

## COMPLIANCE WITH LEADING PRACTICES ON CORPORATE GOVERNANCE

BDO recognizes the importance of good corporate governance as fundamental to a well-managed organization. It commits to uphold and protect the interests of all stakeholders in conducting its business in order to maintain its solid reputation to the public. As a financial institution and a publicly listed company, the Bank is guided by the Bangko Sentral ng Pilipinas (BSP) Guidelines in Strengthening Corporate Governance in Supervised Financial Institutions, the SEC Code of Corporate Governance, the Corporate Governance Guidelines for Companies Listed on the Philippine Stock Exchange and the ASEAN Corporate Governance Scorecard for Publicly Listed Companies in its corporate governance practices.

In 2015, BDO continues to evolve its corporate governance policies and practices that enable it to not only comply with statutory and regulatory requirements, but also voluntarily adopt and institutionalize the best practices on corporate governance, where appropriate.

These efforts were recognized during the inaugural presentation of the ASEAN Corporate Governance Awards when BDO was named as one of the Top 50 ASEAN Publicly-Listed Companies in Corporate Governance.

This affirms its deep commitment to a high standard of corporate governance practice firmly anchored on the principles of accountability, fairness, integrity, transparency and performance consistently applied throughout the institution.

Our corporate governance framework has been designed to support and work within our Group organizational structure to achieve our corporate mission that of creating long-term value and enhancing the sustainability of the Bank for the benefit of its investors and various stakeholders

The following are the highlights of our corporate governance arrangements and key focus in 2015:

1. Policy on Multiple Board Seats - specified the limit of the number of board seats that an individual Independent/Non-Executive Director may hold simultaneously to 5;
2. Membership of the Related Party Transactions Committee - changed the composition to all independent directors with an Independent Director as Chairman of the Committee;
3. Executive Sessions of Independent/Non-Executive Directors - held 3 separate sessions chaired by the Lead Director to meet with the Internal/External Auditors, Chief Risk Officer and Chief Compliance Officer without the presence of senior management to discuss matters and issues outside of the regular meetings of the Audit and Risk Management Committees. The results of these meetings were discussed with the Chairperson, President and other Executive Directors.
4. Corporate governance oversight of subsidiaries - aligned the corporate governance policies and practices of One Network Bank, a newly acquired rural bank subsidiary with the parent bank.
5. Active engagement with regulators by giving comments on the proposed changes in corporate governance rules pushed by these authorities.
6. Audited financial statements were released to the public within 60 days from year end.

7. Completed the nomination of the 5<sup>th</sup> independent director to fill up a vacancy in the Board. This will bring the composition of independent directors in the Board to 45%.
8. Conducted the annual self-assessment of the Board, committees, directors, advisers and senior Management. Key findings showed that the Board continues to function very well, committees operate effectively, senior management has the competence and ability to manage the Bank while the relationship between directors and advisers in the diverse BDO Board remains strong.
9. Revised the Related Party Transactions Policy to expand the definition of the related parties of the Bank and specified the handling, vetting and approval process of material Related Party Transactions.

This report sets out the main corporate governance practices of the Bank in relation to the following OECD guiding principles:

## **Rights and Equitable Treatment of Stakeholders**

### **Shareholders**

The Bank respects the inherent rights and recognizes the roles of various stakeholders in accordance with law. To this end, it has put in place various practices for the protection of shareholders' rights and promotion for exercising those rights such the right to buy, sell or transfer securities held, the right to receive dividend, the right to vote for the appointment of the external auditor, the right to participate in the decision-making for corporate matters, the right to propose agenda item in the shareholders' meeting and the right to attend the shareholders' meeting. In particular, for the convenience of shareholders to exercise their right to attend the stockholders' meeting, it will announce in advance the venue, date, time and agenda of the annual meeting, explanation of each agenda item requiring shareholders' approval, method of voting, and disclosure of voting results. Shareholders will be given equal opportunities to raise questions, make suggestions and recommendations pertaining to the operations of the Bank. They can assign proxies to vote on their behalves if shareholders could not attend the stockholders' meeting.

