



## **2021 Integrated Annual Corporate Governance Report (I-ACGR)**

### **Annexes and Exhibits**

<b>Annexes</b>	<b>Subject</b>
Annex A	2021 SEC 17-Annual Report
Annex B	Revised Corporate Governance Manual
Annex C	Certificate of Attendance of Atty. Joseph Jason M. Natividad in the BDO Corporate Governance Seminar last September 1, 2021
Annex D	Sample Transmittal to directors on the distribution of board materials
Annex E	Pages 17-18 of the 2021 SEC 17-Annual Report for the Compliance Officer profile and qualifications
Annex F	Certificate of Attendance of Ms. Katherine U. Resari in the BDO Corporate Governance Seminar last last September 1, 2021
Annex G	Certificate of attendance of Board meetings and committee meetings
<b>Exhibits</b>	<b>Subject</b>
Exhibit 1	Policy on Retirement of Directors
Exhibit 2	Related Party Transaction Policy
Exhibit 3	Internal Audit Charter
Exhibit 4	Revised Code of Business Conduct and Ethics
Exhibit 5	Personal Trading Policy to all directors, officers and employees of BDO Unibank, Inc. and its subsidiaries
Exhibit 6	Terms of Reference of the Audit Committee
Exhibit 7	BDOLF Regulatory Compliance Manual
Exhibit 8	BDOLF Dividend Policy Statement
Exhibit 9	Policy on Disclosure of Sensitive/Confidential Matters to Management

### **References**

<b>Exhibit 10</b>	<b>SEC Memorandum No. 15, Series of 2001</b>
<b>Exhibit 11</b>	<b>SEC Memorandum No. 6, Series of 2020</b>
<b>Exhibit 12</b>	<b>BSP Circular No. 969, Series of 2017</b>

## COVER SHEET

						9	7	8	6	9
--	--	--	--	--	--	---	---	---	---	---

S.E.C. Registration Number

B	D	O		L	E	A	S	I	N	G		A	N	D		F	I	N	A	N	C	E		I	N	C		
---	---	---	--	---	---	---	---	---	---	---	--	---	---	---	--	---	---	---	---	---	---	---	--	---	---	---	--	--

(Company's Full Name)

B	D	O		C	O	R	P	O	R	A	T	E		C	E	N	T	E	R		O	R	T	I	G	A	S		
---	---	---	--	---	---	---	---	---	---	---	---	---	--	---	---	---	---	---	---	--	---	---	---	---	---	---	---	--	--

N	O	.	1	2		A	D	B		A	V	E	.		O	R	T	I	G	A	S		C	E	N	T	E	R	
---	---	---	---	---	--	---	---	---	--	---	---	---	---	--	---	---	---	---	---	---	---	--	---	---	---	---	---	---	--

M	A	N	D	A	L	U	Y	O	N	G		C	I	T	Y		P	H	I	L	I	P	P	I	N	E	S		
---	---	---	---	---	---	---	---	---	---	---	--	---	---	---	---	--	---	---	---	---	---	---	---	---	---	---	---	--	--

(Business address: No. Street City / Town / Province)

KATHERINE U. RESARI

Contact Person

(632) 8840-7000 LOCAL 45469

Company Telephone Number

1	2			3	1
Month		Day		Fiscal Year	

SEC Form 17-A

FORM TYPE

Any date in April

Annual Meeting

 Secondary License Type, If Applicable

C	G	F	D
---	---	---	---

Dept. Requiring this Doc.

 Amended Articles Number/Section

Total

Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

-													
---	--	--	--	--	--	--	--	--	--	--	--	--	--

LCU

--	--	--	--	--	--	--	--	--	--	--	--	--	--

CASHIER

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended: **December 31, 2021**
2. SEC Identification Number: **97869**
3. BIR Tax Identification No.: **000-486-050-000**
4. Exact name of issuer as specified in its charter: **BDO LEASING AND FINANCE, INC.**
5. **Metro Manila, Philippines**  (SEC Use Only)  
 Province, Country or other jurisdiction of  
 incorporation or organization Industry Classification Code:
7. BDO Corporate Center Ortigas, **No. 12 ADB Avenue, Ortigas Center**  
**Ortigas Center, Mandaluyong City, Metro Manila Philippines**  
 Address of principal office
8. **(632) 8688-1288**  
 Issuer's telephone number, including area code
9. **N/A**  
 Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	<u>Subscribed and Outstanding</u>	
	No. of Shares	Amount in Pesos
Common	2,162,475,312	Php 2,162,475,312.00
Total	2,162,475,312	Php 2,162,475,312.00

11. Are any or all of these securities listed on a Stock Exchange.

Yes ☒ No ☐

If yes, state the name of such stock exchange and the classes of securities listed therein:

**The Philippine Stock Exchange, Inc.                      Common Shares only**

12. Check whether the issuer:
  - (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);  
 Yes ☒ No ☐
  - (b) has been subject to such filing requirements for the past ninety (90) days.  
 Yes ☒ No ☐
13. Aggregate market value of the voting stock held by non-affiliates: **Php 782,931,370.72**



## Table of Contents

Table of Contents.....	2
<b>PART I - BUSINESS &amp; GENERAL INFORMATION .....</b>	<b>3</b>
ITEM 1. BUSINESS.....	3
ITEM 2. PROPERTIES.....	6
ITEM 3. LEGAL PROCEEDINGS.....	6
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	6
<b>PART II - OPERATIONAL AND FINANCIAL INFORMATION.....</b>	<b>6</b>
ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS .....	6
ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION .....	9
ITEM 7. FINANCIAL STATEMENTS .....	12
ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES .....	13
<b>PART III - CONTROL AND COMPENSATION INFORMATION .....</b>	<b>13</b>
ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.....	13
ITEM 10. EXECUTIVE COMPENSATION.....	19
ITEM 11. SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT.....	21
ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....	23
<b>PART IV - CORPORATE GOVERNANCE.....</b>	<b>28</b>
ITEM 13. CORPORATE GOVERNANCE.....	28
<b>PART V - EXHIBITS AND SCHEDULES.....</b>	<b>49</b>
ITEM 14. EXHIBITS AND SCHEDULES ON SEC FORM 17-C.....	49

## SIGNATURES

## EXHIBITS AND ANNEXES

Audited Financial Statements and Independent Auditor's Report (as of December 31, 2021)

Supplementary Schedules

Sustainability Report



## **PART I - BUSINESS & GENERAL INFORMATION**

### **ITEM 1. BUSINESS**

**BDO LEASING AND FINANCE, INC.** (the **Company**) is a domestic corporation incorporated in 1981. Its shares were listed in the Philippine Stock Exchange (PSE) on January 6, 1997. The Company's principal office is located at 39<sup>th</sup> Floor BDO Corporate Center Ortigas in #12 ADB Avenue, Ortigas Center, Mandaluyong City.

The Company is a subsidiary of BDO Unibank, Inc. (**BDO Unibank** or **Ultimate Parent Company**), a universal bank incorporated and doing business in the Philippines. BDO Unibank offers a wide range of banking services such as traditional loan and deposit products, as well as treasury, remittance, trade services, credit card services, trust and others.

The Company is considered a non-bank financial institution whose operations are regulated and supervised by the *Bangko Sentral ng Pilipinas* (**BSP**). In this regard, the Company is required to comply with the rules and regulations of the BSP.

On May 25, 2019, the Board of Directors of BDO Unibank approved the restructuring of the leasing business of the BDO Unibank Group. The restructuring of BDO Unibank Group's leasing business was undertaken to optimize the financial needs of clients in light of new accounting standards covering lease transactions, (PFRS 16, *Leases*,) which took effect on January 1, 2019, requiring leases to be recognized on balance sheet similar to a loan facility. As a result, this made lease transactions a less attractive financing option to corporate borrowers. The volume of leasing is expected to be affected going forward, thus, no longer appropriate for a listed company.

Under the restructuring process, BDO Finance Corporation (BDO Finance), a new privately-held finance company, was incorporated on December 9, 2019 to provide customers continuing access to lease products and services. BDO Finance started operations on October 19, 2020 and assumed the lease transactions booked in the Company to provide business continuity to existing clients.

Furthermore, the Company sold substantially all its assets to BDO Unibank, BDO Finance and other subsidiaries as part of the restructuring as approved by the Company's Board on January 31, 2020 and by its shareholders on July 21, 2020.

In various dates in 2020, the Company's core loans and receivables and investments were disposed of to related parties as part of the Company's action to address the widening liquidity gap as it winds down its operations during the first months of community quarantine brought by the COVID-19 pandemic.

On October 16, 2020, the Company assigned irrevocably and absolutely to BDO Finance the Company's residual assets and liabilities, including its ownership of 250,000,000 common shares held in its subsidiary, BDO Rental, becoming a wholly owned subsidiary of BDO Finance.

BDOLF closed its five branches effective October 31, 2020. BDOLF also ceased to operate as a leasing and financing company and has applied for the revocation of its secondary license as a financing company which is still subject to approval by the SEC.

The Company's objective is to re-purpose into a listed holding company of the BDO Unibank Group. The Company has sufficient liquid assets (in the form of cash and investment in unit investment trust fund) to fund future investments after the approval of regulators for its application for a license as a holding company. Accordingly, the financial statements have been prepared assuming that the Company will continue as a going concern entity which contemplates the realization of assets and the settlement

of liabilities in the normal course of business. Management has determined that no material uncertainty on the Company exists.

On March 1, 2022, the Board of BDOLF approved the change in corporate name of BDOLF and the consequent amendment of its Articles of Incorporation and By-laws to reflect the new name “Dominion Holdings, Inc.”, in line with the strategic direction of its principal shareholder to convert BDOLF into a Holding company as previously approved by the Board and the stockholders.

On April 20, 2022, the stockholders approved this change in corporate name at the 2022 Annual Stockholders’ Meeting of BDOLF.

The change in corporate purpose and name will be simultaneously processed with the surrender of BDOLF’s certificate of authority to operate as a financing company with the SEC.

### ***Principal Products/Services***

While awaiting approval of the SEC on the conversion of the company to a holding company, the Company did not offer any products or services in 2021.

### ***Sales Contracts***

The Company has no existing sales contracts in 2021.

### ***Government Approval***


BDOLF’s authority to operate its five (5) branches was revoked by the SEC effective 30 October 2020 while the revocation of BDOLF’s authority to operate as a financing company is still for processing with, and approval by, the SEC as of 31 December 2021.

### ***Related Party Transactions***

The Company has established policies and procedures on related party transactions (RPTs) in accordance with BSP and SEC regulations. These include definition of related parties, coverage of RPT policy, guidelines in ensuring arm’s-length terms, identification and prevention of potential or actual conflicts of interest, adoption of materiality thresholds, internal limits for individual and aggregate exposures, whistle-blowing mechanisms, and restitution of losses and other remedies for abusive RPTs. The RPT Committee reviews and endorses to the Board for final approval all material RPTs. The Related Party Transactions policy ensures that every related party transaction is conducted in a manner that will protect the Company from any potential conflict of interest. The policy also covers the proper review, approval, ratification and disclosure of transactions between the Company and any of its related parties in compliance with legal and regulatory requirements. The policy also requires that any member of the RPT Committee who has a potential interest in any related party transaction shall abstain from the discussion and endorsement of the related transaction. Likewise, any member of the Board who has interest in the transaction must abstain from the deliberation and approval of such related party transaction. Related party transactions, whose value may exceed 10% of the Company’s total assets, require review of an external independent party to evaluate the fairness of its terms and conditions and approval of 2/3 vote of the Board, with at least a majority of the independent directors voting affirmatively. The full version of the Related Party Transactions Policy is published in our corporate website at [https://www.bdo.com.ph/sites/default/files/pdf/corporate\\_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf](https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf).

## ***Intellectual Property***

As of December 31, 2021, the Company has no existing or expiring patents, copyrights, licenses, franchises, concessions, and royalty agreements. As of even date, the Company is the licensee from BDO Unibank of the following registered trademark with the Philippine Intellectual Property Office:

<b>Trademarks</b>	<b>Validity of Registration</b>
	May 4, 2014 to May 4, 2024

## ***Governmental Regulation***

With the Company's application for revocation of its secondary license with the SEC, changes or amendments to the Financing Company Act should not affect the Company.

## ***Employees***

With the cessation of the leasing and financing business of BDOLF and the full transition of the leasing operations to BDO Finance in October 2020, the Company's manpower complement as of December 2021, remains at five (5) personnel who are its Corporate Officers, namely: President, Treasurer, Corporate Secretary, Assistant Corporate Secretary and Compliance Officer.

## ***Taxation***

The Company is governed by the National Internal Revenue Code (NIRC) and abides by all the relevant provisions of the NIRC. The following are the significant Revenue Regulations that were issued in 2021 that apply to the Company.

1. In April 8, 2021, RR No. 2-2021 was issued which amends certain provisions of RR No. 2-98, as amended, to implement the amendments introduced by RA No. 11534 (Corporate Recovery and Tax Incentives for Enterprises Act or CREATE Act) to the NIRC of 1997, as amended, relative to the Final Tax on certain passive income.
2. RR 3-2021 was issued on March 8, 2021 which prescribes the Rules and Regulations to implement Section 3 of RA No. 11534 (Corporate Recovery and Tax Incentives for Enterprises Act or CREATE Act), amending Section 20 of the NIRC of 1997, as amended.

### **Gross Receipts Tax (GRT) / Value-Added Tax (VAT)**

Beginning January 1, 2003, the imposition of VAT on banks and financial institutions became effective pursuant to the provisions of Republic Act 9010. The Company became subject to VAT based on its gross receipts, in lieu of the GRT under Sections 121 and 122 of NIRC, which was imposed on banks, non-banks financial intermediaries and finance companies in prior years.

On January 29, 2004, Republic Act No. 9238 was enacted reverting the imposition of GRT on banks and financial institutions. This law is retroactive to January 1, 2004. The Parent Company complied with the transitional guidelines provided by the BIR on the final disposition of the uncollected Output VAT as of December 31, 2004.

On May 24, 2005, the amendments on Republic Act No. 9337 was approved amending, among others, the GRT on royalties, rentals of property, real or personal, profits from exchange and on net



trading gains within the taxable year of foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

### **Supplementary Information Required Under Revenue Regulations 15-2010 and 19-2011**

The BIR issued RR Nos 15-2010 and 19-2011 which required certain supplementary information to be disclosed as part of the notes to financial statements. The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. It is neither a required disclosure under the SEC rules and regulations covering the form and content of financial statements under SRC Rule 68.

#### **ITEM 2. PROPERTIES**

Given the discontinuance of its business operations as a leasing and finance company, BDOLF pre-terminated all its lease contracts for its head office premises and all branch offices with BDO Unibank. Furthermore, the Company has sold on an arm's length basis its facilities, office furniture, fixtures and equipment to BDO Finance.

#### **ITEM 3. LEGAL PROCEEDINGS**

The Company is party to various legal proceedings which arise in the ordinary course of its past operations as a leasing and financing company. No such legal proceedings, either individually or in the aggregate, are expected to have a material adverse effect on the Company or its consolidated financial condition.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to the vote of stockholders of the Company during the fourth quarter of the calendar year covered by this report.

## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

#### **ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

On July 15, 2003, the Board approved a program to buy-back shares from the stock market. The Board authorized the Chairman or Vice-Chairman and the President to determine the amount and the timing of the program. The buy-back program was approved on the rationale that the market prices did not reflect the true value of the shares and therefore remaining shareholders would benefit from a buy-back into treasury. Purchase of shares are covered by guidelines which include buy-back of shares when the share prices is undervalued, the purchase prices shall be at prevailing market prices, and the cash expenditure for the buy-back will not adversely affect the liquidity requirements of the Company for its business transactions.

The total treasury shares of the Company as of December 31, 2021 is 62,693,718 shares.

#### **Market Information**

The principal market for the Company's common equity is the PSE.

The market prices of the Company's shares are as follows:

<b>2020</b>	<b>High</b>	<b>Low</b>	<b>2019</b>	<b>High</b>	<b>Low</b>
January 24, 2020 (Last trading date)	3.35	3.00	1 <sup>st</sup> quarter	2.29	2.22
			2 <sup>nd</sup> quarter	2.42	2.32
			3 <sup>rd</sup> quarter	2.02	2.00
			4 <sup>th</sup> quarter	2.02	1.84
<b>2018</b>	<b>High</b>	<b>Low</b>	<b>2017</b>	<b>High</b>	<b>Low</b>
1 <sup>st</sup> quarter	3.21	2.23	1 <sup>st</sup> quarter	3.96	3.95
2 <sup>nd</sup> quarter	2.84	2.83	2 <sup>nd</sup> quarter	4.05	3.90
3 <sup>rd</sup> quarter	2.58	2.57	3 <sup>rd</sup> quarter	4.08	4.05
4 <sup>th</sup> quarter	2.20	2.19	4 <sup>th</sup> quarter	3.89	3.78

As of January 24, 2020 and December 27, 2019, the closing prices of the Company's shares was at P3.16 and P1.87, respectively.

On January 27, 2020, the PSE approved the request of the Company for the voluntary trading suspension of its shares. This is to allow the investing public an equal access to the information about the Share Purchase Agreement entered by BDO Unibank on January 24, 2020 for making informed decisions.

As of December 31, 2021, the trading of the Company's shares remains suspended due to the Order of Suspension issued by the SEC requiring the amendment of the Company's registration statement. The Company has contested the suspension order on the absence of grounds and has requested the lifting of such as early as February 24, 2020, immediately before the quarantines arising from the pandemic. The Company's request for lifting of the suspension or for guidance from the SEC is still pending resolution with the SEC as of date of release of the 2021 17-Annual Report.

The total number of stockholders of the Company as of January 31, 2022 and December 31, 2021 was one thousand one hundred three (1,103). Common shares outstanding as of January 31, 2022 and December 31, 2021 totaled 2,162,475,312.

## Holders

The Company's common stockholders, with their respective shareholdings as of January 31, 2022 are as follows:

<b><u>Name</u></b>	<b><u>No. of Shares Held</u></b>	<b><u>% to Total</u></b>
BDO Unibank, Inc. <sup>1</sup>	1,914,712,207	88.542616%

<sup>1</sup>Includes shares of affiliate, BDO Capital & Investment Corporation. Number of shares reflects both direct and indirect shareholdings

Various Stockholders (Public)	<u>247,763,105</u>	<u>11.457384%</u>
	<u><b>2,162,475,312</b></u>	<u><b>100.00000%</b></u>

The top 20 stockholders of the Company as of January 31, 2022, are as follows:

<b>Name of Stockholders</b>	<b>Securities</b>	<b>Shares Held</b>	<b>Total Outstanding</b>
BDO Unibank, Inc./Banco De Oro Unibank Inc.*	Common	1,914,712,207	88.542616%
PCD Nominee Corporation (Filipino)	Common	247,643,210	11.451840%
Samuel Uy Chua	Common	21,000,000	0.971109%
Equitable Computer Services, Inc. A/C Cequit11	Common	12,320,000	0.569717%
Marylen Castro Mateo	Common	3,795,000	0.175493%
Jesselen Castro Verzosa	Common	3,795,000	0.175493%
Samuel Uy Chua	Common	3,011,150	0.139246%
Constantino Chua	Common	2,497,200	0.115479%
Equitable Computer Services, Inc.	Common	2,070,200	0.095733%
Mercury Group of Companies, Inc.	Common	1,089,165	0.050367%
Constantino Chua &/or Willington Chua &/or George W. Chua	Common	1,020,000	0.047168%
Nardo R. Leviste	Common	759,000	0.035099%
PCD Nominee Corporation (Foreign)	Common	584,821	0.027044%
Willington/Constantino Chua	Common	584,430	0.027026%
Willington Chua	Common	508,530	0.023516%
Pablo Son Keng Go	Common	455,400	0.021059%
Wilson Go	Common	438,625	0.020283%
Lim Chin Ben	Common	425,040	0.019655%
Sysmart Corporation	Common	358,835	0.016594%
Abacus Capital & Investment Corp.	Common	303,000	0.014012%

\*Includes shares of affiliate, BDO Capital & Investment Corporation. Number of shares reflects both direct and indirect shareholdings.

The top 20 stockholders of the Company as of December 31, 2021, are as follows:

<b>Name of Stockholders</b>	<b>Securities</b>	<b>Shares Held</b>	<b>Total Outstanding</b>
BDO Unibank, Inc./Banco De Oro Unibank Inc.*	Common	1,914,712,207	88.542616%
PCD Nominee Corporation (Filipino)	Common	247,643,210	11.451840%
Samuel Uy Chua	Common	21,000,000	0.971109%



Equitable Computer Services, Inc. A/C Cequit11	Common	12,320,000	0.569717%
Marylen Castro Mateo	Common	3,795,000	0.175493%
Jesselen Castro Verzosa	Common	3,795,000	0.175493%
Samuel Uy Chua	Common	3,011,150	0.139246%
Constantino Chua	Common	2,497,200	0.115479%
Equitable Computer Services, Inc.	Common	2,070,200	0.095733%
Mercury Group of Companies, Inc.	Common	1,089,165	0.050367%
Constantino Chua &/or Willington Chua &/or George W. Chua	Common	1,020,000	0.047168%
Nardo R. Leviste	Common	759,000	0.035099%
PCD Nominee Corporation (Foreign)	Common	584,821	0.027044%
Willington/Constantino Chua	Common	584,430	0.027026%
Willington Chua	Common	508,530	0.023516%
Pablo Son Keng Go	Common	455,400	0.021059%
Wilson Go	Common	438,625	0.020283%
Lim Chin Ben	Common	425,040	0.019655%
Sysmart Corporation	Common	358,835	0.016594%
Abacus Capital & Investment Corp.	Common	303,000	0.014012%

*\*Includes shares of affiliate, BDO Capital & Investment Corporation. Number of shares reflects both direct and indirect shareholdings.*

### **Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction**

There were no recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction.

## **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

### **2021 Compared to 2020**

In 2021, the Company generated Php55 million in investment income generated from the fair value gain of its investments in Unit Investment Trust Funds (UITFs). With total expenses of P19.3 million, the Company ended the year with a net income of Php43.54 Million. Compared to 2020, net income dropped by 83% from P252.4 million, as the previous year's result was still based on a balance sheet prior to the full implementation of the Company's restructuring of its leasing business.

As of December 31, 2021, total assets remain the same at P6.0 billion, of which P5.8 billion was invested in UITFs. Stockholders' equity stood at P6.0 billion.

The Company's five (5) key performance indicators are as follows:

	<u>December 2021</u>	<u>December 2020</u>
Current Ratio	738.0:1	218.0:1
Quick asset ratio	738.0:1	218.0:1
Debt to Equity Ratio	0.00:1	0.00:1
Net Profit Margin	76.29%	10.66%
Return on Equity	0.73%	4.36%

The Current Ratio (computed as current assets divided by current liabilities) and Quick Asset Ratio (quick asset divided by current liabilities) increased from last year's 218.01:1. Debt to equity ratio, computed as total liabilities divided by total equity, is nil in both years. Net Profit Margin which is computed as net income over gross revenue rose to 76.29%. Return on Equity, which is net income over average equity, dropped to 0.73% in 2021.

As approved by the Board of Directors and stockholders, the Company implemented the sale of the Company's assets to BDO Unibank and other affiliates as part of the restructuring of the leasing business of BDO Group and the conversion of the Company into a holding company. Following the effectivity of IFRS 16, the Company projected a decline in the volume of leasing transactions and a decline in revenue from the leasing and financing business. The Company has thus approved its transition into an investment holding company in order to afford the Company flexibility to pursue more financially viable businesses.

As approved by the Company's Related Party Transactions Committee and Board of Directors, in various dates in 2020, the Company sold for valuable consideration and on arm's-length basis its core loans and receivables to BDO Unibank, BDO Life and BDO Finance with aggregate amounts of P14.13 billion, P1.28 billion, and P7.70 billion. The total resulting gain on disposal of core loans and receivables amounted to P509.97 million.

## **2020 Compared to 2019**

Gross income for the year ended December 31, 2020 was P2,367.1 million, a decrease of P664.8 million, or 21.9%, from P3,031.9 million in 2019. Interest and discounts were at P1,123.0 million, down by P861.5 million or 43.4% from P1,984.5 million in 2019. Rent Income in 2020 amounted to P583.0 million, a decline of P261.6 million or 31.0% from P844.6 million in 2019. The decrease in Interest Income and Rent Income was the result of the sale of substantially all of the Company's assets to BDO Unibank, BDO Finance and other subsidiaries as part of the restructuring process of the Group's leasing business. As of December 31, 2020, substantially all of BDOLF's lease and loan portfolio has already been sold.

Meanwhile, service fee and other income rose to P661.1 million, an increase of P458.3 million or 226% from last year's P202.8 million. The increase was mainly due to the gain on sale of receivables to BDO Unibank, BDO Finance & other subsidiaries.

Interest and financing charges for 2020 amounted to P526.0 million, consisting mainly of finance charges from borrowings of P517.6 million, interest expense on lease deposits of P6.4 million and interest expense on lease liability of P1.4 million. The decrease of P871.7 million in financing charges is attributed to the restructuring of the company's leasing business, where Bills Payable were paid off in October 2020. Interest expense on leased deposits in 2020 amounted to P6.4 million or a decrease of P1.3 million

from last year's P7.7 million. Interest expense on lease liability went down to P1.4 million from P2.2 million last year.

Total provisions for impairment losses increased from P6.2 million in 2019 to P399.1 million in 2020. This was due to the expected delinquencies as a result of pandemic.

Taxes and licenses amounted to P199.8 million for the year ended December 31, 2020, a decline of P109.7 million, or 35.4% from the P309.5 million reported for the year ended December 31, 2019. The decrease was attributable to the reduction in Bills Payable in 2020 as a result of BDOLF's restructuring.

Salaries and employee benefits expense amounted to P214.9 million in 2020 as compared to P244.2 million in 2019. Occupancy and equipment related expenses for the year ended December 31, 2020 amounted to P538.0 million, a decrease of P273.9 million, or 33.7% from P811.9 million in December 2019.

Litigation expenses amounted to P8.0 million in 2020, a decrease of P4.4 million from P12.4 million in 2019.

Other expenses decreased to P70.9 million in 2020 as compared to P111.1 million in 2019.

The Company registered a net income of P252.3 million for the year ended December 31, 2020.

Total assets amounted to P6.0 billion in December 31, 2020, a decrease of P24.9 billion from P30.9 billion as of December 2019. BDOLF sold substantially all of its assets to BDO Unibank, BDO Finance and other subsidiaries. On the other hand, the Company purchased P5,747 million worth of unit investment trust funds (UITFs) in 2020. Other receivables' balance amounting P127.3 million mainly represents Creditable withholding tax of P121.7 million to be applied to future income tax payments.

The Company also assigned irrevocably and absolutely to BDO Finance certain accounts payable and other liabilities. The remaining balance of Accounts Payable and Other Liabilities account amounting P27.5 million includes, among others, withholding taxes payable, accrued taxes and other expenses payable and payroll related accounts.

Stockholders' equity stood at P6.0 billion.

The Company's five (5) key performance indicators are as follows:

	<b>December 2020</b>	<b>December 2019</b>
Current Ratio	218.01:1	0.36:1
Quick asset ratio	218.01:1	0.36:1
Debt to Equity Ratio	0.00:1	4.88:1
Net Profit Margin	10.67%	1.54%
Return on Equity	4.36%	0.85%

The Current Ratio (computed as current assets divided by current liabilities) and Quick Asset Ratio (quick asset divided by current liabilities) increased from last year's 0.36:1 and 0.36:1, respectively. Debt to equity ratio, computed as total liabilities divided by total equity was 0 in 2020. Net Profit Margin which is computed as net income over gross revenue, went up due to higher income. Return on Equity, which is net income over average equity, rose to 4.36% in 2020.



## ***Policy on Revenue Recognition – Other Income***

Income that are one off such as gain on sale of dollar denominated cash deposit are recognized as Other Income. These are recognized as they are earned.

## ***Key Variable and Other Qualitative and Quantitative Factors***

As approved by the Company's Board of Directors (BOD) on January 31, 2020 and its shareholders on July 21, 2020, BDOLF's core loans and receivables and investment were sold to related parties on various dates in 2020, as part of the Company's restructuring process.

The Company's licenses to operate five branches were surrendered to and revoked by SEC effective October 2020. The Company's main certificate of authority to operate as a financing company was likewise surrendered to the SEC in November 2020, the effectivity of which is subject to the amendment of the Company's Articles of Incorporation to reflect its new primary purpose as a holding company.

The Company ceased to operate as a leasing and financing company effective October 19, 2020.

## ***Internal and External Sources of Liquidity***

From January 2020 to September 2020, the Company relied on revenues from operations and borrowings from creditor banks for its source of liquidity.

The proceeds of the sale of substantially all assets of the Company was used to pay-off or retire all credit obligations. The residual cash was placed in Unit Investment Trust Funds (UITFs).

There are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

## **ITEM 7. FINANCIAL STATEMENTS**

The financial statements of the Company are incorporated here by reference. The schedules listed in the accompanying Index to Supplementary Schedules are filed as part of this Annual Report.

## ***INFORMATION ON INDEPENDENT ACCOUNTANT***

### **Information on Independent Accountant and Other Related Matters**

#### **(1) External Audit Fees and Services**

##### **(a) Audit and Audit-Related Fees**

The aggregate fees billed for each of the last two (2) fiscal years for professional services rendered by the external auditor was P288,000 for the year 2021 and P694,000 for the year 2020. These fees cover services rendered by the external auditor for audit of the financial statements and other services in connection with statutory and regulatory filings for fiscal year 2021 and 2020.

(b) Tax fees and other fees

No other fees were paid to the auditing firm of Punongbayan & Araullo, CPAs ("P&A") for the last two (2) fiscal years except those discussed in the preceding item.

- (c) The Board Audit Committee has the oversight responsibility over the audit function and activities of Internal and External auditors. It provides assurance that (a) financial disclosures made by the management as presented in the Internal Auditor's report reasonably reflect the financial condition; the results of operation; and the plans and long-term commitments; and (b) internal controls are operating as intended and whether modifications are necessary.

The Board Audit Committee has the responsibility to select and recommend to the Board the External Auditors. It reviews the audit coverage of the External Auditors and deliberates on their audit report prior to endorsement to the Board for approval. It reports to the Board audit-related matters requiring the Board's action.

**ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE S**

In 2021 and 2020, the auditing firm of P&A has been appointed as the Company's Independent Public Accountant or external auditor. There was no event in the past where P&A and the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope and procedures.

**PART III - CONTROL AND COMPENSATION INFORMATION**

**ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

**1. Directors and Corporate Officers**

The Board of Directors is empowered to direct, manage and supervise, under its collective responsibility, the affairs of the Company. The members of the Board are elected annually by the stockholders to hold office for a term of one year and shall serve until their respective successors have been duly elected and qualified.

The Board meets regularly to discuss the Company's business and approve matters requiring its approval. Materials containing matters to be taken up during the Board meeting are distributed to the directors at least five days prior to the scheduled Board meeting.

Below is the list of the incumbent Directors and Corporate Officers of the Company elected on April 20, 2022, with their business profiles for the past five (5) years:

**ATTY. ELMER B. SERRANO**

Chairman, 54 years old, Filipino

Atty. Serrano is a practicing lawyer specializing in corporate law and is the Managing Partner of the law firm SERRANO LAW.

Mr. Serrano has been awarded "Asia Best Lawyer" by the International Financial Law Review (IFLR) for Banking and Finance, Capital Markets, and Mergers & Acquisitions, one of only two exclusively recognized lawyers in the Philippines. This comes after being consistently recognized as a "Highly Regarded-Leading Lawyer" in the same fields by IFLR. The Legal 500 Asia Pacific also named Mr.

Serrano as a “Leading Individual” in Banking & Finance, after constant citation as a “Recommended Lawyer”.

Mr. Serrano is a director of 2GO Group, Inc. He is Corporate Secretary of SM Investments Corporation, SM Prime Holdings, Inc., Atlas Consolidated Mining and Development Corporation, as well as subsidiaries of BDO Unibank, Inc. He is also Corporate Secretary of, or counsel to, prominent financial industry organizations, such as the Bankers Association of the Philippines and the Philippine Payments Management, Inc. and the PDS Group of Companies.

Mr. Serrano is a Certified Associate Treasury Professional and was among the top graduates of the Trust Institute of the Philippines in 2001. Mr. Serrano holds a Juris Doctor degree from the Ateneo de Manila University and a BS Legal Management degree from the same university.

**MANUEL Z. LOCSIN, JR.**

Director & President

64 years old, Filipino

Mr. Locsin was elected to the Board of Directors of the Company on May 12, 2021. He was seconded from BDO Unibank, Inc. to the Company as Senior Vice President/Officer-in-Charge on May 1, 2021. He concurrently serves as Director & Officer-in-Charge of BDO Finance Corporation and BDO Rental, Inc. Prior to his secondment from BDO Unibank, Inc., Mr. Locsin was Senior Vice President and Head of Institutional Banking Group-Corporate Banking 1 of BDO Unibank, Inc. since February 2012. He has more than 20 years of experience in credit lending. Prior to BDO, he was with the Account Management Group of Allied Banking Corporation and International Corporate Bank. He holds a Bachelor's Degree in Commerce from De La Salle University.

**LUIS S. REYES, JR.**

Director & Treasurer

64 years old, Filipino

Mr. Reyes was first elected to the Board of Directors of the Company on April 18, 2012 and was appointed as Treasurer on April 23, 2014. He is concurrently the Executive Vice President for Investor Relations and Corporate Planning of BDO Unibank, Inc. He is also the Treasurer of BDO Finance Corporation, Director and Treasurer of BDO Rental, Inc., Director of BDO Strategic Holdings, Inc. and BDO Securities Corporation, and Chairman of Nashville Holdings, Inc. Before joining BDO, Mr. Reyes was a First Vice President of Far East Bank & Trust Company, Trust Banking Group. He holds a Bachelor of Science degree in Business Economics from the University of the Philippines.

