

2017 COMPLIANCE WITH LEADING PRACTICES ON CORPORATE GOVERNANCE

The practice of corporate governance in BDO is about effective oversight, voluntary compliance and sustainable value creation to promote the best interest of its various stakeholders. As a publicly-listed company and a financial institution, BDO Unibank, Inc. 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 that supported our corporate objective of delivering long-term value. BDO's good market reputation has been built on the solid foundation of an ethical corporate culture and responsible business conduct, underpinned by a well-structured and effective system of governance.

2017 was a year of positive change and continual improvement in BDO's corporate governance practice. It has incorporated the recommendations of the SEC Code of Corporate Governance for Publicly-Listed Companies and provisions of BSP Circular 969 on Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions in its Corporate Governance Manual, which form part of its continuing commitment to comply with the latest rules and regulations. It has also continued to follow, where appropriate, the international best practices of corporate governance issued by globally recognized standards setting bodies such as the Organization for Economic Cooperation and Development (OECD) and the ASEAN Corporate Governance Scorecard which serve as essential points of reference.

Highlights of our corporate governance practices throughout the financial year ended December 31, 2017:

1. Composition of the Board - The BDO Board is now lead by a Non-Executive Director with 5 Independent Directors, 4 Non-Executive Directors and only one Executive Director who is the President and CEO. Independent Directors make up 45.45% of the members of the Board which exceeds the requirement of SEC and BSP. Non-Executive Directors including Independent Directors now comprise 90.91% of board strength, more than the requirement of the BSP of at least majority of the Board. This provides independent and objective judgment on significant corporate matters and ensures that key issues and strategies are objectively reviewed, constructively challenged, thoroughly discussed and rigorously examined;
2. Revision of Corporate Governance Manual - to align with the recommendations of the new SEC Code of Corporate Governance for Publicly-Listed and the regulatory requirements BSP Circular 969 particularly on Definition and Term Limit of Independent Directors, Related Party Transactions Policy, Board Diversity Policy and the revision of the Terms of Reference of all Board committees to comply with the new duties and responsibilities prescribed by the SEC and BSP;
3. Composition of the Committees - 5 board committees namely Risk Management, Corporate Governance, Trust, Nominations and Related Party Transactions were reconstituted by primarily designating Independent Directors as majority members including Chairmanship of these committees to align with new regulations;
4. Audited financial statements were released to the public within 60 days from year end for 3 consecutive years already;
5. 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; and

6. Annual performance self-assessment - conducted by the Corporate Governance Committee covering the Board, committees, directors, advisers and senior management. Key findings showed that the Board continues to operate to a very high standard of independence, committees function effectively and senior management has the relevant professional experience, necessary skills and ability to manage the Bank while the directors have rigorously maintained independence of view and the relationships between Board and committee members remain strong.

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 right to buy, sell or transfer securities held, the right to received 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 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 20, 2017 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 opinion and make suggestions on various issues. Please see the minutes of the 2017 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 www.bdo.com.ph/company disclosures/ownership.

Quarterly declaration of cash 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). 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 management 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. In compliance with BSP Circular 969, the Board approved the revised Terms of Reference of the Related Party Transactions Committee to align with the requirements of the new regulations. The RPT policy 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 material Related Party Transactions are reported to the BSP after the end of every quarter.

Investors

BDO adopts a pro-active relationship with its stockholders through Investor Relations' comprehensive engagement program and by directly addressing their concerns and queries. It has a dedicated Investor Relations Unit that has a comprehensive program that articulates the Bank's strategic directions and manages relationships with investors, analysts, credit rating agencies, and other external stakeholders. The Investor Relations Unit actively cultivates relationships with current and potential investors by joining conferences and roadshows in the key global financial markets. It also conducts regular one-on-one meetings, conference calls and briefings with investors and analysts. Aside from meeting institutional investors, the Bank also reaches out to retail investors both in Metro Manila and provincial areas by participating in retail conferences and roadshows organized by local brokers. Relevant information is also shared through official disclosures posted via PSE Edge and company website. In 2017, the following were the significant programs and events done by Investor Relations:

1. Meetings, Conferences and Roadshows

Investor Relations (IR) engaged with more than 500 investors through one-on-one meetings, conference calls, roadshows, and conferences locally and abroad last year. This was done through participation in 19 corporate access activities broken down into 14 conferences and five (5) roadshows overseas and locally.

