

## CORPORATE GOVERNANCE

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BDO Leasing and Finance, Inc. (BDOLF) fully recognizes its role in the continued progress of the country's financial system. Apart from stability in financial position, it believes that implementing sound corporate governance practices are vital in attaining and preserving the public's trust and belief in the banking sector.

The corporate governance practices of the Company adheres to five (5) basic principles: accountability, fairness, integrity, transparency and performance. BDOLF believes that all directors, officers and staff are accountable to its stakeholders for their actions guided by respect for the rights of the minority shareholders, integrity in everything it does, and transparency in all its dealings.

In the end, having the highest governing standards rooted in its corporate way of life produce well-motivated people with the right attitude and ethical behavior leading to excellent business performance.

How the Company practices good corporate governance is mirrored in these efforts:

### THE STRUCTURE

#### Board of Directors

It is composed of 11 members, three of whom are independent directors and complemented by board advisers. All are professionals from various fields of expertise such as banking, accounting, finance, law, merchandise marketing, bank regulation and strategy formulation.

The Board is collectively responsible for the long-term shareholder value of the institution and has the responsibility to approve, oversee and review the implementation of strategic objectives; financial plans and annual budgets; key operational initiatives; major funding and investment proposals consistent with long-term strategic goals; compliance and accountability systems; enterprise risk strategy and financial performance reviews to ensure the continued success of the organization.

Of equal importance is its task to implement good corporate governance cascaded down to the

management and employees. It ensures that the Organization is being run in a sound and prudent manner to fulfill its obligations to all shareholders while upholding and protecting the interests of different constituencies.

The Board holds regular monthly meetings in addition to special meetings as needed. In 2013, it met 13 times to evaluate and approve various matters related to the Company's operations.

The following sets forth the attendance of the Board for the calendar year January to December 2013:

NAME OF DIRECTOR	NO. OF MEETINGS ATTENDED	TOTAL NO. OF MEETINGS	PERCENTAGE RATING
Teresita T. Sy	12	13	92%
Roberto E. Lapid	13	13	100%
Georgiana A. Gamboa*	13	13	100%
Jesse H.T. Andres (Independent)	12	13	92%
Antonio N. Cotoco	11	13	85%
Ma. Leonora V. De Jesus (Independent)	13	13	100%
Luis S. Reyes Jr.	9	13	69%
Nestor V. Tan	10	13	77%
Jesus G. Tirona (Independent)	13	13	100%
Exequiel P. Villacorta Jr.	13	13	100%
Walter C. Wassmer	11	13	85%

\* resigned effective January 31, 2014

## Board Committees

The Board is supported by five (5) committees with their respective mandates as follows:

### 1. Executive Committee

**Chairperson:**  
Teresita T. Sy  
**Members:**  
Antonio N. Cotoco  
Georgiana A. Gamboa  
Roberto E. Lapid  
Nestor V. Tan  
Walter C. Wassmer.

The Executive Committee acts on behalf of the Board as the main approving body for Company exposures particularly approval/ confirmation of credit proposals, investments, disposal of acquired assets and other projects or initiatives to enhance the Company's operating and service delivery capabilities. In 2013, the Committee met at least once a week of every month, of which attendance from all the members ranged from 76% to 94%.

### 2. Audit Committee

**Chairperson:**  
Ma. Leonora V. De Jesus  
(Independent Director)  
**Members:**  
Jesse H.T. Andres  
(Independent Director)  
Jesus G. Tirona  
(Independent Director)  
**Adviser:**  
Shirley M. Sangalang

The Audit Committee provides oversight of the internal and external audit functions and ensures both the independence from management of internal audit activities as well as the compliance with the regulations

governing accounting standards on financial reporting. It approves the annual audit plan, the annual audited financial statements, and the analysis of quarterly results of operations as submitted by the Internal and External Auditors. It reviews the results of the audits and evaluates with the external and internal auditors the system of internal controls, governance processes and risk management policies as designed and implemented by senior management for adequacy, effectiveness and improvements. It has authority to investigate any matter within its Terms of Reference.