**LAZARO JEROME C. GUEVARRA**

Director

55 years old, Filipino

Mr. Guevarra is a Senior Vice President of BDO Unibank. He is the Chief of Staff for the Office of the President and concurrently the Head for the Governance Group, administratively overseeing the Corporate Secretary's Office, Anti-Money Laundering Unit, Legal Services, Compliance, Internal Audit, and Information & Cyber Security Office. Prior to this, he was the Head of Advisory and Mergers & Acquisition Team of BDO Capital & Investment Corporation and was the President of BDO Securities Corporation. He is currently the Chairman/Director of BDO Remit (Canada), Ltd., BDO Remit (Japan), Ltd. and BDO Remit (USA), Inc. He is a Director of BDO Strategic Holdings, Inc., BDORO Europe Ltd., Averon Holdings Corp., SM Keppel Land, Inc., NorthPine Land, Inc. and Nashville Holdings, Inc. He is also a Trustee and Corporate Secretary of BDO Foundation, Inc. Mr. Guevarra is a graduate of the University of the Philippines – School of Economics and has had more than 32 years of experience in banking, financial analysis, and mergers & acquisition.



**VICENTE S. PÉREZ, JR.**

Independent Director

63 years old, Filipino

Mr. Pérez was elected to the Board of Directors of the Company on April 7, 2017, and is the Chairman of the Company's Risk Management Committee. He is currently an Independent Director of BDO Unibank, Inc., BDO Finance Corporation and Double Dragon Properties Corp. He is also a Non-Executive Director of Singapore Technologies Telemedia Pte Ltd. Mr. Pérez is currently the Chairman of the Alternergy Group, Philippine renewable power companies in wind, hydro and solar. He was Philippine Energy Secretary from 2001 to 2005. Mr. Pérez briefly served in early 2001 as Undersecretary at the Department of Trade and Industry and as Managing Head of the Board of Investments.

Prior to his government service, Mr. Pérez had 17 years banking experience, first in Latin America debt restructuring at Mellon Bank in Pittsburgh, and later in debt capital markets in emerging countries at Lazard in London, New York and Singapore. At 35, he became General Partner at New York investment bank Lazard Frères as head of its Emerging Markets Group. He was Managing Director of Lazard Asia in Singapore from 1995 until 1997, when he co-founded Next Century Partners, a private equity firm based in Singapore. In 2005, he was briefly a government appointed director of Philippine National Bank until its privatization. In September 2020, Mr. Pérez was appointed Honorary Consul of the Kingdom of Bhutan in the Philippines.

Mr. Pérez obtained his Masters in Business Administration from the Wharton Business School of the University of Pennsylvania in 1983 and a Bachelor's degree in Business Economics from the University of the Philippines in 1979. He was a 2005 World Fellow at Yale University where he lectured an MBA class on renewable power at the Yale School of Management.

**ATTY. LUIS MA. G. URANZA**

Independent Director

63 years old, Filipino

Atty. Uranza is a member of the Philippine Bar who has been engaged in the practice of law for the last thirty seven (37) years. He earned both his academic degrees in business (B.S.B.A.) and in law (L.I.B.) from the University of the Philippines.

He is currently the Rehabilitation Receiver, appointed by the Securities and Exchange Commission, to oversee the financial recovery of Victorias Milling Co., Inc. which is one of the major sugar millers and refiners in the country whose shares are listed and traded in the Philippine Stock Exchange. Atty. Uranza has also been given similar appointments by the commercial courts of Makati City and the City of Cagayan de Oro to oversee the financial rehabilitation of several other companies.

In the course of his law practice, Atty. Uranza gained proficiency in oil and gas exploration laws and regulations as a result of his membership in the Board of Directors of PNOC-Exploration Corporation which is a government owned and controlled corporation created for the primary purpose of exploring and developing the fossil fuel and natural gas resources of the country. Moreover, the Philippine Government (through its various agencies) has also engaged the professional services of Atty. Uranza as: (a) Special Legal Counsel of the Presidential Commission on Good Government, (b) Legal Consultant to the Special Presidential Task Force created by Executive Order No. 156 to investigate the tax credit scam at the Department of Finance, and (c) Legal Consultant to the Office of the General Manager of the Manila International Airport Authority.

In the private sector, Atty. Uranza is presently an independent director of BDO Private Bank, BDO Life Assurance Company, Inc., BDO Capital & Investment Corporation and BDO Insurance Brokers,

Inc. He has previously served as the Corporate Secretary of various banks, financial institutions, and listed companies. His professional experience in the field of litigation is also extensive due to his engagement as trial counsel in notable civil, criminal and administrative cases.

**ISMAEL G. ESTELA, JR.**

Independent Director

65 years old, Filipino

Mr. Estela is presently an Independent Trustee of BDO Foundation, Inc. He was formerly Senior Vice President and Corporate Governance Officer of BDO Unibank, Inc., assigned to Corporate Compliance and Legal Services & Internal Audit Group, and held various directorship positions in BDO Group: BDO Remit (Canada) Ltd., BDO Remit (Japan) Ltd., BDORO Europe Ltd., and Express Padala International, Inc. He was also Head of Transaction Banking doing cash management, electronic banking, and remittance services. He is a Certified Public Accountant ("CPA") and holds a Bachelor of Science degree in Accounting from the University of San Carlos.

**GENEVA T. GLORIA**

Director

57 years old, Filipino

Ms. Gloria has more than thirty (30) years experience in the banking industry. She has been with BDO Unibank for more than 19 years and is the Senior Vice President and Head of BDO Remittance. She is also the concurrent director of BDO Network Bank, Inc. and BDO Remit offices located in Hong Kong, Macau, Japan, USA, Canada and the UK. Having acquired more than 25 years in the remittance industry, her expertise spans from business development, local and foreign remittance operations, project management to marketing. Ms. Gloria has earned the reputation of having a very deep understanding of the overseas Filipino market for she was once an overseas worker herself. BDO Unibank has been a consistent recipient of the BSP's 'Top Commercial Bank in Generating Remittances from overseas Filipinos' award beginning 2008 to 2010 and again, from 2013 to 2019. BDO Unibank, through Ms. Gloria, has been supporting the projects of the government for the overseas Filipino market particularly – financial inclusion. In 2014, Ms. Gloria and her team launched a grassroots marketing campaign in various provinces across the country. The campaign has evolved and went on to dig deeper into the overseas Filipino market and the underserved clients. Ms. Gloria holds a Bachelor of Science degree in Business Administration from the University of the Philippines.

**Melanie S. Belen**

Director

61 years old, Filipino

Ms. Belen is a Senior Vice President of BDO Unibank, Inc. She is currently the Head of Credit Risk Operations, Property Management & Remedial Management. She is concurrently President/Director of BDO Strategic Holdings, Inc. and Ivory Homes, Inc. She is also Director of Taal Land, Inc. and Equimark-NFC Development Corporation. Before joining BDO, she was a Country Vice President of Scholastic Inc. (Grolier International), and Chief Financial Consultant of Healthy Options. Ms. Belen is a Certified Public Accountant (CPA) and holds a Bachelor of Science degree in Commerce from the University of Sto. Tomas, and a Master's degree in Business Management from the Asian Institute of Management.

***Independent Directors***

As of date of this Report, the independent directors of the Company are Mr. Pérez, Mr. Estela and Atty. Uranza.

## **Corporate Officers**

The Corporate Officers of the Company led by the President, are responsible for the management of all business activities of the Company, subject to the oversight and supervision of the Board of Directors. The Compliance Officer, on the other hand, is in charge of the Company's regulatory compliance function. Collectively, the Corporate Officers are responsible for the implementation of the policies set by the Board. Since the Company has already ceased its leasing and financing operations since October 19, 2020, the Company has only (5) remaining Corporate Officers: President, Treasurer, Compliance Officer., Corporate Secretary and Assistant Corporate Secretary.

### **JOSEPH JASON M. NATIVIDAD**

Corporate Secretary

49 years old, Filipino

Atty. Natividad was appointed Corporate Secretary of the Company on May 31, 2010. He concurrently holds the position of Corporate Secretary of BDO Network Bank Inc. and Agility Group of Companies in the Philippines. He is also the Assistant Corporate Secretary of BDO Insurance Brokers, Inc. He served as Assistant Corporate Secretary of Equitable PCI Bank from September 2006 to June 2007, prior to its merger with Banco de Oro; BDO Capital & Investment Corporation, BDO Securities Corporation, and BDO Rental, Inc. Atty. Natividad is currently a Partner of the Factoran & Natividad Law Offices. He has been in law practice for 23 years, mainly in the fields of corporate law and environmental law. He has a Bachelor's degree in Management, major in Legal Management, from the Ateneo de Manila University, and obtained his Juris Doctor degree from the Ateneo de Manila University School of Law.

### **MA. CECILIA SALAZAR-SANTOS**

Assistant Corporate Secretary

56 years old, Filipino

Atty. Santos was appointed as Assistant Corporate Secretary of the Company since October 1, 2015. She is concurrently the First Vice President and Alternate Corporate Information Officer of BDO Unibank. She is also the Assistant Corporate Secretary of BDO Private Bank, Inc. and BDO Network Bank, Inc. Further, she is the Corporate Secretary of BDO Finance Corporation, BDO Strategic Holdings, Inc., BDO Rental, Inc., Equimark-NFC Development Corporation, Armstrong Securities, Inc., Avera Holdings Corporation, Nashville Holdings, Inc., and Ivory Homes, Inc. She was formerly the Corporate Secretary of BDO Nomura Securities, Inc., and Director and Corporate Secretary of PCI Insurance Brokers, Inc., PCI Management Consultants, Inc., PCI Travel Corporation, The Executive Banclounge, Inc., and The Sign of the Anvil, Inc. She is currently assigned at the Legal Services and Corporate Secretary Group as Head of the Team providing legal assistance to BDO's Support Groups and Subsidiaries and in managing BDO's Intellectual Property (BDO and BDO-related marks), and as Head of the Team providing corporate secretariat services to BDO Unibank and all its Subsidiaries. In 2017, 2018, 2019, and 2020, she was featured in the World Trademark Review 300 as among the World's Top 300 Leading Trademark Professionals. She holds a Bachelor of Arts degree major in Economics from University of Sto. Tomas and finished law at San Beda College of Law (Dean's Lister).

### **KATHERINE U. RESARI**

Vice President / Compliance and Corporate Governance Officer

47 years old, Filipino

Ms. Resari was appointed as Compliance and Corporate Governance Officer of the company on March 2, 2021. She is concurrently the Risk and Compliance Officer, Data Protection Officer, Information Security Officer and Corporate Governance Officer for both BDO Finance Corp. and

BDO Rental, Inc. Prior to joining BDO Leasing, Ms Resari was a Vice President and Team Head under Credit Policy and Portfolio Review of the Risk Management Group of BDO Unibank for over 5 years. She started her banking career with PCIBank in 1995 under the Officer's Development Program and was later assigned to Specialized Lending, Remedial Management and Asset Management Groups. She joined BDO Unibank in 2006 under Remedial Management for corporate and commercial accounts. Ms. Resari graduated *cum laude* from the University of the Philippines Diliman with a Bachelor of Science Degree in Business Administration and obtained her Master's Degree in Business Administration from De La Salle University.

### ***Board and Senior Management Performance***

An annual self-assessment focusing on the performance of the Board, its members, and Committees, and Senior Management, is spearheaded by the Corporate Governance Committee, using an approved set of questionnaires. The performance evaluation process begins with sending out customized Board Evaluation Questionnaires to each director and adviser. They are required to complete the questionnaire which explains the rationale and objectives of the performance evaluation. Based on the returns from each respondent, the ratings and responses are tabulated and consolidated. The Corporate Governance Officer prepares the overall report and presents this to the Corporate Governance Committee for discussion and endorsement to the Board, including the recommended actions and focus areas to improve effectiveness.

### ***Significant Employee***

There is no person, other than the senior executive officers above, who is expected by the Company to make significant contributions to the Company.

### ***Family Relationships***

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers, or persons nominated or chosen by the Company to become directors or executive officers.

### ***Involvement of Directors and Executive Officers in Certain Legal Proceedings***

To the best of the Company's knowledge, none of the directors or executive officers is named or is involved during the last five (5) years up to January 31, 2022 in any legal proceedings which will have any material effect on the Company, its operations, reputation, or financial condition.

To the best of the Company's knowledge, none of its directors and senior executives have been subject of the following legal proceedings for the past five (5) years:

- i. bankruptcy petition by or against any business of which such director or senior executive was a general partner or executive officer either at the time of bankruptcy or within two years prior to that time;
- ii. a conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;
- iii. to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;
- iv. being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or

comparable foreign body, or a domestic or foreign exchange or other organized trading, market or self-regulatory organization, to have violated the securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

## **ITEM 10. EXECUTIVE COMPENSATION**

### ***Disclosure and Transparency***

The Company recognizes the need to report material information in a complete, accurate and timely manner thru easily accessible medium of communications. Significant items that are disclosed include the following:

#### ***A. Executive Compensation Policy***

It is the objective of the Company to attract, motivate and retain high-performing executives. To be competitive in the marketplace, the Company offers a remuneration package composed of fixed salary, benefits and long-term incentives. Below are the compensation details of the directors and key executive officers of the Company:

##### **(1) President and four most highly compensated executive officers**

<b>in millions of pesos</b>	<b>Year</b>	<b>Annual Compensation</b>	<b>Other Compensation</b>
President and four most highly compensated executive officers	2022 (estimate)	none*	none*
	2021	none*	none*
	2020	56.4 **	none
<b>Year</b>	<b>Name</b>		<b>Position/Title</b>
2020	Roberto E. Lapid		President
	Ma. Theresa M. Soriano		First Vice President
	Rosario C. Crisostomo		First Vice President
	Angelita C. Tad-y		First Vice President
	Frieda T. Jimenez		Vice President

\* Except for the Corporate Secretary, all the other officers namely President, Treasurer, Compliance Officer, and Assistant Corporate Secretary are seconded from BDO Unibank and BDO Finance Corp. and receives their compensation directly from these companies. The Corporate Secretary in turn, is an external counsel retained by BDO Unibank, which directly pays for his compensation.

\*\*The above compensation includes the usual bonus paid to officers. Except for salaries, allowances, retirement benefits provided under BDO Unibank's retirement plan, and company-wide benefit extended to all qualified employees under BDO's stock option plan, there is no separate stock option, stock warrant or other security compensation arrangement between BDO and its individual officers.

##### **(2) Compensation of directors and officers as a group**

<b>In Million Pesos</b>	<b>Year</b>	<b>Annual Compensation</b>	<b>Other Compensation</b>
All other officers and directors	2022 (estimate)	3.01	none
	2021	3.01	none
	2020	91.03	none



## **B. Compensation of Directors**

Each director is entitled to receive *per diem* allowance for attending board and committee meetings. As provided by law, the total compensation of directors shall not exceed 10% of the net income before income tax of the Company for the preceding year.

Each member of the Board of Directors received the following amounts as Directors for the year 2021:

<b>Name of Director</b>	<b>Amount</b>
1. Teresita T. Sy	P 0.00
2. Nestor V. Tan	0.00
3. Roberto E. Lapid	0.00
4. Manuel Z. Locsin Jr.	0.00
5. Jesse H.T. Andres	661,111.12
6. Ma. Leonora V. De Jesus	661,111.12
7. Jeci A. Lapus	333,333.33
8. Vicente S. Perez Jr.	655,555.56
9. Exequiel P. Villacorta Jr	599,999.99
10. Antonio N. Cotoco	0.00
11. Walter C. Wassmer	0.00
12. Luis S. Reyes	0.00
13. Edmundo L. Tan (Advisor)	99,999.99
<b>Total</b>	<b>P 3,011,111.11</b>

Above-mentioned amounts include total fees and *per diems* received by the Directors for their attendance in meetings of the Board. Executives of BDO Unibank and BDOLF did not receive any directors' fees nor per diems as Directors of the Company.

There is no distinction on the fee for a committee chairman and member. Other than these fees, the non-executive directors do not receive any share options, profit sharing, bonus or other forms of emoluments.

The Company may grant to the directors any compensation other than *per diem* upon approval of the shareholders representing at least a majority of the outstanding capital stock.

## **C. Outstanding warrants or options held by the Company's CEO, executive officers, and all officers and directors as a group.**

There are no outstanding warrants or options held by the Company's chief executive officer, executive officers, and all officers and directors as a group.

## **D. Any repricing of warrants or options held by such officers or directors in the last completed fiscal year, as well as the basis for each such repricing.**

There are no outstanding warrants or options held by the Company's Chief executive officer, executive officers, and all officers and directors as a group.

# ITEM 11. SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT

## Security Ownership of Certain Record/Beneficial Owners

As of January 31, 2022, the following are known to the Company to be directly or indirectly the record and/or beneficial owners of more than 5% of the Company's voting securities:

Title of class	Name and Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	Number of Shares Held	Percentage
Common	BDO Unibank, Inc. BDO Corporate Center 7899 Makati Avenue, Makati City  <b><i>BDO Unibank, Inc. is the parent company of the Company</i></b>	Record and beneficial (affiliate and majority stockholder)	Filipino	1,914,712,207	88.54%
Common	PCD Nominee Corp. (PCD) G/F Makati Stock Exchange Building, 6767 Ayala Avenue, Makati City  <b><i>PCD has no relationship with the Registrant except as stockholder.</i></b>  <b><i>PCD, being a nominee corporation, only holds legal title, not beneficial ownership of the lodged shares.</i></b>	Various shareholders	Filipino	247,643,210	11.45%
		No stockholder owns more than 5% of the Company's voting securities through PCD	Non-Filipino	584,821	0.03%

\*Includes shares of affiliate, BDO Capital & Investment Corporation. Number of shares reflects both direct and indirect shareholdings.

The persons authorized to vote the shares of BDO Unibank are Ms. Teresita T. Sy and Mr. Nestor V. Tan.

As of February 28, 2022, the following stockholders own more than 5% of BDO Unibank:

Title of Class	Name & Address of Record Owner	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of BDO Shares Held	Percentage
Common and Preferred	<b>SM Investments Corporation</b> 10 <sup>th</sup> Floor, One E-com Center, Harbour Drive, Mall of Asia Complex, CBP-I-A, Pasay City/Parent Company	Sy Family  (Substantial Stockholders)	Filipino	1,910,780,649*	38.99%

Common	<b>PCD Nominee Corp. (Non-Filipino)</b> 37 <sup>th</sup> Floor, The Enterprise Center Ayala Avenue, Makati City/Various Stockholders	Various Stockholders	Foreign	1,109,359,242	22.64%
Common	<b>PCD Nominee Corp. (Filipino)</b> 37 <sup>th</sup> Floor, The Enterprise Center Ayala Avenue, Makati City/Various Stockholders	Various Stockholders	Filipino	749,992,442**	15.30%
Common and Preferred	<b>Sybase Equity Investments Corporation</b> 10 <sup>th</sup> Floor L.V. Locsin Building 6752 Ayala Avenue, Makati City/Stockholder	Various corporate Stockholders	Filipino	631,410,292*	12.89%
Common	<b>Multi-Realty Development Corporation</b> 10 <sup>th</sup> Floor L.V. Locsin Building 6752 Ayala Avenue, Makati City/Stockholder	SM Investments Corp.	Filipino	291,513,036 *	5.95%
<b>TOTAL (COMMON &amp; PREFERRED)</b>				<b>4,693,055,661</b>	<b>95.77%</b>

\* Inclusive of PCD-lodged shares

\*\* Exclusive of PCD-lodged shares of SM Investments Corporation, Multi-Realty Development Corporation and Sybase Equity Investments Corporation.

### ***Security Ownership of Management***

As of April 20, 2022, the total number of shares owned by the directors and management of the Company as a group is 900 Common Shares, which is equivalent to 0.000042% of the total outstanding common shares of the Company. The Company's directors and officers own the following Common Shares:

<b>Title of Class</b>	<b>Name of Beneficial Owner</b>	<b>Position</b>	<b>Citizen-ship</b>	<b>No. of Shares</b>	<b>Percentage</b>
Common	Elmer B. Serrano	Chairman	Filipino	100 (D)	0.0000046%
Common	Manuel Z. Locsin Jr.	Director & President	Filipino	100 (D)	0.0000046%
Common	Vicente S. Pérez, Jr.	Independent Director	Filipino	100 (D)	0.0000046%
Common	Ismael G. Estela Jr.	Independent Director	Filipino	100 (D)	0.0000046%
Common	Luis Ma. G. Uianza	Independent Director	Filipino	100 (D)	0.0000046%
Common	Luis S. Reyes Jr.	Director, Treasurer	Filipino	100 (D)	0.0000046%
Common	Lazaro Jerome C. Guevara	Director	Filipino	100 (D)	0.0000046%
Common	Geneva T. Gloria	Director	Filipino	100 (D)	0.0000046%

Common	Melanie S. Belen	Director	Filipino	100 (D)	0.0000046%
	<b>Total</b>			<b>900</b>	<b>0.000042%</b>

Directors and officers of the Company are required to report to the Company any acquisition or disposition of the Company's shares within three (3) business days from the date of the transaction. As prescribed by the Disclosure Rules of the PSE, the Company shall disclose to the PSE any acquisition or disposition of its shares by its directors and officers within five (5) trading days from the transaction. Under Section 23 of the Securities Regulation Code ("**SRC**"), the Company shall likewise disclose to SEC within ten (10) days after the close of each calendar month thereafter, if there has been a change in such ownership of shares by directors and officers at the close of the calendar month and such changes in his ownership as have occurred during such calendar month.

## **ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The Company has adopted a comprehensive and extensive policy for its related party transactions in compliance with the regulatory requirements of not only the SEC, but also of the BSP. Pursuant to the SEC Memorandum Circular No. 10, series of 2019 (Rules on Material Related Party Transactions for Publicly-listed Companies), the Company adopted a **Material Related Party Transactions Policy** on October 2019. A copy of the Policy is available in the Company's website.

Related Parties broadly refer to the following: Directors, Officers, Stockholders, Related Interest (DOSRI) as defined under regulations, Subsidiaries, Affiliates and Other Related Parties acting for themselves, as representatives or agents for others, or as guarantors, sureties, endorsers, mortgagors, pledgors, assignors, or in any capacity in which (i) they become obligated or may be obligated to the Company to pay or its equivalent or by any means whatsoever or (ii) there is a transfer of resources, services, or obligations between the Company and the Related Party. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

In the ordinary course of business, the Company enters into transactions with BDO Unibank and other affiliates. Such transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Policies and procedures have been put in place to manage potential conflicts of interests arising from related party transactions. Single and aggregated material related party transactions follow strict approval process. The Company's Related Party Transactions Committee composed of independent and non-executive directors, reviews and scrutinizes the terms and conditions of covered transactions to ensure that these are made on arms-length basis, that no preferential treatment is accorded, and they are negotiated as a regular business transaction in accordance with regulations. These transactions are then elevated to the Company's Board of Directors for confirmation and approval. Directors and officers who have interest in the transactions abstain from participating in the discussion. The details of the deliberations are included in the minutes of the Board and Board Committee meetings. Approved related party transactions are then properly tagged for monitoring and reporting of exposures.

The Company discloses details of material related party transactions in its Annual Stockholders' meeting and in its Annual Report, and likewise submits advisement reports thereof to regulators as necessary.

The Company's related parties include BDO Unibank, related party under common ownership, key management personnel and the retirement benefit fund as described below.

The summary of the Company's transactions with its related parties in 2021, 2020 and 2019 and the related outstanding balances as of December 31, 2021 and 2020 are shown below.

Related Party Category	Notes	Amount of Transaction (In million of pesos)		
		2021	2020	2019
<b>Ultimate parent company (BDO Unibank)</b>				
Interest income on savings and demand deposits	(a)	P -	P 1.5	P 0.4
Interest expense on bills payable	(b)	-	11.5	34.4
Interest expense on lease liability	(c)	-	1.4	2.2
Depreciation	(c)	-	11.8	13.0
Gain on pre-termination of lease contract	(c)	-	1.0	-
Management fees	(d)	-	14.7	16.0
Service charges and fees	(e)	-	-	13.4
Sale of receivables	(q)	-	14,125.4	5,801.3
Gain on sale of receivable	(q)	-	381.9	-
Sale of financial asset under FVOCI	(q)	-	1,138.0	-
Gain on sale of debt securities under FVOCI	(q)	-	8.9	-
Loss on sale of equity securities under FVOCI	(q)	-	(0.6)	-
Service fees	(f)	0.1	0.1	0.1
Employee stock option plan		-	3.5	14.8
UITF Placement	(n)	70.0	5,847.0	-
Unrealized fair value gain	(n)	55.0	5.7	-
Gain on redemption of UITF	(n)	-	0.1	-
Sale of foreclosed assets-net	(n)	-	212.8	-
Realized gain on dollar denominated cash deposit	(r)	0.3		
<b>Subsidiary (BDO Rental*)</b>				
Dividend income	(j)	-	200.0	-
Management fees	(d)	-	0.3	0.4
Rent income	(c)	-	0.1	0.1
<b>Under common ownership</b>				
Service and charges fees	(g, k)	-	2.1	3.7
Interest expense on bills payable	(l)	-	-	203.3
Insurance expense	(m)	-	0.2	0.8
Sale of receivables	(p, q)	-	8,946.0	232.2
Gain on sale of receivables	(o)	-	128.1	2.7
Sale of financial assets under FVOCI	(p, q)	-	1,997.5	-
Gain on sale of equity securities under FVOCI	(p, q)		71.6	-
<b>Other related parties</b>				
Loans	(p)	-	40.0	198.7
<b>Key management personnel</b>				
Short-term benefits	(h)	-	47.2	57.4
Post-employment benefits	(h)	-	9.2	8.3
Loans to officers	(h)	-	1.9	3.7

\*Only until October 16, 2020



<u>Related Party Category</u>	<u>Notes</u>	<u>Outstanding Balance (In millions of pesos)</u>	
		<u>2021</u>	<u>2020</u>
<b>Ultimate parent company (BDO Unibank)</b>			
Savings and demand deposits	(a)	<b>P 15.2</b>	P 116.0
UITF	(n)	<b>5,877.7</b>	5,752.7
<b>Under common ownership</b>			
Accounts receivable	(k)	-	5.2
<b>Retirement benefit fund</b>			
Shares of stock	(i)	<b>1.6</b>	1.6

a) The Company maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2021 and 2020, savings and demand deposit accounts maintained with BDO Unibank are reported as Cash and Cash Equivalents account in the statements of financial position. These deposits generally earn interest at annual rates of 0.0625% in 2021 and 0.13% in 2020 and 2019. Interest income earned on these deposits in 2021, 2020 and 2019 is included as part of Interest and Discounts account under Revenues in the statements of income.

b) The Company obtains short-term bills payable from BDO Unibank with annual interest rates ranging from 3.0% to 4.8% and 4.6% to 6.8% in 2020 and 2019, respectively. Total bills availments and payments amounted to P1,527.4 million and P1,521.5 million, respectively, in 2020, and P14,004.6 million and P14,929.5 million respectively, in 2019. No outstanding balance as of December 31, 2020. Interest expense incurred on these bills payable in 2020 and 2019 is included as part of Interest and Financing Charges account under Operating Costs and Expenses in the statements of income. The Company did not obtain bills payable in 2021.

c) The Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from three to five years, renewable for such period and under such terms and conditions as may be agreed upon with the Company and BDO Unibank. The related interest expense incurred on lease liability and depreciation of Right-of-use are included as part of Interest and financing charges and Occupancy and equipment related expenses, respectively, under Operating Costs and Expenses account in the statements of income. Before the restructuring, the Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental is presented as part of Other Income-net account in the Company's statements of income. In 2020, in line with the restructuring process, the Company pre-terminated all its leases with BDO Unibank which resulted in a recognition of gain on pre-termination as part of Miscellaneous income under Other Income account for the 2020 statement of income. There were no outstanding receivables and payables on these transactions as of the end of 2021 and 2020.

d) In 2019, the Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Company for certain management services that the former provides to the latter. Management fees paid by the Company to BDO Unibank are shown as part of Other Expenses account under Operating Costs and Expenses in the statements of income. Also, the Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income-net account in the Company's statements of income. There are no outstanding receivables and payables on these transactions as of the end of 2021 and 2020.

As part of the restructuring of Company's leasing business, the service level agreement of Company with BDO Unibank was terminated in 2020. The Company also terminated the service level agreement with BDO Rental.

e) In 2019, the Company sold portion of its receivables to BDO Unibank. The company charged BDO Unibank for service charges and fees which is presented as part of Other income account in the 2019 statement of income. There were no outstanding receivable and payable on these transactions as of the end of 2021 and 2020.

f) Starting 2018, the Company entered into an agreement with BDO Unibank on stock transfer services. Service fees paid by the Company to BDO Unibank are shown as part of Other Expenses account under Operating Costs and Expenses in the statements of income. There were no outstanding receivable and payable on these transactions as of the end of 2021 and 2020.

g) The Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for services related to the Company's issuance of short term commercial papers. Service charges and fees paid by the Company to BDO Capital amounting to P94,777 for 2020 and P2,076,250 for 2019 are included as part of Other Expenses account under Operating Costs and Expenses in the statements of income. No similar transaction in 2021 and no outstanding payables on this transaction as of the end of 2021 and 2020.

h) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of income of the Company. Short-term employee benefits amounting to nil in 2021, P47.2 million in 2020 and P57.4 million in 2019 include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. On the other hand, retirement benefits expense amounted to nil in 2021, P9.2 million in 2020 and P8.3 million in 2019.

In 2020 and 2019, the Company also granted loans to officers, which are secured by mortgage on the property, bear interest at a range a 7.0% to 9.0% per annum, with terms ranging from three to five years. There were no outstanding loans to officers as of December 31, 2021 and 2020.

i) On October 16, 2020, the Company's retirement fund was transferred to BDO Finance. The retirement fund holds, as an investment, 519,915 shares of stock of the Company as of December 31, 2021 and 2020, which has a market value of P3.16 per share.

j) In 2020, BDO Rental declared cash dividends amounting to P200.0 million (received in 2020).

k) Starting 2016, the Company earned from BDO Insurance Brokers, Inc. (BDO Insurance) service charges and fees for accounts referred amounting to P2.0 million in 2020 and P1.6 million in 2019 and are included as part of Miscellaneous under Other Income account in the statements of income. No similar transaction in 2021 and no outstanding payables on this transaction as of the end of 2021 and 2020.

l) The Company obtained unsecured, short-term bills payable from BDO Strategic Holdings Inc. and SM Prime Holdings, Inc with annual interest rates ranging from 4.9% to 6.4% and 3.9% to 6.3%, respectively, in 2019 (nil in 2021 and 2020). Total availments and payments amounted to P5,324.3 million and P6,323.8 million, respectively, in 2019 (nil in 2021 and 2020) for BDO Strategic Holdings Inc. Total availments and payments amounted to P32,000.0 million and

P34,000.0 million, respectively, in 2019 (nil in 2021 and 2020) for SM Prime Holdings, Inc. The amount outstanding from borrowings is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable is included as part of Interest and Financing Charges account under Operating Costs and Expenses in the statements of income.

m) In 2020, the Company paid BDO Life for group life insurance of the Company's employees. Insurance paid by the Company is presented as part of Occupancy and Equipment Related Expense under Operating Costs and Expenses in the statements of income. No similar transaction transpired in 2021. There were no outstanding receivables and payables on this transaction as of the end of 2021 and 2020.

n) In 2021 and 2020, the Company purchased P70.0 million and P5,847.0 million, worth of UITF from BDO TIG, respectively. The P100.0 million of the securities purchased in 2020 was redeemed on December 29, 2020.

o) The Company also granted loans to other related parties, which bear interest with a range of 4.2% to 11.0% per annum in 2020 and 2019 (nil in 2021). There were no outstanding loans to other related parties as of December 31, 2021 and 2020.

p) In 2019, the Company sold portion of its receivables to BDO Life. In various dates in 2020, in line with the restructuring of BDO Unibank Group's leasing business to optimize the financial needs of clients in line with PFRS 16, the Company sold its core loans and receivables to BDO Life, BDO Finance and BDO Unibank. The related gain on sale of loans and receivables is presented under Revenues in the 2020 statement of income. There is no outstanding receivable on these transactions as of the end of 2020. No similar transaction transpired in 2021.

On various dates in 2020, the Company disposed portion of its financial assets at FVOCI to BDO Unibank and BDO Life. The related gain on sale is presented separately under Revenues in the statements of income for debt securities while for equity securities gains (losses) were booked to Retained Earnings.

In October 2020, the Company agreed to assign, transfer and convey certain foreclosed assets to BDO Unibank with a total carrying value of P212.8 million as of September 30, 2020. No gain or loss was recognized in this transaction. There is no outstanding receivable on this transaction as of December 31, 2021 and 2020.

q) On various dates in 2020, the Company disposed portion of its core loans and receivables to BDO Finance with aggregate carrying amounts of P7,670.0 million resulting to a recognition of gain on sale of loans and receivables totaling P89.5 million which is presented separately under Revenues in the statements of income.

On October 12, 2020, the Company sold its 100% ownership interest in BDO Rental to BDO Finance with a total equity value of P308.0 million which resulted to a recognition of gain on sale of investment in subsidiary totaling P9.5 million as part of Other income account in the statements of income. On October 15, 2020, the Company sold its SMC preferred shares classified as FVOCI to BDO Finance with aggregate carrying amounts of P597.5. million. No gain or loss was recognized on the sale.

On October 16, 2020, the Company agreed to assign irrevocably and absolutely to BDO Finance certain other assets and other liabilities with total proceeds equal to carrying value of P39.0 million and P244.6 million respectively. The transaction resulted in outstanding payable to BDO Finance and is recorded as part of Accounts payable and other liabilities account in the statements of financial position.

The table below summarizes the carrying amounts of other assets and other liabilities sold to BDO Finance on October 16, 2020.

<b>Other Assets:</b>	<b>(in million of pesos)</b>
Accounts receivables – net	P 13.7
Prepaid expenses	3.8
Property and equipment – net	6.2
Retirement assets	14.4
Other intangible asset – net	0.8
Other assets	<u>0.1</u>
	<u>P 39.0</u>
<b>Other Liabilities:</b>	
Accounts payable	P 169.1
Accrued other expenses payable	13.7
Unapplied advance payments	15.3
Deferred income tax payable	( 36.1 )
Other liabilities	<u>82.6</u>
	<u>P 244.6</u>

Other liabilities include, among others, taxes, insurance, mortgage and other fees.