2. Analyst briefings

IR held two analyst briefings in February and July in 2017 during which the Bank's senior management presented and answered queries on the Bank's 2016 and 2Q 2017 results, operations and recent developments. Video coverage of the analysts' briefing on the Bank's first semester performance last year was posted under the Investor Relations section of the Bank's website.

3. Media briefings/press conferences

IR held a media briefing/press conference in the morning prior to the Bank's Annual Stockholders' Meeting in April last year, during which the BDO President updated the press on the Bank's financial results as well as answered queries relating to the Bank.

4. Regular feedback from investors and analysts to Senior Management and the Board.

IR regularly conveyed feedback from investors and analysts to Senior Management and to the Board through updates on shareholder developments and industry analysis reports for a better appreciation of market sentiment towards the Bank.

5. Coordination with other units for the disclosure of public information about the Bank

IR coordinated with the Corporate Secretary's Office and Marketing Communications to ensure the timely and accurate dissemination of public, material and relevant information about the Bank.

The Bank directly liaises with its stock transfer agent on matters relating to stockholders' claim 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 2017 Annual Stockholders' Meeting is available in our corporate website at www.bdo.com.ph/company-disclosures/ownership.

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:

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

As a continuing compliance with BSP Circular 857 which is the Regulations on Financial Consumer Protection in the Philippines, the Bank has monitored and profiled the client inquiries/requests/complaints together with resolutions/actions taken. The Bank has been proactive in resolving with these complaints. In particular, it has initiated reimbursements of client's reported unauthorized transactions after thorough and careful investigation of the incidents. It has also implemented the Framework and Policy on Social Media Risk Management in

compliance with BSP Circular 949, and the appointment of the Data Protection Officer (DPO) and BDO Enterprise Privacy Policy to incorporate the provisions of the Data Privacy Act (RA 10173).

In living the “We Find Ways” service credo, BDO is committed to meet the clients’ needs by providing them with high quality customer service and relevant products and services such as protection services to the emerging Filipino middle class through BDO Life. It continues to invest heavily in technology to improve products and processes particularly on personal online banking, expand electronic channels, electronic payments, shift to EMV cards, develop modern payment platforms and expand use of digital media. Clients can look forward to a more convenient banking experience as the Bank exerts efforts to leverage the use of digital technology in making available its products and services across various channels.

It continued to expand its domestic branch network to 1,042 by end of 2017 complemented by over 3,600 ATMs and electronic channels. This is a milestone affirming the Bank’s commitment to make banking reachable to Filipinos and our way of creating opportunities for more people to experience the rewards of having a bank that takes care of their financial needs.

In 2017, BSP honors BDO with “Gold Hall of Fame” award for remittance service in the BSP Stakeholders Awards, a solid testament of BDO’s consistent leadership in the remittance sector. The Bank has been at the forefront of providing the OFWs various options and channels to send their hard-earned money to their beneficiaries in the Philippines. Over the years, BDO’s remittance offerings have connected families across wide geographies while helping drive growth to higher levels.

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 2017, the Bank was active in the capital and debt market with the issuance of up to USD 1 Billion Common Stock Rights Offering, USD 150 million in Green Bonds to be invested in by the International Finance Corporation via private placement, USD700 Million Senior Notes and Php 16.8 Billion LTNCDs.

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 client, 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, regular training, job specific training courses, management and leadership training programs to enhance the knowledge, working skills and managerial ability of its employees. The Bank allocates every year a training budget for these developmental programs. In 2017, the Bank invested heavily on training and development. Average training hours for internal and external training of staff, managerial and senior officers were 66.54, 49.10 and 32.17, respectively. In terms of actual number of employees trained, staff was at 21,254, managers at 16,707 and senior officers at 2,164. As compared to 2016, training hours were up by 44.59%, 185.96% and 140.07%, respectively. The Bank spends more on continuing education of officers and staff to ensure that they are well-equipped and effective in their functions. Culture and values, service excellence, regulatory requirements, job knowledge as well as leadership development were the focus in 2017.

