

COMPLIANCE WITH LEADING PRACTICES ON CORPORATE GOVERNANCE (2018)

Corporate governance in BDO is about effective oversight, voluntary compliance and sustainable value creation to promote the best interest of its various stakeholders.

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 supports 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. BDO has continued to comply with 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 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.

This report describes the highlights of our corporate governance practices throughout the financial year ended December 31, 2018.

1. Composition of the Board - The Board is composed of 11 members and aided by 5 Advisors. The members of the Board are all professionals with expertise in banking, accounting and finance, law, merchandise marketing, strategy formulation, bank regulations and risk management. It is led by a Non-Executive Chairperson with 5 Independent Directors, 4 Non-Executive Directors and 2 Executive Directors who are the Vice Chairman and the President & CEO. Independent Directors make up 45.45% of the members of the Board which exceeds the requirement of the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP). Non-Executive Directors, who include Independent Directors, comprise 82% of board strength. This is more than the BSP's requirement that the non-executive directors should comprise at least majority of the board of directors. No director serves as such in more than five publicly-listed companies.
2. Revision of Corporate Governance Manual - The Bank's Corporate Governance Manual was further enhanced by demonstrating the strong commitment of our Board of Directors in upholding consumer protection in the institution. The revised Related Party Transactions Policy of BDO was also appended to the Corporate Governance Manual to signify that arm's length dealing with related parties is interwoven with our corporate governance framework;
3. Composition of the Committees - Seven of 9 Board committees namely Risk Management, Board Audit, Corporate Governance, Related Party, Information Technology Steering, Nominations, Compensation are chaired by Independent Directors. 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;
4. Audited financial statements were disclosed to the public on February 26, 2018 within 60 days from year end, following the best practice recommendation of the ASEAN Corporate Governance Scorecard, for four (4) consecutive years already;
5. Executive Sessions of Independent/Non-Executive Directors - The Independent and Non-Executive Directors, chaired by Lead Independent Director Jones M. Castro, Jr. conducted, 3

executive sessions with the External Auditor, Chief Risk Officer, Chief Compliance Officer and Chief Internal Auditor without the presence of management to discuss various matters/issues outside of the regular committee meetings of the Audit and Risk Management Committees. The results of these sessions were discussed with the Bank's Executive Directors; and,

6. Annual performance self-assessment - For 2018, the results of the self-assessment were presented to the Board including directors' recommendations to improve effectiveness in its governance functions. The overall assessment showed that the Board continues to operate on 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 views and the relationship between the Board and committee members remains 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 governance practices, policies and programs for the protection of shareholders' rights and promotion for exercising those rights in accordance with OECD principles, such as 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. 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. 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.

For the convenience of shareholders to exercise their right to attend the stockholders' meeting, the venue, date, time and agenda of the annual meeting, explanation of each agenda item requiring shareholders' approval, method of voting results will be announced in advance. In 2018, the Notice of Annual Stockholders' Meeting, which contains details and rationale for each agenda item, was released on March 23, 2018, or 28 days prior to the date of the Meeting.

The Annual Stockholders' Meeting was held on April 20, 2018 and was attended by the Board Chairperson, President & Chief Executive Officer, Directors and chairpersons 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 2018 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 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. 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. The Investor Relations Unit articulates the Bank's strategic direction as well as financial and operating results by joining conferences and roadshows in the key global financial markets and conducting regular one-on-one meetings, conference calls and briefings with institutional investors, analysts, and credit rating agencies. The Unit also reaches out to retail investors both in Metro Manila and provincial areas by participating in retail conferences and roadshows organized by local brokers. The Bank has likewise joined virtual investor conferences catering to American Depositary Receipts (ADR) investors. From time to time, the Investor Relations Unit is joined by other members of the Senior Management team in meetings and corporate access activities in order to impart more insights on BDO's operations.