As a matter of policy, all stockholders (**retail and institutional**) on record are encouraged to attend personally or by proxy the annual stockholders' meeting to ensure their participation and active involvement in the affairs of the Bank.

The Annual Stockholders' Meeting was held on April 24, 2015 and was attended by the Board Chair, President, Directors and Chairmen of various Board Committees. The shareholders were allowed to cast their votes on each director and on each agenda item presented to them for approval. They were also given the opportunity to ask questions, express opinions and make suggestions on various issues. Please see the Minutes of the 2015 Annual Stockholders' Meeting for detailed Questions and Answers, the voting results showing the Approving, Dissenting and Abstaining Votes cast by the shareholders on each agenda item in pages 155-162 of the 2015 Consolidated Changes - Annual Corporate Governance Report.

Declaration of cash/stock dividends is approved by the Board of Directors and is immediately disclosed to the Philippine Stock Exchange (PSE) and the Securities and Exchange Commission (SEC) and is subject to the approval of the BSP. This disclosure is readily available at the websites of the PSE and the SEC, as well as of the Bank. During the Annual Stockholders' Meeting, the President reports to the stockholders the financial performance of the Bank for the year. In addition, the Bank files with the PSE and SEC quarterly reports on its financial performance.

The Bank recognizes that all shareholders should be treated fairly and equally whether they are controlling or minority, local or foreign. To ensure this, the Amended By Laws of the Bank provides that all shares in each class should carry the same rights and any changes in the voting rights to be approved by them. The Bank accepts the votes cast by nominees and custodians in behalf of the beneficial owners as valid. Shareholders could exercise their right of appraisal in case of amendment to the Articles of Incorporation that has the effect of changing or restricting their rights.

Policies and procedures have been put in place to manage potential conflicts of interests arising from related party transactions such as credit accommodations, products or services extended by the Bank to directors or officers in their personal capacity, immediate members of their family up to the second degree of consanguinity or affinity or to their company. The Bank implemented the Related Party Transactions Policy (RPT) to ensure that every related party transaction is conducted in a manner that will protect the Bank from improper conflict of interest which may arise between the Bank and its Related Parties and to ensure proper review, ratification, approval and reporting of transactions as required in compliance with legal and regulatory requirements. It also established the Related Party Transactions Committee to review significant related party transactions to ensure that these are conducted at arm's length, in the normal course of business wherein the terms and conditions are no less favorable than those given to unrelated parties with comparable risks and that the transaction is in the best interest of the Bank. Included in the RPT policy is the rule that prohibits directors from participating in any discussion, deliberation, and decision-making concerning any issue or transaction where they may be conflicted. These transactions are then elevated to the Board for final approval. The details of the deliberations are included in the minutes of the Board meeting. Approved related party transactions are properly tagged for monitoring and reporting of exposures.

The Bank also instituted the Personal Trading Policy that prohibits insider trading. All directors and officers are covered by this policy that prohibits the trading of any security while in possession of, or with direct or indirect access to, material information that is not generally available to the public and requires disclosure and reporting of trades in shares within 3 days from date of transactions. The Bank imposes a holding period of 6 months for buy transactions and 90-day repurchase period for sale transactions. A 7-day trading blackout period to take effect before and after the disclosure of net income figures is also strictly imposed.

### **Investors**

BDO adopts a pro-active relationship with its stockholders by directly addressing their concerns and queries. The Bank directly liaises with its stock transfer agent on matters relating to stockholders' claims for cash dividends, updating of contact information and requests for documents and/or information regarding their stockholdings.

It also recognizes the need for accurate and updated information of the Bank's financial condition and all matters affecting the Bank by appropriate timely disclosures in the corporate website, regulators, annual reports and announcements. Shareholders could request relevant information from the Corporate Secretary or Investor Relations Unit through the contact details provided in the Bank's official website. The minutes of the 2015 Annual Stockholders' Meeting is available in pages 155-156 of the 2015 Consolidated Changes -Annual Corporate Governance Report published in the Corporate Governance Section of our corporate website at [www.bdo.com.ph](http://www.bdo.com.ph).