For Directors and key officers (SVP up), the Bank provided an in-house Advance Corporate Governance Seminar on July 19, 2017 conducted by SGV/Ernst & Young as part of its continuing education program covering the key developments in the SEC Code of Corporate Governance, Risk Management, AML updates and Data Privacy Act. This was 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.

During the year, the Board approved the amendment to the Bank's Financial Assistance Program to reflect the change of interest rates on Employee Loan Facilities for Officers and Staff.

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 continuing activities to promote health and safety are the following:

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

In 2017, the Bank conducted the following initiatives to improve the safety of Bank employees and customers inside the premises:

1. Hired full-time DOLE-accredited Safety Practitioners to formulate and develop new strategies to improve the existing Bank's Health and Safety Programs in compliance with DOLE's prescribed Occupational Safety and Health Standards (OSHS) and other regulatory requirements. These full-time Safety Officers will be strategically assigned and distributed to different Corporate offices to provide safety services to all BDO installations/offices nationwide.
2. Apart from hiring full-time Safety Officers, SID (in coordination with concerned Business Units), spearheaded the designation and training of over 130 incumbent Bank officers - who recently participated in the DOLE prescribed 40-hour Basic Occupational Safety and Health (BOSH) training. These officers will serve as Part-time Safety Officers (2-3 per Area) to perform safety-related tasks within their respective areas of responsibilities.
3. Conducted 8-hour Office Safety Training for Branch personnel (1 per branch) currently designated as Branch Safety Marshall who shall perform safety related-tasks to ensure the safety of employees and other people at their respective workplaces.
4. Continued to conduct emergency preparedness (fire and earthquake) trainings to the Bank's Emergency Response Teams and emergency drills, particularly to multi-storey corporate offices in coordination with the Bureau of Fire Protection and concerned BUs of the Bank. Please see attached emergency preparedness-related activities conducted in 2017.

In addition, there were 27 emergency preparedness-related activities conducted in various locations of the Bank specifically on emergency drills for fire and earthquake, emergency response team training for building guards and bank employees handling evacuation control.

The following programs/activities were implemented by the Bank in 2017 to promote the health and wellness of BDO employees:

- Maintains 8 (eight) Medical Clinics (from 6 in year 2016) located in:
 - Corporate Center Makati (CCM)
 - Corporate Center Ortigas (CCO)
 - Ortigas Avenue, Greenhills
 - Roosevelt Avenue, Greenhills
 - Binondo, Dasmariñas
 - Davao City

- Karrivin Plaza, Makati – new
- Gercon Building, Makati – new
- The Clinics are manned by OH (Occupational Health) Practitioners and/or Nurses.
 - For employees outside of Metro Manila, they could go to any of the facilities that are accredited by Maxicare Health Corporation and Valucare, the Bank’s HMO providers;
- BDO Fitness Center for both Corporate Center Makati and Corporate Center Ortigas - use of gym facilities open to employees of the Bank; with regular group classes such as zumba, hiphop and special activities like cardio pump workout, bootcamp, circuit / rope training etc.
 - Total enrollees of 3,340 employees for January to November 2017 (from 2,860 employees for January to November 2016 or 17% increase in enrollees)
 - Employees continue to have access to Gold's Gym facilities, with preferential quarterly enrollment rates/fees
- Pre-employment Medical Examination with drug testing for prospective new hires total to 4,806 persons as of December 31, 2017 vs. 4,028 persons as of year-end 2016 (19% increase)
- Mandatory Annual Medical Check-up for 13,784 officers and 3,904 staff employees;
- Random drug testing for 1,908 employees (partial count) during the Mandatory Annual Medical Check-up;
 - 760 Officers
 - 1,148 Staff employees
- Served as venue for Blood Letting Activities / Programs sponsored by various government institutions like Philippine Red Cross, Philippine General Hospital and Philippine Children's Medical Center. The blood letting was participated by 213 employees;
- Conducted 14 Corporate Wellness Lectures on various medical topics aligned with DOH and DOLE-OSHA Programs;
- Preventive Medical Programs – Vaccination for Flu, Pneumonia and other vaccine preventable diseases participated by 2,122 employees and their dependents; Partnered with Watson's Personal Care Stores (Phils.) Inc. to provide discounted vaccines to employees and their dependents
- Released 8 Medical Advisories / Bulletins on relevant medical topics through bankwide eNewsgram – Health Watch in the Bank's email facility
- Assisted the Bank's Health and Safety Committee in implementing Emergency Preparedness Plan and conducting Evacuation Drills by providing medical assistance (e.g. Earthquake Drill in BDO CCO on October 17, 2017)