### **Other related parties**

In 2021, the Company sold dollar-denominated cash deposits amounting to USD796,619 at P50.36 exchange rate (Php40.1 million) to BDO Unibank. This transaction resulted in a realized gain of P310,681 and is recorded as part of Other income account under Continuing operations in the 2021 statement of income.

## **PART IV - CORPORATE GOVERNANCE**

### **ITEM 13. CORPORATE GOVERNANCE**

Corporate governance in BDOLF is about effective oversight, strict compliance with regulations, and sustainable value creation to promote the best interest of its various stakeholders

BDOLF affirms its deep commitment to the highest standards of corporate governance practice firmly anchored on the principles of accountability, fairness, integrity, transparency and performance, consistently applied throughout the institution. BDOLF'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.

BDOLF complies, where appropriate, with the SEC Code of Corporate Governance for Publicly-Listed Companies and with the Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions. It follows relevant 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 (ACGS) which serve as essential points of reference.

This report describes the highlights of our corporate governance practices throughout the financial year ended December 31, 2021.

## Governance Structure

### Board of Directors

The Board is composed of eleven (11) seats with two vacancies as of December 31, 2021<sup>2</sup> and aided by 1 Advisor. The members of the Board are all professionals with various expertise in fields relevant to BDOLF's strategic plans such as marketing, strategy formulation, financing regulations, information technology, sustainability, and risk management. It is led by a Non-Executive Chairperson with three (3) Independent Directors, three (3) Non-Executive Directors, and two (2) Executive Directors who are the Officer-in-Charge<sup>3</sup> and Treasurer.

The present composition of the Board exceeds the minimum regulatory standards which require that independent and non-executive directors account for the majority. Independent and Non-Executive Directors of the Company comprise 64% (7 out of 11) of the Board. With 3 seats allocated for Independent Directors or 27%, BDOLF, being a publicly-listed company, complies with Section 22 of the Revised Corporation Code which prescribes that corporations vested with public interest shall have independent directors constituting at least 20% of the Board of Directors.

The Board is aided by one Advisor who is considered as integral part of the Board and whose influence is akin to directors. His opinions and recommendations are taken into consideration by the Board members.

2021 Board Meetings				
Name of Director	Position	No. of Meetings Attended	Total No. of Meetings	% of Attendance
Teresita T. Sy	Chairperson	8	8	100%
Roberto E. Lapid *	Vice Chairman and President	5	5	100%
Manuel Z. Locsin Jr. **	Executive Director and Officer-in-Charge	3	3	100%
Jeci A. Lapus ***	Director	5	8	63%
Nestor V. Tan	Director	8	8	100%
Antonio N. Cotoco****	Director	8	8	100%
Exequiel P. Villacorta, Jr.	Director	8	8	100%
Walter C. Wassmer	Director	8	8	100%
Luis S. Reyes, Jr.	Director and Treasurer	8	8	100%
Ma. Leonora V. De Jesus	Independent Director	8	8	100%
Jesse H.T. Andres	Independent Director	8	8	100%
Vicente S. Pérez, Jr	Independent Director	8	8	100%

\*Resigned as Director effective May 12, 2021

\*\*Appointed as Director effective May 12, 2021

\*\*\*Passed away on July 11, 2021

\*\*\*\*Resigned as Director effective December 31, 2021

In evaluating the suitability of an individual board member and promoting diversity in the composition of the Board, the Nominations Committee annually reviews the Board and Board Committee

<sup>2</sup> One director, Mr. Jeci Lapus (independent), passed away on July 11, 2021, while another director, Mr. Antonio Cotoco (non-executive) resigned effective December 31, 2021. These vacancies were not filled due to unavailability of qualified nominees. Nine directors, however, are still sufficient to constitute a quorum for transaction of business.

<sup>3</sup> Mr. Roberto Lapid retired as President and resigned as Vice-Chairman of the Board on April 30, 2021 and May 12, 2021 respectively. Mr Manuel Z. Locsin Jr. assumed the position as Officer-in-Charge effective May 1, 2021, and as Board member on May 12, 2021.



composition to ensure appropriate balance of skills, competencies, experience of its members, and diversity to ensure the alignment with the new regulations. The Committee recommends to the Board of Directors the slate of nominees for election to the Board of Directors during the Company's annual stockholders' meeting. The Committee takes into account the relevant qualifications of every candidate nominated for election, with competence and integrity as the primary factors, including other criteria such as, among others, physical/ mental fitness, relevant educational and professional background, personal track record, experience/training, commitment to contribute, willingness to serve and interest to remain engaged and involved without regard to race, gender, ethnic origin, religion, age or sexual orientation.

The Board is also responsible for approving the selection and appointment of a competent executive management led by the President including the heads of units who exercise control functions i.e. Chief Compliance Officer, Chief Risk Officer, and Chief Internal Auditor. Fit and proper standards are applied in the selection of key officers and utmost consideration is given to their integrity, technical expertise, and industry experience.

Considering the changes done, complexity and scope of the Company's business, the Board believes that its current size and composition provide sufficient diversity among its directors that fosters critical discussion and promotes balanced decision-making by the Board. It views diversity at the Board level which includes differences in skills, experience, gender, sexual orientation or preference, age, education, race, business and other related experience as an essential element in maintaining an effective board for strong corporate governance.

During the year, the Board reviewed and approved the Company's release of the 2020 audited financial statements within 61 days from year end. Its oversight functions include the review of financial performance of senior management and work of the various committees in accordance with their Terms of Reference.

In 2021, the Board also approved the appointment of the new Officer-in-Charge Manuel Z. Locsin Jr., vice Roberto E. Lapid who retired from the Company. The Board also approved the appointment of the new Compliance and Corporate Governance Officer Katherine U. Resari, vice Angelita C. Tad-y who was re-assigned as Comptrollership and Operations Head of BDO Finance Corporation.

The Board also appointed Mr. Vicente S. Perez Jr. as Nominations Committee member (vice Antonio N. Cotoco who retired from the Company), and Mr. Exequiel P. Villacorta, Jr. as Related Party Transactions Committee member, vice Mr. Jeci Lapus (who passed away in July 2021).

## **Improving Board Effectiveness**

### **Board Performance**

A yearly self-assessment is conducted focusing on the performance of the Board, directors, Committees and senior management, through the Corporate Governance Committee, using an approved set of questionnaires. The performance evaluation process begins with sending out customized Board Evaluation Questionnaires to each director and advisor. They are required to complete the questionnaire and explain the rationale of their response. The results of which are tabulated and consolidated. In 2021, the Company conducted such Board Effectiveness Evaluation to provide governance inputs to the Board and give insight to high priority areas which they can focus on for the upcoming year.

BDOLF likewise was a recipient of the Golden Arrow recognition from the ICD based on the 2020, 2019 and 2018 ASEAN Corporate Governance Scorecard (ACGS). The Golden Arrow recognition is a vote of confidence and trust on BDOLF's adherence to good corporate governance.

## **Continuing Education for Directors**

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 industry. All directors of BDOLF complied with the annual corporate governance training requirement of four (4) hours for 2021. All directors of BDOLF attended the in-house corporate governance seminar facilitated by Gartner Executive Programs last September 1, 2021. It concentrated on the impact of geopolitics on digital business, design and delivery for customer facing digital products and digital leadership.

## **Succession Planning**

Succession planning for the Board and senior management is an important part of the governance process. The Corporate Governance Committee reviews the succession framework and leadership development plans for senior management, which are subsequently approved by the Board. As part of the periodic review, the succession framework is updated and training programs are conducted accordingly.

## **Remuneration**

Our Remuneration policy is geared towards attracting, retaining and motivating employees and members of the Board. The remuneration framework for senior management includes fixed pay, bonuses and the Employee Stock Option Plan (ESOP) as a long term incentive program. A claw back mechanism is in place, where the benefits and rights accruing from the ESOP can be revoked or forfeited, if the eligible employee is terminated from service for cause or in the event of imposition of an administrative or disciplinary sanction or penalty against the eligible employee at any time during and after the vesting period prior to exercise. It is linked to corporate and individual performance, based on an appraisal of senior management. All qualified employees may be entitled to an annual merit increase in salary, based on their performance for the immediately preceding year. This has a long-term and compounding effect to the fixed pay, which serves as basis for their retirement benefit. Non-Executive Directors (NEDs) receive per diem for attending board and committee meetings. In addition, the Company grants director fees other than per diem in accordance with law to ensure that the remuneration is commensurate with the effort, time spent and responsibilities of NEDs. There is no distinction on the director's fee for a committee chairman or member.

## **Dividends**

The Company recognizes the importance of providing a stable and sustainable dividend stream consistent with its commitment to shareholders. The payment of dividends entails prior board approval of the amount, record and payment dates as recommended by Management based on the BSP, PSE, and SEC rules on declaration of cash dividends. Upon Board approval, necessary disclosures are made in compliance with regulatory requirements. Upon disclosure of a cash dividend declaration, a trading blackout on BDOLF shares is imposed upon BDOLF directors and officers. Dividends are paid within 30 days from date of declaration. The full dividend policy statement is published in the corporate website. Since the company is still in transition to a holding company, no dividend was paid in 2021.

## **Related Party Transactions**

The Company has established policies and procedures on related party transactions (RPTs) in accordance with BSP and SEC regulations. These include definition of related parties, coverage of RPT policy, guidelines in ensuring arm's-length terms, identification and prevention of potential or actual

conflicts of interest, adoption of materiality thresholds, internal limits for individual and aggregate exposures, whistle-blowing mechanisms, and restitution of losses and other remedies for abusive RPTs. The full version of the Related Party Transactions Policy is published in our corporate website at [https://www.bdo.com.ph/sites/default/files/pdf/corporate\\_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf](https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf).

## Chairperson of the Board

The Chairperson is primarily responsible for leading the Board and ensuring its effectiveness. She provides leadership to the Board, fosters constructive relationships between directors, promotes an open environment for critical discussions and constructive debate on key issues and strategic matters, and ensures that the Board of Directors exercises strong oversight over the Company's business and performance of senior management. She takes a lead role in ensuring that the Board provides effective governance of the Company and continues to operate at a very high standard of independence with the full support of the directors.

## Board Committees

The Board has established six (6) committees to help in discharging its duties and responsibilities. These committees derive their authority from, and report directly to, the Board. Their mandates and scopes of responsibility are set forth in their respective Terms of Reference, which are subjected to annual review and may be updated or changed in order to meet the Board's needs or for regulatory compliance. The number and membership composition of committees may be increased or decreased by the Board as it deems appropriate, consistent with applicable laws or regulations specifically on the majority membership and chairmanship of independent directors in various committees.

As of December 31, 2021, independent directors chair five (5) of six (6) board committees, namely Risk Management, Board Audit, Corporate Governance, Related Party Transactions, and Nominations Committees. 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.

The standing committees of the Board are as follows:

### Executive Committee

Exercises the power of the Board in the management and direction of the affairs of the Company.

- Acts as the main approving body for loans, credits, advances or commitments and property-related proposals.
- Reviews and recommends for Board approval major credit policies, including delegation of credit approval limits.

The Committee approved and adopted revisions in its Terms of Reference (TOR).

<b>2021 Executive Committee Meeting</b>				
Members	Position	No. of Meetings Attended	Total No. of Meetings	% Rating
Nestor V. Tan	Chairperson	1*	1	100%
Teresita T. Sy	Member	1*	1	100%
Antonio N. Cotoco	Member	1*	1	100%
Walter C. Wassmer	Member	1*	1	100%
Manuel Z. Locsin Jr.	Member	1*	1	100%

\* participated via remote communication

## Board Audit Committee

Empowered by the Board to oversee the financial reporting process, system of internal control and risk management systems, internal and external audit functions, and compliance with applicable laws and regulations.

On financial reporting, the Board Audit Committee (BAC) reviewed and recommended for approval to the Board the Company's quarterly unaudited and annual audited financial statements ensuring compliance with accounting standards and tax regulations. On March 1, 2021, it endorsed for approval of the Board the Company's audited financial statements as of December 31, 2020 including the Notes to the Financial Statements. This was approved by the Board on March 1, 2021 and disclosed to the public on March 2, 2021, 61 days from financial year-end. 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 were likewise reviewed.

On external audit, it ensured the independence, qualification, and objectivity of the appointed external auditor, which is accredited by the BSP and SEC. On April 28, 2021, it approved and endorsed for approval of the Board the re-appointment of the Company's external auditor.

As part of its commitment to excellent corporate governance, the Committee conducted a self-assessment for its 2020 performance based on its Terms of Reference. The BAC likewise evaluated the performance of Internal Audit, Compliance and AML departments, and External Audit to ensure their effectiveness and achievement of their objectives. The BAC also approved and adopted revisions to the Terms of Reference (TOR) of the Committee.

The BAC reports its evaluation of the effectiveness of the internal controls, financial reporting process, risk management systems of the Company, based on the report and unqualified opinion obtained from the External Auditor and additional reports and information requested from Senior Management, and found these to be generally adequate across BDOLF.

The Board Audit Committee is chaired by Ma. Leonora V. De Jesus (Independent Director). Its other members are Atty. Jesse H.T. Andres (Independent Director) and Vicente S. Perez, Jr. (Independent Director).

2021 Board Audit Committee Meetings				
Members	Position	No. of Meetings Attended	Total No. of Meetings	% Rating
Ma. Leonora V. De Jesus	Chairperson Independent Director	6*	6	100%
Jesse H.T. Andres	Member Independent Director	6*	6	100%
Vicente S. Pérez, Jr.	Member Independent Director	6*	6	100%

\* Participated via remote communication

## Corporate Governance Committee

Primarily tasked to assist the Board in formulating the governance policies and overseeing the

implementation of the governance practices of the Company

- Annually, it also oversees the performance evaluation of the Board of Directors, its committees, executive management, peer evaluation of directors, and conducts a self-evaluation of its performance. It provides an assessment of the outcome and reports to the Board the final results of the evaluation including recommendations for improvement and areas to focus on to enhance effectiveness;
- Oversees the continuing education program for directors and key officers and proposes relevant training for them.

During the year, the Corporate Governance Committee facilitated the compliance of the directors of the Company with the regulatory requirement for an annual corporate governance seminar for Directors as part of their continuing education. The seminar focused on the Impact of Geopolitics on digital business, design and delivery for digital products and digital leadership. The Committee continuously monitored the Company's compliance with local and international corporate governance standards. It reviewed and endorsed for Board approval the Company's 2020 Integrated Annual Corporate Governance Report to the SEC, which documents the Company's compliance with the SEC Code of Corporate Governance. It also spearheaded the independent annual Board evaluation survey covering the performance in 2020 of the Board of Directors, Board Committees, Senior Management, each Director, and Board Advisor.

The Committee also approved and adopted the Revised Corporate Governance Manual, the Corporate Governance Report and the Sustainability Report for the SEC Form 17-A Annual Report submission. The CGC also approved and adopted revisions to the Terms of Reference (TOR) of the Committee.

<b>2021 Corporate Governance Committee Meetings</b>				
Members	Position	No. of Meetings Attended	Total No. of Meetings	% Rating
Jesse H.T. Andres	Chairman Independent Director	5*	5	100%
Ma. Leonora V. De Jesus	Member Independent Director	5*	5	100%
Vicente S. Pérez, Jr.	Member Independent Director	5*	5	100%

\* Participated via remote communication

### **Risk Management Committee**

- Is responsible for the oversight of the enterprise risk management program of the Company
- Is responsible for approving risk appetite levels, risk management policies, and risk tolerance limits to ensure that current and emerging risk exposures are consistent with the Company's strategic direction and overall risk appetite. It approves the appropriate strategies for managing and controlling risk exposures, including preventing and/or minimizing the impact of losses if risk becomes real.
- Oversees the implementation and review of the risk management plan, including the system of limits of discretionary authority delegated by the Board of Directors to management under its purview and ensures that immediate corrective actions are taken whenever limits are breached.
- Is responsible for evaluating the continued relevance, comprehensiveness and effectiveness of the risk management framework.



- Is also responsible for the appointment/selection, remuneration, performance evaluation, and dismissal of the Chief Risk Officer, and shall ensure that the risk management function has adequate resources and effectively oversees the risk taking activities of the Company.
- Works with the Audit Committee in certifying in the Annual Report the adequacy of the Company's risk management systems and controls.

During the year, the Committee also approved revisions to its Terms of Reference (TOR).

<b>2021 Risk Management Committee Meetings</b>				
Members	Position	No. of Meetings Attended	Total No. of Meetings	% Rating
Vicente S. Pérez, Jr.	Chairman Independent Director	1*	1	100%
Jesse H.T. Andres	Member Independent Director	1*	1	100%
Nestor V. Tan	Member Non-executive Director	1*	1	100%

\* Participated via remote communication

### **Nominations Committee**

- Leads the process of identifying candidates for election and appointment of Directors and all other positions requiring appointment of the Board of Directors, giving full consideration to succession planning and the leadership needs of the Company. In particular, this process includes the profiling of the skills and competencies of the currently serving directors, the gaps in skills and competencies identified and the search for candidates who are aligned with the Company's directions to fill the gaps. It then makes appropriate recommendations to the Board;
- Makes recommendations to the Board on the composition and chairmanship of the various committees;
- Keeps under review the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive Directors, and makes recommendations to the Board with regard to any changes.

During the year, the NomCom reviewed and endorsed to the Board the various Executive and Director appointments, and approved revisions to the Committee's Terms of Reference (TOR).

<b>2021 Nominations Committee Meetings</b>				
Members	Position	No. of Meetings Attended	Total No. of Meetings	% Rating
Jesse H.T. Andres	Chairman Independent Director	1*	1	100%
Antonio N. Cotoco	Member Non-executive Director	1*	1	100%
Ma. Leonora V. De Jesus	Member Independent Director	1*	1	100%

\* Participated via remote communication

### **Related Party Transactions Committee**

- Assists the Board in its oversight of the conduct of all Related Party Transactions (RPTs) to protect the interests of the Company and its stakeholders;

- Ensures proper disclosure of all approved material RPTs in accordance with applicable legal and regulatory requirements.

During the year, the RPTC confirmed the non-material RPT transactions in 2020, and, also approved and adopted revisions to the Terms of Reference (TOR) of the Committee.

<b>2021 Related Party Transactions Committee Meetings</b>				
Members	Position	No. of Meetings Attended	Total No. of Meetings	% Rating
Jesse H.T. Andres	Chairman Independent Director	2*	2	100%
Ma. Leonora V. De Jesus	Member Independent Director	2*	2	100%
Jeci A. Lapus	Member Independent Director	1*	2	100%**

\* Participated via remote communication

\*\* passed away on July 2021

### **Independent Control Functions**

#### **Compliance**

BDOLF's Compliance Unit, thru the Compliance Officer (CO), oversees the design of the Compliance System, the overall compliance framework of the Company executed through a Compliance Program, and promotes their effective implementation. BDOLF Compliance Unit reports to and is under the direct supervision of the Board Audit Committee. It is responsible for overseeing, coordinating, monitoring and ensuring compliance of the Company with existing laws, rules and regulations through the implementation of the overall compliance system and program in accordance with the requirements of the BSP and other regulatory agencies, including but not limited to the identification and control of compliance risks, prudential reporting obligations as well as compliance training. BDOLF's Compliance System forms the processes, people, policies and other components that, as an integral unit, ultimately drive the Company's initiatives to conform to industry laws, regulations and standards. In line with the Company's initiatives is its commitment to ensure that activities of the Company and its personnel are conducted in accordance with all applicable laws and regulations and industry standards, and this commitment to compliance serves to protect the Company and its stakeholders.

BDOLF Compliance Unit also focuses on the enforcement of the Company's Anti-Money Laundering (AML), Counter-Terrorist Financing (CTF) Program, and Combating Proliferation Financing (CPF), in accordance with the Anti-Money Laundering Law as amended; Terrorism Financing Prevention and Suppression Act, and Anti-Terrorism Act (ATA) and their respective Implementing Rules and Regulations (IRRs). The Company also adheres with BSP and Anti-Money Laundering Council (AMLC) Rules, Regulations and Directives. The AML Program of the Company is articulated in the Company's Board-approved Money Laundering and Terrorist Financing Prevention Program (MTPP) Manual, which covers AML/CTF/CPF policies and information such as: (i) customer on-boarding, (ii) customer risk assessment and due diligence, (iii) handling and monitoring of clients and their transactions, (iv) Covered and Suspicious reporting, (v) record-keeping, (vi) AML/CTF training (vii) AML System and technology platforms, and (viii) Institutional Risk Assessment. Compliance Unit likewise oversees the investigation of suspicious transactions under the auspices of the AML Committee that is comprised of select key senior officers of the Company.

BDOLF Compliance Unit and its compliance program endeavors to protect the Company's franchise, manage compliance risks and simultaneously supports the business goals and growth of the Institution by providing appropriate compliance insights and regulatory guidance to safeguard the Company and its stakeholders.

## **Internal Audit**

The Internal Audit Function covers the entire BDO Group including subsidiaries. It adheres to the principles required by the ISPPA (International Standard for the Professional Practice of Internal Auditing), COSO Internal Control -Integrated Framework, COBITs (Control Objectives for Information and Related Technology), the Internal Audit Definition and Code of Ethics.

It provides assurance and a systematic, disciplined approach to evaluate and improve effectiveness of risk management, internal control, and governance processes. Upholding a commitment to integrity and accountability, Internal Audit provides value to senior management and governing bodies as objective source of independent advice.

Internal Audit reports to the Board of Directors through the Board Audit Committee (BAC) (parent bank and respective subsidiaries). It seeks BAC approval for the annual audit plan, provides updates on accomplishments, reports results of audit conducted and tracks resolution of audit findings.

## **Consumer Protection Practices**

BDOLF's financial consumer protection framework is anchored on disclosure and transparency, protection of client information, fair treatment, effective recourse, and financial education and awareness. The framework ensures that consumer protection practices are embedded in the business and considered in the development and implementation of products and services.

The Board is primarily responsible in maintaining an effective oversight on the Company's consumer protection policies and programs. Senior management implements the Board-approved strategy and ensures that control mechanisms are in place.

BDOLF's Consumer Assistance Management System reflects the Company's commitment that customers are treated fairly, honestly, and professionally at all stages of their relationship with the Company.

Since the leasing and financing business of BDOLF already ceased in October 2020, there were no customer cases reported for 2021.

## **Data Privacy**

The Company has in place a Data Privacy Management Program (DPMP), which serves as the framework for protecting the data privacy rights of the Company's data subjects, to ensure compliance with the Philippine Data Privacy Act (PDPA). The Company appointed a Data Protection Officer (DPO) who is registered with the National Privacy Commission (NPC). The Data Privacy Policy, Privacy Statement, and Breach Reporting Procedures were established, including the templates for Consent, Data Sharing Agreement, and Outsourcing Agreement.

## **Compliance with the SEC Code of Corporate Governance**

Publicly-listed companies are advised to disclose in their Annual Report the company's compliance with the Code of Corporate Governance and where there is non-compliance, to identify and explain the reason for such issue. We confirm that as of December 31, 2021, the Company has substantially com-

plied with the recommendations of the Code except for the following: 1) Policy on retirement age of directors; 2) Disclosure of executive remuneration on an individual basis; 3) voting system for majority of non-related party shareholders to approve material related party transactions during shareholders meeting; 4) voting mechanism such as supermajority or “majority of minority” to protect the minority shareholders against actions of controlling shareholder; 5) Non-holding of executive sessions with the Heads of the Control Functions (i.e. Internal audit, compliance and Risk management functions) by Non-Executive Directors; 6) Ratification by the stockholders of the re-appointment of the external auditor.

On the retirement age of directors, the Board recognizes the fact that chronological age is not the main factor in determining effectiveness of the director in discharging his duties and responsibilities. The wisdom of senior directors is a valuable asset. The Board derives much benefit from their counsel and will continue to utilize them for the benefit of all its Stakeholders. Age discrimination is discouraged by law, as once a director has been elected, removal due solely to age is prohibited. In this regard, the Board decided to hold in abeyance the implementation of a retirement age policy for directors and instead review the individual director’s potential contribution to the Company and its Stakeholders, and decide on that basis.

On the voting system for material related party transactions by majority of non-related parties, although a formal voting system is not in place, material RPTs are presented during the annual stockholders meeting, together with the other acts of the Board for ratification by stockholders. The majority of non-related party shareholders thereby are afforded the mechanism to exercise their votes on material related party transactions.

Similarly, the Company affirms the voting rights of the minority shareholders relative to major corporate acts requiring the approval of at least 2/3 of the shareholders. Moreover, in accordance with law, the Company recognizes and respects the appraisal right of any shareholder in case of dissenting vote on any approved major corporate actions as applicable. As additional mechanisms to protect minority shareholders, the Company has in place its Related Party Transactions Policy to protect against improper conflict of interest, Personal Trading Policy to prevent insider trading and Whistle Blower to provide a channel for reporting of illegal practices, abuse of authority and fraudulent activity, etc. without fear of reprisal.

In light of the cessation of the Company’s leasing and financial operations in 2020, no executive sessions with the Heads of Control Functions (i.e. Internal audit, compliance and Risk management functions) and the Non-Executive Directors were held for the year while the Company is in transition to a holding company.

On the Term Limit of Independent Directors, Independent Directors Ma. Leonora de Jesus and Atty. Jesse Andres reached the tenor limit of nine years on January 1, 2021. Ms. de Jesus and Atty. Andres are currently serving on holdover capacity in view of the postponement of the Company’s 2021 Annual Stockholders’ Meeting due to the following as previously disclosed to the public:

1. Pending request for reconsideration of the order of suspension by the Securities and Exchange Commission (SEC); and
2. The conversion of BDOLF to a holding company and the pending request for the surrender of its secondary license with the SEC.

The next election of directors was held during the 2022 Annual Stockholders’ Meeting (ASM) last 20 April 2022, where new Independent Directors were elected in their place.

Finally, the ratification by the stockholders of the re-appointment of the external auditor was similarly presented during the April 20, 2022 ASM.

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

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

### **Shareholders**

The Company 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 the 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 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, by proxy, or by remote communication, the annual stockholders' meeting to ensure their participation and active involvement in the affairs of the Company. Shareholders will be given equal opportunities to raise questions, make suggestions and recommendations pertaining to the operations of the Company. They can vote by remote communication or in absentia, or assign proxies to vote on their behalf if shareholders cannot 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 2021, however, in view of the pending request for reconsideration of the order of suspension by the Securities and Exchange Commission (SEC); the planned conversion of BDOLF to a holding company, and the pending request for the surrender of its secondary license with the SEC, the Board approved the postponement of the Annual Shareholders' Meeting in the meantime. Further, while the company is in transition to a holding company, it also did not declare any dividends in 2020 and 2021.

The Company recognizes that all shareholders should be treated fairly and equally whether they are controlling or minority, local or foreign. The Company accepts the votes cast by nominees and custodians in behalf of the beneficial owners as valid. Shareholders may exercise their right of appraisal in case of amendment to the Articles of Incorporation that has the effect of changing or restricting their rights.

### **Investors**

BDOLF adopts a pro-active relationship with its stockholders through its Investor Relations' (IR) comprehensive engagement program. IR articulates the Company's strategic direction as well as financial and operating results and conducts one-on-one meetings and conference calls.

Relevant information is also shared through official disclosures posted via PSE Edge and company website.

- Regular feedback from investors to Senior Management and the Board.

IR regularly conveys feedback from investors and analysts to Senior Management and to the Board for a better appreciation of market sentiment towards the Company, through periodic updates on shareholder developments and write-ups and comments about the Company.

- Coordination with other units for the disclosure of public information about the Company

IR recognizes the need for accurate and updated information of the Company's financial condition and all matters affecting the Company. It coordinates with the Corporate Secretary's Office and Marketing Communications Group (MCG) to ensure the timely disclosure and posting of material and relevant information.

IR directly liaises with the Company's stock transfer agent on matters relating to stockholders' claims for cash dividends, updating of contact information and requests for documents and/or information regarding their stockholdings.

Shareholders can request relevant information from the Corporate Secretary or Investor Relations Unit through the contact details provided in the Company's official website.

## **Customers**

Since the company ceased its leasing and financing operations in October 2020, the Company did not have any customers during the year.

## **Creditors, Counterparties and Suppliers**

The Company is committed to meet its contractual obligations with all creditors and counterparties based on the covenants agreed with them.

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

## **Competitors**

Since the company ceased its leasing and financing operations in October 2020, the Company no longer has any competitors at this time.

## **Employees**

The Company considers its Human Resources as extremely valuable. To ensure the protection and well-being of the employees, the Company has implemented policies and programs that cover the following areas:

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

As a financial institution, BDOLF 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 relationships with external shareholders. These reflect the core values the institution subscribe to and promote.

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

## **Training and Development**

BDOLF continues to provide training opportunities aligned with business requirements and employees' potentials and capabilities. In 2021, BDOLF employees are limited to the five Corporate Officers of the company. Training programs include job specific technical training, management and leadership training programs which aim to develop and enhance the knowledge, skills, managerial and leadership capabilities, attitude and mindset of employees. Improvements in the design and delivery of eCourses and targeted training programs continue to ensure more effective retention of the knowledge



learned. Culture and values, service excellence, regulatory requirements, job knowledge as well as leadership development continue to be the focus in 2021 to sustain availability of ready talents that 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 industry. All directors of BDOLF complied with the annual corporate governance training requirement of four (4) hours for 2021. Ten (10) directors, together with the Company's key executives, attended an in-house corporate governance seminar last September 1, 2021 done virtually. It concentrated on the impact of geopolitics on digital business, design and delivery for customer facing digital products, and digital leadership.

## **Employee Welfare**

BDOLF 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 Company 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.

## **Health and Safety**

BDOLF is committed to maintain a positive, harmonious and professional work environment with due importance accorded to the 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 is strictly enforced;
- No firearms allowed in the 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 building to make the office safe and accessible to PWDs;
- Regular safety inspections in the corporate office to rectify immediately all noted unsafe conditions; and
- Emergency Response Teams to ensure availability of emergency response personnel in time of disaster.
- Safety and health training

In 2021, the Company, through BDO Unibank, conducted the following initiatives to improve the health and safety of all employees and customers inside the premises:

In response to the Covid19 pandemic, the following programs and protocols were continuously implemented:

- Covid Care Hotline provided to all employees (teleconsult);

- Frequency of Covid-19 antigen testing for employees was increased during surge of cases to weekly and fortnightly for client-facing and other employees, respectively;
- Personnel exhibiting Covid-like symptoms, upon medical assessment, are referred for reverse-transcriptase polymerase chain reaction (RT-PCR) testing;
- Provision of masks and vitamins to employees;
- Provision of alcohol and soap at the branches and buildings;
- Installation of acrylic barriers and signage for physical distancing;
- Installation of temperature scanners at the entrance of Corporate Centers and provision of portable temperature scanners in other offices;
- Body temperature of employees is measured thrice daily;
- Provision of oximeters to monitor the oxygen saturation level of employees;
- Paperless contact tracing at the branches;
- Regular disinfection of premises; and,
- Weekly inspection on the compliance with Covid-19 control at the branches and buildings, among others.
- Work from home setup to some groups
- Inspection of ventilation system of buildings
- Published 262 advisories on Covid-19 prevention in 2021

The BDO Group has a Health and Safety Committee meeting on a regular basis 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 Central Operations Group Head.

BDO Group 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. BDO Paseo Tower
9. Double Dragon Meridian, Pasay

## **Government and Regulators**

The Company supports compliance with the spirit, not just the letter, of the laws and regulations of the jurisdictions where 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.

## Transparency and Disclosures

BDOLF 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)
- SEC form 20-IS Definitive Information Sheet (DIS)
- SEC form 17-A (Annual Report)
- SEC form 17-C (Current Reports - Material Information)
- SEC form 17-Q (Quarterly Report)
- SEC form 23-A/B (Statement of Changes in Beneficial Ownership of Securities)
- 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](http://www.pse.com.ph)

In particular, BDOLF released the 2020 audited financial statements on March 2, 2021 or just 61 days after close of the financial year to promote transparency and full disclosure of the results of the operations of the Company.

Other key information disclosed by the Company included the composition of the Board, role and activities of board committees, meetings held and attendance of directors, directors' 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, 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 Company's official website <https://www.bdo.com.ph/leasing/about-leasing> (See "Investor Relations" and "Corporate Governance"). The details of established corporate governance policies are found in the Revised Corporate Governance Manual.

## Evaluation System

The Company 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 Company supports the principle and regulatory mandate of checks 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 and Compliance Officer to assist the Board in its oversight functions.

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

The Company, with BDO Unibank's guidance, is constantly aligning its corporate governance system with the international practice taking into account the continuous developments in national regulations.

## **Looking Ahead**

While the Company has already ceased its leasing and financing operations in October 2020 as approved by the Board of Directors and stockholders, the Company's strategic direction is to convert BDOLF into a holding company upon approval by regulators, for investment purposes or, depending on the terms of outstanding offers, pursue the sale of its shares with prospective buyers.

As part of the BDO Unibank Group, the Company plans to continue to look at ways to optimize the use of new technologies to strengthen our corporate governance practices while remaining vigilant on the risk of digitization to our business. 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 Company. This is essential going forward 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. The BDO Group continues to be mindful of these and creating a positive impact on sustainability as it continues to report annually on its sustainability performance and contribution to the UN Sustainable Development Goals.

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

### **Corporate Social Responsibility (CSR)**

The Company's CSR commitment is manifested through the BDO Foundation, the corporate social responsibility arm of BDO Group which undertakes initiatives to address the needs of the underprivileged and marginalized members of society. In 2021, the foundation fulfilled its disaster response, financial inclusion, rehabilitation and rebuilding advocacies. It also continued to implement interventions in response to the novel coronavirus pandemic for the benefit of Filipinos most affected by the health crisis.

### **COVID-19 response programs**

BDO Foundation implemented programs designed to help contain COVID-19, support frontliners and help communities severely affected by the pandemic.