Relevant information is also shared through official disclosures posted via PSE Edge and company website. In 2018, 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 2018 during which the Bank's senior management presented and answered queries on the Bank's 2017 and first half of 2018 financial results, operations and recent developments. Video coverage of the analysts' briefings last year are 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 2018, 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 2018 Annual Stockholders' Meeting is available in our corporate website at [www.bdo.com.ph./company disclosures/ownership](http://www.bdo.com.ph./company%20disclosures/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 complaints. The Bank has established a Consumer Assistance Management System to address customer concerns. Effective recourse is one of the five (5) areas of BSP's Consumer Protection Framework, and BDO has been seriously devoting resources to ensure that customer issues are resolved in a timely manner. 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.

As of December 31, 2018, BDO Unibank Group had 1,309 branches (including two foreign branches), 2,347 on-site and 1,978 off-site automated teller machines (ATMs) and 484 cash accept machines (CAMs). As of December 31, 2018, the Parent Bank had 1,126 branches (including two foreign branches), 2,167 on-site and 1,930 off-site ATMs and 484 CAMs. 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.

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. On 20 February 2018, the Bank issued its first green bond, raising USD\$150 M, to expand financing for private sector investments that help to address climate change. On 07 May 2018, the Bank issued P 8.2 B Long Term Negotiable Time Deposits (LTNCD) to diversify the Bank’s deposit maturity profile and support its business expansion plans.

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

BDO targets the holistic development of its employees which supports their career progression at the same time addresses the needs of the business and the Bank in general. Thus, training programs include orientation program for new hires, job specific technical training, management and leadership training programs which aim to develop and enhance the knowledge, skills, managerial and leadership capability, attitude and mindset of employees. The Bank allocates every year a training budget for these developmental programs. In 2018, the average training hours for internal and external training of staff, managerial and senior officers were 68.37, 67.26 and 49.24, respectively. In terms of actual number of employees trained, staff was at 20,299, managers at 15,034 and senior officers at 1,685. As compared to 2017, training hours were up by 2.74% for staff, 37% for managers and 53.09% for senior officers. eCourses were improved and made more engaging to ensure more effective retention of the knowledge learned. Targetted training programs were also introduced in 2018 to ensure ready availability of talents who can assume critical roles to address expansion and replacements due to transfers and attrition. Culture and values, service excellence, regulatory requirements, job knowledge as well as leadership development continue to be the focus in 2019. Holistic employee development aim to sustain availability of ready talents to support business growth.

The continuing education program for Directors is an ongoing process to ensure the enhancement of their skills and knowledge. Every year, all Directors and key officers are given updates and briefings, and are required to attend a corporate governance seminar on appropriate topics to ensure that they are continuously informed of the developments in the business and regulatory environments, including emerging opportunities and risks in the banking industry. In 2018, the annual corporate governance seminar for directors concentrated on Financial Technology (FinTech).

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 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 2018, the Bank conducted the following initiatives to improve the safety of Bank employees and customers inside the premises:

1. We hired 5 additional Safety Officers for the year 2018 totalling to 7 Safety Officers for the Bank. They are tasked to conduct safety trainings, safety inspections and fire drills.
2. We have inspected a total of 422 facilities in 2018. This is a significant achievement in the last 15 years. As an output, the Bank's Safety Officers are required to render written reports addressed to various stakeholders. These reports flagged areas of concern that were eventually resolved.
3. We launched a training module on accident prevention with a total of 72 training sessions conducted, alongside 4 batches of safety marshals for our branches.
4. We conducted 26 fire drills, which is an increase by 160% year-on-year. Formal reports were rendered to highlight areas of strength and other issues that must be addressed.
5. We established a Health and Safety Committee that meets once a month to review the progress on the implementation of its programs. The Committee is composed of a mix of officers in the Bank headed by the Bank's senior vice presidents in Central Operations Group and Human Resources Group.

Our clinics are manned by occupational health practitioners and nurses. BDO maintains nine medical clinics located in the following strategic areas in Metro Manila:

1. Corporate Center Makati
2. Corporate Center Ortigas
3. Ortigas Avenue, Greenhills
4. Roosevelt Avenue, Greenhills
5. Binondo, Dasmariñas
6. Davao City
7. Karrivin Plaza, Makati
8. Gercon Building, Makati
9. Alabang

Aside from our clinics, employees have the option to go to any medical facility accredited by the health maintenance organizations supporting the Bank.