As a fitting recognition of these efforts, Online recruitment site Jobstreet.com has named BDO Unibank as the top of mind employer among all financial institutions in the Philippines after it conducted a series of surveys and interviews among its more than 14,000 members, mostly fresh graduates and junior executives, on their preferred employer. BDO also earned its Certificate of Compliance on Occupational Safety and Health Standards in NCR and on General Labor Standards.

Society, Community and the Environment

Corporate Social Responsibility

The Bank carries out its corporate social responsibility (CSR) through the BDO Foundation, the CSR arm of BDO Unibank that promotes initiatives based on the Bank’s long-standing record of support

to social development. The Bank's corporate social responsibility focuses on its disaster response advocacy that is achieved through three main interventions, namely, relief, rehabilitation and reconstruction, particularly in areas affected by natural or man-made disasters. The Bank's CSR projects involve the following: relief operations in disaster-stricken provinces; rehabilitation/reconstruction of rural health centers; construction of houses in resettlement areas, multi-purpose halls and school buildings; and support for livelihood projects for families with disabled members (persons with disabilities). It has made significant strides and achieved its goals in the pursuit of its advocacy.

In 2017, BDO Foundation conducted relief operations with the active participation of BDO volunteers from locations all over the country which benefited 24, 468 families.

When typhoons made landfall and disasters hit, the foundation responded immediately by mobilizing employees from branches near devastated areas. BDO officers and staff, often acting as among the first responders, reached out to families affected by storms, monsoon rains, earthquakes, and even armed conflict.

Able led by branch managers, BDO volunteers mounted relief operations in evacuation centers, distributing relief packs containing food, rice and water to calamity victims. The relief operations were conducted with the support of SM stores and in collaboration with local officials as well as non-BDO volunteers.

In places where a state of calamity had been declared, BDO volunteers were there to offer a helping hand. They braved heavy rains and went the extra mile to look after families in their time of need. They helped victims cope with the devastation and start rebuilding their lives. BDO volunteers were on the frontlines to provide aid to people affected by disasters.

In improving healthcare services, BDO Foundation rehabilitated 18 rural health centers and four (4) on-going and soon to be completed providing improved healthcare services to 1,349,152 individuals in mostly underserved areas. Working with local government and health officials, BDO Foundation improved the offices, clinics, pharmacies, consultation rooms, minor surgery rooms, treatment rooms and facilities of health centers. The foundation also constructed areas designed specifically for the comfortable use of children and the elderly.

Moreover, the foundation rehabilitated labor rooms, birthing clinics and breastfeeding stations to provide mothers and infants the best patient care possible. These efforts support the United Nations Millennium Development Goal for the improvement of maternal healthcare.

The successful rehabilitation of health centers is the result of BDO Foundation's collaboration with stakeholders. It was made possible by the BDO Unibank community, partners, local government units and health officials—people and organizations that came together to achieve a common goal. By rehabilitating rural health units, upgrading their medical equipment and distributing healthcare products, BDO Foundation has improved the delivery of health services to the people, especially the underprivileged.

In providing brighter futures for schoolchildren, BDO Foundation continued to address the need for more classrooms in the country, particularly in provinces devastated by natural disasters or armed conflict. Supported by the BDO branch network, the foundation reached out to schools in Tacloban City, Eastern Samar and Northern Samar.

Backed by reputable partners and international non-profit organizations, BDO Foundation built typhoon-resilient school buildings and classrooms complete with teachers' desks, armchairs,

blackboards and electric fans. The initiative supports the Adopt-A-School Program of the Department of Education.

The foundation provided a total of 20 new classrooms for teachers and schoolchildren who would otherwise conduct classes in dilapidated or damaged rooms. Pupils no longer had to study in tarpaulin tents, covered courts, cafeterias, overcrowded classrooms or makeshift structures exposed to the elements.