BDO Foundation's COVID-19 pandemic response included the following:

- Distribution of food assistance in marginalized communities all over the country in partnership with *Ako Bakwit*, Caritas Philippines, Tanging Yaman Foundation and social action centers
- Donation of hygiene kits to health workers and patients in Capiz, Iloilo and Negros Oriental provinces
- Provision of manpower support—nurses and medical technicians—for the vaccine rollout of General Santos City and Iloilo City to mitigate the surge in cases due to the Delta variant of the COVID-19 virus
- Contribution to the Project Balik Buhay Salary and Bonus Assistance for our Bidas program, which provided financial incentives to nurses stationed in the intensive care units, emergency rooms and COVID wards of hospitals in Cebu, an initiative supported by the Department of Health and

## Office of the Presidential Assistant for the Visayas

- Assistance in the vaccination of BDO employees' relatives

BDO Foundation's COVID-19 programs benefited 16,750 families, 2,055 health workers and patients, 1,800 vaccinees in General Santos and Iloilo, nurses in eight hospitals, and 1,066 vaccinees nominated by donors as well as people in 30 parishes and persons deprived of liberty in 48 prisons. The initiatives were backed by BDO Unibank and BDO Network Bank branches, local government units, medical organizations, hospitals, non-governmental organizations and volunteers who provided logistical assistance on the ground.

### **Rehabilitation and upkeep of rural health units**

Despite the limitations caused by the pandemic, BDO Foundation completed the rehabilitation of 21 rural health units (RHUs) in the provinces of Batangas, Bohol, Catanduanes, Ilocos Sur, Iloilo, Isabela, Masbate, Negros Occidental, Samar and Surigao del Norte with 716,543 people as beneficiaries. Supported by the DOH and local government units, the initiative was made possible by officers of BDO and BDO Network Bank branches, who helped identify rural health units that needed assistance and handled local coordination.

The rehabilitation program is in line with the foundation's efforts to help improve the healthcare delivery system, one of the goals under the Philippine health agenda. It is also the foundation's contribution 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. As a pandemic response, the initiative is critical as RHUs support efforts to curb the spread of the coronavirus. Health centers provide free antigen testing and implement the vaccination programs of local government units.

BDO Foundation selected rural health units particularly in economically disadvantaged and disaster-affected areas. It significantly improved the health centers' exteriors, reception and waiting areas, offices and clinics, consultation rooms, treatment rooms, pharmacies, furniture and fixtures. Further, the foundation built breastfeeding stations for nursing mothers, play areas for children and waiting lounges for senior citizens.

As a result of these improvements, rural health units received high assessment scores from the DOH and accreditation from PhilHealth. Doctors, nurses and midwives became better equipped to provide primary and maternal health services to their constituents.

In addition to the rehabilitation of RHUs, BDO Foundation also completed the maintenance, repair and upkeep of 10 previously rehabilitated health centers in Agusan del Sur, Aklan, Biliran, Camarines Sur, Ilocos Sur, North Cotabato, Nueva Ecija, Samar and Sorsogon provinces for the benefit of 564,097 people.

### **Construction of Tech-Voc Training Facility**

BDO Foundation continued to look after the welfare of disaster-affected Filipinos long after the typhoons have made landfall. Dumangas town in Iloilo province was hard hit by Super Typhoon Yolanda (Haiyan) in 2013. To help rebuild the community, the foundation constructed a technical-vocational training facility at the Don Bosco Technical and Vocational Education and Training Center - Dumangas in partnership with the Salesian Society of St. John Bosco.

The two-storey structure serves as a workshop, where senior high school students can learn technical-vocational livelihood skills. The building enables administrators to introduce new courses, accommodate more enrollees and teach more learners. It supports Don Bosco's mission to educate, evangelize and capacitate Filipino youth. The center educates economically disadvantaged and out-of-school youth for gainful employment in the Philippines and abroad. Around 146 students stand to benefit every year from the facility the foundation built.

BDO Foundation's initiative in Iloilo contributes to the achievement of Sustainable Development Goal 8 to promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all.

## **Financial education programs**

In partnership with the Bangko Sentral ng Pilipinas (BSP) and in support of BSP's National Strategy for Financial Inclusion, BDO Foundation continued to promote financial inclusion programs in partnership with the Department of Education (DepEd), Overseas Workers Welfare Administration (OWWA), Civil Service Commission (CSC) and Armed Forces of the Philippines (AFP). Programs with new partners including the Bureau of Fire Protection (BFP), Bureau of Fisheries and Aquatic Resources (BFAR), and Philippine National Police (PNP), and Agricultural Credit and Policy Council (ACPC) were implemented.

BDO Foundation and its partners shared financial literacy lessons with public school students, teachers and non-teaching personnel; OFWs and recipients of remittances; civil servants; and uniformed and civilian personnel of the armed forces; personnel of the government's fire service agency; the police; fisherfolk; and farmers. Beneficiaries learned lessons on saving, budgeting and financial planning, investments, debt management, the responsible use of credit, entrepreneurship, avoiding scams and retirement planning, among other topics. So far, the programs have reached 2,600,000 learners, 13,575 OFW-participants of OWWA's Pre-Departure Orientation Seminars, 90 CSC master trainers, 3,199 uniformed and civilian personnel of the AFP, 98 BFP trainers and 1,950 BFP personnel, and 51 BFAR trainers.

In line with the implementation of the programs, the foundation embarked on several key initiatives.

- DepEd issued DepEd Order No. 022, Series of 2021, detailing its Financial Education Policy to ensure that financial education will be taught nationwide using the materials developed by BDO Foundation. The policy covers all learners, teachers and non-teaching personnel from public and private elementary, junior and senior high schools, as well as learning centers for Special Education, Alternative Learning Systems, Indigenous Learning Systems and the Madrasah Education Program covering Muslim culture, customs and traditions.
- The foundation and DepEd partnered with Huawei Philippines as sponsors for a teacher competition called the "Search for the Best Supplemental Learning Materials in the Teaching of Defined Key Concepts in Science and Mathematics." The nationwide contest was designed to encourage teachers to submit innovative learning modules that integrate financial literacy into the teaching of Science and Math subjects. The partnership with Huawei included the donation of 33 laptops to selected public schools.
- AFP officers conducted a focus group discussion funded by BDO Foundation to identify the financial literacy lessons that the armed forces will cover in its training courses.
- The foundation, BFAR and BSP created the Fish N' LEarn game, an innovative teaching tool designed to make financial literacy lessons engaging for fishers. Through the training intervention, participants are expected to learn lessons on conserving marine resources, saving for the future, expanding sources of income, proper use of insurance and debt management. The target audience will be provided with instructional materials, cards and play money produced by BDO Foundation.
- In partnership with BSP, CSC, AFP, BFP, and BFAR, four learning modules were drafted for civil servants, armed forces personnel, firefighters and fishers. Six new financial education videos—three for OFWs and three for civil servants—were produced. Five virtual learning sessions were conducted for DepEd, CSC and BFAR personnel. An online training session was also facilitated for farmers in partnership with East-West Seed.

For the fourth consecutive year, BDO Foundation supported the BSP's Financial Education Stakeholders Expo, a five-day virtual event that gathered financial education advocates. Together with the BDO Trust and Investments Group, the foundation featured the Personal Equity and Retirement Account or PERA in its virtual booth. Working with BDO Remit, film actor and BDO brand ambassador



Piolo Pascual shared financial literacy lessons and his personal approach to money management in a plenary session on “Preparing the Filipino Youth for a Financially Healthy Future.”

### **Relief operations**

BDO Foundation continued to mount relief operations all over the country, providing aid in provinces placed under a state of calamity. In 2021, the foundation organized relief efforts in response to a fire incident in Occidental Mindoro, the Taal Volcano eruptions and Typhoons Bising (international name: Surigae), Fabian (Cempaka), Maring (Kompasu) and Odette (Rai) for the benefit of 54,120 Filipinos. These were made possible by officers and staff of BDO and BDO Network Bank branches, who made monetary contributions, identified communities that needed assistance, gathered beneficiary information and coordinated relief operations.

Prior to the pandemic, BDO Foundation mobilized employee-volunteers from branches and satellite offices. BDO volunteers visited evacuation sites in cities and towns hit hardest by the disasters to distribute hygiene kits and relief packs containing food, rice and drinking water. As the quarantines were imposed all over the country, the foundation leveraged the support of partner non-governmental organizations, churches, police personnel, the military and local government units for aid distribution.

### **Handog sa ‘Yo ng BDO Foundation**

BDO Foundation provided food assistance for economically disadvantaged communities all over the country as part of a Christmas gift-giving initiative dubbed Handog sa ‘Yo ng BDO Foundation. In partnership with Caritas Philippines, the social arm of the Philippine Catholic Church, the foundation distributed food packs to 20,000 underserved families in 23 provinces in Luzon, the Visayas and Mindanao.

Handog sa ‘Yo was aimed at giving back to the community during the holiday season and supplementing the food supply of families during hard times. Implementation was made possible with the support of parishes and diocesan social action centers as well as BDO and BDO Network Bank branches in the aforementioned provinces.

### **Other corporate citizenship initiatives**

BDO Foundation made an impact on its beneficiaries through other initiatives.

- Distribution of food assistance to 2,299 underserved families in Aklan, Capiz, Cebu, Davao del Sur, Iloilo, Leyte, Metro Manila, Negros Occidental, Pampanga, Pangasinan, Rizal and Samar in partnership with BDO Network Bank, Beiersdorf Philippines, Jesuit Communications Foundation and U.S.-Philippines Society
- Donation of 1,164 bottles of baby lotion, 512 baby soap bars and other items to Ako ang Saklay Foundation for underserved families in Nueva Ecija
- Donation of 170 computers and 10 scanners to public schools in partnership with BDO Network Bank in support of DepEd's Basic Education Learning Continuity Plan during the pandemic
- Donation of 904 books to Caritas Manila and the Manila City Library
- Sponsorship of the Zero Extreme Poverty Philippines 2030 6th general assembly, themed “Creating a Better Normal Towards Sustainable Communities”, which served as a venue for discussions on efforts to address the effects of the pandemic
- Sponsorship of SEAMEO INNOTECH's Digital Well-being of Filipino Learners: A Webinar on Youth Cybersafety and Digital Citizenship, an online event that featured discussions on how educators can cultivate a secure online environment for learners amid the pandemic

BDO Foundation continues to conduct relief operations, rehabilitate rural health units and implement financial education programs, among other corporate citizenship initiatives. It will also continue to implement programs in response to the pandemic. Supported by the BDO Unibank community, the

foundation will find ways to give back to underserved sectors of society.

## Environmental Initiatives

The BDO Group imposes limits and monitors exposure to certain industries such as production or trade in weapons and munitions, online gaming and equivalent enterprises, hydroelectric plant with weir height of more than 50 meters, illegal mining, illegal fishing and child labor (those deemed to have adverse environmental and social effects to community).

BDO's green financing has been practiced since 2010 and is considered one of the pioneers to have catalyzed sustainable finance in Philippine's banking industry. Through its cooperation with IFC until 2018, the Bank has led financing in green energy investments in Renewable Energy, Energy Efficiency and Green Building projects. In February 2018, BDO was the first to have issued a \$150 million green bond in the country and East Asia Pacific with IFC as its sole investor. In addition, BDO had a partnership with Japan Bank for International Cooperation to relend its \$50 million green facility to environment-related projects focusing on renewable energy in the Philippines in August 2016. Thus, providing our clients with additional financial product that can support their prospective green projects.

In 2021, BDO's Sustainable Finance Framework was certified and given endorsement by Sustainalytics, a leading and independent Environmental, Social and Governance (ESG) research and ratings provider based in New York. Sustainalytics expressed that "BDO's Sustainable Finance Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines in 2018, Green Loan Principles 2020, and the ASEAN Sustainability Bond Standards 2018."

Please refer to the Corporate Social Responsibility Section of the 2021 Annual Report and the 2021 Sustainability Report for more details on the BDO Group's socio-civic programs and initiatives published in our corporate website at ([www.bdo.com.ph](http://www.bdo.com.ph)).

The BDO Group 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), where BDOLF's corporate office is located, 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.

BDO's practice in green financing brings forth solid outcomes and basis for establishing Sustainable Finance Framework which provides guidelines and parameters for green and social impact financing. With continued innovation in green financing, the BDO Group has positioned itself to lead Sustainable Finance across various industries.

## **PART V - EXHIBITS AND SCHEDULES**

### **ITEM 14. EXHIBITS AND SCHEDULES ON SEC FORM 17-C**

#### **Reports under SEC Form 17-C**

Below is a summary of the various disclosures reported by the Company under SEC Form 17-C for the year 2021.


<b>Date Reported</b>	<b>Items Reported</b>
01 March 2021	<p><b>BDO Leasing posts P252 million net income in 2020</b></p> <p>BDO Leasing and Finance, Inc. (BDOLF) registered P252.3 million profit in 2020 from P46.8 million in 2019 on the back of stable asset yields and lower funding costs.</p> <p>Total expenses dropped by 34 per cent to P2.0 billion, with interest and financing charges substantially declining by 62 per cent given the low interest rate environment and lower borrowing levels.</p> <p>Meanwhile, gross revenues fell by 22 per cent to P2.4 billion with the decrease in interest income as the Company's operations were scaled down following the sale of most of BDOLF's earning assets to the BDO Unibank Group (BDO). This was part of the restructuring of the Group's leasing business where the operations of BDOLF fully transitioned to BDO Finance Corporation (BDO Finance), which was established last year to offer customers continued access to lease products and services. BDO Finance likewise assumed the lease transactions booked in BDOLF to ensure continuity to the latter's existing clients.</p>
03 March 2021	<p><b>Appointment of Ms. Katherine U. Resari as Compliance and Corporate Governance Officer</b></p> <p>At its special meeting held on March 1, 2021, the Board of Directors of BDO Leasing and Finance, Inc. (the Corporation) resolved to appoint Ms. Katherine U. Resari as Compliance and Corporate Governance Officer of the Corporation, vice Ms. Angelita C. Tad-y, effective March 2, 2021.</p>
06 April 2021	<p><b>Postponement of the 2021 Annual Stockholders' Meeting</b></p> <p>The Board of Directors of BDO Leasing and Finance, Inc. ("BDOLF"), at its regular meeting held on April 6, 2021, approved the postponement of the 2021 Annual Shareholders' Meeting ("ASM") of BDOLF, which pursuant to BDOLF's By-Laws is scheduled on any day in April of each year.</p> <p>The ASM deferment is in consideration of the following:</p> <ol style="list-style-type: none"> <li>1. Pending request for reconsideration of the order of suspension by the Securities and Exchange Commission (SEC);</li> <li>2. The conversion of BDOLF to a holding company and the pending request for the surrender of its secondary license with the SEC</li> </ol>
30 April 2021	<p><b>Retirement and Appointment of Officers</b></p> <p>Please be informed that the Board of Directors of BDO Leasing and Finance, Inc., at its regular meeting held today, April 28, 2021, approved/noted the following:</p> <ol style="list-style-type: none"> <li>1. Retirement of Mr. Roberto E. Lapid, President of BDOLF, effective April 30, 2021.</li> <li>2. Appointment of Mr. Manuel Z. Locsin, Jr., as Senior Vice President and Officer-in-Charge of BDO Leasing and Finance Inc., effective May 01, 2021, subject to regulatory approval, if necessary.</li> </ol>


Date Reported	Items Reported
12 May 2021	<p><b>Resignation of Director/Officer and Election of New Director</b></p> <p>Please be informed that the Board of Directors of BDO Leasing and Finance Inc. (BDOLF), at its regular meeting held today, May 12, 2021, approved/noted the following:</p> <ol style="list-style-type: none"> <li>1. Acceptance of the resignation of Mr. Roberto E. Lapid as Vice-Chairman of BDOLF, as Director and as a Member of its Executive Committee; and</li> <li>2. Election of Mr. Manuel Z. Locsin, Jr. as new Director of BDOLF and his appointment as a member of its Executive Committee (vice Mr. Lapid) effective May 12, 2021, subject to regulatory approval, if necessary.</li> </ol> <p>Mr. Locsin's secondment to BDOLF as SVP/Officer-in-Charge was previously approved by the Board on April 28, 2021.</p>
12 July 2021	<p><b>Death of the Company's Director</b></p> <p>Demise on July 11, 2021 of Mr. Jeci A. Lapus, distinguished Director of BDO Leasing and Finance Inc. (Company) who had served the Company with much dedication and diligence since April 23, 2014.</p>
27 October 2021	<p><b>BDO Leasing earns P39.8 million in 9M 2021</b></p> <p>BDO Leasing &amp; Finance, Inc. (BLFI) registered P39.8 million profit in 9M 2021 derived solely from fair value gain from investments in Unit Trust Investment Funds (UITFs). Of the P6.0 billion of BDOLF's assets as of end-September 2021, almost all or P5.9 billion was invested in UITFs.</p> <p>The 9M 2021 results were lower compared to P134.6 million earnings a year-ago, as last year's earnings was based on a balance sheet prior to the full implementation of the restructuring of BDO Unibank Group's leasing business. This entailed the sale of substantially all of BLFI's assets to BDO Unibank, BDO Life, and BDO Finance Corporation.</p> <p>BLFI ceased to operate as a leasing company and completed the assignment and transfer of its leasing and financing business to an affiliate, BDO Finance Corporation on October 19, 2020. BDO Finance was established to offer customers continued access to lease products and services, and likewise assumed the lease transactions booked in BFLI to ensure continuity to the latter's existing clients.</p>
22 December 2021	<p><b>Resignation of Director and Appointment of select Committee Members</b></p> <p>Please be informed that the Board of Directors of BDO Leasing and Finance, Inc., at its regular meeting held today, December 22, 2021 accepted the following:</p> <ol style="list-style-type: none"> <li>1. Resignation of Mr. Antonio N. Cotoco as Director, Executive Committee and Nominations Committee member of BDO Leasing and Finance, Inc. (BDOLF), such resignation to become effective on December 31, 2021.</li> <li>2. Appointment of incumbent Independent Director Mr. Vicente S. Perez Jr. as Nominations Committee member (vice Mr. Antonio N. Cotoco) effective January 1, 2022.</li> <li>3. Appointment of incumbent Non-Executive Director Exequiel P. Villacorta Jr. as Related Party Transactions Committee Member (vice Mr. Jeci Lapus who passed away last July 11, 2021).</li> </ol>


## SIGNATURES


Pursuant to the requirements of Section 17 of the RSA and Section 141 of the Corporation Code, this is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Mandaluyong on \_\_\_\_\_.

By:

  
\_\_\_\_\_  
MANUEL Z. LOCSIN JR.  
SENIOR VICE PRESIDENT &  
OFFICER-IN-CHARGE

  
\_\_\_\_\_  
LUIS S. REYES JR.  
TREASURER

  
\_\_\_\_\_  
ANGELITA C. TAD-Y  
FIRST VICE PRESIDENT, COMPTROLLER

  
\_\_\_\_\_  
JOSEPH JASON M. NATIVIDAD  
CORPORATE SECRETARY

**SUBSCRIBED AND SWORN** to before me this MAY 16 day of 2022 affiant(s) exhibiting to me their Competent Evidence of Identity, as follows:

NAMES	TIN	SSS No.
Manuel Z. Locsin Jr.	[REDACTED]	[REDACTED]
Luis S. Reyes Jr.	[REDACTED]	[REDACTED]
Joseph Jason M. Natividad	[REDACTED]	[REDACTED]
Angelita C. Tad-y	[REDACTED]	[REDACTED]

  
**KIM BRIGUERA-DACARA**  
NOTARY PUBLIC FOR THE CITY OF MANDALUYONG  
APPOINTMENT NO. 2016-00000000  
UNTIL JUNE 30, 2022  
IDP LIFETIME ROLL NO. 1010007  
PTR NO. 4887544 / 1-3-22 / MANDALUYONG  
MELR NO. VI-0004837  
24TH FLR., BDO CORPORATE CENTER ORTIGAS  
1101 B AVE., MANDALUYONG

Doc. No. CR  
Page No. 21  
Book No. VIX  
Series of 2022.



# **Statement of Management's Responsibility for Financial Statements**



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of **BDO Leasing and Finance, Inc.** (the Company) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

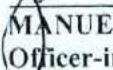
The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the members to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.


Signature: \_\_\_\_\_

  
**TERESITA T. SY**  
Chairperson

Signature: \_\_\_\_\_

  
**MANUEL Z. LOCSIN JR.**  
Officer-in-Charge

Signature: \_\_\_\_\_

  
**LUIS S. REYES JR.**  
Treasurer

Signed this 28<sup>th</sup> day of February 2022

**BDO Leasing and Finance, Inc.**  
39/F BDO Corporate Center Ortigas  
12 ADB Avenue, Ortigas Center  
Mandaluyong City 1554  
Tel +632 8688-1288 loc. 65819/65175/45303

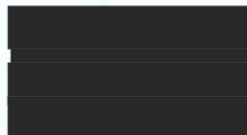
MAR 07 2022

SUBSCRIBED and SWORN to me before this \_\_\_\_\_ day of \_\_\_\_\_, 2022 affiant exhibiting to me his/her Social Security Number, as follows:

### NAMES

Teresita T. Sy  
Manuel Z. Loesin Jr.  
Luis S. Reyes Jr.

### SSS NUMBER



JDC. NO. 65  
PAGE NO. 19  
BOOK NO. VIII  
SERIES OF 2222

**KIM BRIGUERA-DACARA**  
NOTARY PUBLIC FOR THE CITY OF MANDALUYONG  
APPOINTMENT NO. 0204-20  
UNTIL JUNE 30, 2022 (S.M. 3795)  
IRP LIFETIME ROLL NO. 1010007  
PTR NO. 4887544 / 1-3-22 / MANDALUYONG  
MCLE NO. VI-0004637  
29TH FLR., BDO CORPORATE CENTER ORTIGAS  
18 ADB AVE MANDALUYONG

BDO Leasing and Finance, Inc.  
39/F BDO Corporate Center Ortigas  
12 ADB Avenue, Ortigas Center  
Mandaluyong City 1554  
Tel +632 8688-1288 loc. 65819/65175/45303



**P&A**  
**Grant Thornton**

**FOR SEC FILING**

Financial Statements and  
Independent Auditors' Report

**BDO Leasing and Finance, Inc.**

December 31, 2021, 2020 and 2019



## Report of Independent Auditors

**Punongbayan & Araullo**

20th Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 8988 2288

**The Board of Directors and the Stockholders  
BDO Leasing and Finance, Inc.**

**(A Subsidiary of BDO Unibank, Inc.)**

39<sup>th</sup> Floor, BDO Corporate Center Ortigas  
12 ADB Avenue, Ortigas Center  
Mandaluyong City

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of BDO Leasing and Finance, Inc., (the Company), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2021, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRS).

#### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Certified Public Accountants**

Punongbayan & Araullo (PSA) is the Philippine member firm of Grant Thornton International Ltd.

Offices in Cavite, Cebu, Davao  
BOA/PRC Cert of Reg. No. 0002  
SEC Accreditation No. 0002

[grantthornton.com.ph](http://grantthornton.com.ph)



***Material Uncertainty Related to Going Concern***

Without qualifying our audit opinion, we draw attention to Notes 1 and 14(q) to the financial statements, which provides relevant information on the restructuring of BDO Unibank Group's leasing business that led to the disposal and assignment of substantially all assets and liabilities of the Company to wind down its leasing and financing operations as of October 16, 2020 and transfer it to BDO Finance Corporation. The disposal of substantially all the Company's assets and liabilities, and transfer of the leasing and financing business resulted in a material uncertainty and significant doubt on the Company's ability to continue as a going concern. However, as stated also in Note 1 to the financial statements, the Company will be re-purposed into a listed holding company of the BDO Unibank Group, upon approval by the regulators. The Company has sufficient liquid assets (in the form of cash and investment in unit investment trust fund) to fund future investments. As of December 31, 2021, the Company is still waiting for the approval of regulators for its application for a license as a holding company. In connection with our audit, we have performed audit procedures to evaluate management's plans and actions as to likelihood of the situation and as to feasibility under the circumstances. Accordingly, the Company's financial statements have been prepared assuming that the Company will continue as a going concern entity which contemplates the realization of assets and the settlement of liabilities in the normal course of business. Our opinion is not modified in respect to this matter.

***Other Information***

Management is responsible for the other information. The other information comprises the information included in the Company's SEC Form 20-1S (Definitive Information Statement), SEC Form 17-A, and Annual Report for the year ended December 31, 2021, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.





In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

APR 11 2022



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

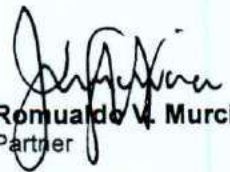
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on Other Legal and Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 15 to the financial statements, the Company presented the supplementary information required by the Bureau of Internal Revenue (BIR) under the Revenue Regulations (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. The supplementary information for the years ended December 31, 2021 and 2020 required by the Bangko Sentral ng Pilipinas (BSP) as disclosed in Note 19 to the financial statements is presented for purposes of additional analysis. Such supplementary information required by the BIR and BSP is the responsibility of management and is not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Revised Securities Regulation Code Rule 68 of the SEC. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner in the audit resulting in this independent auditors' report is Romualdo V. Murcia III.

### **PUNONGBAYAN & ARAULLO**

  
**By: Romualdo V. Murcia III**  
Partner

CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 8852339, January 3, 2022, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-4 (until Sept. 4, 2022)  
Firm - No. 0002 (until Dec. 31, 2024)  
BIR AN 08-002511-022-2019 (until Sept. 4, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

APR 11 2022

February 23, 2022



## Supplemental Statement of Independent Auditors

**Punongbayan & Araullo**  
20th Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

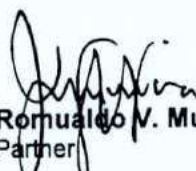
T +63 2 8988 2288

**The Board of Directors and the Stockholders**  
**BDO Leasing and Finance, Inc.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
39<sup>th</sup> Floor, BDO Corporate Center Ortigas  
12 ADB Avenue, Ortigas Center  
Mandaluyong City

We have audited the financial statements of BDO Leasing and Finance, Inc., for the year ended December 31, 2021, on which we have rendered the attached report dated February 23, 2022.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Company has 1,103 stockholders of the Company's common stock as of December 31, 2021.

### **PUNONGBAYAN & ARAULLO**

By:   
**Romualdo V. Murcia III**  
Partner

CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 8852339, January 3, 2022, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-4 (until Sept. 4, 2022)  
Firm - No. 0002 (until Dec. 31, 2024)  
BIR AN 08-002511-022-2019 (until Sept. 4, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 23, 2022



**Certified Public Accountants**

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd.

Offices in Cavite, Cebu, Davao  
BOA/PRC Cert of Reg. No. 0002  
SEC Accreditation No. 0002

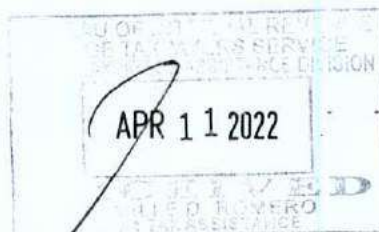
[grantthornton.com.ph](http://grantthornton.com.ph)



BDO LEASING AND FINANCE, INC.  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2021 AND 2020**  
*(Amounts in Philippine Pesos)*

	Notes	2021	2020
<b><u>ASSETS</u></b>			
CASH AND CASH EQUIVALENTS	6	P 15,204,057	P 115,984,914
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	7	5,877,689,641	5,752,692,212
LOANS AND OTHER RECEIVABLES - Net	8	127,392,155	127,404,781
OTHER ASSETS - Net		<u>4,032</u>	<u>13,688</u>
<b>TOTAL ASSETS</b>		<b><u>P 6,020,289,885</u></b>	<b><u>P 5,996,095,595</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>			
ACCOUNTS PAYABLE AND OTHER LIABILITIES	10	<u>P 8,157,623</u>	<u>P 27,504,751</u>
CAPITAL STOCK	11	2,225,169,030	2,225,169,030
ADDITIONAL PAID-IN CAPITAL		571,095,676	571,095,676
TREASURY SHARES	11	( 81,776,628 )	( 81,776,628 )
RETAINED EARNINGS	11	<u>3,297,644,184</u>	<u>3,254,102,766</u>
Total Equity		<u>6,012,132,262</u>	<u>5,968,590,844</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>P 6,020,289,885</u></b>	<b><u>P 5,996,095,595</u></b>

*See Notes to Financial Statements.*



**BDO LEASING AND FINANCE, INC.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019**  
*(Amounts in Philippine Pesos)*

	Notes	2021	2020	2019
<b>CONTINUING OPERATIONS</b>				
<b>Income</b>				
Unrealized fair value gain on unit investment trust fund (UITF) - net	7	P 54,997,429	P 5,692,212	p -
Interest and discounts	6, 14	30,666	-	-
Gain on redemption of UITF	7	-	123,808	-
Other income	12	2,069,009	-	-
		<u>57,097,104</u>	<u>5,816,020</u>	<u>-</u>
<b>Operating costs and expenses</b>				
Taxes and licenses	15	11,388,962	-	-
Directors' fees		3,011,111	-	-
Litigation/assets acquired expenses		422,292	-	-
Occupancy and equipment-related expenses		68,000	-	-
Other expenses	14	4,365,249	-	-
		<u>19,255,614</u>	<u>-</u>	<u>-</u>
Profit before tax		37,841,490	5,816,020	-
Tax income	15	5,699,928	-	-
Net profit from continuing operations		<u>43,541,418</u>	<u>5,816,020</u>	<u>-</u>
<b>DISCONTINUED OPERATIONS</b>				
<b>Income</b>				
Interest and discounts	6, 8, 14	-	1,122,305,523	1,984,197,637
Gain on sale of loans and receivables	8, 14	-	509,971,258	2,736,443
Other income - net	7, 12	-	140,421,331	139,854,955
		<u>-</u>	<u>1,772,698,112</u>	<u>2,126,789,035</u>
<b>Operating costs and expenses</b>				
Interest and financing charges		-	465,867,521	1,276,576,934
Impairment and credit losses - net	8, 9	-	398,845,747	63,121,104
Employee benefits	13	-	210,453,680	238,589,906
Taxes and licenses	15	-	185,097,953	286,403,561
Occupancy and equipment-related expenses		-	35,485,971	53,423,253
Litigation/assets acquired expenses		-	7,965,922	12,423,503
Director's fees		-	4,411,111	5,633,333
Other expenses	14	-	70,528,672	110,697,178
		<u>-</u>	<u>1,378,656,577</u>	<u>2,046,868,772</u>
Profit before tax		-	394,041,535	79,920,263
Tax expense	15	-	( 147,408,072 )	( 33,190,029 )
Net profit from discontinued operations		<u>-</u>	<u>246,633,463</u>	<u>46,730,234</u>
<b>NET PROFIT</b>		<u>P 43,541,418</u>	<u>P 252,449,483</u>	<u>P 46,730,234</u>
<b>Basic and Diluted Earnings Per Share for Continuing Operations</b>				
	16	P 0.02	P 0.01	p -
<b>Basic and Diluted Earnings Per Share for Discontinued Operations</b>				
	16	-	0.11	0.02
<b>Basic and Diluted Earnings Per Share</b>	16	<u>P 0.02</u>	<u>P 0.12</u>	<u>P 0.02</u>

See Notes to Financial Statements.

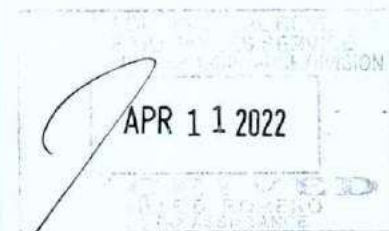
APR 11 2022

FILED NUMBER  
 174835282

BDO LEASING AND FINANCE, INC.  
(A Subsidiary of BDO Unibank, Inc.)  
STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019  
(Amounts in Philippine Pesos)

	Notes	2021	2020	2019
<b>CONTINUING OPERATIONS</b>				
Net profit from continuing operations	P	43,541,418	P 5,816,020	P -
Other comprehensive income		-	-	-
Total comprehensive income from continuing operations		43,541,418	5,816,020	-
<b>DISCONTINUED OPERATIONS</b>				
Net profit from discontinued operations		-	246,633,463	46,730,234
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to profit or loss				
Fair valuation of equity investments at fair value through other comprehensive income (FVOCI):				
Fair value gains during the year	7	-	40,808,298	194,831,568
Fair value losses on redemption/disposal of financial assets at FVOCI	7	-	( 71,036,187 )	( 3,822,951 )
Remeasurements of post-employment defined benefit plan		-	102,696,179	( 15,694,116 )
Share in other comprehensive loss of an associate accounted for under equity method		-	-	( 413,403 )
Tax income (expense)	15	-	( 27,103,605 )	7,202,944
		-	45,364,685	182,104,042
Items that will be reclassified subsequently to profit or loss				
Fair value gains on disposal of debt instruments at FVOCI	7	-	( 8,862,126 )	-
Fair value losses (gains) of debt instruments during the year		-	( 5,725,850 )	42,464,563
		-	( 14,587,976 )	42,464,563
Other Comprehensive Income - net of tax		-	30,776,709	224,568,605
Total comprehensive income from discontinued operations		-	277,410,172	271,298,839
<b>TOTAL COMPREHENSIVE INCOME</b>	P	43,541,418	P 283,226,192	P 271,298,839

See Notes to Financial Statements.