The Bank is active in promoting a healthy lifestyle for its employees by maintaining two adequate and well maintained gym facilities in its Corporate Centers located in Makati and Ortigas where various group exercises are also being held. In 2018, 3,442 employees have used these facilities in 2018. We also have a tie up with a popular gym facility with preferential fees.

Employees are required to undergo an annual medical check-up. As of the close of 2018, we have so far counted 26,553 who have complied with this mandate. The Bank also conducts a random drug testing on a continuing basis with 2,223 employees tested in 2018. Pre-employment medical examinations, the cost

of which is fully shouldered by the Bank, increased by 9% in 2018. Vaccination program continues with the participation of 1,580 employees.

To promote health and wellness of BDO employees, the following programs and activities were implemented in 2018:

1. We hosted blood letting activities in partnership with the Philippine Red Cross, Philippine General Hospital, and the Philippine Children's Medical Center. A total of 402 employees participated in these activities.
2. We conducted corporate wellness lectures on various medical topics aligned with the Department of Health's programs.
3. We released medical advisories and bulletins on relevant health and medical topics through various communication platforms in the Bank.
4. We conducted 26 sessions of first aid training in partnership with the Philippine Red Cross.

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

BDO pursues its corporate citizenship initiatives through BDO Foundation, the bank's corporate social responsibility arm. Backed by the BDO Unibank community, the foundation develops and implements programs designed to address the needs of the underprivileged and marginalized members of society.

BDO Foundation's advocacies fall under two pillars: disaster response, which includes relief, rehabilitation and reconstruction programs; and financial inclusion, which was launched last year. In 2018, the foundation—supported by stakeholders, BDO volunteers, its partners and donors—fulfilled these advocacies.

Disaster Response

BDO's presence all over the country gives BDO Foundation the capability to conduct relief operations with great efficiency. Leveraging the wide network of BDO branches and satellite offices across the country, the foundation mobilizes BDO volunteers to mount relief work in communities affected by natural or man-made disasters.

Branch officers and staff visit disaster-stricken barangays and distribute relief packs containing food, rice and water to affected residents. In some cases, hygiene kits and school supplies are handed out. In areas where there is no BDO presence, the foundation partners with church groups and other non-governmental organizations to mount humanitarian missions.

In 2018, BDO Foundation organized 35 relief operations, benefiting a total of 46,970 families. Beneficiaries included people affected by incidents of fire, the eruption of Mayon Volcano, the southwest monsoon, tropical depressions, flash floods and landslides. Victims of Typhoons Agaton, Henry, Inday, Josie, Karding, Luis, Ompong and Rosita received relief goods distributed by BDO volunteers.

Rehabilitation of Rural Health Units

After conducting relief operations, BDO Foundation revisits areas hit by disasters to determine the long-term work that needs to be done as part of its disaster response advocacy. The rehabilitation of rural health units is one of the programs the foundation undertakes in calamity-stricken communities.

Through this rehabilitation program, BDO Foundation aims to contribute to the achievement of the United Nations' Sustainable Development Goal no. 3 to ensure healthy lives and promote the well-being of people of all ages. The initiative is also in line with the improvement of the healthcare service delivery system, one of the goals under the Philippine Health Agenda.

Last year, as in prior years, the foundation rehabilitated rural health units in disaster-stricken and economically disadvantaged communities all over the country.

The renovation of health facilities included various rooms and spaces for mothers and infants, children, senior citizens, persons with disabilities and other patients. New furniture and fixtures were installed. Play areas for children complete with books and toys, waiting areas for the comfortable use of senior citizens and breastfeeding stations for nursing mothers were also built. These improvements enabled doctors, nurses and midwives serve their constituents more effectively.

BDO Foundation rehabilitated 25 health centers in 2018. As a result, a total of 1,350,243 individuals now have access to better primary and maternal healthcare services.