By building structures conducive to learning, BDO Foundation has made a significant impact on the lives of schoolchildren as well their families. Ultimately, the foundation has given the youth better access to education and greater opportunities to achieve brighter futures.

BDO Foundation also supported lives through housing resettlement. It provided housing for 100 families of persons with disability in Sta. Fe, Leyte in partnership with the Foundation for These-Abled Individuals (FTI). A cemented pathway was also constructed for the efficient and safe movement of persons with disability. The community was also provided with a multi-purpose hall, which was constructed through the full funding from BDO employees.

Beneficiaries can use the hall as venue for their livelihood projects, trainings, workshops, meetings, events and socio-civic activities. They can also use the structure for shelter, evacuation purposes and the distribution of relief goods should disasters hit their area. This is equipped with fans, furniture and fixtures, and a storage room.

BDO Foundation, in partnership with UN Habitat, also partially turned over 40 housing units to the Villa de Tacloban Homeowners in November 2017. The remaining 60 units will be completed and turned over by March 2018. Each housing unit comes complete with a kitchenette, toilet and a rain collection system.

Environmental Initiatives

BDO imposes limits and monitors exposure to certain industries, e.g., Gaming, Tobacco and Alcohol, as well as restricts lending to other sectors under the Exclusion List (those deemed to have adverse or harmful effects to the community and the environment).

Through its Sustainable Energy Finance (SEF) Program in cooperation with IFC, the Bank supports green energy investments in Energy Efficiency (EE) and Renewable Energy (RE) projects. Likewise in partnership with IFC, the Bank has issued USD150 million in green bonds, the first of its kind in the Philippines, to exclusively finance climate-smart projects and help contribute to the development of climate finance market in the country. Further, the Bank has a tie-up with the Japan Bank for International Cooperation (JBIC) for the latter's Green Facility, a USD50 million relending credit facility open to RE, EE and Green building projects which reduce Greenhouse gas emissions.

Please refer to the Corporate Social Responsibility Section of the 2017 Annual Report for more details on the Bank's socio-civic programs and initiatives published in our corporate website at (www.bdo.com.ph).

The Bank also maintained its “**Go Green Program**” to raise awareness on environmental issues promote good Environmental practices in the workplace, mobilize volunteers for conservation programs. Its Green initiatives focuses on energy conservation using LED lights, water management using waterless urinals, air quality by tree planting is support of “Grow a Million Trees” campaign, waste disposal and other clean up projects.

BDO Corporate Center Ortigas (BDO CCO) has earned a certification on Leadership in Energy and Environmental Design (LEED), two years after the 47-storey office structure was formally unveiled. It is the first high-rise office-commercial building in the Philippines to achieve a LEED Gold “New Construction Category” Certification. Various sustainable methods were implemented in the construction of the building that steered its LEED accreditation. These include the installation of automated monitoring and control systems as CO2 sensors, occupancy sensors, daylight dimming and timer switches.

- With the help of the CO2 sensors, indoor pollutants are mitigated and help the building steer away from catching the sick building syndrome.
- By deciding to go automated, energy is saved from mechanically turning off or dimming the lights when it does not sense any human activity and when sufficient natural light enters the room.
- Sustainable effort was done by employing dual piping in the plumbing system. Grey water, harvested rainwater and condensate water are recycled and re-used for flushing. The combination of efficient water fixtures and grey water flushing were keys in reducing the total building potable water use by approximately 5,700,000 liters annually.

It has also continued its **Green Energy Investments**. It has renewed its Sustainable Energy Finance (SEF) Program in partnership with the International Finance Corporation (IFC), the private sector arm of the World Bank, as part of its efforts to impart to clients the best international practices on clean energy. This time, the renewal of the partnership focuses on further enhancing BDO’s expertise and understanding of solar power generation and green building projects. Consequently, this will allow the Bank to give the private sector appropriate financing for sustainable energy investments.

In the last five years since the Bank has started the program in 2010 and partnered with IFC, it was able to finance several hydro power plants, biomass power plants, wind power projects and energy efficiency investment projects, which contributed to the reduction of greenhouse gas emission.

In doing this program, the Bank has been recognized as one of the six (6) Momentum of Change Lighthouse Activities for inspiring climate action in the financing for climate-friendly investments.