**RDO LEASING AND FINANCE, INC.**  
(A Subsidiary of RDO Lifetank, Inc.)  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019**  
(Amounts in Philippine Pesos)

	Net Unrealized Fair Value Gains (Losses) on Financial Assets at Other Comprehensive Income										Total Equity
	Notes	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Net Accumulated Amortized Loans	Comprehensive Income	Reserves	Free	Total		
Balance at January 1, 2021	P	2,225,169,030	P 571,095,676	( P 81,776,628)	P -	P -	P -	P 3,254,102,766	P 3,254,102,766	P 5,968,590,844	
Total comprehensive income from continuing operations		-	-	-	-	-	-	43,541,418	43,541,418	43,541,418	
Balance at December 31, 2021	P	2,225,169,030	P 571,095,676	( P 81,776,628)	P -	P -	P -	P 3,297,644,184	P 3,297,644,184	P 6,012,132,262	
Balance at January 1, 2020	P	2,225,169,030	P 571,095,676	( P 81,776,628)	( P 71,887,325)	P 41,110,617	P 141,740,833	P 2,798,875,263	P 2,930,617,096	P 5,614,328,466	
Total comprehensive income from continuing operations		-	-	-	-	-	-	5,815,020	5,815,020	5,815,020	
From discontinued operations:		-	-	-	-	-	-	-	-	-	
Total comprehensive income (loss)		-	-	-	71,887,325	( 41,110,617)	-	246,633,463	246,633,463	277,410,171	
Gain on sale of equity securities classified under FVOCI		-	-	-	-	-	-	71,036,187	71,036,187	71,036,187	
Reversal of appropriation	11	-	-	-	-	-	( 141,740,833)	141,740,833	-	-	
Balance at December 31, 2020	P	2,225,169,030	P 571,095,676	( P 81,776,628)	P -	P -	P -	P 3,254,102,766	P 3,254,102,766	P 5,968,590,844	
Balance at January 1, 2019	P	2,225,169,030	P 571,095,676	( P 81,776,628)	( P 60,901,444)	( P 194,857,272)	P 413,403	P 2,706,965,991	P 2,883,886,842	P 5,343,029,627	
From discontinued operations:		-	-	-	-	-	-	-	-	-	
Total comprehensive income (loss)		-	-	-	( 10,985,881)	235,967,869	( 413,403)	46,730,234	46,730,234	271,298,839	
Reversal of appropriation	11	-	-	-	-	-	( 5,183,038)	5,183,038	-	-	
Balance at December 31, 2019	P	2,225,169,030	P 571,095,676	( P 81,776,628)	( P 71,887,325)	P 41,110,617	P 141,740,833	P 2,788,875,263	P 2,930,617,096	P 5,614,328,466	

See Notes to Financial Statements.

APR 11 2022

RECEIVED  
RUILO ROMERO  
ASSISTANT



**BDO LEASING AND FINANCE, INC.**  
(A Subsidiary of BDO Unibank, Inc.)  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019**  
(Amounts in Philippine Pesos)

		2021	2020	2019
<b>CONTINUING OPERATIONS</b>				
<b>Cash flows from operating activities</b>				
Profit before tax	P	37,841,490	P 5,816,020	P -
Adjustments for unrealized fair value gain on unit investment trust fund (UITF) - net	7	( 54,997,429 )	( 5,692,212 )	-
Gain on redemption of UITF	7	-	( 123,808 )	-
Operating loss before changes in operating assets and liabilities		( 17,155,939 )	-	-
Decrease in loans and other receivables		5,718,129	-	-
Decrease in other assets		9,655	-	-
Decrease in accounts payable and other liabilities		( 19,347,128 )	-	-
Cash used in operations		( 30,775,283 )	-	-
Cash paid for final tax		( 5,574 )	-	-
Net Cash Used in Operating Activities		( 30,780,857 )	-	-
<b>Cash flows from investing activities</b>				
Placement in UITF	7	( 70,000,000 )	( 5,847,000,000 )	-
Redemption of UITF	7	-	100,123,808	-
Net Cash Used in Investing Activities		( 70,000,000 )	( 5,746,876,192 )	-
Decrease in cash and cash equivalents from continuing operations		( 100,780,857 )	( 5,746,876,192 )	-
<b>DISCONTINUED OPERATIONS</b>				
<b>Cash flows from operating activities</b>				
Profit before tax		-	394,041,535	79,920,263
Adjustments for:				
Interest and discounts	8, 14	-	( 1,122,305,523 )	( 1,984,197,637 )
Interest received		-	1,178,675,357	2,104,428,344
Gain on sale of loans and receivables	8	-	( 509,971,258 )	( 2,736,443 )
Interest and financing charges paid		-	( 491,012,764 )	( 1,367,663,604 )
Interest and financing charges		-	465,867,521	1,276,576,934
Impairment and credit losses	7, 8	-	398,845,747	63,121,104
Dividend income	7, 12	-	( 80,727,007 )	( 159,434,733 )
Depreciation and amortization		-	22,508,328	36,026,615
Equity share in net loss (gain) of a subsidiary and an associate		-	( 21,253,147 )	40,605,481
Gain on sale of investment in a subsidiary		-	( 9,496,552 )	-
Gain on sale of financial assets at fair value through other comprehensive income (FVOCI)	7	-	( 8,862,126 )	-
Gain or loss on sale of property and equipment and investment properties		-	( 6,771,162 )	( 4,664,216 )
Day-one gains - net	12	-	22,039	88,721
Loss on sale of investment in an associate		-	-	27,636,973
Reversal of impairment losses		-	-	( 1,308,934 )
Operating profit before changes in operating assets and liabilities		-	209,360,988	108,398,848
Decrease in loans and other receivables		-	24,652,064,711	9,221,933,511
Decrease in other assets		-	138,854,958	5,224,907
Decrease in accounts payable and other liabilities		-	( 272,029,465 )	( 31,288,504 )
Decrease in lease deposits		-	( 4,627,531,463 )	( 1,918,227,239 )
Cash generated from operations		-	20,100,719,729	7,386,041,323
Cash paid for final taxes		-	( 14,172,235 )	( 14,379,250 )
Net Cash From Operating Activities		-	20,086,547,494	7,371,662,273
<b>Cash flows from investing activities</b>				
Proceeds from sale and redemption of financial assets at FVOCI	7	-	3,215,413,313	637,158,480
Proceeds from disposal of investment in a subsidiary		-	317,500,000	-
Receipt of cash dividends	7, 14	-	297,266,103	174,985,575
Proceeds from disposal of property and equipment and investment properties		-	220,249,284	5,891,115
Addition in investment properties		-	( 46,021,902 )	( 44,337,534 )
Acquisitions of property and equipment		-	( 2,980,969 )	( 2,203,575 )
Proceeds from disposal of investment in an associate		-	-	165,630,000
Net Cash From Investing Activities		-	4,001,425,829	937,124,061
<b>Cash flows from financing activities</b>				
Payments of bills payable		-	( 121,897,018,002 )	( 157,200,602,791 )
Amortments of bills payable		-	103,592,342,469	148,781,189,911
Payments on lease liabilities		-	( 27,800,465 )	( 16,702,593 )
Net Cash Used in Financing Activities		-	( 18,332,275,998 )	( 8,430,115,473 )
Net increase (decrease) in cash and cash equivalent from discontinued operations		-	5,755,697,325	( 121,329,139 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		( 100,780,857 )	8,821,133	( 121,329,139 )
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>115,984,914</b>	<b>107,163,781</b>	<b>228,492,920</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>P</b>	<b>15,204,057</b>	<b>P 115,984,914</b>	<b>P 107,163,781</b>

**Supplemental Information on Non-cash Investing Activities from Discontinued Operations:**

- In 2019, the Company recognized Right of use assets as part of Property and Equipment, and Lease liabilities as part of Accounts Payable and Other Liabilities in accordance with PFRS 16, amounting to P26,958,366 and P27,800,465, respectively. In 2020, all Right of Use assets and Lease liabilities were reversed due to pre-termination of leases.
- In 2019, the Company reclassified certain items of Investment Property account to Non-current assets held for sale under Other Assets - net account amounting to P657,236.

See Notes to Financial Statements.



**BDO LEASING AND FINANCE, INC.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

**1.1 Corporate Information**

BDO Leasing and Finance, Inc. (the Company) is a domestic corporation incorporated in 1981. Its shares were listed in the Philippine Stock Exchange (PSE) on January 6, 1997. It operates as a leasing and financing entity, which provides direct leases, sale and leaseback arrangements and real estate leases. Financing products include amortized commercial loans, installment paper purchases, floor stock financing, receivables discounting, and factoring.

The Company is a subsidiary of BDO Unibank, Inc. (BDO Unibank or Parent Company), a universal bank incorporated and doing business in the Philippines. BDO Unibank offers a wide range of banking services such as traditional loan and deposit products, as well as treasury, remittance, trade services, credit card services, trust and others.

As a subsidiary of BDO Unibank, the Company is considered a non-bank financial institution whose operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Company is required to comply with the rules and regulations of the BSP.

The Company's principal office is located at 39<sup>th</sup> Floor, BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City.

**1.2 Status of Operations**

On May 25, 2019, the Board of Directors (BOD) of BDO Unibank approved the restructuring of the leasing business of the BDO Unibank Group. The restructuring of BDO Unibank Group's leasing business was undertaken to optimize the financial needs of clients in light of new accounting standards covering lease transactions, PFRS 16, *Leases*, which took effect on January 1, 2019, requiring leases to be recognized on balance sheet similar to a loan facility. As a result, this made lease transactions a less attractive financing option to corporate borrowers. The volume of the leasing business is expected to be affected going forward, thus, no longer appropriate for a listed company.

Under the restructuring process, BDO Finance Corporation (BDO Finance), a new privately held finance company, was incorporated on December 9, 2019 to provide customers continuing access to lease products and services. BDO Finance started operations on October 19, 2020 and assumed the lease transactions booked in the Company to provide business continuity to existing clients.





Furthermore, the Company sold substantially all its assets to BDO Unibank, BDO Finance and other subsidiaries as part of the restructuring as approved by the Company's BOD on January 31, 2020 and its shareholders on July 21, 2020.

In various dates in 2020, the Company's core loans and receivables and investments were disposed of to related parties as part of the Company's action to address the widening liquidity gap as it winds down its operations during the first months of community quarantine brought by COVID-19 pandemic (see Notes 7 and 8).

On October 16, 2020, the Company assigned irrevocably and absolutely to BDO Finance the Company's residual assets and liabilities, including its ownership of 250,000,000 common shares held in its subsidiary, BDO Rental becoming a wholly owned subsidiary of BDO Finance (see Note 14).

The Company will be re-purposed into a listed holding company of the BDO Unibank Group. The Company has sufficient liquid assets (in the form of cash and investment in unit investment trust fund) to fund future investments after the approval of regulators for its application for a license as a holding company. Accordingly, the financial statements have been prepared assuming that the Company will continue as a going concern entity which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Management has determined that no material uncertainty on the Company exists.

### ***1.3 Approval of Financial Statements***

The accompanying financial statements of the Company for the year ended December 31, 2021 (including the comparative financial statements as of December 31, 2020 and for the years ended December 31, 2020 and 2019) were authorized for issue by the Company's BOD on February 23, 2022.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

### ***2.1 Basis of Preparation of Financial Statements***

#### ***(a) Statement of Compliance with Philippine Financial Reporting Standards***

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies in the succeeding pages.



(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents the statement of comprehensive income separately from the statement of income.

In relation to the effective transfer in 2020 of BDO Rental to BDO Finance, the Company has ceased to consolidate the balances from financial statements and has no longer presented consolidated financial statements and the segment reporting in the notes to the financial statements. The amounts presented and the discussion in the succeeding notes pertain only to the financial condition and results of operations of the Company alone.

In relation to the transition of the Company's leasing and financing operations to BDO Finance, separate analyses of continuing operations and discontinued operations were presented in the financial statements particularly for statement of income, statement of comprehensive income and statement of cash flows. Moreover, all notes to the financial statements indicating 2021 balances pertain to continuing operations while the remaining amounts relate to discontinued operations (see also Note 2.7). Further, in 2021 as discussed in the preceding paragraph, the Company has no longer presented consolidated financial statements given that its only subsidiary was already disposed in 2020.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using the functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

**2.2 Adoption of Amended PFRS**

The Company did not adopt amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2021, as it is not applicable to the Company. Discussed below and in the succeeding page are the relevant information about amendments to existing standards subsequent to 2021 which were not adopted early.

- (a) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective January 1, 2022)
- (b) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, only PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities* which are effective from January 1, 2022, is relevant to the Company
- (c) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective January 1, 2023)
- (d) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective January 1, 2023)



- (e) PAS 8 (*Amendments*), *Accounting Estimates – Definition of Accounting Estimates* (January 1, 2023)

### 2.3 *Financial Instruments*

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the profit or loss.

#### (a) *Classification, Measurement and Reclassification of Financial Assets*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below.

##### (i) *Financial Assets at Amortized Cost*

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Where the business model is to hold assets to collect contractual cash flows, the Company assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [see Note 3.1(b)].

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss (FVTPL).



The Company's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents and Loans and Other Receivables. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash.

(ii) *Financial Assets at Fair Value Through Other Comprehensive Income*

The Company's accounts for financial assets at fair value through other comprehensive income (FVOCI) if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Company for trading or as mandatorily required to be classified as FVTPL. The Company has designated all its unit investment trust funds (UITF) as financial assets at FVTPL.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as Net Unrealized Gains (Losses) (NUGL) on Financial Assets at FVOCI account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in NUGL on Financial Assets at FVOCI account is not reclassified to profit or loss but is reclassified directly to Retained Earnings account, except for those debt securities classified as FVOCI wherein cumulative fair value changes are reclassified to profit or loss.

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Other Income account, when the Company's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Company, and, the amount of the dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

(iii) *Financial Assets at Fair Value Through Profit or Loss*

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL, if any. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Company designates an equity investment that is not held for trading as at FVOCI at initial recognition.



Financial assets at FVTPL are measured at fair value with gains or losses recognized in the statement of income, if any. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

The Company can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Company is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Company's business model will take effect only at the beginning of the next reporting period following the change in the business model.

(b) *Effective Interest Rate Method and Interest Income*

Interest income is recorded using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and interest-bearing financial instruments at FVOCI. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. The Company recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the statement of financial position with an increase (reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the statement of income.

The Company calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition [see Note 2.3(c)], interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted EIR to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.



(c) *Impairment of Financial Assets*

At the end of the reporting period, the Company assesses its expected credit losses (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI. No impairment loss is recognized on equity investments. The Company considers a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). When there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall also be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

The Company's definition of credit risk and information on how credit risk is mitigated by the Company are disclosed in Note 4.3.

*Measurement of ECL*

The key elements used in the calculation of ECL are as follows:

- *Probability of default (PD)* – it is an estimate of likelihood of a borrower defaulting on its financial obligation (see Note 4.3) over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.
- *Loss given default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD, or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.



- *Exposure at default (EAD)* – it represents the gross carrying amount of the financial instruments subject to the impairment calculation; hence, this is the amount that the Company expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Company shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur, unless the drawdown after default will be mitigated by the normal credit risk management actions and policies of the Company.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company's detailed ECL measurement, as determined by the management, is disclosed in Note 4.3.

(d) *Derecognition of Financial Assets*

(i) *Modification of Loans*

When the Company derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Company assesses whether or not the new terms are substantially different to the original terms. The Company considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Company derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculate a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Company also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments.



Differences in the carrying amount are recognized as gain or loss on derecognition of financial assets in profit or loss. As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original EIR of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognize a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original EIR (or credit-adjusted EIR for POCI financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) *Derecognition of Financial Assets other than Modification*

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and a collateralized borrowing for the proceeds received.

(e) *Classification and Measurement of Financial Liabilities*

Financial liabilities pertain to accounts payable and other liabilities (except tax-related payables).

Financial liabilities are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges are included as part of Interest and Financing Charges under Operating Costs and Expenses in the statement of income.

- *Accounts Payable and Other Liabilities* are initially recognized at their fair values and subsequently measured at amortized cost less settlement payments.
- *Dividend Distributions to Shareholders* are recognized as financial liabilities upon declaration by the Company.

(f) *Derecognition of Financial Liabilities*

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.



#### **2.4 Offsetting Financial Instruments**

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Company currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

#### **2.5 Provisions and Contingencies**

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that does not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

#### **2.6 Equity**

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Treasury shares are stated at the cost of reacquiring such shares.

Net accumulated actuarial losses arise from the remeasurement of post-employment defined benefit plan.



NUGL losses on financial assets at FVOCI pertain to cumulative mark-to-market valuation.

Accumulated share in other comprehensive income of an associate pertains to changes resulting from the Company's share in other comprehensive income of associate or items recognized directly in the associates' equity.

Retained earnings reserves pertain to the appropriation of the Retained Earnings – Free account, brought about by cases when the ECL on 'Stage 1' loan accounts computed under the requirements of PFRS 9, *Financial Instruments* is less than the 1% General Loan Loss Provision (GLLP) required by the BSP. This is in pursuant to BSP Circular No. 1011, *Guidelines on the Adoption of PFRS 9*, which requires financial institutions to set up GLLP equivalent to 1% of all outstanding 'Stage 1' on the statement of financial position. As at December 31, 2020, the Company appropriately reversed such appropriation since all of its loans and receivables subject to 1% GLLP were already sold (see Note 11.5).

Retained earnings free represents all current and prior period results as reported in the statement of income, reduced by the amounts of dividends declared.

## **2.7 Other Income and Expense Recognition**

Revenue is recognized only when (or as) the Company satisfy a performance obligation by transferring control of the promised services to the customer.

A contract with a customer that results in a recognized financial instrument in the Company's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenues from Contracts with Customers*. In such case, the Company first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then apply PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

Before the restructuring, the Company also earns service fees related to the Company's factoring receivables which are supported by contracts and approved by the parties involved. These revenues are accounted for by the Company in accordance with PFRS 15.

For revenues arising from various financing services which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers and the related revenue recognition policies:

- (a) *Service fees* – Service fees related to the factoring of receivables are recognized as revenue at the point when services are rendered, i.e., when performance obligation is satisfied. This account is included under Other Income account in the statement of income.
- (b) *Income from assets sold or exchanged* – Income from assets sold or exchanged is recognized when the control and title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This account is included under Other Income account in the statement of income.



## **2.8 Foreign Currency Transactions and Translation**

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

## **2.9 Employee Benefits**

The Company provides post-employment benefits to employees through a defined benefit plan, defined contribution plan and other employee benefits which are recognized as follows:

### **(a) Termination Benefits**

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

### **(b) Compensated Absences**

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of reporting period. They are included in the Account Payable and Other Liabilities account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement. Compensated absences convertible to monetary consideration accruing to employees qualified under the retirement plan are now funded by the Company through its post-employment retirement fund. Accordingly, the related Accounts Payable and Other Liabilities account previously set-up for the compensated absences is reversed upon contribution to the retirement fund.



(c) *Employee Stock Option Plan*

BDO Unibank Group grants stock option plan to its senior officers (from vice president up), including the officers of the Company, for their contribution to the Company's performance and attainment of team goals. The stock option plan gives qualified employees the right to purchase BDO Unibank's shares at an agreed strike price. The amount of stock option allocated to the qualified officers is based on the performance of the individual officers as determined by the management and is determined based on the Company's performance in the preceding year and amortized over five years (vesting period) starting from date of approval of the BOD. The number of officers qualified at the grant date is regularly evaluated (at least annually) during the vesting period and the amount of stock option is decreased in case there are changes in the number of qualified employees arising from resignation or disqualification.

Liability recognized on the stock option plan for the amount charged by the BDO Unibank Group attributable to the qualified officers of the Company is included in Accrued taxes and other expenses under Accounts Payable and Other Liabilities account in the statement of financial position and the related expense is presented in Employee Benefits account under Operating Costs and Expenses in the statement of income (see Notes 10 and 13).

**2.10 Income Taxes**

Tax expense recognized in profit or loss comprises current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.



The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

### ***2.11 Earnings Per Share***

Basic earnings per common share is determined by dividing net income attributable to equity holders of the Company by the weighted average number of common shares subscribed and issued during the year, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period. The Company does not have dilutive common shares.

### ***2.12 Related Party Transactions and Relationships***

Related party transactions are transfer of resources, services or obligations between the Company and its related parties, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual; and (d) the Company's retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

Transactions amounting to 10% or more of the total assets based on the latest audited consolidated financial statements that were entered into with related parties are considered material.

All individual material related party transactions shall be approved by at least two-thirds vote of the board of directors, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' vote is not secured, the material related party transaction may be ratified by the vote of stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of 10% of the Company's total assets based on the latest audited consolidated financial statements, the same board approval would be required for the transaction(s) that meets and exceeds the materiality threshold covering the same related party.



### ***2.13 Events After the End of the Reporting Period***

Any post-year-end event that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

## **3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgements and estimates that affect the amounts reported in the financial statements and related notes. Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

### ***3.1 Critical Management Judgements in Applying Accounting Policies***

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

#### ***(a) Evaluation of Business Model Applied in Managing Financial Instruments***

The Company developed business models which reflect how it manages its portfolio of financial instruments. The Company's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Company) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Company evaluates in which business model a financial instrument, or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Company (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Company's investment and trading strategies.

If more than an infrequent sale is made from a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Company considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with the HTC business model if the Company can explain the reasons for those sales and why those sales do not reflect a change in the Company's objective for the business model.



In relation to the BDO Unibank Group's leasing business, in various dates in 2020, the Company disposed of all core loans and receivables as it wound down its operations (see Note 1.2). Such disposal is not consistent with the HTC business model; however, since there were no remaining core loans and receivables as at December 31, 2020, further evaluation of the Company's HTC business model is no longer done (see Note 7). No similar transaction transpired in 2021.

(b) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets under PFRS 9, the Company assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Company assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Company considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made from portfolio of financial assets carried at amortized cost, if any, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

In 2020, there were disposals made by the Company [see Notes 1.2, 3.1(a) and 7]. No similar transaction transpired in 2021.

(c) *Recognition of Provisions and Contingencies*

Judgement is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.5 and disclosures on relevant provisions are presented in Note 14.

**3.2 Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:



(a) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses).

(b) *Determining Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. In 2020, the management has derecognized all its deferred tax assets related to the tax bases of assets and liabilities sold and transferred as part of the restructuring of BDO Unibank Group's leasing business. As of December 31, 2021 and 2020, there were unrecognized deferred tax assets or liabilities arising from temporary differences at the end of the reporting period as it is unlikely to be recovered in the future.

#### 4. RISK MANAGEMENT

With its culture of managing risk prudently within its capacity and capabilities, the Company will pursue its strategy and business plans to achieve its desired long-term target returns to its shareholders and satisfy or abide by the needs of its other stakeholders, including its regulators.

The Company believes that, as there are opportunities, there are associated risks and the objective is not to totally avoid risks, but to adequately and consistently evaluate, manage, control, and monitor the risks and ensure that the Company is adequately compensated for all the risks taken. Good risk management involves making informed and rational decisions about the level of risks the institution wants to take, in the pursuit of its objectives, but with consideration to return commensurate with the risk-taking activity.

The Company's goal is to remain a strong company that is resilient to possible adverse events. Hence, the Company ensures:

- strong financial position by maintaining adequate capital ratios
- sound management of liquidity; and,
- ability to generate sustainable earnings commensurate with the risks taken.

For credit risk, market risk, and liquidity risk, the Company ensures that these are within Board-approved operating limits. For operational risk (which includes legal, regulatory, compliance risks), and reputational risks, these are invariably managed by the development of both a strong "control culture" and an effective internal control system that constantly monitors and updates operational policies and procedures with respect to the Company's activities and transactions.

Risk management begins at the highest level of the organization. At the helm of the risk management infrastructure is the BOD who is responsible for establishing and maintaining a sound risk management system. The BOD assumes oversight over the entire risk management process and has the ultimate responsibility for all risks taken.



It regularly reviews and approves the institution's tolerance for risks, as well as, its business strategy and risk philosophy.

The BOD has constituted the Risk Management Committee (RMC) as the Board-Level Committee responsible for the development and oversight of the risk management program. Considering the importance of appropriately addressing credit risk, the BOD has also constituted the Executive Committee. The Executive Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving risk appetite levels, policies and risk tolerance limits related to credit portfolio risk, market risk, liquidity risk, interest rate risk, operational risk (including business continuity risk, IT risk, information security and cyber-security risk, data privacy risk and social risk to ensure that current and emerging risk exposures are consistent with the Company's strategic direction and overall risk appetite.

Within the Company's overall risk management system is the Assets and Liabilities Committee (ALCO), which is responsible for managing the Company's statement of financial position, including its liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

The Company operates an integrated risk management system to address the risks it faces in its activities.. The Risk Management Unit (RMU), which reports to the RMC, is mandated to adequately and consistently evaluate, manage, control, and monitor the overall risk profile of the Company's activities across the different risk areas (i.e., credit, market, liquidity, interest rate and operational risks, including business continuity risk, IT risk, information security, cyber-security, and data privacy risk, to optimize the risk-reward balance and maximize return on capital. RMU also has the responsibility for recommending to the appropriate body, risk policies across the full range of risks to which the Company is exposed.

The evaluation, analysis, and control performed by the Risk Function, in conjunction with the Risk Takers, constitute the risk management process. The risk management process is applied at three levels: the transaction level, the business unit level, and the portfolio level. This framework ensures that risks are properly identified, quantified, and analyzed, in the light of its potential effect on the Company's business. The goal of the risk management process is to ensure rigorous adherence to the Company's standards for precision in risk measurement and reporting and to make possible, in-depth analysis of the deployment of capital and the returns that are delivered to the shareholders.

#### **4.1 Foreign Exchange Risk**

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates on financial assets arise from a portion of the Company's cash and cash equivalents which are denominated in United States (U.S.) dollars. In August 2021, the Company sold all its dollar denominated cash in bank.

The Company's foreign currency denominated financial assets and financial liabilities translated into Philippine pesos at the closing rate at December 31, 2021 and 2020 pertains only to Cash and cash equivalents amounting to nil and P38,246,601 in 2021 and 2020, respectively.

On December 31, 2020, the currency exchange rates used to translate U.S. dollar denominated financial assets and financial liabilities to the Philippine pesos is approximately P48.02.



On December 31, 2020, the currency exchange rates used to translate U.S. dollar denominated financial assets and financial liabilities to the Philippine pesos is approximately P48.02.

The following table illustrates the sensitivity of the net result for the year and equity with regard to the Company's financial assets and financial liabilities and the U.S. dollar – Philippine peso exchange rate. It assumes a  $\pm 19.7\%$  change and  $\pm 16.0\%$  change of the Philippine peso/U.S. dollar exchange rate as on December 31, 2021 and 2020, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months at a 99% confidence level.

The sensitivity analysis is based on the Company's foreign currency financial instruments held at the end of 2020. Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Company's currency risk.

#### **4.2 Interest Rate Risk**

On December 31, 2021 and 2020, the Company has no material exposure to changes in interest rates since there are no outstanding loans and other receivables.

#### **4.3 Credit Risk**

As of December 31, 2021, the Company's financial assets that are subject to credit risk are related only to cash and cash equivalents and other receivables, in the form of creditable withholding taxes. In general, the Company regularly monitors the credit quality of these financial assets and incorporates this information into its credit risk controls and policies.

In 2020, prior to the disposal of the Company's loans and lease receivables, the Company's financial assets subject to credit risk consisted of lease and loan portfolios, cash and cash equivalents and other receivables. Credit risk is the risk that the counterparty in a transaction may default and arises from lending, treasury, and other activities undertaken by the Company. For loans and lease receivables, the RMU undertakes several functions with respect to credit risk management including credit analysis, risk ratings for corporate accounts, and development and performance monitoring of credit risk rating and scoring models for both corporate and consumer loans. It also ensures that Company's credit policies and procedures are adequate to meet the demands of the business. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review. Approval for credit limits is secured from the Executive Committee. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral or corporate and personal guarantees.

Loan classification and credit risk rating are an integral part of the Company's management of credit risk. On an annual basis, loans are reviewed, classified as necessary, and rated based on internal and external factors that affect its performance. On a monthly basis, loan classifications of impaired accounts are assessed, and the results are used as basis for the review of loan loss provisions.



In addition to the above, credit portfolio review is another integral part of the Company's management of credit risk. This exercise involves the conduct of periodic post approval review of individual credits whose main objective is to help monitor and maintain sound and healthy risk asset portfolio. Parameters of the credit portfolio review are structured to reflect both sides of the risk management equation such as credit quality and process. This function actuates the philosophy that credit quality is derived from sound risk management process. The credit quality of financial assets is managed by the Company using internal credit ratings.

#### 4.3.1 Credit Quality Analysis

The following table sets out information about the credit quality of its Cash and Cash Equivalents and Loans and Other Receivables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. In 2021 and 2020, the Company has no financial instruments that are purchased or originated credit impaired assets.

The following table shows the exposure to credit risk as of December 31 for each internal risk grade and the related allowance for impairment:

	Stage 1	Stage 2	Stage 3	Total
<b>2021</b>				
Cash and cash equivalents				
Grades AAA to B: Current*	P 15,204,057	P -	P -	P 15,204,057
Other receivables				
Grades AAA to B: Current*	P 127,392,155	P -	P -	P 127,392,155
<b>2020</b>				
Cash and cash equivalents				
Grades AAA to B: Current*	P 115,984,914	P -	P -	P 115,984,914
Other receivables				
Grades AAA to B: Current*	P 124,759,367	P -	P 2,645,414	P 127,404,781

\*No expected credit loss allowance

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable institutions with high quality external credit ratings.

#### 4.3.2 Concentrations of Credit Risk

The Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (net of allowance) at the reporting date is shown below.

	2021		2020	
	Cash and Cash Equivalents	Loans and Other Receivables	Cash and Cash Equivalents	Loans and Other Receivables
Concentration by sector:				
Financial intermediaries	P 15,204,057	P -	P 115,984,914	P -
Other community, social and personal activities	-	127,392,155	-	127,404,781
	P 15,204,057	P 127,392,155	P 115,984,914	P 127,404,781



#### 4.3.3 *Amounts Arising from Expected Credit Losses*

At each reporting date, the Company assesses whether Loans and Other Receivables are credit-impaired (referred to as Stages 2 and 3 financial assets). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Company measures credit risk using PD, LGD and EAD.

##### (a) *Significant Increase in Credit Risk*

As outlined in PFRS 9, a '3-stage' impairment model was adopted by the Company based on changes in credit quality since initial recognition of the financial asset. A financial asset that is not credit-impaired on initial recognition is classified as 'Stage 1', with credit risk continuously monitored by the Company as its ECL is measured at an amount equal to the portion of lifetime ECL that results from possible default events within the next 12 months. If an SICR since initial recognition is identified, the classification will be moved to 'Stage 2' but is not yet deemed to be credit-impaired. Such assessment is based on the following criteria in determining whether there has been a significant increase in credit risk: (i) qualitative indicators, such as net losses, intermittent delays in payment or restructuring; and (ii) quantitative test based on movement in risk rating and PD. The borrowers can be moved to Stage 1 upon completion of the seasoning period which shall be 6 months of continuous payment with no incident of past due.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information (FLI).

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Company uses the following criteria in determining whether there has been a significant increase in credit risk: (i) quantitative test based on movement in PD; and (ii) qualitative indicators, such as substantial decline in sales or intermittent delays in payment.



(i) *Credit Risk Grading*

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The credit grades are defined and calibrated such that the risk of default increases exponentially at each higher risk grade so, for example, the difference in the PD between an AAA and AA rating grade is lower than the difference in the PD between a B and B- rating grade.

(ii) *Generating the Term Structure of PD*

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information from external credit reference agencies is also used. The Company employs statistical models to analyze the data collected and generate the term structure of PD estimates.

(iii) *Determining Whether Credit Risk has Significantly Increased*

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant varies across financial assets of the Company. The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Company's risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as net loss, significant drop in risk ratings, and intermittent delays in payments.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

(b) *Definition of Default*

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Company; or,



- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Company considers indicators that are qualitative (e.g., breaches of covenant) and, quantitative (overdue or non-payment).

Inputs into the assessment of whether a financial instrument is in default as well as their significance may vary over time to reflect changes in circumstances.

(c) *Forward-looking Information*

The Company incorporates FLI into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The relevant macro-economic variables for selection generally include, but are not limited to, gross domestic product, growth rate, unemployment rate, foreign exchange rate, stock market index, oil prices and interest rates. Predicted relationships between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

The significance of the selected macro-economic variables as predictors of default may change over time as historical information is added. As such, the generated macroeconomic models are updated at least on an annual basis.

Management has also considered other FLIs not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs at least annually.

(d) *Measurement of ECL*

The key inputs into the measurement of ECL are the term structure of PD, LGD and EAD.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed in Note 4.3.3(a)(ii) under the heading "Generating the term structure of PD".



LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information (e.g., PD from external credit rating agencies, Basel LGD) is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

(e) *Loss Allowance*

In 2020, the Company performed recalibration of its existing ECL model to incorporate the most-recent default and recovery experience of the Company and developments in the macroeconomic environment. Independent macroeconomic variables used to forecast the probability of default could either be dictated by their statistical significance in the model or economic significance. Inputs are updated to ensure that models are robust, predictive, and reliable.

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument in 2020 (not applicable in 2021).

	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 44,467,353	P 11,404,611	P 418,366,178	P 474,238,142
Transfer to:				
Stage 1	345,251	( 345,251)	-	-
Stage 2	( 600,344)	1,212,754	( 612,410)	-
Stage 3	( 5,623,861)	( 10,949,041)	16,572,902	-
Net remeasurement of loss allowance	( 5,108,516)	2,945,516	253,235,908	251,072,908
New financial assets originated	6,041,601	1,513,566	7,712,735	15,267,902
Derecognition of financial assets	( 39,521,484)	( 5,782,155)	( 675,875,785)	( 721,179,424)
Write-offs	-	-	( 19,399,528)	( 19,399,528)
Balance at December 31	P -	P -	P -	P -
Receivables from customers – consumer				
Balance at January 1	P 21,725,851	P 4,523,626	P 65,043,023	P 91,292,500
Transfer to:				
Stage 1	1,510,692	( 157,518)	( 1,353,174)	-
Stage 2	( 1,931,663)	1,931,663	-	-
Stage 3	( 4,408,764)	( 3,500,717)	7,909,481	-
Net remeasurement of loss allowance	69,041,166	56,850,097	79,616,481	205,507,744
New financial assets originated	7,004,312	3,002,261	-	10,006,573
Derecognition of financial assets	( 92,941,594)	( 62,649,412)	( 151,215,811)	( 306,806,817)
Balance at December 31	P -	P -	P -	P -
Other receivables				
Balance at January 1	(P 198,824)	P -	P 29,147,851	P 28,949,027
Derecognition of financial assets	198,824	-	( 29,147,851)	( 28,949,027)
Balance at December 31	P -	P -	P -	P -

As of December 31, 2020, the Company has written-off certain accounts amounting to P19,399,528 (see Note 8). No similar transaction transpired in 2021.