School Building in Marawi

As part of its rehabilitation and reconstruction program, BDO Foundation constructs new school buildings in areas affected by natural disasters or armed conflict. This initiative supports the Adopt-A-School program of the Department of Education (DepEd) and helps address the need for more classrooms in the country.

In 2018, BDO Foundation constructed a two-storey, four-classroom school building in Nanapun Elementary School in Marawi City, Lanao del Sur. One of the foundation's projects aimed at helping rebuild the war-torn city, the project was co-funded with BancNet, the Philippines' leading electronic payments and ATM network.

The fully furnished school building is expected to benefit more than 300 pupils affected by the Marawi siege, which disrupted classes for several months and forced students and teachers to evacuate. Moreover, the project contributes to the efforts of DepEd, one of the member agencies of Task Force Bangon Marawi, to rehabilitate public schools in the wake of the fighting that ensued between government forces and a militant group in 2017.

The construction of the new school building in Nanapun Elementary School is just one of several BDO Foundation initiatives for Marawi. The foundation successfully mounted relief operations and made donations for the benefit of thousands of evacuees, military operatives, police personnel and school children affected by the fighting and humanitarian crisis. It also donated storybooks and school supplies to hundreds of schoolchildren in the city.

School Building in Mati

Another school building is in the works. Last year, BDO Foundation, in partnership with the Salesian Society of St. John Bosco, began the construction of a two-storey, four-classroom school building in Don Bosco Training Center (DBTC) in Mati City in the disaster-stricken province of Davao Oriental for disadvantaged and out-of-school youth in Mindanao. Typhoon Pablo battered Davao Oriental in 2012, devastating thousands of residents in coastal areas. The tropical storm, one of the strongest to make landfall in the province, damaged homes, infrastructure and school buildings.

Through the new school building, BDO Foundation aims to capacitate students and make them employable in the Philippines and abroad. The project is in keeping with the United Nations Sustainable Development Goal no. 8 to promote sustained economic growth, full and productive employment, and decent work for all. The construction of the school building in Mati and the provision of tools and equipment were made possible by donations from BDO employees.

School administrators plan to set up new courses and accommodate more enrollees when construction is completed in 2019. Around 560 senior high school students are expected to benefit from the project in the first three years. The structure will serve as a workshop, where students can learn technical-vocational skills.

Resettlement Homes

In addition to the rehabilitation of rural health units and construction of new school buildings, BDO Foundation also builds typhoon-resilient resettlement homes for people displaced by disasters.

The foundation partnered with the United Nations Human Settlements Programme (UN-Habitat) for the construction of houses in Barangay Cabalawan, Tacloban City for families affected by Typhoon Yolanda, one of the worst disasters to hit the country. The initiative contributes to the achievement of UN-Habitat's mission to promote socially and environmentally sustainable human settlements development and the achievement of adequate shelter for all.

BDO Foundation funded the construction of 100 houses in support of UN-Habitat's Post-Yolanda Support for Safer Homes and Settlements program. A total of 40 houses have been turned over to members of the Villa de Tacloban Homeowners Association Inc., the beneficiaries of the project. In 2018, the remaining 60 units went through various stages of construction.

The resettlement homes form part of the 350 total housing units that UN-Habitat will build under the community mortgage program of the Social Housing Finance Corporation. The local government of Tacloban City handles site development.

Financial Inclusion

BDO Foundation, through its financial inclusion pillar, is collaborating with partners to help improve the financial literacy of Filipinos. Two programs fall under this advocacy: financial education and capability-building for small entrepreneurs.

In 2018, in partnership with SM Foundation under its Kabalikatan sa Kabuhayan program, the foundation extended its financial education program to fruits and vegetables farmers.

In keeping with a shared goal to promote financial inclusion, BDO Foundation, the Bangko Sentral ng Pilipinas (BSP) and DepEd introduced a financial education program for public school teachers, non-teaching personnel and students. Launched last year, it is the foundation's flagship corporate citizenship initiative under its financial inclusion advocacy.

The program supports DepEd's efforts to strengthen financial education in its K-12 curriculum and provide financial literacy education for its teaching and non-teaching personnel. It also contributes to the pillar on Financial Education and Consumer Protection of BSP's National Strategy for Financial Inclusion.