3. Sustainability, climate change and wildlife protection

Equally important to the Bank is our commitment to enhance the sustainability of the environment thru information, education and advocacies. It is a Corporate Partner of the World Wide Fund for Nature (WWF) Philippines, a member of the World Wide Fund for Nature, the world’s largest conservation organization. This has allowed BDO to support the organization’s various programs since 2010 such as the Bancas for the Philippines, Earth Hour, environmental education, sustainable fisheries in Ilocos and Palawan, marine conservation and research in the Tubbataha Reefs, agroforestry in the Sierra Madre, whale shark ecotourism in Donsol, sustainable tourism in the fabled Ticao Pass in Masbate, and the Tamaraw Conservation Program in Mindoro

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.

In 2017, the Bank was a participant of the credit information system under the Credit Information Corporation which the government agency created under Republic Act 9510 otherwise known as

the Credit Information System Act (CISA) to provide independent, reliable and accurate credit information in the Philippines. Being the leading lender, the Bank will be a major source of these data that could be accessed by our competitors and practitioners in the financial services industry.

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 2017, the Bank continued to be active in giving comments on the proposed changes in corporate governance rules pushed by regulatory authorities, particularly the Revised Guidelines on Related Party Transactions, Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions and the SEC Code of Corporate Governance.

BDO also participated in the BSP's Stakeholders Awards Program to honor outstanding partner institutions for their strong support and contribution to its statistical undertakings, information requirements, and advocacy programs. BSP named BDO as the Outstanding PhilPaSS Participant Servicing Customer ePayments for Commercial Banks, an award the Bank also garnered the previous year. Under the Clean Note Policy category, BDO Unibank Cash Hub was cited the Outstanding Regional Partner (Tuguegarao Branch).

Transparency and Disclosures

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

- General Information Sheet (GIS)
- Definitive Information Sheet (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:

1. Financial information is stated in the AFS, SEC Form 17-Q and the DIS
2. Shareholder matters are provided in the DIS
3. Executive compensation policy is stated in the DIS
4. Directors' fees are found in the DIS
5. Corporate actions, among others, are provided in the PSE official website www.pse.com.ph

In particular, BDO released the 2017 audited financial statements on February 27, 2017 or just 58 days after close of the financial year to promote transparency and full disclosure of the results of the operations of the Bank. In 2017, the Bank did 88 timely disclosures on items that were relevant and important for the public to know.

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, BDO organizational structure, conglomerate map an important corporate governance policies such whistle blowing, term limit of independent directors, personal trading, conflict of interest, dividend, Board diversity 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 (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 Audit Committee is empowered by the Board to oversee the financial reporting process, internal control and risk management systems, internal and external audit functions, and compliance with governance policies, applicable laws and regulations. Their oversight function covers the following areas:

On financial reporting, the committee reviews the integrity of the reporting process to ensure the accuracy and reliability of financial statements and compliance with financial reporting standards and disclosure requirements set for listed companies.

On internal control and risk management, it monitors and evaluates the adequacy, soundness and effectiveness of the Bank's established internal control and risk management systems, policies and procedures including implementation across all units of the Bank to provide reasonable assurance against fraud or other irregularities and material misstatement or loss.

On internal and external audit, it recommends the appointment, reappointment and removal of the external auditors, remuneration, approval of terms of audit engagement and payment of fees. It reviews non-audit work, if any, ensuring that it would not conflict with their duties as external auditors or may pose a threat to their independence. It approves the annual audit plan and reviews audit results including the BSP Report of Examination focusing on significant findings with financial impact and its resolution. It reviews the implementation of corrective actions to ensure that these are done in a timely manner to address deficiencies, non-compliance with policies, laws and regulations.

On compliance, it reviews and evaluates the effectiveness of the regulatory compliance framework and governance policies and practices of the Bank to ensure that these are consistently applied and observed throughout the institution.

In fulfillment of its duties, the following were done during the year:

On financial reporting, the Committee reviewed and recommended for approval to the Board the quarterly unaudited and annual audited financial statements ensuring compliance with accounting standards and tax regulations. On February 22, 2017, it endorsed for approval of the Board the

audited financial statements as of December 31, 2016 including the Notes to the Financial Statements. This was approved by the Board and disclosed to the public on February 27, 2017, 58 days from the financial year-end following the best practice requirement of the ASEAN Corporate Governance Scorecard (ACGS). It believes that the financial statements are fairly presented in conformity with the relevant financial reporting standards in all material aspects.