Investor Relations (IR) articulates BDO's strategic directions as well as updates investors and analysts on the Bank's financial performance and other major developments. Investor updates are carried out through one-on-one meetings during conferences and roadshows, supplemented by

periodic email broadcasts and posting of disclosures at the Bank's website. This ensures continuing access to both strategic and financial information about BDO

To Board members and key management, IR shares reports from analysts and feedback from investors for a better appreciation of external views regarding the Bank. Investor Relations (IR) is responsible for providing and disseminating information and activities of the Bank for the benefit of investors, stock analysts, fund managers (both local and foreign) as well as government agencies. In 2015, Investor Relations held two (2) analyst briefings in March and July which BDO senior management presented and answered queries on the Bank's annual and quarterly results, operations and recent developments. It also, participated in the quarterly analyst and media briefings of parent firm SM Investments Corporation and conducted road shows locally and abroad. Investor Relations also handled press release for significant bank events for the information of all concerned. Investor presentations are posted in the Bank's website. Meanwhile, highlights of the SMIC quarterly briefings (including BDO's presentation) are posted in the SMIC website and are available for viewing and downloading by analysts and media.

## **Customers**

Our clients provide the Bank the business for which we are most thankful. BDO is committed to meet their needs by providing them with high quality customer service and relevant products and services.

BDO is also committed to treat clients fairly. The minimum standards to ensure that clients are treated fairly are the following:

1. Communications are fair and not misleading.
2. Ensure that clients are given clear and concise information, including the risks involved, before they enter into financial products and services.
3. Products and service are suitable and appropriate, taking into account the needs of the clients, their financial and risk profile and objectives.
4. Complaints should be handled in a prompt, friendly, fair and effective manner.

In compliance with BSP Circular 857 which is the Regulations on Financial Consumer Protection in the Philippines effective November 2015, the Bank has implemented the consumer protection framework as part of the oversight function of the Board and Senior Management. It has also established a Consumer Protection Risk Management System to identify, measure, monitor, and control consumer protection risks inherent in its operations. It will also implement the "cooling off" period of at least 2 banking days required in BSP Circular 898 that will permit the customer to cancel the agreement or contract without penalty to the customer if he/she wants to do so during the cooling off period.

Equipped with the "We Find Ways" attitude, BDO is committed to meet the needs of the clients by providing them with high quality customer service and relevant products and services. It continues to expand its network of domestic branches, overseas offices, ATMs, point of sale terminals and electronic delivery channels to offer seamless banking convenience. These efforts are backed by the Bank's dedicated management team, capable employees, solid IT infrastructure and dependable Customer Contact Center that manages and resolves customer complaints.

It has put in place specific activities for the welfare of the customers i.e. the launch of social media facility such Facebook and International Desks were set up to support foreign clients and service them by native language speaking Bank Officers for their banking needs. It has also offered specialized product offerings to the Overseas Filipino Workers and Korean nationals who are living permanently or staying temporarily for business or pleasure.

## **Creditors, Counterparties and Suppliers**

The Bank is committed to meet its contractual obligations with all creditors and counterparties based on the covenants agreed with them. In the conduct of its business dealings, the Bank undertakes to honor all binding trade-related agreements and conditions on the basis of widely accepted industry practices, mutual understanding and cooperation with counterparties. In accordance with law, they will be given priority in payment of the Bank's obligations in the normal course of business and in the event of liquidation.

For suppliers, it has established appropriate policies that govern the vendor accreditation, selection, bidding and approval processes. The Bank strictly prohibits the solicitation and acceptance, directly or indirectly, of any gift (including entertainment services or activities), gratuity, commission or any form of payment from clients, business partners, suppliers and third party service providers in exchange for any unnecessary favorable treatment.

