the Corporation Code of the Philippines, a majority of the directors must be residents of the Philippines.

3.1.11. Dealing with conflict of interests

Directors must avoid conflicts or potential conflicts of interest. A conflict of interest occurs when an individual's private or related interests interfere in any way, or are perceived to interfere, with the interests of the Bank as a whole. A conflict situation can arise when a Director takes actions or has interests that may make it difficult for him to preserve his objectivity and carry out his tasks effectively. Conflicts of interests also arise when a Director, or a member of his family, receives improper personal benefits as a result of his position in the Bank.

Any question about a Director's actual or potential conflict of interest with the Bank should be brought promptly to the attention of the Corporate Governance/Nomination Committee, which will review the question and determine an appropriate course of action, including whether consideration or action by the full Board is necessary. Directors involved in any conflict or potential conflict shall disassociate themselves from any decision related thereto.

3.2. Board Committees

To aid in complying with the principles of good corporate governance, the Board **of Directors** shall constitute, **at a minimum, the following** Committees:

3.2.1. Corporate Governance/**Nomination** Committee

The composition and functions of the Corporate Governance/Nomination Committee of the Board of Directors are contained in the Charter on Corporate Governance hereto attached and made an integral part hereof as Annex "A". Any and all subsequent amendments and/ or supplements to subject charter that may be approved by the Board of Directors shall also be deemed as integral part/s hereof. This charter was originally approved by the Board of Directors of the Bank on January 28, 2005.

The functions and responsibilities of the Human Resource and Nomination Committees of the Board shall be absorbed by the Corporate Governance/Nomination Committee.

It shall pre-screen and shortlist all candidates nominated to become a member of the board of Directors in accordance with the qualifications and disqualifications.

3.2.1.1. The Committee shall consider the following guidelines in the determination of the number of Directorships in the Board:

- 1) The nature of the business of the corporations of which he is a Director;
- 2) Age of the Director;
- 3) Number of Directorship/active membership and officership in other corporations or organizations; and

4) Possible conflict of interest

In general, the optimum number shall be related to the capacity of a Director to perform his duties diligently.

3.2.1.2. In consultation with the executive or management committee/s, re-define the role, duties and responsibilities of the Chief Executive Officer by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.

3.2.1.3. The Chief Executive Officer and other executive Directors shall submit themselves to a low indicative limit on membership in other corporate Boards. The same low limit shall apply to independent, non-executive Directors who serve as full-time executives in other corporations. In any case, the capacity of Directors to serve with diligence shall not be compromised

3.2.1.4. Develop a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired.

3.2.2. Board Audit and Compliance Committee

The composition and functions of the Board Audit & Compliance Committee are contained in the Amended Charter of the Board Audit & Compliance Committee hereto attached and made an integral part hereof as Annex "B". This charter was originally approved by the Board of Directors of the Bank on January 28, 2005.

3.2.3. Risk **Oversight** Committee

The composition and functions of the Risk Oversight Committee of the Board of Directors are contained in the Charter of the Risk Oversight Committee hereto attached and made an integral part hereof as Annex "C". This charter was originally approved by the Board of Directors of the Bank under BR No. 4 dated December 17, 2004.

3.2.4. **Executive Committee** (Charter – Annex C-1)

1) **There shall be an Executive Committee to be chaired by any member of the Board of Directors and to be composed of the President of the Bank and at least four (4) other directors to be appointed by the Board of Directors from time to time. In the interim between meetings of the Board of Directors, the Executive Committee shall perform such duties as the Board may confer upon it in accordance with law and the Bank's By-Laws.**

- 2) Subject to Section 35 of the Corporation Code, the Board of Directors shall have the power, at any time, to change, to increase or decrease the membership of the Executive Committee or to fill vacancies therein, and to determine from time to time, by resolution, the number of members to constitute a quorum.
- 3) The Executive Committee shall meet regularly at such intervals and at such time and place as it may determine, and in addition to such regular meetings, it shall meet upon the call of the Chairman of the Committee or of any two members of the Committee.
- 4) All the acts and resolutions of the Executive Committee shall be recorded in a minute book and shall be submitted in writing to the Board of Directors at the Boards' meeting following the adoption by the Committee of such resolutions.
- 5) For each attendance at any meeting of the Executive Committee, a member shall be entitled to such per diem as the Board may fix from time to time.