For the 2013 financial year, the Audit Committee has reviewed the audited financial statements with management and external auditors and believes that the financial statements are fairly presented in conformity with the relevant financial reporting standards in all material aspects.

The Committee met 13 times in 2013 with all members in attendance.

### 3. Corporate Governance Committee

**Chairperson:**  
Jesus G. Tirona  
(Independent Director)  
**Members:**  
Jesse H.T. Andres  
(Independent Director)  
Antonio N. Cotoco  
Ma. Leonora V. De Jesus  
(Independent Director)  
**Adviser:**  
Ismael G. Estela

The Corporate Governance Committee is primarily tasked to assist the Board in formulating the policies and overseeing the implementation

of the corporate governance practices of the Company and its subsidiaries and affiliates. It conducts periodic performance evaluation of the Board of Directors, its Committees (including the Corporate Governance Committee itself), and Executive Management. It also oversees the implementation of the Directors Orientation and Continuing Education Program.

In line with this, the Committee undertook the annual performance evaluation and detailed analysis of the survey results for improvements; revised the Corporate Governance Manual to align with the requirements of BSP Circular 749; and, published the Company's compliance with the Organization for Economic Cooperation and Development (OECD) principles on Corporate Governance. In 2013, it also initiated review of the succession plan of the Corporation.

It also initiated the creation of the Lead Director position in the Board of Directors to chair the periodic meetings of the independent and non-executive directors with the external auditor, heads of internal audit, compliance and risk management without the presence of senior management. This was approved by the Committee on December 11, 2013 and Independent Director Mr. Jesus G. Tirona was appointed as the Lead Director.

On the continuing education of directors, a seminar on Anti-Money Laundering regulations was conducted with AMLC and attended by the directors and senior officers of the Company.

The Committee met 5 times in 2013 with all members in attendance.

#### 4. Nominations Committee

Chairperson:  
Jesse H.T. Andres  
(Independent Director)  
Members:  
Antonio N. Cotoco  
Ma. Leonora V. De Jesus  
(Independent Director)

The Nominations Committee leads the process of identifying and recommending candidates for appointment as Directors and for other key positions giving full consideration to succession planning and the leadership needs of the Company. It recommends the composition and chairmanship of the various committees. It reviews the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive Directors, and recommends changes if necessary. It also reviews all nominations for the appointment, re-appointment, election or re-election of Directors of the Company and members of the various committees and makes recommendations to the Board on appointment of new Directors, when necessary.

In 2013, the Committee nominated Mr. Jesus G. Tirona as Lead Director.

The Committee met once in 2013 with all members in attendance.

#### 5. Risk Management Committee

Chairperson:  
Nestor V. Tan  
Members:  
Antonio N. Cotoco  
Georgiana A. Gamboa  
Roberto E. Lapid

The Risk Management Committee is responsible for the development of the Company's risk policies, defines the appropriate strategies for identifying, quantifying, managing and controlling risk exposures including preventing and/or minimizing the impact of losses when they occur. It supports the Board in performing its risk oversight functions and reviews the overall risk management philosophy, risk strategy and risk tolerance levels, oversees the implementation and review of the risk management plan on an integrated enterprise-wide basis, system of limits of management of discretionary authority delegated by the Board and takes immediate corrective actions when breached. It is also responsible for reassessing the continued relevance, comprehensiveness and effectiveness of the risk management plan, and revises it when needed. The Committee also reviews risk reports that controls and monitors risk exposures and limits.

The Committee met 4 times in 2013 with Messrs. Tan, Lapid, and Ms. Gamboa attended all the meeting. Mr. Cotoco present in 3 meetings.

#### GOVERNANCE MECHANISMS

In promoting good governance across the Organization, the Company put in place the following policies and practices:

##### Independence of Directors

Four of 11 directors are independent and non-executive and could therefore exercise unfettered and independent judgment, free from any business or other relationship

that could materially interfere with the exercise of their ability to act in the best interest of the Company. In determining the independence of directors, each independent and non-executive director is required to submit an annual disclosure of all relevant information related to his/her business interests and affiliation. The Board has also adopted a procedure to ensure that it operates independently of management. A Lead Director was appointed to chair the meetings of independent and non-executive directors together with the external auditor and heads of internal audit, compliance and risk without the presence of senior management.