In overseeing the internal audit function, it reviewed and approved the Internal Audit Charter and annual audit plan after a thorough review of its scope, audit methodology, risk assessment and rating processes, financial budget, manpower resources, as well as changes to the plan during the year. It reviewed audit reports focusing on high and moderate risk findings relating to operational, financial and compliance controls including risk assessment systems with impact to financial, reputation and information security. It invited key officers to discuss high risk issues and action plans to resolve or mitigate the same and continued to keep track of the timely resolution of findings including updates on Information Technology's security controls and action plans to further strengthen IT risk management. It ensured the Internal Audit's independence and unfettered access to all records, properties and information to be able to fully carry out its function. It also assessed the performance of the Chief Internal Auditor and key audit officers. The Committee is satisfied that the internal audit function has adequate resources to perform its function effectively.

On external audit, it approved and endorsed to the Board the reappointment of Punongbayan and Araullo as the Bank's External Auditor including engagement fees after successfully reviewing its performance and independence. It reviewed and approved the engagement letter, audit plan, scope of work, focus areas, composition of engagement team among others, prior to the commencement of audit work. It reviewed the audit results and reports focusing on significant findings and matters with financial impact. It also reviewed the corrective actions taken by management on the External Auditor's findings to address the internal control and compliance issues in a timely manner.

On regulatory compliance, it reviewed and approved the annual plans and compliance roadmaps, enhanced manuals and independent testing frameworks of the Compliance and Anti-Money Laundering (AML) units. It monitored the progress and reviewed the results of the independent compliance and AML testing, timely submission of regulatory and prudential reports as well as continuous improvement of the compliance and AML systems. It discussed the BSP Report of Examination and reviewed the replies and actions taken by management on the findings, observations and recommendations making sure that committed actions are implemented. It also reviewed legislation and regulatory compliance reports from management to ensure that the Bank complies with the relevant regulatory requirements.

The Committee also provided its evaluation on the adequacy and effectiveness of risk management, controls and governance processes of the Bank, Trust and its subsidiaries 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. It found that these are generally adequate across BDO.

The Board Audit Committee held twelve (12) meetings in 2017 with all the members in attendance.

The Board Audit Committee is chaired by Jose F Buenaventura (Independent Director). Its other members are Jones M. Castro, Jr., Independent and Lead Director) and Jimmy T. Tang (Independent Director).

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 Corporate Governance Committee met six (6) times in 2017.

The Corporate Governance Committee is chaired by Atty. Gilberto C. Teodoro, Jr. (Independent Director). Its members are Messrs. Jones M. Castro, Jr. and Jimmy T. Tang (both Independent Directors).

Measures on leading practices of good corporate governance

The Bank is constantly aligning its corporate governance system with the international practice taking into account the continuous developments in national regulations. The Board approved the series of revisions of the Corporate Governance Manual on May 26, September 30, and December 2, 2017 to incorporate the recommendations of the SEC Code of Corporate Governance for Publicly-Listed Companies and provisions of BSP Circular 969 on Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions in its Corporate Governance Manual, which form part of its continuing commitment to comply with the latest rules and regulations. It has also continued to follow, where appropriate, the international best practices of corporate governance issued by globally recognized standards setting bodies such as the Organization for Economic Cooperation and Development (OECD) and the ASEAN Corporate Governance Scorecard which serve as essential points of reference.

Any Deviation from the Manual

None

Improvement on Corporate Governance

The Bank is now entering the era of digital transformation and surely, we are looking at ways to optimize the use of the new technologies to strengthen further our corporate governance practices while remaining vigilant on the risks of digitization to our business operations. In ensuring that the Bank stays as the market leader in the Philippine financial services industry, we are focused on maximizing the effectiveness of our corporate governance practices as a business enabler and driver of our performance in the proper context of risks and rewards, opportunities and prospects for the Bank in this new era. This is essential in going forward into the future as we continue to compete and remain relevant to our various stakeholders.