3.2.5. Trust Committee (Charter – Annex C-2)

- 1) The Trust Committee, shall be composed of five (5) members:
 - a) Three (3) directors who are appointed by the Board of Directors on a regular rotation basis and who are not operating officers of the Bank;
 - b) The President; and
 - c) The head of the Trust Banking Group.
- 2) No member of the Audit Committee shall be concurrently designated as member of the Trust Committee.
- 3) The Board of Directors shall duly note in the minutes the Trust Committee members and designate the Chairman thereof who shall be one of the three (3) directors referred to above.
- 4) The Trust Committee shall act within the sphere of authority as may be provided herein and/or as may be delegated by the Board of Directors, such as but not limited to the following:
 - a) The Formulation of specific policies with regard to:
 - i. Correlation of the Trust Banking Group with other departments of the Bank;
 - ii. Personnel;
 - iii. Cost and charges;
 - iv. Kinds of business to be accepted;

- v. Trust business development;
- vi. Work with other banks and/or financial institutions:
 - b) The acceptance and closing of trust and other fiduciary accounts;
 - c) The initial review of assets placed under the custody of the Trust Banking Group as trustee or fiduciary;
 - d) The investment, reinvestment and disposition of funds or property;
 - e) The review and approval of transactions between trust and/or fiduciary accounts; and
 - f) The review of trust and fiduciary accounts at least once every twelve (12) months to determine the advisability of retaining or disposing of the trust or fiduciary assets, and/or whether the accounts is being managed in accordance with the instrument creating the trust or other fiduciary relationship.

3.2.6. **Board ICAAP Steering Committee** (Charter – Annex C-3)

The primary functions of the Board ICAAP Steering Committee are as follows:

- 1) Approval and review of the Bank's capital planning and risk assessment policies; and
- 2) Overall assessment and active oversight on the implementation of the Bank's Board-approved ICAAP.

3.2.7. **Board Overseas Offices Oversight Committee** (Charter – Annex C-4)

The composition and functions of the Board Overseas Offices Oversight Committee are contained in the Charter of the Board Overseas Oversight Committee hereto attached and made an integral part hereof as Annex "C-4".

3.3. **Duties and Responsibilities of Officers**

- 1) To set the tone of good governance from the top. Bank officers shall promote the good governance practices within the bank by ensuring that policies on governance as approved by the board of directors are consistently adopted across the bank.
- 2) To oversee the day-to-day management of the bank. Bank officers shall ensure that bank's activities and operations are consistent with the bank's strategic objectives, risk strategy, corporate values and policies as approved by the board of directors. They shall establish a bank-wide

management system characterized by strategically aligned and mutually reinforcing performance standards across the organization.

- 3) To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency. Bank officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each bank personnel. Bank officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the board of directors for the performance of the bank.
- 4) To promote and strengthen checks and balances systems in the bank. Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.

3.4. The President

- 3.4.1. The Chief Executive of the Bank shall be the President who shall be elected by the Board of Directors from among its members.
- 3.4.2. The President of the Bank shall, among other powers and duties inherent in his office, execute and administer the policies, measures, orders and resolutions approved by the Board of Directors, and direct and supervise the operations and administration of the Bank. Particularly, he shall have the power and duty:
 - 1) To execute all contracts and to enter into all authorized transactions in behalf of the Bank;
 - 2) To exercise, as Chief Executive Officer, the power of supervision and control over decisions or actions of subordinate officers and all other powers that may be granted by the Board;
 - 3) To recommend to the Board the appointment, promotion or removal of all officers of the Bank with the rank of at least Vice President or its equivalent;
 - 4) To appoint, promote or remove employees and officers of the Bank, except those who are to be appointed or removed by the Board of Directors;
 - 5) To transfer, assign and reassign officers and personnel of the Bank in the interest of the service;
 - 6) To report periodically to the Board of Directors on the operations of the Bank;
 - 7) To submit annually a report on the result of the operations of the to the stockholders of the Bank; and

8) To delegate any of his powers, duties and functions to any of official of the Bank, with the approval of the Board of Directors.