#### Segregation of Roles

The roles of the Board Chairman and the Company President are separate and distinct from each other to achieve a balance of authority, clear accountability, and capacity for independent decision-making by the Board.

The Chairman's primary responsibility is for leading the Board and ensuring its effectiveness while the President is responsible for running the Company's business.

#### INDEPENDENT CHECKS & BALANCES

The Company has institutionalized the following independent functions to ensure the safety and soundness of its operations:

### Internal Audit

Under the direct supervision of the Board Audit Committee, the Internal Audit Group is tasked to provide independent assessment and reasonable assurance of the adequacy and effectiveness of the Company's system of internal controls, risk management and governance processes of all units of the Company including subsidiaries and affiliates. It has implemented the risk-based approach in auditing major areas of operations and prioritized their work based on assessment of risk exposures. It is staffed by individuals with relevant qualifications and has unfettered access to the Audit Committee, Board and senior management. The Internal Audit Group Head reports directly to the Audit Committee which is responsible for the appointment and removal of the Internal Auditor.

### External Audit

Punongbayan and Araullo was reappointed External Auditors of the Company at the last Annual Stockholders Meeting on April 17, 2013. It is tasked to perform audit risk assessment, conduct an independent audit of the Group's financial statements, render an opinion thereof and report the results of the audit to the Board of Directors and stockholders. The Audit Committee makes the recommendations to the Board for the appointment, reappointment and removal of the external auditors including the audit fees and terms of engagement.

### Risk Management

The Risk Management Unit is the one responsible for developing guidelines and policies for effective risk management of the Company. It is also responsible in identifying the key risk exposures, assessing and measuring the extent of risk exposures of the Company in the conduct of its business on an enterprise wide basis. It performs independent monitoring and objective assessment of 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. On a regular basis, it reports to senior management and to the Board of Directors the results of their assessment and monitoring. Risk Management is staffed by competent personnel with sufficient experience, qualifications, knowledge of the banking business as well as mastery of risk disciplines. It is headed by a Chief Risk Officer (CRO) who is independent from any revenue-generating and executive functions, business line responsibilities and operations. The CRO reports directly to the Risk Management Committee and could only be appointed and replaced with prior approval from the Board.

The BDO Group uses an integrated risk management framework covering the parent bank and subsidiaries to address the material risks it faces in its banking activities particularly credit, market, business cycle, liquidity and operational risks.

### Compliance and Anti-Money Laundering

The Compliance and Anti-Money Laundering Unit is responsible to oversee, coordinate, monitor and ensure compliance with existing laws, rules and regulations through the implementation of the Company's compliance system and program in accordance with the requirements of the BSP, SEC and other regulatory agencies, including but not limited to the identification and control of compliance risks, prudential reporting obligations as well as compliance training. It has a robust compliance system focused on the enforcement of the Anti-Money Laundering Act and its implementing rules and regulations, Corporate Governance Manual, Code of Conduct and Personal Trading Policy and other regulatory requirements. It coordinates with regulators on their examinations and reports significant compliance issues and regulatory findings to senior management and the Board. The unit is headed by a Compliance Officer (CO) who was appointed by the Board. The CO reports directly to the Audit Committee.

## CODE OF CONDUCT AND BUSINESS ETHICS

The Company institutionalizes the highest ethical standards through the strict implementation of the BDO Unibank Code of Conduct that outlines the principles and policies governing the activities of the institution, its directors, officers and employees. The Code specifies the fair treatment of customers, investors, stockholders, employees, suppliers, vendors, service providers, creditors, business partners and even competitors. The Company's Code of Conduct is available on the Company's website at [www.bdo.com.ph/business/leasing-financing/about-us](http://www.bdo.com.ph/business/leasing-financing/about-us)

### Restrictions in Dealing in Securities

The Company has a Personal Trading Policy to eliminate the possibility, or even the appearance of insider trading. It is in place to regulate buying and selling of BDOLF, BDO and non-BDO shares by directors, advisors, officers and employees of the Company to ensure that material, non-public price-sensitive information on shares being traded are not being used for personal gain.