## **Employees**

The Bank puts very high value to its human resources. To ensure the protection and well-being of the employees, the Bank has implemented policies and programs that cover the following areas:

### **a. Code of Conduct and Business Ethics**

As a financial institution, BDO believes that practicing right conduct and ethical behavior inspires and strengthens the confidence of all our stakeholders.

The Code outlines the principles and policies that govern the activities of the institution, sets forth the rules of conduct in our work place and the standards of behavior of its directors, officers and employees in their activities and relationship with external shareholders. These reflect the core values the institution subscribes to and promotes.

The Code applies at all times to all members of the Board of Directors and BDO Unibank Group employees in their dealings with clients, suppliers, business partners and service providers. It covers the Bank's commitment to a gender friendly workplace, concern for occupational health, safety and environment, transparency, integrity and accountability, compliance with laws and regulations, standards of behavior and personal conduct and ethics of doing business.

### **b. Training and Development**

The Bank provides various in-house programs such as orientation program for new hires, job specific training courses and officers' development programs to enhance the knowledge, working skills and managerial ability of its employees. The Bank allocates every year a training budget to cover internal training programs. E-learning is also being promoted on Foreign Account Tax Compliance Act (FATCA) and Anti-Money Laundering Prevention and Detection. In 2015, average training hours for both internal and external training conducted for staff, managerial positions and senior officers were 46.29, 21.70, and 18.01, respectively, showing an increase of 3%,18% and 37% for these training hours. The Banks spends more on continuing education of officers and staff to ensure that they are well-equipped and effective in their functions.

For Directors and key officers (SVP up), the Bank provided an in-house Corporate Governance Seminar conducted by the Executive Director of the Anti-Money Laundering Council as part of its continuing education program. These were attended by members of the Board of Directors and Senior Management of the Bank and its subsidiaries.

### **c. Employee Welfare**

BDO is committed to promote the physical, social and mental well-being of its employees. It aims to provide a workplace free from discrimination and all forms of physical, sexual and psychological abuse including harassment, bullying and intimidation. The Bank established the Policy on Disclosure of Sensitive/Confidential Matters to Management to give employees the opportunity to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices in the workplace.

### **d. Health and Safety**

BDO is committed to maintain a positive, harmonious and professional work environment with due importance accorded to occupational health and safety of the employees and related external constituencies.

The on-going activities to promote health and safety are the following:

1. No Smoking Policy in all head offices and branches is strictly enforced;
2. No firearms allowed in all offices and branch premises;
3. Use of CCTV as a deterrent to possible criminal activities such as hold-ups/robberies;
4. Fire prevention measures and safety/evacuation drills for fire and earthquake;
5. Installation of access ramps for persons with disability in our buildings and branches to make our offices safe and accessible to PWDs;
6. Regular safety inspections in corporate offices and branches nationwide to rectify immediately all noted unsafe conditions; and,
7. Emergency Response Teams to ensure availability of emergency response personnel in times of a disaster.

The following programs/activities were implemented by the Bank in 2015 to promote the health and wellness of BDO employees:

1. Maintained 5 clinics in BDO Corporate Center and other Head Office Units located in Makati, Ortigas, Greenhills and Binondo;
2. BDO Fitness Center with gym facilities open to employees of the Bank offering regular group classes such as zumba, hiphop, aeroboxing and taebo. Total enrollees for the year - 1,432 employees or an increase of 15% from last year's count of 1,246 employees.
3. Pre-employment medical exam with drug testing for prospective new hires;
4. Mandatory annual medical check up for 9,799 officers and 10,951 staff;
5. Random drug testing for 2,755 employees (1,593 officers and 1,162 staff) during the mandatory annual medical checkup;
6. Sponsored blood-letting activities participated by 263 employees;
7. Conducted 17 Corporate Wellness Lectures on various medical topics aligned with DOH and DOLE-OSHA Programs;
8. Conducted first aid and basic life support trainings participated by 203 employees;
9. Conducted preventive medical programs such as vaccination for flu, pneumonia and other vaccine preventable diseases participated by 3,696 employees and their dependents;
10. Released 15 medical advisories/bulletins on relevant medical topics through Health Watch program;
11. Conducted free eye screening/checkup for Metro Manila employees;
12. Participated in the Metro-wide Earthquake Drill on July 30, 2015.