3.5. The Corporate Secretary

- 3.5.1. The Corporate Secretary is an officer of the Bank. Precision, transparency and thoroughness in performance are expected of him.
- 3.5.2. The Corporate Secretary shall be a Filipino citizen and a resident of the Philippines.
- 3.5.3. Considering his varied functions and duties, he must possess appropriate administrative and interpersonal skills, and if he is not the general counsel, then he must have some legal skills. He must also have a working knowledge of the operations of the Bank.
- 3.5.4. Duties and Responsibilities of the Corporate Secretary
- 1) Notify parties concerned of any Stockholders and Board meetings;
 - 2) Inform the members of the Board, in accordance with the Amended By-Laws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
 - 3) Attend all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him from doing so;
 - 4) Ensure that all Board procedures, rules and regulations are strictly followed by the members;
 - 5) Provide proper assistance to the Members of the Board during all Board and Stockholders' meetings while they are in the performance of their duties and responsibilities under the law and the By-Laws;
 - 6) Be responsible for the safekeeping and preservation of the integrity of the Minutes of the meetings, as well as the other official records pertaining to the duties and responsibilities of the Office of the Corporate Secretary;
 - 7) Furnish all Directors with a copy of the specific duties and responsibilities of the Board of Directors prescribed under MORB Subsec. X141.4 as well as the specific duties and responsibilities of a Director under X141.5, within thirty (30) banking days from the time of election. Copies of the acknowledgement and certification by the Directors shall be submitted to the appropriate supervisory and examining department of SES-BSP within fifteen (15) banking days from date hereof.

- 8) The appointment of the Compliance Officer shall be immediately disclosed to the Securities and Exchange Commission on SEC Form 17-C.
- 9) To monitor the Directors' compliance with the attendance requirements, shall issue and submit to the SEC, on or before January 30 of the following year, a sworn certification about the Directors' record of attendance in Board meetings. The certification may be submitted through SEC Form 17-C or in a separate filing.
- 10) Keep a list of the Bank's stockholders, their proxies and their stockholdings, maintain the stock transfer book/s and keep track of all outstanding certificates in the manner required by law and regulations, and
 - a) Ascertain the identity and citizenship of the transferee, voting trustee, or proxy of voting shares of stock of the bank, and require them to submit or disclose such documents and information relative to their stockholdings or any voting trust arrangements thereto;
 - b) Require the transferee, voting trustee, proxy of voting shares of stock to disclose all information with respect to persons related to them within the fourth degree of consanguinity or affinity where they have controlling interest, and the extent thereof;
 - c) Require the transferee or recipient of voting shares of stock to execute an affidavit (sample format shown in Appendix 4 of the Bangko Sentral ng Pilipinas MORB) stating, among other things, that the transferee or recipient of voting shares of stock is a bona fide owner of the said shares of stock, and that he/she acknowledges full awareness of (a) the prohibition against ownership of voting shares of stock in excess of the ceilings and/or (b) the requirement for prior Monetary Board approval for transactions resulting to significant ownership of voting shares of stock of a bank by any person, as provided in Subsec. X126.2 of the MORB and such other rules and regulations of the regulatory agencies, as may be amended from time to time;
 - d) Promptly inform stockholders (a) who have reached any of the ceilings prescribed by laws/BSP regulations of their ineligibility to own or control more than applicable ceiling or (b) who would own voting shares of stock requiring prior Monetary Board approval;
 - e) Disclose the ultimate beneficial owners of bank shares held in the name of Philippine Central Depository (PCD) Nominee Corporation in the annual (or quarterly whenever changes

occur) report on Consolidated List of Stockholders and their Stockholdings (BSP 7-16-11), which report shall be made under oath by the corporate secretary;

- f) Submit financial statements, list of certain stockholders together with their stockholdings, as well as such other reports as prescribed/ required by the regulatory agencies;
 - g) Disclose any material transactions, events and information as required under the rules and regulations of the regulatory agencies;
 - h) Perform such other duties as are necessary or incidental to his office and those that may from time to time be required by the Board, as well as by the rules and regulations of the regulatory agencies;
- 11) Exhibit loyalty to the mission, vision and objectives of the Bank; and
- 12) Work fairly and objectively with the Board, Management and stockholders.

3.6. The Chief Compliance Officer

3.6.1. To ensure adherence to corporate principles and best practices, there shall be a designated Compliance Officer who shall hold the position of at least a Vice President or its equivalent. He shall have direct reporting responsibilities to the Chairman of the Board thru the Board Audit and Compliance Committee (BACC).