Part of the program is the development of financial literacy videos by BDO Foundation in collaboration with BSP and DepEd. The first batch of five videos, which focused on saving, was completed in 2018. The

second batch of five videos on such topics as financial management, investments, the responsible use of credit and avoiding scams will be unveiled in 2019.

Accompanied by lesson plans and discussion guides developed by master teachers under the guidance of DepEd, the videos will be used in classroom instruction and the regular training and development programs of DepEd for teaching and non-teaching personnel. The videos and guides were designed in a way that makes lessons on financial responsibility engaging and compelling for teachers and students.

As many as 700,000 teachers and 24 million students in more than 47,000 public schools nationwide stand to benefit from this tripartite initiative.

Spurred by the successful launch of its financial education program for public schools, BDO Foundation expanded the scope of its financial inclusion advocacy to cover more beneficiaries. In this regard, the foundation and BSP partnered with the Philippine Army and Overseas Workers Welfare Administration (OWWA).

Together with OWWA, BDO Foundation and BSP started the development of a financial literacy program for overseas Filipino workers (OFWs), their dependents and recipients of remittances. Through this program, the partners hope to share lessons on saving, financial management, investments and entrepreneurship with overseas workers. This initiative for OFWs gains more significance as the Philippines remains one of the top recipients of international remittances next to India and China.

BDO Foundation, in partnership with BSP and the Philippine Army, also initiated the development of a financial literacy program for soldiers, their families and civilian personnel of the army. The training materials are aimed at helping the target audience make sound financial decisions. Lessons include saving, budgeting, loans, debt management, investing and retirement planning.

Through its financial inclusion advocacy for educators, the Filipino youth, soldiers and OFWs, BDO Foundation hopes to promote financial inclusion, contribute to the development of a financially literate citizenry and support nation-building.

Finding Ways in the Future

Having made significant strides in its disaster response and financial inclusion programs the past year, BDO Foundation is gearing up for more projects in the future. The corporate social responsibility arm of BDO Unibank—supported by the BDO community of volunteers, partners and donors—will continue to pursue programs for the benefit of the underprivileged and marginalized members of society. BDO Foundation will continue to find ways for the people.

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 support 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 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 2018 Annual Report and the 2018 Sustainability 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 in 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.

In the last eight years since the Bank has started the program in 2010 and partnered with IFC, it was able to finance more than 34 projects in hydro, biomass, solar and wind power projects and energy efficiency and green building investment projects, which contributed to the reduction of greenhouse gas emission. Currently, the Bank continues its Green Energy Investment with self equipped Bank’s SEF team after the completion of partnership with IFC.

In doing this program, the Bank has positioned to lead in 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, forests for water campaign, Calaguas development, and anti-plastic project.

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 2018, the Bank continued to be active in giving comments on various proposed legislations and regulations.

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 2018 audited financial statements on February 26, 2019 or just 57 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, BDO organizational structure, conglomerate map and important corporate governance policies such as 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 this context, the following were done during the year:

Board Audit Committee

On financial reporting, the Committee reviewed and recommended for approval of the Board the 2017 quarterly unaudited and the audited financial statements as of December 31, 2017 ensuring compliance with accounting standards and tax regulations, including the Notes to the Financial Statements. This was approved by the Board and disclosed to the public on February 26, 2018, 57 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. The related internal controls on financial reporting process, compliance with accounting standards, more specifically the adoption of the Philippine Financial Reporting Standards 9, were likewise reviewed.

In overseeing the internal audit function, it reviewed and revised the Internal Audit Charter and risk-based 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 regularly tracked the timely resolution of findings and asked for Management's action plans on items that needed more time to be addressed. 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 ensured the independence, qualification, and objectivity of the appointed external auditor, which is accredited by the BSP. It reviewed and discussed the content of the engagement letter, audit plan, scope of work, focus areas, composition of engagement team among others, prior to the commencement of audit work. It comprehensively discussed the external audit reports, focusing on internal controls, risk management, governance and matters with financial impact particularly on the changes in accounting and reporting standards. It reviewed the Management Letter as well as Management's response and action taken on the external auditor's findings and recommendations.