#### 4.3.4 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to fulfill commitments to lend, or to meet any other liquidity commitments. The Company manages its liquidity needs by holding sufficient liquid assets of appropriate quality to meet funding requirements, manage and control liquidity gaps through Maximum Cumulative Outflow (MCO) limits, regular liquidity stress testing to ensure positive cashflow across all identified stress scenarios, and establishment of a Liquidity Contingency Plan, to ensure adequate liquidity under both business-as-usual and stress conditions. The Company carefully monitors scheduled debt servicing payments for short-term and long-term financial liabilities as well as cash outflows due in its day-to-day activities.

Presented below are the financial assets and financial liabilities as of December 31, 2021 and 2020 analyzed according to when these are expected to be recovered or settled.

	One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
2021					
Financial assets					
Cash and cash equivalents	P 15,204,057	P -	P -	P -	P 15,204,057
Financial assets at FVTPL	5,877,689,641	-	-	-	5,877,689,641
Loans and other receivables	127,392,155	-	-	-	127,392,155
	<u>P6,020,285,853</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P6,020,285,853</u>
Financial liabilities					
Accounts payable and other liabilities	P 8,157,623	P -	P -	P -	P 8,157,623



	One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
2020					
Financial assets					
Cash and cash equivalents	P 115,984,914	P -	P -	P -	P 115,984,914
Financial assets at FVTPL	5,752,692,212	-	-	-	5,752,692,212
Loans and other receivables	127,404,781	-	-	-	127,404,781
	<u>P 5,996,081,907</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 5,996,081,907</u>
Financial liabilities					
Accounts payable and other liabilities	P 27,504,751	P -	P -	P -	P 27,504,751

#### 4.3.5 Write-offs

The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include: cessation of enforcement activity; and, where the Company's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off. The Company still have enforceable right to receive payment even if the financial assets have been written off except in certain cases.

#### 4.4 Price Risk

The Company is exposed to the changes in the market values of financial assets at FVTPL held as of December 31, 2021 and 2020. The Company manages its risk by identifying, analyzing, and measuring relevant or likely market price risks. To manage its price risk arising from its financial assets at FVTPL, the Company does not concentrate its investment in any single counterparty.

If the prices of financial assets at FVTPL changed by  $\pm 0.08\%$  at December 31, 2021, then profit or loss would have increased/decreased by P4,422,221 in 2021. Moreover, if the prices of financial assets at FVTPL changed by  $\pm 0.09\%$  at December 31, 2020, then profit or loss would have increased/decreased by P5,172,300 in 2020. The analysis is based on the assumption on the change of the correlated equity indices, with all other variables held constant. The analysis is based on the assumption on the change of the correlated equity indices, with all other variables held constant.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 *Carrying Amounts and Fair Values by Category*

The following table summarizes by category the carrying amounts and fair values of financial assets and financial liabilities. Where fair value is presented, such fair value is determined based on valuation techniques described below.

	<u>Carrying Amounts</u>	<u>Fair Values</u>
<b>2021</b>		
Financial Assets		
At amortized cost:		
Cash and cash equivalents	P 15,204,057	P 15,204,057
Loans and other receivables	<u>127,392,155</u>	<u>127,392,155</u>
	142,596,212	142,596,212
Financial assets at FVTPL	<u>5,877,689,641</u>	<u>5,877,689,641</u>
	<b>P 6,020,285,853</b>	<b>P 6,020,285,853</b>
Financial Liabilities		
At amortized cost –		
Accounts payable and other liabilities	<u>P 8,157,623</u>	<u>P 8,157,623</u>
	<u>Carrying Amounts</u>	<u>Fair Values</u>
<b>2020</b>		
Financial Assets		
At amortized cost:		
Cash and cash equivalents	P 115,984,914	P 115,984,914
Loans and other receivables	<u>127,404,781</u>	<u>127,404,781</u>
	243,389,695	243,389,695
Financial assets at FVTPL	<u>5,752,692,212</u>	<u>5,752,692,212</u>
	<b>P 5,996,081,907</b>	<b>P 5,996,081,907</b>
Financial Liabilities		
At amortized cost –		
Accounts payable and other liabilities	<u>P 27,504,751</u>	<u>P 27,504,751</u>

The methods and assumptions used by the Company in estimating the fair value of the financial instruments are as follow:

(i) *Cash and Cash Equivalents*

The fair values of cash and cash equivalents approximate carrying amounts given their short-term maturities.

(ii) *Loans and Other Receivables*

The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rates to determine fair value.



*(iii) Financial Assets at FVTPL*

The fair value of financial assets at FVTPL which is related to unit investment trust fund is determined based on the net asset value per unit as published by the related bank.

*(iv) Accounts Payable and Other Liabilities*

Fair values approximate carrying amounts given the short-term maturities of the liabilities.

**5.2 Fair Value Measurement and Disclosures**

**5.2.1 Fair Value Hierarchy**

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.



### 5.2.2 Financial Instrument Measured at Fair Value

The following table shows the fair value hierarchy of the Company's class of financial assets measured at fair value in the statements of financial position on a recurring basis as of December 31, 2021 and 2020.

	Note	Level 1	Level 2	Level 3	Total
<b>December 31, 2021</b>					
Financial assets at FVTPL –					
Unit investment trust fund	7	P -	P5,877,689,641	P -	P5,877,689,641
<b>December 31, 2020</b>					
Financial assets at FVTPL –					
Unit investment trust fund	7	P -	P5,752,692,212	P -	P5,752,692,212

The Company have no financial liabilities measured at fair value as of December 31, 2021 and 2020.

There were neither transfers made between Levels 1 and 2 nor changes in Level 3 instruments in both years.

### 5.2.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed

The following summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Notes	Level 1	Level 2	Level 3	Total
<b>December 31, 2021</b>					
<i>Financial assets:</i>					
Cash and cash equivalents	6	P 15,204,057	P -	P -	P 15,204,057
Loans and other receivables	8	-	-	127,392,155	127,392,155
		P 15,204,057	P -	P 127,392,155	P 142,596,212
<i>Financial liabilities:</i>					
Accounts payable and other liabilities	10	P -	P -	P 8,157,623	P 8,157,623
<b>December 31, 2020</b>					
<i>Financial assets:</i>					
Cash and cash equivalents	6	P 115,984,914	P -	P -	P 115,984,914
Loans and other receivables	8	-	-	127,404,781	127,404,781
		P 115,984,914	P -	P 127,404,781	P 243,389,695
<i>Financial liabilities:</i>					
Accounts payable and other liabilities	10	P -	P -	P 27,504,751	P 27,504,751

There have been no significant transfers among Levels 1 and 2 in the reporting periods.

Summarized below are the information on how the fair values of the Company's financial assets and financial liabilities are determined.

*(a) Financial Instruments in Level 1*

Cash and cash equivalents consist primarily of funds in the form of Philippine currency notes and coins held in the Company's bank. Cash is measured at face value; hence, the carrying amount approximates the fair value given their short-term maturities. Cash and cash equivalents are tagged under Level 1 since it is fungible and readily available for use.

*(b) Financial Instruments in Level 2*

The fair value of financial instruments not traded in an active market is determined by using valuation techniques or by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. The Company has no financial instruments measured at Level 2.

*(c) Financial Instruments in Level 3*

The Company classifies financial instruments such as Accounts payable and other receivables, have no quoted prices or observable market data where reference of fair value can be derived; hence, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

**5.2.4 Fair Value Measurement for Non-Financial Assets**

As of December 31, 2021 and 2020 the Company's non-financial asset pertains to Prepaid documentary stamp tax which is measured under Level 3.

**5.3 Offsetting of Financial Instruments**

Currently, all financial assets and financial liabilities are settled on a gross basis; however, each party of the lease agreement will have the option to settle such amount on a net basis in the event of default of the other party. As such, as of December 31, 2021 and 2020, the Company has no financial assets and liabilities with offsetting arrangement.

**6. CASH AND CASH EQUIVALENTS**

The Company reported cash and cash equivalents amounting to P15,204,057 and P115,984,914 in 2021 and 2020, respectively.

Cash in banks earn interest at rates based on daily bank deposit rates. Cash equivalents represent a special savings account and time deposit with maturity of 90 days and annual interest rates ranging from 0.05% to 0.06% in 2021, 0.13% to 0.25% in 2020 and 0.3% to 2.0% in 2019.



## 7. FINANCIAL ASSETS AT FVTPL AND FINANCIAL ASSETS AT FVOCI

In 2021 and 2020, the Company purchased P70,000,000 and P5,847,000,000 worth of unit investment trust fund (UITF) securities from BDO Unibank's Trust & Investment Group (BDO TIG), respectively. P100,000,000 of which was redeemed on December 29, 2020 resulting in a gain on redemption amounting to P123,808 under Income in the 2020 statement of income from continuing operations (see Note 14). No similar transaction transpired in 2021. For the years ended December 31, 2021 and 2020, such investment earned unrealized fair value gain of P54,997,429 and P5,692,212, respectively, recognized as unrealized fair value gain on UITF account under Income in the statements of income from continuing operations.

As of December 31, 2021 and 2020, the Company has no investments under FVOCI. In various dates in 2020, the Company sold its financial assets at FVOCI as follows (see also Note 14):

Date of Sale	Financial Asset at FVOCI	Counterparty	Proceeds	Carrying Value	Gain (Loss)
April 2, 2020	8990 Holdings Bonds	BDO Unibank	P 945,434,641	P 937,220,000	P 8,214,641
April 6, 2020	Sta. Lucia Bonds	BDO Unibank	200,647,485	200,000,000	647,485
July 22, 2020	Smart Notes	BDO Life	1,471,656,187	1,400,000,000	71,656,187
October 15, 2020	SMC Shares	BDO Finance	597,495,000	597,495,000	-
October 16, 2020	Others	BDO Unibank	180,000	800,000	( 620,000)

In 2020, the Company realized P8,862,126 gain on sale from its debt securities (bonds) classified as FVOCI. Such is presented as part of Other income under discontinued operations (see Note 12). For equity securities classified as FVOCI, gains on sale amounting to P71,036,187 were reclassified directly to Retained Earnings account. No similar transaction transpired in 2021.

Dividend income earned from these financial assets are recorded as Dividend income account under Other Income in the statements of income (see Note 12).

The Company recognized fair value gains (losses) for FVOCI securities amounting to (P39,402,554) and P236,321,518, in 2020 and 2019, respectively (nil in 2021). The fair values of these financial assets have been determined based on quoted prices in active markets and reported in Other income under discontinued operations (see Note 5).

## 8. LOANS AND OTHER RECEIVABLES

As of December 31, 2021 and 2020, the Company has no outstanding loans and receivables from customers after it has sold and assigned its receivable after the complete restructuring that transpired in 2020. The loans and receivables presented in the statements of financial position amounting to P127,392,155 and P127,404,781 for 2021 and 2020, respectively, pertains mostly to accumulated creditable withholding taxes receivable of the Company.



In 2021, the Company reported interest income from Cash and cash equivalents amounting to P30,666 under Continuing operations. Interest and discounts in the statements of income under Discontinued operations consist of interest on:

	<u>2020</u>	<u>2019</u>
Loans and receivables financed	P 595,458,462	P 1,019,341,522
Finance lease receivables	505,957,993	890,983,575
Financial assets at FVOCI	18,450,224	71,451,000
Interest on defined benefit plan	918,370	1,965,727
Cash and cash equivalents	<u>1,520,474</u>	<u>455,813</u>
	<u>P 1,122,305,523</u>	<u>P 1,984,197,637</u>

Interest income recognized under Discontinued operations on impaired loans and receivables amounted to P20,907,570 in 2020 and P16,814,054 in 2019 (nil in 2021).

The changes in the allowance for impairment are summarized below.

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	P 594,479,669	P 550,622,724
Impairment losses during the year	400,553,810	63,474,733
Reversal of impairment losses	( 975,633,951)	-
Accounts written-off	<u>( 19,399,528)</u>	<u>( 19,617,788)</u>
Balance at end of year	<u>P -</u>	<u>P 594,479,669</u>

The nil amount of allowance reported by the Company is due to the reversal of impairment losses in 2020 as a result of the disposal of related loans and receivables.

As approved by the Company's Related Party Committee and BOD, in various dates in 2020, the Company disposed of its core loans and receivables to BDO Unibank, BDO Life and BDO Finance with aggregate amounts of P14,125,382,405, P1,276,081,451, and P7,669,959,699, respectively, to address the widening liquidity gap during the COVID-19 pandemic and as it winds down operations (see Note 14). Such disposal is not consistent with the Company's HTC business model; however, since there were no remaining core loans and receivables as at December 31, 2021, further evaluation of the Company's HTC business model is no longer performed. The total resulting gain on disposal of core loans and receivables amounted to P509,971,258, which is presented as Gain on sale of loans and receivables under Discontinued operations in the 2020 statement of income (see Note 14). No similar transaction transpired in 2021.

In 2020, the BOD approved the write-off of certain loans and receivable financed and finance lease receivables with a total amount P19,399,528.

## 9. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment in 2020 are summarized below.

	Note	
Balance at beginning of year		
Loans and other receivables	8	P 594,479,669
Investment properties		23,626,575
Other assets		<u>1,541,913</u>
		<u>619,648,157</u>
Impairment losses-net		400,553,810
Write-offs		( 19,399,528)
Reversals		( 619,011,991)
Disposals		( <u>381,790,448</u> )
		( <u>619,648,157</u> )
Balance at end of year:		
Loans and other receivables	8	-
Investment properties		-
Other assets		<u>-</u>
		<u>P -</u>

There was no impairment recognized in 2021.

## 10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	2021	2020
Accounts payable	P 8,134,698	P 8,565,592
Accrued taxes and other expenses	22,122	10,605,059
Withholding taxes payable	803	7,552,161
Other liabilities	<u>-</u>	<u>781,939</u>
	<u>P 8,157,623</u>	<u>P 27,504,751</u>

On October 16, 2020, the Company agreed to assign irrevocably and absolutely to BDO Finance certain accounts payables and other liabilities with total carrying amount of P244,591,355 (see Note 14).

In 2020, Other liabilities include, among others, payroll related accounts (SSS payable, HDMF payable and Philhealth payable).



Accounts payable and other liabilities have maturities within one year. Management considers the carrying amounts of accounts payable and other liabilities recognized in the statements of financial position to be a reasonable approximation of their fair values due to their short duration.

## 11. EQUITY

### 11.1 Capital Management Objectives, Policies and Procedures

The Company's capital management objectives are:

- to provide an adequate return to shareholders by pricing products commensurately with the level of risk; and,
- to ensure the Company's ability to continue as a going concern.

The Company sets the amount of capital in proportion to its overall financing structure and the Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company's capital and overall financing as of December 31, 2021 and 2020 are shown below.

	<u>2021</u>	<u>2020</u>
Total equity	P 6,012,132,262	P 5,968,590,844
Cash and cash equivalents	( 15,204,057)	( 115,984,914)
Net capital	<u>P 5,996,928,205</u>	<u>P 5,852,605,930</u>
Overall financing (total equity)	<u>P 6,012,132,262</u>	<u>P 5,968,590,844</u>
Capital-to-overall financing ratio	<u>1.00:1.00</u>	<u>0.98:1.00</u>

As of December 31, 2021 and 2020, the Company complies with this minimum paid-up capital requirement. All branches were already closed and ceased its leasing and financing operations as of December 31, 2020 (see Note 1.2).

### 11.2 Preferred Shares

The Company has 200,000 authorized preferred shares at P100 par value a share with the following features:

- (a) Issued serially in blocks of not less than 100,000 shares;
- (b) No pre-emptive rights to any or all issues on other disposition of preferred shares;
- (c) Entitled to cumulative dividends at a rate not higher than 20% yearly;
- (d) Subject to call or with rights for their redemption, either mandatory at a fixed or determinable date after issue; and,
- (e) Non-voting, except in cases expressly provided for by law.



None of these authorized preferred shares have been issued as of December 31, 2021 and 2020.

### ***11.3 Common Shares***

As of December 31, 2021, out of the total authorized capital stock of 3,400,000,000 common shares with par value of P1.00 per share, 2,162,475,312 common shares, net of treasury shares of 62,693,718 are issued and outstanding.

### ***11.4 Retained Earnings – Free***

The Company's retained earnings are restricted to the extent of the cost of the treasury shares amounting to P81,776,628, share in net earnings of subsidiary and an associate as of the end of the reporting periods.

### ***11.5 Retained Earnings – Reserves***

As at December 31, 2020, the Company appropriately reversed the appropriation for GLLP totaling P141,740,833 since all of its loans and receivables subject to 1% GLLP were already sold.

### ***11.6 Track Record of Registration of Securities***

On January 6, 1997, the Company was listed with the PSE with 106,100,000 additional common shares and 15,120,000 existing common shares with par value of P1.00 per share. The listing was approved by the SEC in May 1996. As of December 31, 2021, the Company's number of shares registered totaled 3,400,000,000 with par value of P1.00 per share and closed at a price of P1.87 in 2021.

On January 27, 2020, the PSE approved the request of the Company for the voluntary trading suspension of its shares. This is to allow the investing public an equal access to the information about the Share Purchase Agreement entered by BDO Unibank on January 24, 2020 for making informed decisions.

As of December 31, 2021, the trading of the Company's shares remains suspended due to the Order of Suspension issued by the SEC requiring amendment of Company's registration statement. The Company has contested the suspension order on the absence of grounds and has requested the lifting of such as early as February 24, 2020, immediately before the quarantines arising from the pandemic. The Company's request for lifting of the suspension or for guidance from the SEC is still pending resolution with the SEC as of date of release of the 2021 financial statements.

## 12. OTHER INCOME

In 2021, the Company reported the realized foreign exchange translation gain amounting to P1,550,970, realized gain on sale of dollar-denominated currency amounting to P310,681 (see Note 14), and miscellaneous income amounting to P207,358 reported as Other income under Continuing operations. Other income presented under Discontinued operations for 2020 and 2019 consists of the following:

	Notes	2020	2019
Dividend income	7	P 80,727,007	P 159,434,753
Gain on sale of investment in subsidiary		9,496,552	-
Gain on sale of financial assets	7	8,862,126	-
Gain on sale of investment properties		6,771,162	4,664,216
Day-one gains – net		22,039	88,721
Loss on sale of investment in an associate		-	( 27,636,973)
Miscellaneous – net	14	<u>34,542,445</u>	<u>3,304,238</u>
		<u>P 140,421,331</u>	<u>P 139,854,955</u>

Dividend income pertains to income earned from investments in Smart Note and SMC shares.

Day-one gains – net represent the fair value gains on initial recognition of lease deposits (representing excess of principal amount over fair value of leased deposits), net of the day one losses on initial recognition of the residual value receivables under finance lease.

## 13. EMPLOYEE BENEFITS

Expenses recognized for salaries and employee benefits for the Company under discontinued operations are presented below.

	Note	2020	2019
Salaries and wages		P 123,255,227	P 134,907,121
Bonuses		42,555,095	46,237,348
Retirement – defined benefit plan		18,607,236	17,834,293
Fringe benefits		12,481,875	13,980,197
Social security costs		4,910,713	4,700,460
Employee stock option plan	14	3,491,587	14,824,728
Other benefits		<u>5,151,947</u>	<u>6,105,759</u>
		<u>P 210,453,680</u>	<u>P 238,589,906</u>

After the completion of restructuring in 2020, the Company has terminated its employees and transferred its former employees to BDO Finance. In 2021, the Company did not incur any employee benefits expense.



#### 14. RELATED PARTY TRANSACTIONS

The Company's related parties include BDO Unibank, related party under common ownership, key management personnel and the retirement benefit fund as described below.

The summary of the Company's transactions with its related parties in 2021, 2020 and 2019 and is shown below.

Related Party Category	Notes	Amount of Transaction		
		2021	2020	2019
<b>Ultimate parent company (BDO Unibank)</b>				
UITF placement	7, (n)	P 70,000,000	P 5,847,000,000	P -
Unrealized fair value gains	7, (n)	54,997,429	5,692,212	-
Realized gain on dollar-denominated cash deposits	(r)	310,681	-	-
Service fees	(f)	124,900	125,200	124,600
Interest income on savings and demand deposits	6, (a)	30,666	1,510,459	366,758
Interest expense on bills payable	(b)	-	11,477,345	34,420,535
Interest expense on lease liability	(c)	-	1,398,636	2,197,373
Depreciation	(c)	-	11,833,555	12,987,388
Gain on pre-termination of lease contract	(c)	-	963,423	-
Management fees	(d)	-	14,685,000	16,020,000
Sale of receivables	(q)	-	14,125,382,405	5,801,302,702
Gain on sale of receivables	(q)	-	381,866,343	-
<b>Ultimate parent company (BDO Unibank)</b>				
Service charges and fees	(e)	-	-	13,354,500
Sale of financial assets under FVOCI	(q)	-	1,138,020,000	-
Gain on sale of debt securities under FVOCI	(q)	-	8,862,126	-
Loss on sale of equity securities under FVOCI	(q)	-	( 620,000)	-
Employee stock option plan	2, 9, 13	-	3,491,587	14,824,728
Gain on redemption of UITF	7, (n)	-	123,808	-
Sale of foreclosed assets- net	(q)	-	212,801,131	-
<b>Subsidiary (BDORI)*</b>				
Dividend income	(f)	-	200,000,000	-
Management fees	(d)	-	330,000	360,000
Rent income	(c)	-	60,500	66,000
<b>Under common ownership</b>				
Service and charges fees	(g), (k)	-	2,147,655	3,671,102
Interest expense on bills payable	(l)	-	-	203,274,566
Insurance expense	(m)	-	244,314	833,011
Sale of receivables	(p), (q)	-	8,946,041,150	232,155,542
Gain on sale of receivables	(p), (q)	-	128,104,914	2,736,443
Sale of financial assets under FVOCI	(p), (q)	-	1,997,495,000	-
Gain on sale of equity securities under FVOCI	(p), (q)	-	71,656,187	-
<b>Other related parties</b>				
Loans	(o)	-	40,045,801	198,710,788
<b>Key management personnel</b>				
Short-term benefits	(b)	-	47,221,000	57,406,000
Post-employment benefits	(b)	-	9,170,953	8,304,137
Loans to officers	(b)	-	1,909,534	3,713,735

\*Only until October 16, 2020



Below is the summary of the outstanding balances with each related party as of December 31, 2021 and 2020.

Related Party Category	Notes	Outstanding Balance	
		2021	2020
<b>Ultimate parent company (BDO Unibank)</b>			
Savings and demand deposits	6, (a)	P 15,204,057	P 115,984,914
UITF	7, (n)	5,877,689,641	5,752,692,212
<b>Under common ownership</b>			
Accounts payable	(g)	-	5,240,246
<b>Retirement benefit fund</b>			
Shares of stock	(i)	-	1,642,931

- (a) The Company maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2021 and 2020, savings and demand deposit accounts maintained with BDO Unibank are reported as Cash and Cash Equivalents account in the statements of financial position. These deposits generally earn interest at annual rates of 0.06% in 2021 and 0.13% in 2020 and 2019. Interest income earned on these deposits in 2021, 2020 and 2019 is included as part of Interest and Discounts account under Revenues in the statements of income.
- (b) The Company obtains short-term bills payable from BDO Unibank with annual interest rates ranging from 3.0% to 4.8% and 4.6% to 6.8% in 2020 and 2019, respectively. Total bills availments and payments amounted to P1,527,350,000 and P1,521,455,000, respectively, in 2020, and P14,004,560,540 and P14,929,473,235, respectively, in 2019. No outstanding balance as of December 31, 2020. Interest expense incurred on these bills payable in 2020 and 2019 is included as part of Interest and Financing Charges account under Operating Costs and Expenses in the statements of income. The Company did not obtain bills payable in 2021.
- (c) The Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from three to five years, renewable for such period and under such terms and conditions as may be agreed upon with the Company and BDO Unibank. The related interest expense incurred on lease liability and depreciation of Right-of-use are included as part of Interest and financing charges and Occupancy and equipment related expenses, respectively, under Operating Costs and Expenses account in the statements of income. Before the restructuring, the Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental is presented as part of Other Income-net account in the Company's statements of income (see Note 12). In 2020, in line with the restructuring process, the Company pre-terminated all its leases with BDO Unibank which resulted in a recognition of gain on pre-termination as part of Miscellaneous income under Other Income account for the 2020 statement of income (see Note 12). There were no outstanding receivables and payables on these transactions as of the end of 2021 and 2020.



- (d) In 2019, the Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Company for certain management services that the former provides to the latter. Management fees paid by the Company to BDO Unibank are shown as part of Other Expenses account under Operating Costs and Expenses in the statements of income. Also, the Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income-net account in the Company's statements of income (see Note 12). There are no outstanding receivables and payables on these transactions as of the end of 2021 and 2020.

As part of the restructuring of Company's leasing business, the service level agreement of Company with BDO Unibank was terminated in 2020. Accordingly, the Company also terminated the service level agreement with BDO Rental.

- (e) In 2019, the Company sold portion of its receivables to BDO Unibank. The Company charged BDO Unibank for service charges and fees which is presented as part of Other income account in the 2019 statement of income. There were no outstanding receivable and payable on these transactions as of the end of 2021 and 2020.
- (f) The Company entered into an agreement with BDO Unibank on stock transfer services. Service fees paid by the Company to BDO Unibank are shown as part of Other Expenses account under Operating Costs and Expenses in the statements of income. There were no outstanding receivable and payable on these transactions as of the end of 2021 and 2020.
- (g) The Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for services related to the Company's issuance of short-term commercial papers. Service charges and fees paid by the Company to BDO Capital amounting to P94,777 for 2020 and P2,076,200 for 2019 are included as part of Other Expenses account under Operating Costs and Expenses in the statements of income. No similar transaction in 2021 and no outstanding payables on this transaction as of the end of 2021 and 2020.
- (h) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of income of the Company. In 2021, the Company has no longer recognized short-term employee benefits because it has no employees after the restructuring of the Company was completed in 2020. On the other hand, the short-term employee benefits amounting to P47,221,000 in 2020 and P57,406,000 in 2019 include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. Further, retirement benefits expense amounted to P9,170,953 in 2020 and P8,304,137 in 2019 (nil in 2021).
- In 2020 and 2019, the Company also granted loans to officers, which are secured by mortgage on the property, bear interest at a range a 7.0% to 9.0% per annum, with terms ranging from three to five years. There were no outstanding loans to officers as of December 31, 2021 and 2020.
- (i) On October 16, 2020, the Company's retirement fund was transferred to BDO Finance [see Notes 13 and 14(q)]. The retirement fund holds, as an investment, 519,915 shares of stock of the Company as of December 31, 2021 and 2020, which has a market value of P3.16 per share.
- (j) In 2020, BDO Rental declared cash dividends amounting to P200,000,000 (received in 2020).



- (k) The Company earned from BDO Insurance Brokers, Inc. (BDO Insurance) service charges and fees for accounts referred amounting to P2,052,878 in 2020 and P1,594,902 in 2019 and are included as part of Miscellaneous under Other Income account in the statements of income (see Note 12). No similar transaction in 2021 and no outstanding payables on this transaction as of the end of 2021 and 2020.
- (l) The Company obtained unsecured, short-term bills payable from BDO Strategic Holdings Inc. and SM Prime Holdings, Inc with annual interest rates ranging from 4.9% to 6.4% and 3.9% to 6.3%, respectively, in 2019 (nil in 2021 and 2020). Total availments and payments amounted to P5,324,300,000 and P6,323,800,000, respectively, in 2019 (nil in 2021 and 2020) for BDO Strategic Holdings Inc. Total availments and payments amounted to P32,000,000,000 and P34,000,000,000 respectively, in 2019 (nil in 2021 and 2020) for SM Prime Holdings, Inc. The amount outstanding from borrowings is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable is included as part of Interest and Financing Charges account under Operating Costs and Expenses in the statements of income.
- (m) In 2020, the Company paid BDO Life for group life insurance of the Company's employees. Insurance paid by the Company is presented as part of Occupancy and Equipment Related Expense under Operating Costs and Expenses in the statements of income. No similar transaction transpired in 2021. There were no outstanding receivables and payables on this transaction as of the end of 2021 and 2020.
- (n) In 2021 and 2020, the Company purchased P70,000,000 and P5,847,000,000, worth of UITF from BDO TIG, respectively. The P100,000,000 of the securities purchased in 2020 was redeemed on December 29, 2020 (see Note 7).
- (o) The Company also granted loans to other related parties, which bear interest with a range of 4.2% to 11.0% per annum in 2020 and 2019 (nil in 2021). There were no outstanding loans to other related parties as of December 31, 2021 and 2020.
- (p) In 2019, the Company sold portion of its receivables to BDO Life. In various dates in 2020, in line with the restructuring of BDO Unibank Group's leasing business to optimize the financial needs of clients in line with PFRS 16, the Company sold its core loans and receivables to BDO Life, BDO Finance and BDO Unibank. The related gain on sale of loans and receivables is presented under Revenues in the 2020 statement of income [see Notes 8 and 14(q)]. There is no outstanding receivable on these transactions as of the end of 2020. No similar transaction transpired in 2021.

On various dates in 2020, the Company disposed portion of its financial assets at FVOCI to BDO Unibank and BDO Life. The related gain on sale is presented separately under Revenues in the statements of income (see Note 7) for debt securities while for equity securities gains (losses) were booked to Retained Earnings.

In October 2020, the Company agreed to assign, transfer and convey certain foreclosed assets to BDO Unibank with a total carrying value of P212,801,131 as of September 30, 2020. No gain or loss was recognized in this transaction. There is no outstanding receivable on this transaction as of December 31, 2021 and 2020.

- (q) On various dates in 2020, the Company disposed portion of its core loans and receivables to BDO Finance with aggregate carrying amounts of P7,669,959,699 resulting to a recognition of gain on sale of loans and receivables totaling P89,493,034 which is presented separately under Revenues in the statements of income [see Notes 8 and 14(q)].



On October 12, 2020, the Company sold its 100% ownership interest in BDO Rental to BDO Finance with a total equity value of P308,003,448 which resulted to a recognition of gain on sale of investment in subsidiary totaling P9,496,552 as part of Other income account in the statements of income (see Note 12). On October 15, 2020, the Company sold its SMC preferred shares classified as FVOCI to BDO Finance with aggregate carrying amounts of P597,495,000 (see Note 7). No gain or loss was recognized on the sale. On October 16, 2020, the Company agreed to assign irrevocably and absolutely to BDO Finance certain other assets and other liabilities with total proceeds equal to carrying value of P39,012,330 and P244,591,355 respectively. The transaction resulted to outstanding payable to BDO Finance and is recorded as part of Accounts payable and other liabilities account in the statements of financial position.

The table below summarizes the carrying amounts of other assets and other liabilities sold to BDO Finance on October 16, 2020.

	<u>Notes</u>		
Other Assets:			
Accounts receivables – net	8	P	13,723,392
Prepaid expenses			3,963,200
Property and equipment – net			6,088,373
Retirement assets	13, 14(i)		14,358,936
Other intangible asset – net			773,234
Other assets			<u>105,195</u>
		P	<u>39,012,330</u>
Other Liabilities:			
Accounts payable		P	169,082,140
Accrued other expenses payable			13,648,196
Unapplied advance payments			15,301,329
Deferred income tax payable		(	36,161,681)
Other liabilities			<u>82,721,371</u>
		P	<u>244,591,355</u>

Other liabilities include, among others, taxes, insurance, mortgage and other fees.

- (r) In 2021, the Company sold dollar-denominated cash deposits amounting to USD796,619 at P50.36 exchange rate (Php40,117,733) to BDO Unibank. This transaction resulted in a realized gain of P310,681 and is recorded as part of Other income account under Continuing operations in the 2021 statement of income (see Note 12).

## 15. TAXES

### 15.1 Taxes and Licenses

This account is composed of the following:

	2021	2020	2019
Local taxes	P 9,961,872	P 13,735,853	P 13,314,156
Documentary stamp tax	520,470	88,463,570	173,366,260
Gross receipts tax	29,089	76,759,057	87,651,428
Others	877,531	6,139,473	12,071,717
	<u>P 11,388,962</u>	<u>P 185,097,953</u>	<u>P 286,403,561</u>

### 15.2 Current and Deferred Taxes

On March 26, 2021, Republic Act (R.A.) No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, as amended, was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Company.

- regular corporate income tax (RCIT) rate was reduced from 30% to 25% starting July 1, 2020;
- minimum corporate income tax (MCIT) rate was reduced from 2% to 1% starting July 1, 2020 until June 30, 2023; and,
- the allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable, as presented in the 2020 annual income tax return (ITR) of the Company, would be lower by P5,726,192 than the amount presented in the 2020 financial statements and such amount was charged to profit or loss.