## **Society, Community and the Environment**

Recognizing its social development role, the Bank has instituted socio-civic programs thru the BDO Foundation, Inc. geared towards empowerment of marginalized communities and promoting environmental protection as a way of giving back particularly to the communities in which we operate and to the society in general through the active involvement and participation of its employees. It has partnered with several non-government organizations to provide decent home dwellings to indigent families, fund raising and resettlement site for typhoon victims, livelihood projects and continued advocacy on energy efficiency and water conservation. It has participated also in various undertakings to preserve the environment such as tree planting to help improve air quality and reduce carbon emission.

Please refer to the Corporate Social Responsibility Section of the 2015 Consolidated Changes - SEC Annual Corporate Governance Report for more details on the Bank's socio-civic programs and initiatives published in our corporate website at [www.bdo.com.ph](http://www.bdo.com.ph)).

Equally important to the Bank is our commitment to enhance the sustainability of the environment thru information, education and advocacies. The Bank has in place a Social and Environmental Management Systems Policy (SEMS) to ensure that Environmental and social consciousness are incorporated in the day-to-day operations of the Bank for the benefit of all its stakeholders, employees, and the community it operates. It has also a provision that will limit the Bank's exposure to certain industries that have an adverse impact on the environment and this is included in the evaluation of credit proposals. The Bank also introduced the "Go Green Program" to raise awareness on environmental issues, promote good Environmental practices in the workplace.

## **Business Competitors**

The Bank is committed to treat business competitors fairly and professionally in all dealings with them. It will avoid making references or discussions that may have a negative impact on the Bank's competitors.

## **Government and Regulators**

The Bank supports the compliance with the spirit, not just the letter, of the laws and regulations of the jurisdictions it operates. All business deals and transactions shall adhere to regulatory requirements and applicable laws particularly on confidentiality of deposits, data privacy and protection, anti-money laundering and other financial crimes, anti-corruption and bribery, insider trading and consumer protection. In 2015, the Bank was active in giving comments on the proposed changes in corporate governance rules pushed by regulatory authorities.

## **Transparency and Disclosures**

BDO 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
- SEC form 17-C (current reports - material information)
- SEC Form 17-Q (Quarterly Report)
- SEC Form 23- A/B (Statement of Beneficial Owners)

- Audited Financial Statements (AFS)

Required disclosures relating to:

- Financial information is stated in the AFS, SEC Form 17-Q 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)

In particular, BDO released the 2015 audited financial statements on February 29, 2015 or within 60 days after close of the financial year to promote transparency and full disclosure of the results of the operations of the Bank.

Other key information disclosed by the Bank included the composition of the Board, role and activities of board committees, meetings held and attendance of directors, director continuing education records, remuneration policy, shareholding structure, annual performance self-assessment of Board of Directors as a collective body, directors, committees and senior management, Code of Conduct and Business Ethics, Corporate Governance Manual, SEC Annual Corporate Governance Report and important corporate governance policies such whistle blowing, term limit of independent directors, dividend policy and related party transactions.

To ensure an even wider access by the investors and the public, these disclosures and other corporate information are also uploaded in the Bank's official website [www.bdo.com.ph](http://www.bdo.com.ph) (See "Investor Relations" and "Corporate Governance"). The details of established corporate governance policies are found in the Revised Corporate Governance Manual.

### **Evaluation System**

The Bank has required in its Corporate Governance Manual (the "Manual") that all Board level committees shall report regularly to the Board of Directors in compliance with the Manual's policies and procedures. The Bank supports the principle and regulatory mandate of check and balances across the entire Group by its observance of the segregation of powers, independence of audit, compliance and risk management functions. In the context of independent checks and balances, the Board has appointed the Chief Internal Auditor, Chief Risk Officer and Chief Compliance Officer to assist the Board in its oversight functions.