The Personal Trading Policy covers the required disclosures of trades of BDOLF shares within three (3) days from date of transactions, restrictions of trades of shares by company officers and employees directly managing banking relationship with publicly listed companies and the imposition of a trading blackout to take effect before and after the disclosure of the Company's net income figures quarterly to the Securities and Exchange Commission

and the disclosure of the annual audited financial statement results.

### Related Party Transactions

The Company complies fully with the legal and regulatory requirements pertaining to the approval and disclosure of related party transactions. It has put in place adequate procedures to implement them, if it or any person in the Group may enter into a related party transaction such as credit accommodations, products or services extended by the Company to directors and officers in their personal capacity or to their company and vice versa. Specifically, it has a way of determining the persons in its related party groups to whom a conflict of interest may arise vis-à-vis the Company and the criteria which have to be satisfied for proposed related party transaction such as but not limited to the terms and conditions that are not more favorable than similar transactions with non-related parties under similar circumstances. These transactions are all presented to the Executive Committee and are submitted to the Board for approval, where relevant, the affected related party or its representative abstains from participating and voting on the transaction.

### Whistle Blower Protection

The Code enjoins anybody who becomes aware of any violations of law, regulations or policies to report his/her suspicions to any of the designated office or individuals without fear of reprisal. The Company has a whistle blower protection program that enables directors, all

employees and even temporary staff to report in good faith irregularities, misconduct or raise serious concerns internally with high level of confidentiality and immunity so that appropriate remedial action could be taken.

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## TRANSPARENCY AND DISCLOSURES

The Company is fully committed to provide its investors and other stakeholders full transparency and timely information disclosures through filings with the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE), as found in the following:

- General Information Sheet (GIS)
- Definitive Information Statement (DIS)
- SEC Form 17-A
- Audited Financial Statements (AFS)

Required disclosures relating to:

- Financial information is stated in the AFS and the DIS
- Shareholder matters are provided in the DIS
- Executive compensation policy is stated in the DIS
- Directors' fees are found in the DIS
- Corporate actions, among others, are provided in the PSE official website [www.pse.com.ph](http://www.pse.com.ph)

To ensure an even wider access by the investors and the public, these disclosures and other corporate information are also uploaded in the Company's official website [www.bdo.com.ph/business/leasing-financing/about-us](http://www.bdo.com.ph/business/leasing-financing/about-us). (See "Investor Relations" and "Corporate Governance"). The details of the established corporate governance policies could be found in the Revised Corporate Governance Manual. The Company also uses its Annual Report to highlight its corporate governance practices and corporate social responsibility.

#### STAKEHOLDERS' INTEREST

The Company has put in place various practices for the protection, fair treatment and dealings with all stakeholders. It is fully committed to its corporate mission to be the preferred Company in every market it serves by consistently providing cutting edge products and seamless delivery of services, proactively reinventing itself to meet market demands, creating shareholders' value through superior returns, giving importance to the betterment of its employees, and maintaining active involvement in the community it serves. (Additional information on

the rights of shareholders, equitable treatment of shareholders and roles of stakeholders is provided further in the 2013 Definitive Information Statement.)

#### RECOGNITIONS OF CORPORATE GOVERNANCE PRACTICES

The implementation of best governance practices has earned the Company a place among the Top 50 publicly-listed companies in the Philippines in the recently released Institute of Corporate Directors report on the results of the ASEAN Scorecard for Corporate Governance.

More than the accolades and awards that the Company has received, it is the trust and confidence of the public and its stakeholders that BDOLF considers its biggest accomplishments in practicing good corporate governance. Not only will these recognitions translate to positive impact on its financial performance, these will also steer the Company to raise the bar of its corporate governance to meet stricter global standards.