The components of tax expense (income) from the discontinued operations for the years ended December 31 follow:

	2021	2020	2019
<i>Reported in statements of income</i>			
Current tax expense:			
MCIT at 1% in 2021; 2% in 2020 and 2019	P 20,690	P 22,753,979	P 18,335,362
Adjustment in 2020 income taxes due to change in income tax rate	( 5,726,192)	-	-
Final tax at 20%	5,574	14,172,235	14,379,250
	<u>( 5,699,928)</u>	<u>36,926,214</u>	<u>32,714,612</u>
Deferred tax expense relating to origination and reversal of temporary differences	-	110,481,858	475,417
	<u>(P 5,699,928)</u>	<u>P 147,408,072</u>	<u>P 33,190,029</u>



*Reported in statements of comprehensive income*

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Deferred tax income (expense) on:			
Net actuarial losses	P -	(P 30,808,854)	P 4,708,235
Unrealized fair value gains on financial assets at FVOCI	-	<u>3,705,249</u>	<u>2,494,709</u>
Net deferred tax income (expense)	<u>P -</u>	<u>(P 27,103,605)</u>	<u>P 7,202,944</u>

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of income follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Tax on pretax profit at 25% in 2021 and 30% in 2020 and 2019	P 9,460,373	P 119,957,266	P 23,976,079
Adjustment for income subjected to lower tax rate	( 2,092)	5,485,246	( 7,192,794)
Adjustment in 2020 income taxes due to change in income tax rate.	( 5,726,192)	-	-
Tax effects of:			
Deductible temporary differences not recognized	-	( 167,143,718)	( 10,991)
Reversal of deferred tax liability	-	110,481,858	-
Unrecognized deferred tax assets on:			
Net operating loss carry-over (NOLCO)	3,727,677	51,297,526	-
MCIT	<u>20,690</u>	<u>22,753,979</u>	-
Non-deductible interest expense		2,792,167	7,683,271
Non-deductible expense	<u>568,973</u>	<u>4,272,394</u>	<u>34,985,015</u>
Non-taxable income	<u>( 13,749,357)</u>	<u>( 2,488,646)</u>	<u>( 26,250,551)</u>
	<u>(P 5,699,928)</u>	<u>P 147,408,072</u>	<u>P 33,190,029</u>

In 2020, all net deferred tax assets were derecognized since the management assessed that these will not be realized in the future periods.

The Company has no deferred income in profit or loss or other comprehensive income in 2021. The components of deferred tax income in profit and loss and in other comprehensive income for the years ended December 31, 2020 and 2019 follow:

	<u>2020</u>	<u>2019</u>
<i>In profit or loss:</i>		
Deferred tax assets:		
Allowance for impairment on:		
Loans and discounts	(P 93,882,068)	P 393,765
Accounts receivable	( 8,684,708)	( 382,774)
Investment properties and non-current assets held-for-sale	( 7,550,547)	( 394,088)
Retirement benefit obligation	-	<u>726,407</u>
	<u>( 110,117,323)</u>	<u>( 1,109,504)</u>
Deferred tax liability – Others	<u>( 364,535)</u>	<u>634,087</u>
Net deferred tax expense	<u>(P 110,481,858)</u>	<u>(P 475,417)</u>



*In other comprehensive income:*

	<u>2020</u>	<u>2019</u>
Deferred tax income (expense) on:		
Net actuarial losses	(P 30,808,854)	P 4,708,235
Unrealized fair value gains on financial assets at FVOCI	<u>3,705,249</u>	<u>2,494,709</u>
Net deferred tax income (expense)	(P <u>27,103,605</u> )	P <u>7,202,944</u>

The Company is subject to MCIT, which is computed at 1% of gross income, as defined under tax regulations or RCIT, whichever is higher. In 2021, 2020 and 2019, the Company claimed itemized deductions in computing for its income tax due.

In 2021 and in prior years, the Company has not recognized deferred tax assets on certain temporary differences, NOLCO and other tax credits since management believes that the future income tax benefits will not be realized within the availment period, as defined under the tax regulations.

Presented below are the details of the Company's remaining NOLCO, which can be claimed as deductions from taxable income within three to five years from the year the tax loss is incurred.

<u>Year Incurred</u>	<u>Original Amount</u>	<u>Applied Amount</u>	<u>Expired Amount</u>	<u>Remaining Amount</u>	<u>Valid Until</u>
2021	P 14,910,709	P -	P -	P 14,910,709	2026
2020	<u>172,289,847</u>	<u>-</u>	<u>-</u>	<u>172,289,847</u>	2025
	<b><u>P187,200,556</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P187,200,556</u></b>	

Presented below are the details of the Company's remaining MCIT for the years 2021 and 2020.

<u>Year Incurred</u>	<u>Original Amount</u>	<u>Applied Amount</u>	<u>Expired Amount</u>	<u>Remaining Amount</u>	<u>Valid Until</u>
2021	P 20,690	P -	P -	P 20,690	2024
2020	<u>17,027,786</u>	<u>-</u>	<u>-</u>	<u>17,027,786</u>	2023
	<b><u>P 17,048,476</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 17,048,476</u></b>	

**15.3 Supplementary Information Required Under Revenue Regulation (RR) No. 15-2010**

The Bureau of Internal Revenue (BIR) issued RR No. 15-2010 which required certain supplementary information to be disclosed as part of the notes to financial statements. The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the SEC rules and regulations covering the form and content of financial statements under the Revised Securities Regulation Code Rule 68.

The Company presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

# 16. EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	2021	2020	2019
Net profit from:			
continuing operations	P 43,541,418	P 5,816,020	P -
discontinued operations	-	246,633,463	46,730,234
Net profit	43,541,418	252,449,483	46,730,234
Divided by the weighted average number of outstanding common shares – net*	<u>2,162,475,312</u>	<u>2,162,475,312</u>	<u>2,162,475,312</u>
Basic earnings per share	<u>P 0.02</u>	<u>P 0.12</u>	<u>P 0.02</u>

\* net of treasury shares

There were no outstanding dilutive potential common shares as of December 31, 2021 and 2020.

# 17. CONTINGENT LIABILITIES AND COMMITMENTS

In the ordinary course of business, the Company incurs contingent liabilities and commitments arising from normal business transactions which are not reflected in the accompanying financial statements. As of December 31, 2021, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Company's financial position and results of operations.

# 18. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to contractual maturity and settlement dates.

	2021			2020		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
<b>Assets:</b>						
Cash and other cash items	P 15,204,057	P -	P 15,204,057	P 115,984,914	P -	P 115,984,914
Financial assets at FVTPL	5,877,689,641	-	5,877,689,641	5,752,692,212	-	5,752,692,212
Loans and other receivables –						
Other receivables	127,392,155	-	127,392,155	127,404,781	-	127,404,781
Other assets	4,032	-	4,032	13,688	-	13,688
	<u>P 6,020,289,885</u>	<u>P -</u>	<u>P 6,020,289,885</u>	<u>P 5,996,095,595</u>	<u>P -</u>	<u>P 5,996,095,595</u>
<b>Liabilities:</b>						
Accounts payable and other liabilities	<u>P 8,157,623</u>	<u>P -</u>	<u>P 8,157,623</u>	<u>P 27,504,751</u>	<u>P -</u>	<u>P 27,504,751</u>

# 19. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below are the supplementary information required by the BSP to be disclosed as part of the notes to financial statements based on BSP Circular 1075, *Amendments to Regulations on Financial Audit of Non-Bank Financial Institutions*.



(a) *Selected Financial Performance Indicators*

The following are some indicators of the Company's financial performance:

	<u>2021</u>	<u>2020</u>
Return on average equity:		
$\frac{\text{Net income after income tax}}{\text{Average total capital accounts}}$	0.73%	4.46%
Return on average assets:		
$\frac{\text{Net income after income tax}}{\text{Average total assets}}$	0.72%	1.29%
Net interest margin:		
$\frac{\text{Net interest income}}{\text{Average interest earning assets}}$	0.01%	10.66%

(b) *Capital Instruments Issued*

As of December 31, 2021 and 2020, out of the total authorized capital stock of 3,400,000,000 common shares with par value of P1.00 per share, 2,162,475,312 common shares, net of treasury shares of 62,693,718, are issued and outstanding.

(c) *Significant Credit Exposures for Loans*

There were no outstanding receivables from customers as of December 31, 2021 and 2020.

(d) *Credit Status of Loans*

There were no outstanding receivables from customers as of December 31, 2021 and 2020.

(e) *Analysis of Loan Portfolio as to Type of Security*

There were no outstanding receivables from customers as of December 31, 2021 and 2020.

(f) *Information on Related Party Loans*

There were no related party loans as of December 31, 2021 and 2020.

There are no assets pledged by the Company as security for liabilities in 2021 and 2020.

(g) *Contingencies and Commitments Arising from Off-balance Sheet Items*

As of December 31, 2021 and 2020, there were no material commitments and contingent accounts arising from transactions not given recognition in the statements of financial position.





**Report of Independent Auditors  
to Accompany Supplementary  
Information Required by the  
Securities and Exchange Commission  
Filed Separately from the  
Basic Financial Statements**

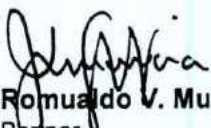
**Punongbayan & Araullo**  
20th Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 8988 2288

**The Board of Directors and the Stockholders  
BDO Leasing and Finance, Inc.  
(A Subsidiary of BDO Unibank, Inc.)**  
39th Floor, BDO Corporate Center Ortigas  
12 ADB Avenue, Ortigas Center  
Mandaluyong City

We have audited the financial statements of BDO Leasing and Finance, Inc. for the year ended December 31, 2021, on which we have rendered our report thereon dated February 23, 2022. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of Revised Securities Regulation Code Rule 68, and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Company's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

By:   
**Romualdo V. Murcia III**  
Partner

CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 8852339, January 3, 2022, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-4 (until Sept. 4, 2022)  
Firm - No. 0002 (until Dec. 31, 2024)  
BIR AN 08-002511-022-2019 (until Sept. 4, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 23, 2022

BDO Leasing and Finance, Inc.  
SEC Supplementary Schedules  
December 31, 2021

Table of Contents

<i>Schedule</i>	<i>Description</i>	<i>Page</i>
A	Financial Assets	<u>2</u>
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Affiliates)	<u>3</u>
C	Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements	<u>4</u>
D	Long-Term Debt	<u>5</u>
E	Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies)	<u>6</u>
F	Guarantees of Securities of Other Issuers	<u>7</u>
G	Capital Stock	<u>8</u>

Other Required Information

Reconciliation of Company Retained Earnings for Dividend Declaration

Map Showing the Relationship Between the Company and its Related Parties

Schedule of Financial Soundness Indicators

1 Under SEC Rule 68.1, public companies are required to submit only the schedules that are relevant to the company considering the specific requirements for each schedule.

2 Indicate N/A if the schedule is not applicable. For purposes of this Illustrative FS, schedules marked N/A are also presented at the end of this Appendix to provide engagement teams with the templates for the said schedules (see pages 17, 20 & 21).

BDO LEASING AND FINANCE, INC.  
(A Subsidiary of BDO Unibank, Inc.)  
Schedule A - Financial Assets  
December 31, 2021  
(Amount in Philippine Pesos)

<i>Name of Issuing entity and association of each issue</i>	<i>Number of Shares</i>	<i>Amount shown on the balance sheet (ii)</i>	<i>Valued based on the market quotation at balance sheet date (iii)</i>	<i>Income received and accrued (should tally with AIR)</i>
<i>Financial assets at fair value through profit or loss</i>				
BDO Unibank Inc. Trust and Investment Group	5,817,000,000	5,877,689,641	5,877,689,641	-
<b>GRAND TOTAL</b>		<b>5,877,689,641</b>	<b>5,877,689,641</b>	<b>-</b>
<b>Total Financial assets at fair value through profit or loss</b>		<b>5,877,689,641</b>	<b>5,877,689,641</b>	<b>-</b>



**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**

*(A Subsidiary of BDO Unibank, Inc.)*

Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

December 31, 2021

*(Amount in Philippine Pesos)*

Name and designation of debtor	Type of Loan	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
				Amounts collected	Amounts written off	Current	Not current	

- nothing to report -

**BDO LEASING AND FINANCE, INC.**

*(A Subsidiary of BDO Unibank, Inc.)*

**Schedule C - Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements**

**December 31, 2021**

*(Amount in Philippine Pesos)*

Name and Designation of debtor	Balance at beginning of period	Deductions			Current	Non-current	Balance at end of period
		Additions	Amounts collected (i)	Amounts written off (ii)			

*- nothing to report -*

BDO LEASING AND FINANCE, INC.  
*(A Subsidiary of BDO Unibank, Inc.)*  
 Schedule D - Long-Term Debt  
 December 31, 2021  
*(Amount in Philippine Pesos)*

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet	Interest Rate	Maturity Date
---------------------------------------	--------------------------------	---	--	---------------	---------------

- nothing to report -



BDO LEASING AND FINANCE, INC.  
(A Subsidiary of BDO Unibank, Inc.)  
Schedule E - Indebtedness to Related Parties  
December 31, 2021  
(Amount in Philippine Pesos)

<i>Name of related party</i>	<i>Balance at beginning of period</i>	<i>Balance at end of period</i>
------------------------------	---------------------------------------	---------------------------------

- nothing to report -

BDO LEASING AND FINANCE, INC.  
(A Subsidiary of BDO Unibank, Inc.)  
Schedule F - Guarantees of Securities of Other Issuers  
December 31, 2021  
(Amount in Philippine Pesos)

<i>Name of issuing entity of securities guaranteed by the company for which this statement is filed</i>	<i>Title of issue of each class of securities guaranteed</i>	<i>Total amount guaranteed and outstanding</i>	<i>Amount owned by person for which statement is filed</i>	<i>Nature of guarantee</i>
---	--	--	--	----------------------------

- nothing to report -

BDO LEASING AND FINANCE, INC.  
(A Subsidiary of BDO Unibank, Inc.)  
Schedule G - Capital Stock <sup>(1)</sup>  
December 31, 2021  
(Amount in Philippine Pesos)

Title of Issue <sup>(2)</sup>	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties <sup>(3)</sup>	Directors, officers and employees	Others
Preferred Shares	200,000					
Common shares	3,400,000,000	2,162,475,312		1,914,711,807	152,915	247,610,590
BDO Unibank Inc.				1,914,711,807		

\*Determination of number of shares and outstanding

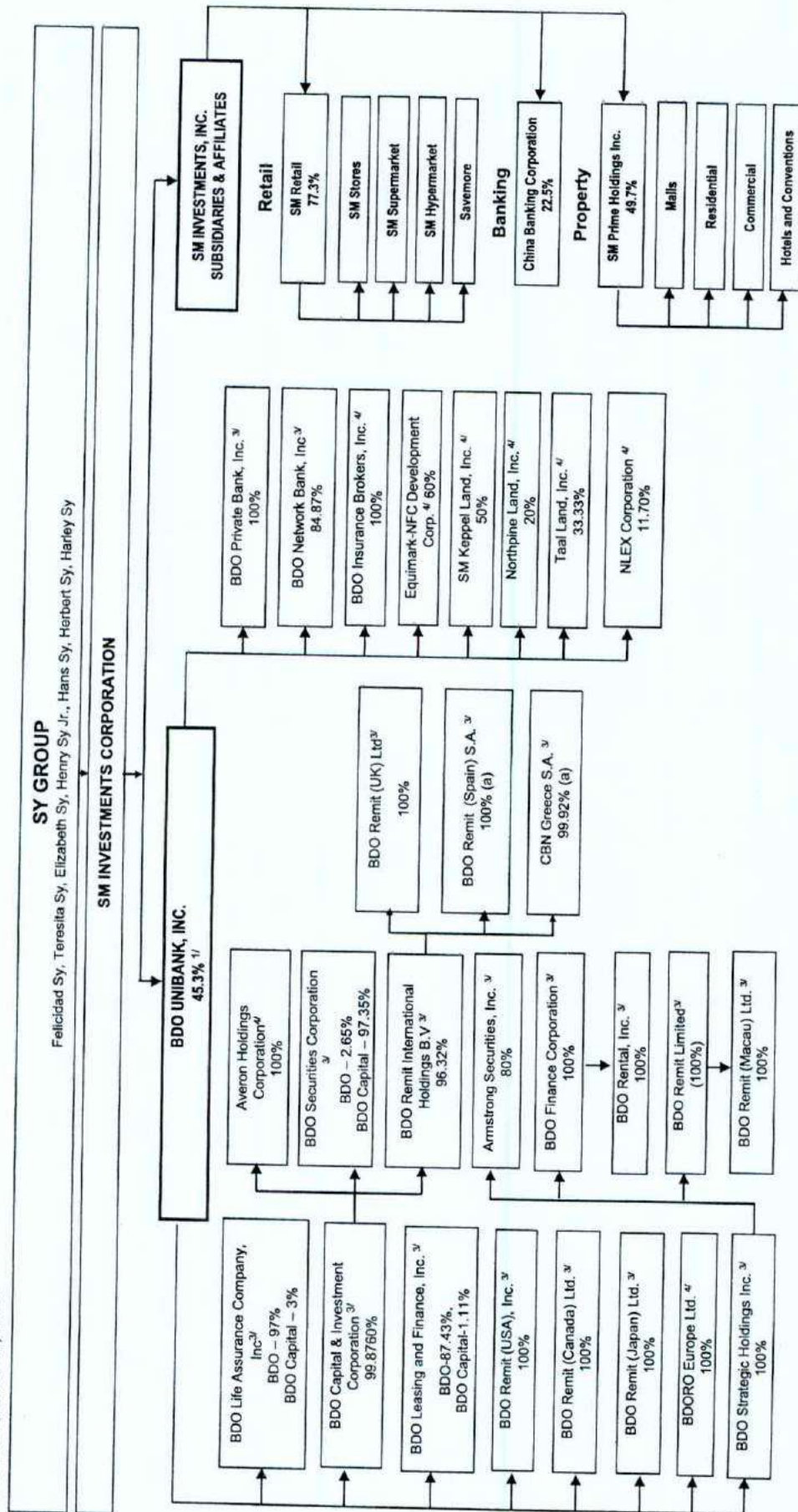
Number of shares issued	2,225,169,030
Less shares held in treasury	62,693,718
	<u>2,162,475,312</u>



BDO Leasing and Finance, Inc.  
Ortigas Center, Mandaluyong City  
Reconciliation of Retained Earnings Available for Dividend Declaration  
December 31, 2021

Unappropriated Retained Earnings Available for Dividend declaration at beginning of Year	P 3,254,102,766
Net Profit Per Audited Financial Statements	<u>43,541,418</u>
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year	<u>P 3,297,644,184</u>

**BDO Unibank, Inc. Group Map**  
As of December 31, 2021



- SMIC's Subsidiaries/Affiliates
- Stockholder of BDO
- Subsidiary
- Affiliate
- Other Related Party

(a) For dissolution / under liquidation

1/ SMIC's effective ownership as of December 31, 2021 (includes direct & indirect ownership)

2/ Entities related to BDO through common ownership/directorship/officership

3/ Financial entities

4/ Non-Financial entities

BDO Leasing and Finance, Inc.  
Financial Ratios  
December 31, 2021 and 2020  
(Amounts Philippine Pesos)

	2021	2020	2021	2020
<b>I. Current/liquidity ratios</b>				
Current ratio				
<u>Total current assets</u>	6,020,305,395	5,996,095,595	738.00	218.00
Total current liabilities	8,157,623	27,504,751		
Acid Test Ratio				
<u>Quick assets</u>	6,020,305,395	5,996,095,595	738.00	218.00
Total current liabilities	8,157,623	27,504,751		
<b>II. Solvency ratios; debt-to-equity ratios</b>				
Solvency ratio				
<u>(After tax net profit + Depreciation)</u>	43,556,928	776,820,366	5.34	28.24
Total liabilities	8,157,623	27,504,751		
Debt-to-equity ratio				
<u>Total liabilities</u>	8,157,623	27,504,751	0.00	0.00
Total equity	6,012,147,772	5,968,590,844		
<b>III. Asset-to-equity ratio</b>				
Asset-to-equity ratio				
<u>Total assets</u>	6,020,305,395	5,996,095,595	1.00	1.00
Total equity	6,012,147,772	5,968,590,844		
<b>IV. Interest coverage ratio</b>				
Interest coverage ratio				
<u>Earnings before interest and taxes</u>	37,841,490	934,539,829	-	1.78
Interest expense	-	524,018,733		
<b>V. Profitability ratios</b>				
Net profit margin				
<u>Net Profit</u>	43,556,928	252,448,103	76.29%	10.67%
Interest income + Other operating income	57,097,104	2,367,036,222		
Return on equity				
<u>Net profit</u>	43,556,928	252,448,103	0.73%	4.36%
Average equity	5,990,369,308	5,791,459,655		
Return on assets				
<u>Net profit</u>	43,556,928	252,448,103	0.72%	1.37%
Average assets	6,008,200,495	18,471,975,485		



VI. Others	2021	2020	2021	2020
Total real estate investments to Assets				
<u>Total investment properties</u>	-	-	0.00%	0.00%
Total assets	6,020,305,395	5,996,095,595		
Loans to Assets				
<u>Total loans and other receivables</u>	127,407,665	127,404,781	2.12%	2.12%
Total assets	6,020,305,395	5,996,095,595		
DOSRI to Net worth				
Receivables from Directors, Officers, <u>Stakeholders and Related Interests</u>	-	-	0.00%	0.00%
Total equity	6,012,147,772	5,968,590,844		
Amount of receivable from a single corporation to Total receivables				
<u>Loan to a single corporation</u>	-	-	0.00%	0.00%
Total loans and other receivables	127,407,665	127,404,781		



**BDO**

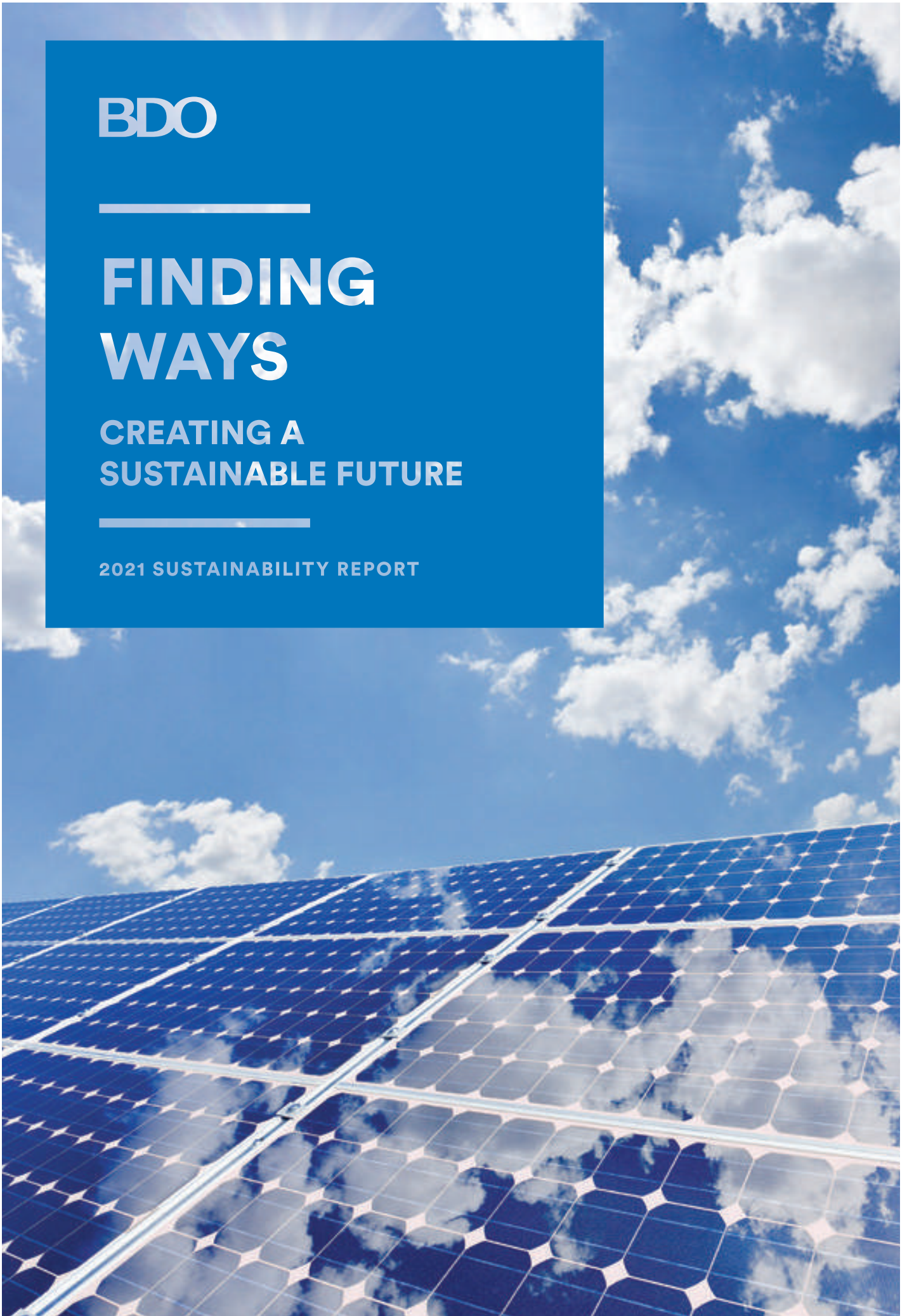
---

# **FINDING WAYS**

**CREATING A  
SUSTAINABLE FUTURE**

---

**2021 SUSTAINABILITY REPORT**



## About the Report

102-54

This report is BDO Unibank Inc.'s fourth Sustainability Report outlining the BDO Group's economic, environmental, social, and governance performance from January to December 2021. It is a substantiation of BDO Group's commitment to the United Nations Sustainable Development Goals (SDGs), the principles of the United Nations Global Compact, and the Greenhouse Gas (GHG) Protocol. This report has been prepared in accordance with the GRI Standards: Core option. It has completed the GRI Materiality Disclosures Service, which confirms that the GRI Content Index (see pages 85 to 88) is clearly presented and references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report.

This report covers the sustainability efforts of BDO Unibank, Inc. and its subsidiaries and affiliates, including BDO Leasing and Finance, Inc., BDO Private Bank, Inc. and BDO Network Bank, Inc.

This is the fourth Sustainability Report of BDO Unibank and the third of BDO Leasing and Finance. It should be read in tandem with their respective 2021 Annual Reports.



# Table of Contents

04	BDO's Footprint
06	Message from the Chairperson
07	Message from the President and CEO
08	BDO's Path in Creating Shared Value
10	Sustainability Overview
11	BDO Sustainability Framework
12	Supporting the United Nations Sustainable Development Goals
14	Sustainability Governance
16	Materiality Topics
18	Stakeholder Engagement
19	Sustainability Strategies and Material Areas
20	Product Sustainability Strategy
32	Sustainability Contribution Strategy
55	Human Capital Sustainability Strategy
65	Disaster Response Sustainability Strategy
70	Governance-based Sustainability Strategy
85	GRI Content Index
89	Memberships in Associations
90	Sustainability and ESG Awards and Recognition
91	Contact Information

---

# BDO's Footprint

BDO is a full-service universal bank in the Philippines. It provides a complete array of industry-leading products and services including Lending (corporate and consumer), Deposit-taking, Foreign Exchange, Brokering, Trust and Investments, Credit Cards, Retail Cash Cards, Corporate Cash Management and Remittances in the Philippines. Through its local subsidiaries, the Bank offers Investment Banking, Private Banking, Leasing and Finance, Rural Banking, Life Insurance, Insurance Brokerage and Online and Traditional Stock Brokerage Services.

BDO's institutional strengths and value-added products and services hold the key to its successful business relationships with customers. On the front line, its branches remain at the forefront of setting high standards as a sales and service-oriented, customer-focused force. The Bank has the largest distribution network with over 1,500 operating branches and more than 4,400 ATMs nationwide. BDO has 16 international offices (including full-service branches in Hong Kong and Singapore) spread across Asia, Europe, North America, and the Middle East.

The Bank also offers digital banking solutions to make banking easier, faster, and more secure for its clients.

Through selective acquisitions and organic growth, BDO has positioned itself for increased balance sheet strength and continuing expansion into new markets. As of December 31, 2021, BDO is the country's largest bank in terms of total resources, customer loans, deposits, assets under management and capital, as well as branch and ATM network nationwide.

BDO is a member of the SM Group, one of the country's largest and most successful conglomerates with businesses spanning retail, mall operations, property development (residential, commercial, hotels and resorts), and financial services. Although part of a conglomerate, BDO's day-to-day operations are handled by a team of professional managers and bank officers. Further, the Bank has one of the industry's strongest Board of Directors, composed of professionals with extensive experience in various fields that include banking and finance, accounting, law, and business.

**₱3.6 trillion**  
(US\$71.1 billion)  
Total Resources

**₱42.8 billion**  
(US\$839 million)  
Net Income

**1,544**  
Total Branches and Banking  
Offices, including foreign branches  
in Hong Kong and Singapore

**4,484**  
Automated Teller Machines (ATMs)

**624**  
Cash Deposit Machines

**₱529.3 billion**  
(US\$10.4 billion)  
Market Capitalization



₱182.2 billion

(US\$3.6 billion)

Direct Economic Value Generated

₱2.4 trillion

(US\$47.1 billion)

Gross Customer Loans

₱2.8 trillion

(US\$55.3 billion)

Deposit Liabilities

₱424.5 billion

(US\$8.3 billion)

Capital Base

₱548 billion

(US\$10.75 billion)

Total Sustainable Finance funded

## Corporate Mission

To be the preferred bank in every market we serve.

## Corporate Vision

To be the leading Philippine bank and financial services company that empowers customers to achieve their goals and aspirations, combining our entrepreneurial spirit, international perspective, and intense customer focus to deliver a personalized banking experience that is easy, straightforward, and convenient, while taking pride in building long-term relationships and finding better ways to deliver offerings of the highest standard.

## Core Values

**Commitment to Customers.** We are committed to delivering products and services that surpass customer expectations in value and every aspect of customer service, while remaining prudent and trustworthy stewards of their wealth.

**Commitment to a Dynamic and Efficient Organization.** We are committed to creating an organization that is flexible, responds to change, and encourages innovation and creativity; we are committed to the process of continuous improvement in everything we do.

**Commitment to Employees.** We are committed to our employees' growth and development and we will nurture them in an environment where excellence, integrity, teamwork, professionalism, and performance are valued above all else.

**Commitment to Shareholders.** We are committed to providing our shareholders with superior returns over the long-term.





---

# Message from the Chairperson



*“We are excited to lead these efforts at achieving sustainability, and through this report, we invite everyone to go on this journey with us.”*

## **Dear Stakeholders,**

The global impact of the COVID-19 pandemic drove businesses to recalibrate their strategies in order to stay relevant and continue operating in the new normal. In any crisis, innovation always creates opportunities for major change and new paths to go forward.

Throughout 2021, we strived to serve our clients' needs as we gradually reopened our branches with easing mobility restrictions. We launched new digital products and capabilities to provide our clients improved access and convenience. We made funds available to support businesses, from micro, small, and medium enterprises to large corporates, in their recovery and expansion plans.

Alongside these services, we continued our commitment to help the communities we serve and aid them to build better and be more prepared for any future adversity. With the continuous rehabilitation of rural health centers nationwide, our beneficiary communities have the facilities they need for pandemic response, health and wellness needs, and potential disaster relief. We have also donated both testing kits and vaccines to protect communities and help manage the pandemic.

Now more than ever, our response to the pandemic reflects our commitment to a more sustainable and resilient future. We continue to be a strong advocate of sustainable finance, having supported this for over a decade now. We are one with our stakeholders in driving accountability for our social and environmental impact and taking it into account when we invest in or fund a project.

We remain committed to superior business performance anchored on the principles of integrity, accountability, transparency. We are excited to lead these efforts at achieving sustainability, and through this report, we invite everyone to go on this journey with us.

Yours truly,

**Teresita T. Sy**  
Chairperson

---

# Message from the President and CEO



*“BDO’s commitment to sustainability is reflected in every decision and action we take, from the Board members to the senior executive leaders to every BDO employee, every single day.”*

## **Dear Stakeholders,**

Our growing experience in facing the coronavirus pandemic and various disasters has only strengthened our resolve to fulfill our sustainability objectives.

The year 2021 saw great strides in our effort to translate these objectives — Product Sustainability, Sustainability Contribution, Human Capital Sustainability, Disaster Response Sustainability, and Governance-based Sustainability — into real initiatives that promote responsible environmental and social impact among our stakeholders.

We invested ₱548 billion in sustainable finance for projects on renewable energy, energy efficiency, green buildings, among others. We also invested in social projects that promote employment generation and food security among communities. We almost doubled our ESG-themed Unit Investment Trust Fund, the first in the country, to ₱179 million in 2021 from ₱95.5 million in 2020, promoting growth for local companies with good Environmental, Social, and Governance practices.

At the height of the pandemic and during disaster situations, we found ways to provide aid and crucial financial services to our *kababayans*. BDO’s Cash Agad served as a lifeline for our clients in rural and remote areas, supporting our Cash Agad partners in providing cash even when other essential services were down and inaccessible.

We are humbled to be honored among Asia’s Top Sustainability Advocates at the 2021 Asia Corporate Excellence & Sustainability (ACES) Awards for driving the values of sustainability and incorporating them in everything we do. We are also proud to be recognized in The Asset’s 2021 ESG Corporate Awards as a Platinum Awardee for 12 consecutive years. In addition, BDO was among the Philippines’ Top 20 publicly listed companies with an outstanding corporate governance record based on the ASEAN Corporate Governance Scorecard.

We recognize that sustainability is about the journey as much as it is about the destination. We remain dedicated to doing our part for the welfare of our stakeholders, our nation, and our planet. Indeed, BDO’s commitment to sustainability is reflected in every decision and action we take, from the Board members to the senior executive leaders to every BDO employee, every single day. My deepest gratitude to every member of our organization for giving life to sustainability at BDO.