As part of its continuing focus on good corporate governance, the Board Audit Committee is mandated to assist the Board in performing its responsibilities in relation to financial reporting requirements, risk management and the assessment of internal control systems to provide the Board assurance on the existence of effective control environment that ensures efficiency of operations. The main areas of oversight of the Committee include the following:

### **Financial Reporting**

- Reviewing the Bank's financial reporting process and ensuring the integrity of its financial statements and compliance with regulations and financial reporting standards.
- Reviewing with management the financial statements before submission to the Board focusing on clarity of disclosures and material areas with significant changes.

### **Internal Audit and Controls**

- Reviewing and evaluating the effectiveness of internal controls, risk management systems, regulatory compliance and governance processes of the Bank, approving the scope of the

- internal audit work, analysis of the main areas of risk and adequacy of resources and efficiency of the internal audit function.
- Reviewing and approving the management's response on matters related to the report of examination by regulatory bodies and reports on actions taken or status of follow-up items.

#### **External Audit Engagement and Reports**

- Recommending the appointment, reappointment and removal of external auditors, remuneration, approval of terms of audit engagement and payment of fees for any other services rendered by the auditors.
- Approving the annual audit plan and reviewing their reports of examination including that of wholly-owned subsidiaries focusing on significant findings with financial impact and their resolutions.
- Reviewing management's response to the audit findings and actions taken.
- Assessing the performance of the External Auditor.

#### **Others**

- Reviewing operational cases and compliance with ethical rules.
- Investigating any matter or activity within its Terms of Reference.

In accordance with its Terms of Reference and aided by a highly focused meeting agenda, the Board Audit Committee carried out its responsibilities by conducting 12 regular meetings in 2014 with all members in attendance.

In fulfillment of its duties, the Board Audit Committee:

1. Reviewed and recommended to the Board for approval the quarterly unaudited and annual audited financial statements, approved the yearly Internal Audit plan after a thorough review to ensure adequate scope, coverage and resource requirements to carry out its functions, reviewed the effectiveness of the internal control systems and control issues of bank wide significance. It reviewed the enterprise risk management systems of the Bank, discussed the high and moderate risk issues and reviewed the management actions to control or mitigate these risks. It kept track of updates on Information Technology's action plans in further strengthening IT risk management.
2. On external audit, it reviewed and approved the external auditor's engagement letter and audit plan and scope for 2015, reviewed the results of the audit and reports submitted by the external auditor which summarized their findings together with management's responses and/or action plans. It also assessed the performance of the Internal Audit Group, Chief Internal Auditor and its key officers. Likewise, it evaluated the external auditor's independence and performance and recommended to the Board for approval the re-appointment of Punongbayan & Araullo as the Bank's external auditor for the year ended December 31, 2015.
3. On its regulatory compliance oversight, it reviewed the yearly plans, enhanced manuals and independent testing frameworks of the Compliance and Anti-Money Laundering Units, reviewed the results of the independent compliance and AML testing of the Bank including its subsidiaries, monitored the timely submission of regulatory compliance and prudential reports, reviewed new regulatory issuances and action plans to identified gaps, and reviewed management's reply to the report of examination findings and recommendations ensuring that committed actions are implemented.
4. At the meeting held on February 24, 2015, the Audit Committee reviewed and recommended to the Board the approval of the audited financial statements for the year ended December 31,

2014 together with the related Notes to the Financial Statements. This was approved by the Board and disclosed to the public together with the annual results for the year 2015 on February 26, 2015. It believes that the financial statements are fairly presented in conformity with the relevant financial reporting standards in all material aspects.