On regulatory compliance, it reviewed and approved the annual plans and independent compliance testing roadmaps of the Compliance and Anti-Money Laundering (AML) units. It endorsed for approval of the Board of Directors the revised Regulatory Compliance and Management Manual and Money Laundering Prevention Program Manual of the Bank, which incorporates new and amended regulations. It monitored the progress and reviewed the results of the independent compliance and AML testing, timely submission of regulatory and prudential reports, compliance to mandatory ratios, as well as continuous improvement of the compliance and AML systems. It discussed in detail the BSP Report of Examination including the results of regulatory examinations of the Bank's foreign subsidiaries and reviewed Management's replies, thereby ensuring implementation of corrective actions. It assessed the performance of the Chief Compliance Officer. Reports on cases in operations, whistleblower accounts as well as non-loan related cases with impact to financials, internal controls, information systems and reputation were deliberated on focusing on risk assessment, legal handling, and fraud prevention.

As part of its commitment to excellent corporate governance, the Committee conducted a self-assessment for its 2018 performance based on its Terms of Reference. The Committee likewise evaluated the performance of Internal Audit, Compliance and Anti-Money Laundering Units and External Audit to ensure their effectiveness and achievement of objectives.

The Committee reports its evaluation of the effectiveness of the internal controls, financial reporting process, risk management systems and governance processes of the Bank based on the report and unqualified opinion obtained from the External Auditor, the overall assurance provided by the Chief Internal Auditor and additional reports and information requested from Senior Management, and found that these are generally adequate across BDO.

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

The Board Audit Committee held 13 meetings in 2018 with Messrs. Jones M. Castro, Jr. and Jimmy T. Tang attending all meetings; and Atty. Jose F. Buenaventura attending 12 meetings.

Corporate Governance Committee

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.

During the year, the Corporate Governance Committee spearheaded the annual Board evaluation survey covering the performance of the Board of Directors, Board Committees, Senior Management, each Director, and Board Advisers. The tabulated results were then referred to the Board. Focus in 2018 was directed on the review of the Bank's Integrated Annual Corporate Governance Report that was submitted to the Securities and Exchange Commission, and the independent validation of the Bank's representations in the ASEAN Corporate Governance Scorecard. It also recommended the amendment of the Bank's Corporate Governance Manual. It facilitated the compliance of the directors of the Bank and its subsidiaries to the regulatory requirement for an annual corporate governance seminar for Directors.

The Independent and Non-Executive Directors, chaired by Lead Independent Director Jones M. Castro, Jr. conducted 3 executive sessions with the External Auditor, Chief Risk Officer, Chief Compliance Officer and Chief Internal Auditor without the presence of management to discuss various matters/issues outside of the regular committee meetings of the Audit and Risk Management Committees. The results of these sessions were discussed with the Bank's Executive Directors.

In 2018, BDO was awarded as one of the top 20 publicly-listed companies (PLC) in the Philippines that earned high scores in the 2017 ASEAN Corporate Governance Scorecard (ACGS).

The Committee held 6 meetings in 2018 with Atty. Gilberto C. Teodoro, Jr. and Mr. Jones M. Castro, Jr. attending all meetings; and Mr. Jimmy T. Tang 5 meetings. The Corporate Governance Committee is chaired by Atty. Gilberto C. Teodoro, Jr. (Independent Director). Its members are Messrs. Jones M. Castro, Jr. (Lead Independent Director) and Jimmy T. Tang (Independent Director).

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 amendment of the Corporate Governance Manual on in 2018. 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 we are looking at ways to optimize the use of the new technologies to strengthen our corporate governance practices while remaining vigilant the risk 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. Globally, there is also an increasing call for companies to support the UN Sustainable Development Goals as part of sustainable business performance with emphasis on strategies that promote economic growth, environmental protection, efforts that address a range of social needs and a governance model that considers sustainability issues. Toward this end, the Bank will be issuing its stand-alone regular report on its participation and contribution to the sustainability movement in 2019.