3.6.2. He shall perform the following duties:

- 1) Monitor compliance by the Bank with the provisions and requirements of this Revised Manual and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board thru the BACC and recommend the adoption of measures to prevent a repetition of the violation. The Compliance Officer shall likewise refer the matter to the Administrative Board or the Corporate Governance/Nomination Committee, as the case may be, to determine the administrative liability and imposition of penalty, if any, against the responsible parties in accordance with the Bank's Code of Conduct;
- 2) Appear before the Securities and Exchange Commission when summoned in relation to the Bank's compliance with this Revised Manual; and
- 3) Issue a certification every January 30th of the year on the extent and quality of the Bank's compliance with this Revised Manual for the preceding year, explaining the reason/s for any deviation from the same.

3.7. The External Auditor

- 3.7.1. An External Auditor shall ensure the establishment and maintenance of an environment of good corporate governance as reflected in the financial records and reports of the Bank.

The Board, after consultations with the Board Audit and Compliance Committee, shall recommend to the stockholders an External Auditor duly accredited by SEC.

The External Auditor as appointed by the stockholders shall undertake an independent audit of the Bank, and shall provide an objective assurance regarding the manner under which the financial statements are prepared and presented to the stockholders.

- 3.7.2. The External Auditor of the Bank shall not at the same time provide internal audit services to the Bank. 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.
- 3.7.3. If the External Auditor resigns, is dismissed or ceases to perform his services, the reason/s and the date of effectivity of such action shall be reported in the Bank's annual and current reports. The report shall include a discussion of any disagreement between him and the bank on accounting principles or practices, financial statement disclosures or audit procedures which the former auditor and the Bank failed to resolve satisfactorily.
- 3.7.4. If the External Auditor believes that any statements made in the Bank's annual report, information statement or any report filed with the SEC or any regulatory body during the period of his engagement is incorrect or incomplete, he shall properly present his views in said reports.
- 3.7.5. The Bank's External Auditor shall be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the corporation, should be changed with the same frequency.

3.8. The Internal Auditor

- 3.8.1. The Bank shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which its Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.
- 3.8.2. The Corporate Governance/Nomination Committee shall be responsible for the endorsement to the Board the approval of the appointment of the Chief Audit Executive/Internal Auditor as recommended by the Board Audit and Compliance Committee.

- 3.8.3. The Chief Audit Executive/Internal Auditor shall render to the Board and Board Audit and Compliance Committee and senior management an annual report on the internal audit department's activities, purpose, authority, responsibility and performance relative to audit plans and strategies approved by the Board Audit and Compliance Committee.
- 3.8.4. The minimum internal control mechanisms for management's operational responsibility shall center on the CEO, being ultimately accountable for the Bank's organizational and procedural controls.
- 3.8.5. The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of the business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.

3.9. The Chief Risk Officer (CRO)

- 3.9.1. **The bank shall appoint a Chief Risk Officer (CRO), or any equivalent position, who shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions. This independence shall be displayed in practice at all times as such, the CRO reports directly to the Risk Oversight Committee without any impediment.**
- 3.9.2. **The CRO shall have sufficient stature, authority and seniority within the bank. This will be assessed based on the ability of the CRO to influence decisions that affect the bank's exposure to risk. The CRO shall have the ability, without compromising his 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.**
- 3.9.3. **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.**
- 3.9.4. **General Responsibilities of Risk Management**
- 2) **identifying the key risk exposures and assessing and measuring the extent of risk exposures of the bank and its trust operations;**
 - 3) **monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the bank's internal capital adequacy assessment on an on-going basis;**

- 4) monitoring and assessing decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- 5) reporting on a regular basis to senior management and to the board of directors of the results of assessment and monitoring. Risk management personnel shall possess sufficient experience and qualifications, including knowledge on the banking business, the developments in the market, industry and product lines, as well as mastery of risk disciplines. They shall have the ability and willingness to challenge business lines regarding all aspects of risk arising from the bank's activities.

4. BOARD MEETINGS AND QUORUM REQUIREMENT

- 4.1. The Members of the Board should attend its regular and special meetings in person or through teleconferencing or 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.

5. COMMUNICATION PROCESS

- 5.1. This revised Manual shall be available for inspection by any stockholder of the Bank at reasonable hours on business days.
- 5.2. All Directors, executives and division and department heads are tasked to ensure the thorough dissemination of this revised Manual to all employees and related third parties, and to likewise enjoin compliance in the process.
- 5.3. An adequate number of printed copies of this Revised Manual must be reproduced under the supervision of HRG, with a minimum of at least one (1) hard copy of the Revised Manual per department.