5. It reported that it has evaluated the effectiveness of the internal controls, risk management systems and governance processes of the Bank, Trust and its subsidiaries based on information obtained from the External Auditor, the assurance provided by the Internal Auditor, and additional reports and information requested from Senior Management. The Bank and subsidiaries' systems are also assessed as generally adequate and its operational risk is deemed moderate.

As part of its continuing education program, the members of the Board Audit Committee attended the in-house corporate governance seminar on Anti-Money Laundering Trends and Updates conducted by the Executive Director of the Anti-Money Laundering Council. The members were also regularly apprised with new regulations related to financial reporting, accounting standards as well as updates on US Foreign Tax Compliance Act or FATCA.

In compliance with SEC requirement, the Board Audit Committee conducted its yearly self-assessment. The BAC also evaluated the performance of the Internal Audit, the Compliance and Anti-Money Laundering Units and External Audit, results of which were submitted to the Securities and Exchange Commission and disclosed to the Philippine Stock Exchange.

Through its tracking mechanism, the Committee constantly reviewed and monitored Management's corrective action on internal control weaknesses, compliance issues and major risk areas by BSP, Internal Audit, External Audit, Compliance and AML units and other regulatory bodies.

The Board Audit Committee reports that it has evaluated the effectiveness of the internal controls, risk management systems and governance processes of the Bank based on information obtained from the External Auditor, the reasonable assurance provided by the Internal Auditor and additional reports and information requested from Senior Management, and found that these are generally adequate across the BDO Unibank, Inc. and its subsidiaries. The Bank's systems are assessed as generally adequate and its operational risk is deemed moderate.

The Board Audit Committee is chaired by Jose F. Buenaventura. Its other members are Jones M. Castro, Jr., Jesus A. Jacinto, Jr., Jimmy T. Tang, and Corazon de la Paz-Bernardo as Adviser.

The Corporate Governance Committee assists the Board in fulfilling its responsibilities for corporate governance across the BDO Group. Its role includes reviewing the existing corporate governance policies and practices recommending any changes to promote an environment wherein effective governance is part of the culture of the Bank; reviewing and reporting to the Board on corporate governance regulatory or compliance issues; monitoring corporate governance new regulations and recommending appropriate changes; reviewing and recommending to the Board on best practices to be adopted as applicable particularly those enunciated in the ASEAN Corporate Governance Scorecard; reviewing periodically the succession plan and disclosure of corporate governance policies and information in the Bank's website.

The Independent Directors and Non-Executive Directors, chaired by Lead Director Jones M. Castro, Jr., conducted three (3) executive sessions with the External Auditor, Internal Auditor, Chief Risk Officer and Chief Compliance Officer without the presence of senior management to discuss various matters/issues outside of the regular meetings of the Audit and Risk

Management Committees. The results of these sessions were discussed with the Bank's Chairperson, President and CEO and Executive Directors.

It conducted the corporate governance seminar for the continuing education of directors, annual performance evaluation of the Board, committees, directors and executive management, and monitored the submission of regulatory corporate governance reports, publication and updating of corporate governance policies and continuous disclosures in the Bank's website to promote transparency and effective communication to shareholders, investors, media, analysts, industry participants, regulators and the general public. It was active in giving comments on the proposed changes in corporate governance rules pushed by regulatory authorities. It recommended changes in the corporate governance policies and practices of One Network Bank, a newly acquired rural bank subsidiary to ensure alignment with the parent bank.

The Committee met 6 times in 2015 with all the members in attendance.

### **Measures on leading practices of good-corporate governance**

The Bank is constantly examining leading practices on good corporate governance. The Board approved the revisions of the Corporate Governance Manual on June 27, 2015 to incorporate best practices enunciated in the ASEAN Corporate Governance Scorecard.

### **Any Deviation from the Manual**

None.

### **Improvement of Corporate Governance**

The Bank has adopted the policy of reviewing its Manual on an annual basis at the Board level with the aim of constantly improving its corporate governance practice. Stepping up to the next level on corporate governance entails the adoption and implementation of best practices to ensure high standards of governance in every aspect of our business and at all levels of the organization.