6. TRAINING PROCESS

- 6.1. If necessary, funds shall be allocated by the CFO or its equivalent officer for the purpose of conducting an orientation program or workshop to effectively implement this Revised Manual. The Bank's Training Office shall include in its annual budget the cost of conducting such orientation or workshop for this purpose.
- 6.2. A Director shall, before his assumption of office or as soon as possible thereafter, be required to attend a seminar on corporate governance which shall be conducted by a private or government institute duly accredited by the BSP.

7. REPORTORIAL OR DISCLOSURE SYSTEM OF COMPANY'S CORPORATE GOVERNANCE POLICIES

- 7.1. The reports or disclosures required under this revised Manual shall be prepared and submitted to the SEC by the responsible Committee or officer, **e.g., Compliance Certification; report (Annex A) all entities in the group structure; and report (Annex B) on significant transactions between entities in the group and involving any BSP regulated entity.**
- 7.2. All material information about the Bank which could adversely affect its viability or the interest of its stockholders, i.e., anything that could potentially affect share price, shall be publicly disclosed in a timely manner.

Such information shall 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 Company shall not selectively disclose material non-public information except to:

- 1) A person who is bound by duty to maintain trust and confidence to the Company such as but not limited to its auditors, legal counsels, investment bankers, financial advisers; and
- 2) 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.

The Company shall establish and implement internal controls that will ensure that its officers, staff and any other person who is privy to the material non-public information shall comply with this rule.

- 7.3. All disclosed information shall be released via the approved stock exchange procedure for company announcements as well as through the annual report.
- 7.4. 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 stakeholders.

8. SHAREHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTERESTS

The Bank recognizes that the most cogent proof of good corporate governance is visible to the eyes of its investors. Therefore, the following provisions are issued for the guidance of all internal and external parties concerned, as governance covenant between the Bank and all its investors:

8.1. Rights and Protection of Investors/Minority Interests

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

8.1.1. Right to vote on all matters that require their consent or approval

- 1) Shareholders shall have the right to elect, remove and replace Directors and vote on certain corporate acts in accordance with the Corporation Code.
- 2) Cumulative voting shall be used in the election of Directors.
- 3) A Director shall not be removed without cause if it will deny minority shareholders representation in the Board.

8.1.2. Right to inspect corporate books and records

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

8.1.3. Right to Information

- 1) 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.
- 2) 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.
- 3) The minority shareholders shall have access to any information relating to matters for which Management is accountable.

8.1.4. 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:

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

- 2) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
- 3) In case of merger or consolidation.

8.1.5. Absence of Pre-emptive right to stock issuances of the corporation

The stockholders shall have no pre-emptive right to subscribe to any new or additional issuance of shares by the Bank, regardless of the class of shares, and whether the same is issued from the Bank's unissued capital stock or in support of an increase in capital.

8.1.6. Right to dividends

Dividends shall be declared and paid out of the surplus profits of the Bank as often and at such times as the Board may determine and in accordance with the provisions of the law and regulations of the Bangko Sentral ng Pilipinas.

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

All complaints from stockholders should be satisfactorily handled and processed.

9. MONITORING AND ASSESSMENT

- 9.1. Each Committee shall report regularly to the Board of Directors.
- 9.2. The Board shall establish an evaluation system, such as the Performance Evaluation Sheets (Annexes D to D-3), to determine and measure compliance with this revised Manual. Any violation thereof shall subject the responsible director, officer or employee to the penalty provided under **Part 10** of this Manual.
- 9.3. The establishment of such evaluation system, including the features thereof, shall form part of this Manual and shall be disclosed in the company's annual report (SEC Form 17-A) or in such form of report that is applicable to the Corporation.

- 9.4. This revised Manual shall be subject to an annual review unless the same frequency is amended by the Board.
- 9.5. All business processes and practices being performed within any department or business unit of the Bank that are not consistent with any portion of this revised Manual shall be revoked unless upgraded to the compliant extent.

10. PENALTIES FOR NON-COMPLIANCE WITH THE REVISED MANUAL

- 10.1. To strictly observe and implement the provisions of this revised Manual, the following penalties shall be imposed, after notice and hearing, on the company's directors, officers and staff, in case of violation of any of the provisions of this revised Manual:
 - 1) In case of first violation, the subject person shall be reprimanded.
 - 2) Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.
 - 3) For third violation, the maximum penalty of removal from office shall be imposed.

The Code of Conduct as amended/approved by the Board is hereby adopted as an integral part of this Manual.

Version June 2012