Sincerely,



**Nestor V. Tan**  
President and CEO

# BDO's Path in Creating Shared Value

## Creates jobs

38,873

Employees

75%

Employees are women

59%

Women in senior management

37

Women in top management  
(Senior Vice President and up)

## Fosters banking habits

352,367

Insurance policy holders

18.8 million

Customers

1,544

Branches and banking offices

1.2 million

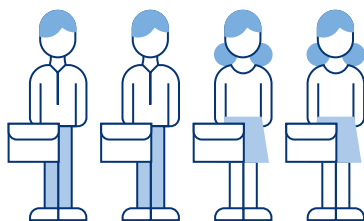
Total new checking and savings accounts in 2021

4,484

Automated Teller Machines (ATMs)

624

Cash Deposit Machines



## Facilitates infrastructure development

₱39.5 billion

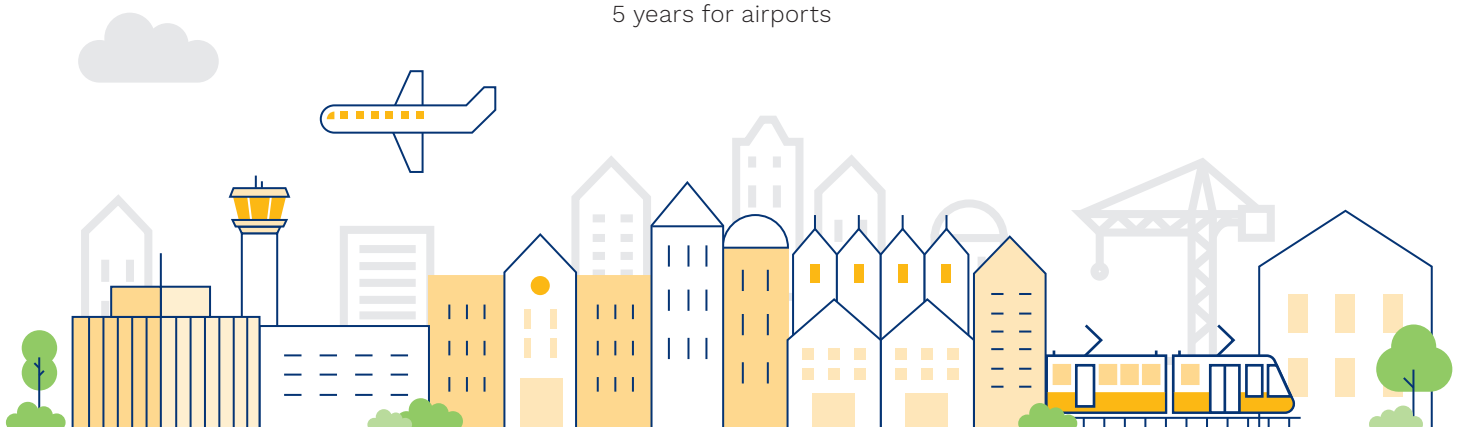
Loans disbursed for national projects

₱18.4 billion

Loans disbursed in the past 5 years for road networks

₱12.4 billion

Loans disbursed in the past 5 years for airports





## Helps businesses grow

₱43.5 billion

Outstanding SME Loans

## Accelerates economic growth

₱21.9 billion

Taxes paid in 2021

## Supports consumer expenditure

5% 5-year CAGR\* in Auto Financing

12% 5-year CAGR\* in Home Financing

7% 5-year CAGR\* in Credit Cards

\*Compound Annual Growth Rates



## Promotes community development

121

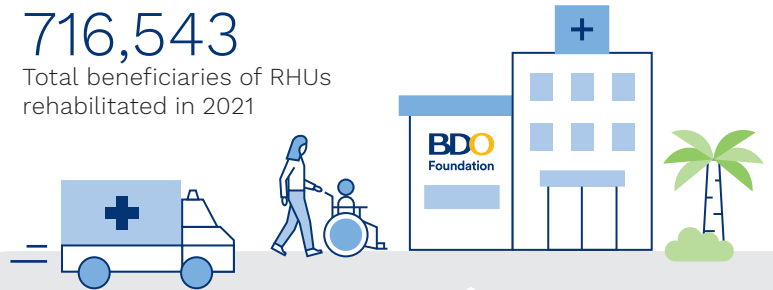
Rural health units (RHUs) rehabilitated to date

21

RHUs rehabilitated in 2021

716,543

Total beneficiaries of RHUs rehabilitated in 2021

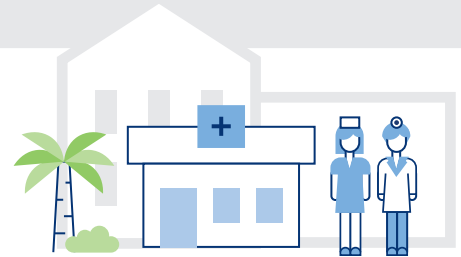


10

RHUs repaired in 2021

564,097

Total beneficiaries of RHUs repaired in 2021



6.5 million

Total RHU project beneficiaries to date



## Champions financial inclusion

26

Financial education videos developed since 2018

2,676,297

Total beneficiaries reached through financial education programs

## Finances environment-friendly solutions

2,230 MW

Total installed renewable energy capacity in megawatts

4,266,687 tonnes

Carbon dioxide avoided per year

70,550,565

Equivalent tree seedlings grown over 10 years

905,887

Equivalent passenger vehicles taken off roads yearly

54

Renewable Energy Projects funded to date

₱548 billion

Total Sustainable Finance projects funded to date





---

# Sustainability Overview

## BDO Sustainability Philosophy

We seek to achieve strategic resilience by incorporating sustainability in the way we do business. We aim to embed sustainability principles when making decisions, assessing relationships, and creating products.

## Alignment with the United Nations Global Compact Principles

BDO supports the principles of the United Nations Global compact. The Bank upholds:

- Corporate Governance
- Climate-friendly solutions and opportunities for business
- Access to clean, renewable, and reliable energy sources and services
- The adoption of instruments that help quantify, manage, and report the carbon footprint of our businesses
- The responsibility to protect the dignity of every person and uphold human rights
- The recognition of the role of women in achieving economic growth and poverty reduction
- The elimination of all forms of forced, compulsory, and child labor

# BDO Sustainability Framework

The Bank's Sustainability Framework defines the strategies that serve as guideposts in its journey towards sustainability.



## Product Sustainability Strategy

We create products and services which anticipate the evolving needs of our customers and support sustainable development goals.

We develop our capabilities to understand our customers and reach the underserved markets with relevant products and services that meet their unique needs and ways of doing business.



## Sustainability Contribution Strategy

We support the achievement of national economic goals through financial inclusion and impact financing in infrastructure, eco-friendly solutions, green facilities, and disaster resilience initiatives.



## Human Capital Sustainability Strategy

We develop leaders in the sustainability movement. We aim to grow a “can lead” workforce that adopts a sustainability mindset and thrives with innovative thinking and customer-focused attitude.



## Disaster Response Sustainability Strategy

We leverage our resources towards the relief, rehabilitation, and recovery of disaster-stricken communities.



## Governance-Based Sustainability Strategy

We continuously enhance our corporate governance framework to sustain superior business performance anchored on the principles of accountability, transparency, integrity, and fairness, together with our partners.



---

# Supporting the United Nations Sustainable Development Goals

## Achievements and Targets:

---



**₱21.9 billion**  
in government taxes in 2021

**Target 1.a:** Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions.



**₱17.2 billion**  
in loans to agribusiness projects

**Target 2.3:** By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment



**121 Rural health units rehabilitated to benefit 6.5 million individuals**

**Target 3.8** Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.



**Financial education program for target beneficiaries composed of 29 million learners and 900,000 teachers and non-teaching personnel in 47,000 public schools nationwide**

**Target 4.7:** By 2030, ensure that all learners acquire the knowledge and skills needed to promote sustainable development, including, among others, through education for sustainable development and sustainable lifestyles, human rights, gender equality, promotion of a culture of peace and non-violence, global citizenship and appreciation of cultural diversity and of culture's contribution to sustainable development



**59%**  
female representation in senior leadership

**Target 5.5:** Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life.



**58.6 million**  
liters of water recycled by BDO Corporate Center Ortigas in 2021

**Target 6.4:** By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of fresh water to address water scarcity and substantially reduce the number of people suffering from water scarcity



**₱85.4 billion**  
in funding for Renewable Energy  
projects with total installed capacity  
of 2,230 MW

**Target 7.2:** By 2030, increase substantially the share of renewable energy in the global energy mix.



**38,873**  
employees in the Philippines  
and abroad

**Target 8.5:** By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value



**₱548 billion**  
in Sustainable Finance projects  
funded to date

**Target 9.4:** By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.



**25% increase**  
in teacher's salary loan  
releases in Mindanao for  
various loan purposes  
including pursuit of  
higher education.

**Target 10.2:** By 2030, empower and promote the social, economic, and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion, economic, or other status



**₱165 billion**  
in financing for Green  
Building, Energy Efficiency,  
Clean Transport, and  
Pollution Control projects

**Target 11.a:** Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning



**Publication**  
of the 2021 BDO  
Sustainability Report

**Target 12.6:** Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle



**4,266,687**  
tonnes of carbon dioxide  
avoided by funded  
Renewable Energy  
projects, in support of  
Republic Act 9513 or the  
Renewable Energy (RE) Act  
of 2008

**Target 13.2:** Integrate climate change measures into national policies, strategies and planning



**₱1.1 billion**  
in financing for Aquatic  
Biodiversity projects

**Target 14.2:** By 2030, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans



**3,052**  
smallholder farmers  
trained on vegetable  
farming

**Target 15.3:** By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world



Platinum Award for the  
12th consecutive year  
from The Asset's 2021  
ESG Corporate Awards.  
BDO is among the  
companies recognized  
by The Asset for  
their achievements  
in sustainability  
and commitment to  
excellent and continuous  
improvement in ESG.

**Target 16.6:** Develop effective, accountable, and transparent institutions at all levels.



New partnerships with  
the Agricultural Credit  
Policy Council, Bureau of  
Fire Protection, Bureau  
of Fisheries and Aquatic  
Resources, and Philippine  
National Police to  
institutionalize financial  
education in capacity building  
initiatives for farmers,  
firefighters, fisherfolk, and  
police personnel nationwide

**Target 17.16:** Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the Sustainable Development Goals in all countries, in particular developing countries

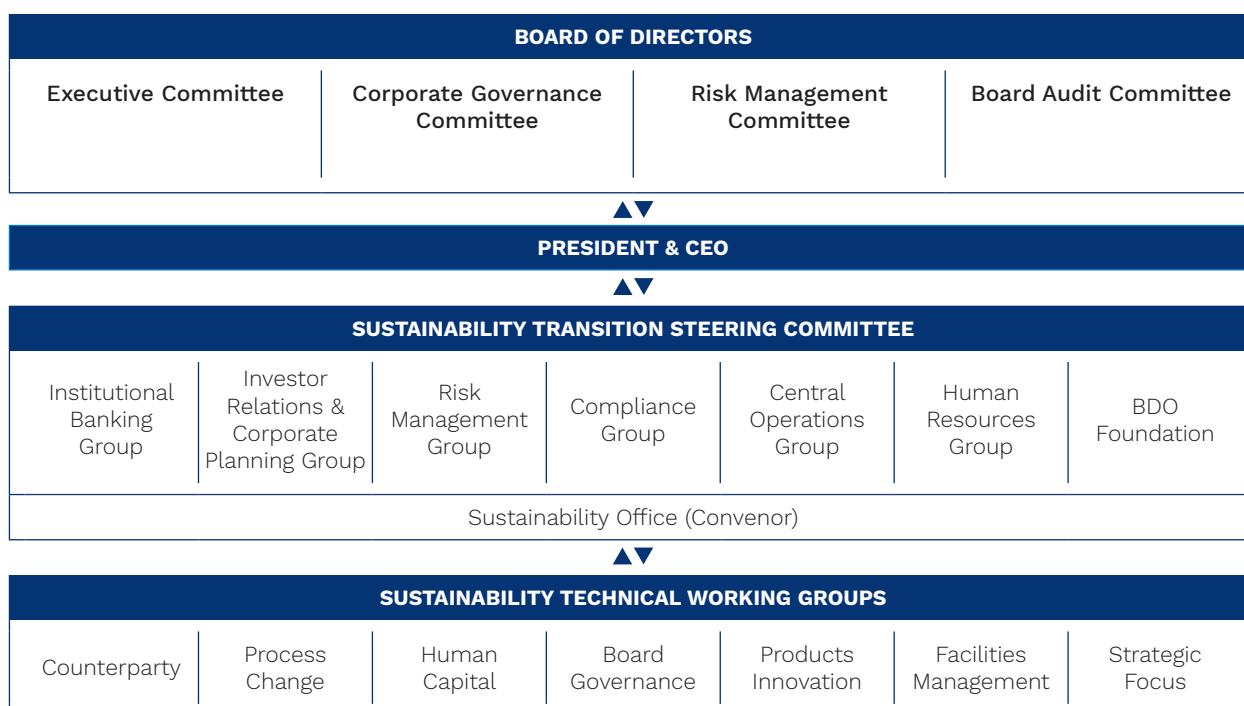
# Sustainability Governance

*“Since the release of our first Sustainability Report in 2018, we have kept true to the 17 Sustainable Development Goals outlined by the United Nations. We are constantly striving to infuse sustainability, inclusion, and equity into our corporate culture, products, and services.”*

**Nestor V. Tan**

President and Chief Executive Officer

BDO’s commitment to sustainability is fostered at the Board level, role modeled by senior executive leaders, executed by the business units and subsidiaries, and brought to life by BDO employees. BDO’s sustainable development strategies are anchored on the United Nations Sustainable Development Goals.





# Roles and Responsibilities

Oversight for sustainability initiatives reside in four BDO Board Committees, aligned to their key responsibilities. The **Executive Committee** approves all sustainability programs across the BDO Group and their corresponding budgets for implementation. The **Corporate Governance Committee** oversees sustainability initiatives related to the following: culture change towards a sustainability mindset for the organization; stakeholder communication; progress reporting on programs, metrics, and targets; and sustainability reporting. The **Risk Management Committee** oversees environmental, social, and governance risks in the Bank’s risk management system. The **Board Audit Committee** oversees internal audit reporting on sustainability programs and sustainability reporting, as well as compliance testing against regulatory mandates on sustainability. Across these four Board Committees, all Board Directors are effectively engaged in various capacities and according to their expertise, in driving the Bank’s sustainability framework across corporate governance, risk management, strategy, and operations.

The **President and CEO** provides high level strategic direction on sustainability — from the articulation of the BDO Sustainability Strategies to key focus areas where the Bank has the most ESG impact. The CEO also approves the Bank’s strategic external partnerships and commitments on sustainability on global, regional, and local levels. He is supported by the **Sustainability Transition Steering Committee** which oversees the Bank’s policy formulations, programs review, and recommendations from the **Sustainability Technical Working Groups**, as the Bank transitions into a sustainable finance framework. The Steering Committee is composed of heads of business groups, support groups, and the BDO Foundation, whose work cover corporate governance, risk management, business strategy, operations, and corporate social responsibility. The Steering Committee meets on a quarterly basis, and as needed. Acting as Convenor for the Steering Committee is the **Sustainability Office**, which oversees and implements the Bank’s Sustainable Finance Framework transition plan through the Technical Working Groups. The Sustainability Office also reports to the Corporate Governance Committee, drives the day-to-day implementation of sustainability initiatives, manages ESG due diligence, produces the annual Sustainability Report, and represents BDO in external forums. The Technical Working Groups are assigned a key Focus Area where BDO has the greatest ESG impact and tasked to review and enhance related policies to embed environmental and social impact principles and criteria, articulate practice into policy, and recommend and implement sustainability programs for the Bank. The Technical Working Groups are composed of representatives from business groups, support groups, and subsidiaries who are chosen for their expertise and experience in their respective fields.

## Reporting Process 102-46

	1	2	3	4
<b>STEPS TAKEN</b>	<b>Capacity Building</b> GRI Standards training and workshops	<b>Materiality Assessment</b> Review of operations and management approaches, identification of key impact across the value chain and performance indicators	<b>Data Gathering</b> Collection of stories and data based on identified material topics	<b>Management Review</b> Validation and acceptance of material topics and reported information
<b>GRI REPORTING PRINCIPLES APPLIED</b>	Stakeholder Inclusiveness and Sustainability Context	Materiality, Sustainability Context, Stakeholder Inclusiveness, and Completeness	Stakeholder Inclusiveness and Completeness	Stakeholder Inclusiveness and Completeness

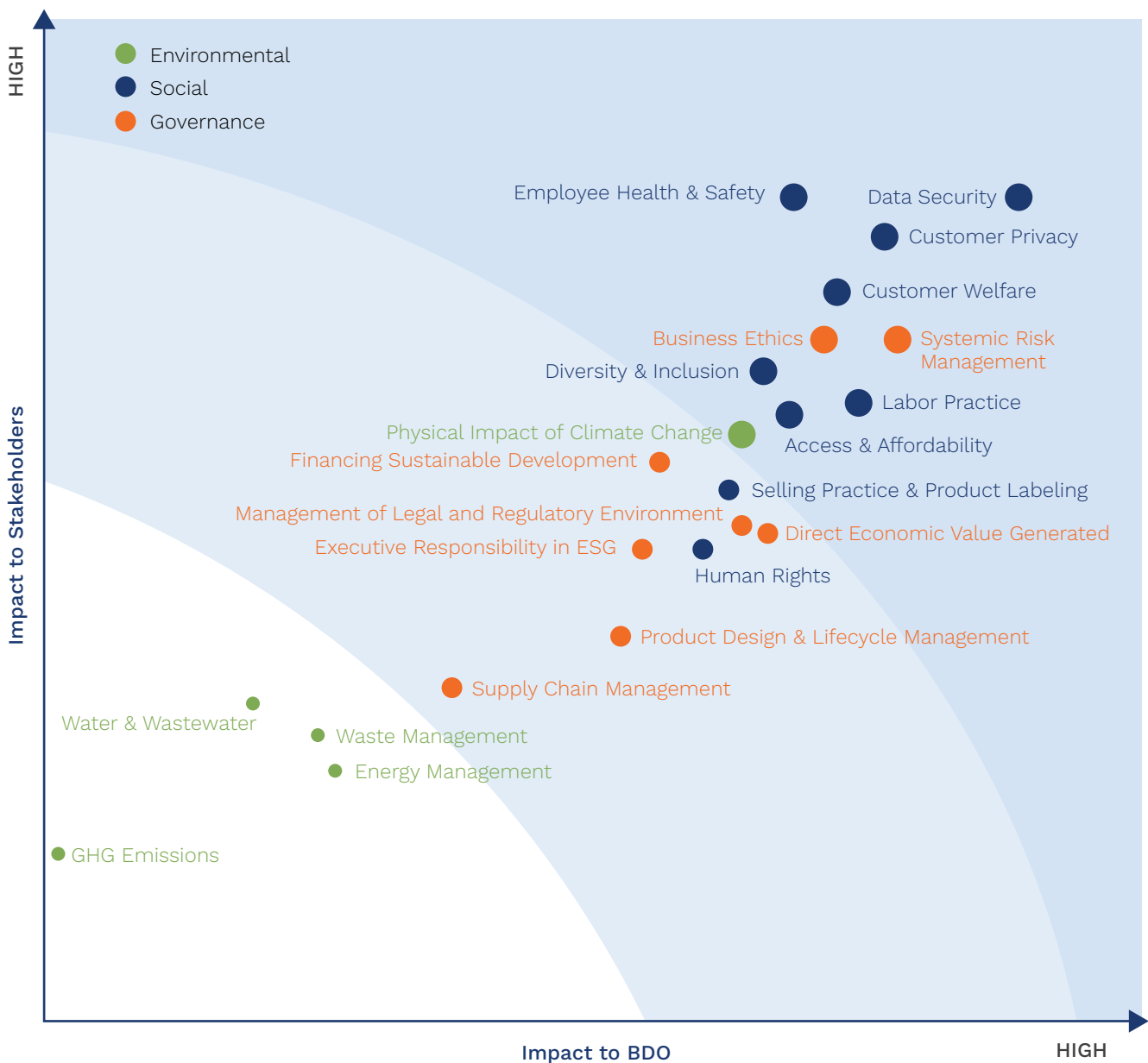
# Materiality Topics 102-44, 102-46, 102-47

<b>Data Security</b> How BDO safeguards the privacy and security of financial data against emerging cybersecurity threats and technologies  <b>Topic Boundary</b> Within BDO and with regulators and customers	<b>Employee Health &amp; Safety</b> How BDO creates and maintains a safe and healthy workplace environment free of injuries, fatalities, and illness  <b>Topic Boundary</b> Within BDO and with employees	<b>Customer Privacy</b> How BDO manages risks related to the use of personally identifiable information and other customer or user data  <b>Topic Boundary</b> Within BDO and with regulators and customers	<b>Customer Welfare</b> How BDO manages customer relations to cover customer satisfaction, customer experience, and welfare protection  <b>Topic Boundary</b> Within BDO and with customers
<b>Systemic Risk Management</b> How well BDO is positioned to absorb shocks arising from financial and economic stress and meet stricter regulatory requirements  <b>Topic Boundary</b> Within BDO and with regulators	<b>Business Ethics</b> How BDO operates on principles of accountability, transparency, integrity, and fairness  <b>Topic Boundary</b> Within BDO	<b>Labor Practice</b> How BDO upholds commonly accepted labor standards in the workplace, in compliance with labor laws and internationally accepted norms and standards  <b>Topic Boundary</b> Within BDO and with key government agencies and employees	<b>Diversity &amp; Inclusion</b> How BDO ensures that its culture and hiring and promotion practices build a diverse and inclusive workplace that reflects its talent pool and customer base  <b>Topic Boundary</b> Within BDO and with employees
<b>Access &amp; Affordability</b> How BDO promotes and practices the financial inclusion of the unbanked, underbanked, or underserved, complemented with financial literacy to ensure that customers make informed financial decisions  <b>Topic Boundary</b> Within BDO and with regulators and customers	<b>Physical Impact of Climate Change</b> How BDO incorporates climate change into lending analysis and risk mitigation in its mortgage finance and insurance businesses in order to protect shareholder value  <b>Topic Boundary</b> Within BDO and with regulators	<b>Financing Sustainable Development</b> How BDO supports sustainable financing, including financing renewable energy and green facilities, and/or sustainable development for positive social impact  <b>Topic Boundary</b> Within BDO and with partners and customers	<b>Selling Practices and Product Labeling</b> How BDO manages its practices in consumer finance selling, mortgage finance lending, and insurance products sales and marketing  <b>Topic Boundary</b> Within BDO and with customers
<b>Management of Legal and Regulatory Environment</b> How BDO engages with regulators and complies with legal requirements  <b>Topic Boundary</b> Within BDO and with regulators	<b>Direct Economic Value Generated</b> How BDO delivers on sustainable returns to its shareholders, and attains consistent market growth, in support of national economic development  <b>Topic Boundary</b> Within BDO and with key stakeholders	<b>Executive Responsibility in ESG</b> How BDO's sustainability governance structure oversees and manages ESG material topics at the Board and senior executive levels  <b>Topic Boundary</b> Within BDO and with key stakeholders	<b>Human Rights and Community Relations</b> How BDO manages its direct and indirect impact on human rights in its operations, including its socio-economic community impact and engagement  <b>Topic Boundary</b> Within BDO and with community partners and beneficiaries
<b>Product Design and Lifecycle Management</b> How BDO incorporates environmental, social, and governance factors into the lending process  <b>Topic Boundary</b> Within BDO and with regulators and customers	<b>Supply Chain Management</b> How BDO manages environmental, social, and governance risks within its supply chain  <b>Topic Boundary</b> Within BDO and with suppliers	<b>Waste Management</b> How BDO manages the hazardous and non-hazardous waste generated by its operations  <b>Topic Boundary</b> Within BDO and with key government agencies	<b>Water and Wastewater</b> How BDO manages the impact of its operations on water resources  <b>Topic Boundary</b> Within BDO and with key government agencies
<b>Energy Management</b> How BDO manages its environmental impact associated with energy consumption  <b>Topic Boundary</b> Within BDO	<b>GHG Emissions</b> How BDO manages its direct (Scope 1) and indirect (Scope 2) greenhouse gas emissions (GHG) generated through its operations, and GHG emissions from lending and financial intermediary activities (Scope 3)  <b>Topic Boundary</b> Within BDO and with key stakeholders		

Note: Total of 22 Materiality Topics for BDO

## ESG Materiality Matrix 102-43, 102-44, 102-46

For the 2021 Sustainability Report, BDO engaged the services of S&P Global to conduct an updated review of material Environmental, Social, and Governance (ESG) topics relevant to the Bank, in support of its sustainability-related disclosures. This is the second ESG Materiality Assessment for BDO since the Bank issued its first Sustainability Report in 2018, and it aims to capture current ESG challenges that impact the Bank and its stakeholders. The 2021 ESG Materiality Assessment identified ESG topics using the Global Reporting Initiative (GRI) standards, the Sustainability Accounting Standards Boards (SASB) framework, and the Task Force for Climate-related Financial Disclosures recommendations, as well as topics reported on by BDO's peers. S&P Global designed a bespoke stakeholder survey for BDO's internal and external stakeholder groups to rate the importance of identified material topics to the Bank's ESG impact on stakeholders, and identify ESG factors that affect the Bank. This enhanced stakeholder group engagement for materiality assessment aims to better prepare BDO to anticipate and mitigate emerging risks to the Bank and to its stakeholders. The resulting matrix shows the intersection of ESG topics most important to both, as ranked by stakeholders in the Philippines and overseas. Our performance on these material issues are discussed in this report.





# Stakeholder Engagement

102-40, 102-42, 102-43, 102-44

Stakeholder Group	Relevance	Channels of Engagement	Relevant Topics	Our Commitment
Shareholder or Investor	<ul style="list-style-type: none"> <li>Providers of resources essential to BDO's goal to deliver results, enhanced economic returns, and shared value</li> </ul>	<ul style="list-style-type: none"> <li>Annual Stockholders' Meeting</li> <li>Investor meetings</li> </ul>	<ul style="list-style-type: none"> <li>Access and Affordability</li> <li>Systemic Risk Management</li> </ul>	<ul style="list-style-type: none"> <li>Continue to promote the financial inclusion and financial literacy of the unbanked, underbanked, or underserved</li> <li>Enhance embedded environmental and social criteria in credit risk and operational risk systems</li> </ul>
Employee	<ul style="list-style-type: none"> <li>Proponent of BDO's vision, mission, and objectives</li> </ul>	<ul style="list-style-type: none"> <li>Face-to-face meetings</li> <li>Annual performance appraisals</li> </ul>	<ul style="list-style-type: none"> <li>Employee Health &amp; Safety</li> <li>Customer Welfare</li> </ul>	<ul style="list-style-type: none"> <li>Prioritize occupational health and safety at all times</li> <li>Provide timely feedback to customer concerns</li> </ul>
Customer or Client	<ul style="list-style-type: none"> <li>Patrons of BDO's products and services</li> </ul>	<ul style="list-style-type: none"> <li>Customer touchpoints</li> <li>Regular visits and briefings</li> </ul>	<ul style="list-style-type: none"> <li>Customer Privacy</li> <li>Data Security</li> <li>Greenhouse Gas Emissions</li> </ul>	<ul style="list-style-type: none"> <li>Provide guardrails to manage risks related to customer or user data</li> <li>Safeguard the privacy and security of financial data against emerging cybersecurity threats and technologies</li> <li>Disclose our Scope 1, 2 and 3 emissions</li> </ul>
Creditor	<ul style="list-style-type: none"> <li>Source of assets that support BDO's business</li> </ul>	<ul style="list-style-type: none"> <li>Regular correspondence and updates</li> </ul>	<ul style="list-style-type: none"> <li>Business Ethics</li> <li>Financing Sustainable Development</li> </ul>	<ul style="list-style-type: none"> <li>Meet our contractual obligations</li> <li>Continue to support sustainable financing and sustainable development</li> </ul>
Service Provider or Supplier	<ul style="list-style-type: none"> <li>Suppliers and service providers vital to BDO</li> </ul>	<ul style="list-style-type: none"> <li>Vendor accreditation process</li> <li>Regular correspondence</li> </ul>	<ul style="list-style-type: none"> <li>Business Ethics</li> <li>Supply Chain Management</li> </ul>	<ul style="list-style-type: none"> <li>Continue to operate on principles of accountability, transparency, integrity, and fairness</li> <li>Manage ESG risks within our supply chain, in partnership with suppliers</li> </ul>
Regulator or Policy Maker	<ul style="list-style-type: none"> <li>Driver of regulations and policies that aid BDO in achieving its goals</li> </ul>	<ul style="list-style-type: none"> <li>Formal and informal correspondence</li> <li>Regular audit</li> </ul>	<ul style="list-style-type: none"> <li>Data Security</li> <li>Access and Affordability</li> <li>Business Ethics</li> </ul>	<ul style="list-style-type: none"> <li>Safeguard the privacy and security of financial data against emerging cybersecurity threats and technologies</li> <li>Continue to promote the financial inclusion and financial literacy of the unbanked, underbanked, or underserved</li> <li>Continue to operate on principles of accountability, transparency, integrity, and fairness</li> </ul>
Community Beneficiary	<ul style="list-style-type: none"> <li>Partners in community development and local economic growth</li> </ul>	<ul style="list-style-type: none"> <li>Community engagement dialogues</li> <li>Meetings for program implementation</li> </ul>	<ul style="list-style-type: none"> <li>Customer Privacy</li> <li>Human Rights and Community Relations</li> </ul>	<ul style="list-style-type: none"> <li>Provide guardrails to manage risks related to customer or user data</li> <li>Protect human rights in our operations, including our socio-economic community impact and engagement</li> </ul>
Analyst or Research Organization and Media	<ul style="list-style-type: none"> <li>Partners in accurate reporting, upholding transparency and integrity</li> </ul>	<ul style="list-style-type: none"> <li>Analysts' briefings</li> <li>Media events</li> </ul>	<ul style="list-style-type: none"> <li>Financing Sustainable Development</li> <li>Physical Impacts of Climate Change</li> </ul>	<ul style="list-style-type: none"> <li>Continue to support sustainable financing and sustainable development</li> <li>Incorporate climate change into lending analysis and risk mitigation in our businesses to protect shareholder value</li> </ul>

---

# Sustainability Strategies and Material Areas



---

# Product Sustainability Strategy



BDO creates products and services that anticipate the ever-changing needs of customers; make financial inclusion possible for the unbanked and underserved; support the growth and expansion of businesses; contribute to the country's long-term economic development; and, ultimately, support the UN Sustainable Development Goals.





## Helping customers achieve their goals through innovation

BDO has a long history of pioneering innovative banking solutions that changed the way Philippine banks serve customers. The Bank introduced extended banking days and hours to meet the needs of business owners and entrepreneurs. It lowered minimum initial deposits to encourage more people to engage in banking transactions. It offered affordable and flexible consumer loan packages to support consumer spending. BDO also leveraged the retail experience and reach of SM companies to establish bank branches in malls for greater customer convenience. It was the first to promote digital and mobile banking to save paper while making bank transactions faster and more convenient. BDO was the first local bank in the country to roll out a debit card with an embedded Europay Mastercard Visa (EMV) chip to protect against electronic banking fraud, as well as first to fully retrofit its Automated Teller Machines (ATM) network to allow EMV chip debit card transactions.

In 2021, BDO continued to introduce new products and enhance its services, to address the evolving needs of customers during the pandemic and to pursue opportunities to be more sustainable in its practice. Financial inclusion initiatives made banking at its easiest, with zero initial deposit and zero minimum maintaining balance. The Bank also intensified efforts to offer financial services with non-financial support through financial education programs across various sectors of society, particularly in supporting women entrepreneurs post-COVID-19. BDO found ways to operate on business-as-usual mode in the most unusual circumstances to bring its products and services to where they were needed most.

## Finding ways to serve through digital banking

With lockdowns in place that restricted movement and industrial activity, the earth's carbon footprint reached record lows. What reached record highs was the volume of online transactions, as people shifted to digital technology for their regular everyday needs. This was particularly true for the finance sector as consumers embraced e-wallets and similar virtual options.

In 2021, this led to a 31% rise in digital banking from the previous year for BDO. The impact was universal, cutting across personal online banking channels as well as new payment solutions for merchants.

BDO's digital platforms allowed customers to continue going about their business and personal financial responsibilities despite the pandemic. They gave a semblance of the old normal, but offered the assurances demanded by the current pandemic situation:

- **Convenience.** Customers can transact 24/7 anytime, anywhere — even in the comfort of their most private spaces.
- **Safety.** Digital platforms eliminate the need to go out and use potentially contaminated machines, reducing the risk of catching the virus.
- **Security.** The new BDO digital channels make use of technology such as biometrics and multi-factor authentication for secure transactions.
- **Reduced carbon footprint** as a result of decreased travel for bank or business transactions.

## BDO Pay and BDO Pay Account

BDO Pay, launched in March 2021, is a payment app that provides BDO depositors a seamless experience for everyday financial transactions. Linked to customers' BDO savings account and credit cards, the app eliminates the additional cash-in step and gives users an easier way to send money to loved ones, pay their utilities and other bills, and pay for purchases at over 12,000 acceptance points nationwide by simply scanning a Quick Response (QR) code.

Despite fierce competition, BDO Pay made big inroads in the digital banking category, leveraging on BDO's large client base and attracting non-BDO depositors as well. The BDO Pay Account was subsequently launched, allowing non-BDO customers to open an account anywhere and anytime through the app. Requiring only one ID and with zero initial deposit and zero minimum maintaining balance requirements, BDO Pay Account is the easiest way to start banking with BDO.

BDO Pay Account is in line with the digital transformation roadmap of the Bangko Sentral ng Pilipinas (BSP) to provide bank accounts to at least 70% of Filipinos by 2023. It was, in fact, developed to primarily serve the unbanked sector, including consumers in rural and remote areas.

By the end of 2021, BDO recorded a 33% growth in transactions through BDO Pay and BDO Website, with a total value of over ₱1.5 trillion. This growth was largely fueled by send money transfers, both to BDO accounts and other banks, as well as bills payment transactions.

₱1.5  
trillion

BDO Pay Transactions  
(33% Growth)

BDO Pay  
Account

Zero Initial Deposit  
Zero Minimum  
Maintaining Balance

## BDO Checkout

BDO's digital innovations extended to its merchants whose needs were addressed by the launch of BDO Checkout, an online payment solution that allows businesses of all sizes to accept credit card, debit card, and mobile wallet payments even without a website or outside of the large e-commerce platforms. This was particularly helpful for individual sellers and other micro, small and medium enterprises that make up 90% of the onboarded merchant partners in 2021. By year-end, total transaction value through BDO Checkout was over ₱100 million.

Through its ongoing digital banking initiatives, BDO finds ways to make the business work for its clients.

## Another BDO First: Biometrics-enabled ATMs

BDO was once again the first bank to fully retrofit its ATMs to enable the processing of unique individual biometrics data, using fingerprint and face recognition technology in authenticating transactions for balance inquiry and cash withdrawals. In addition to biometrics, BDO ATMs also allow customers to provide specific data (account name, account number, mobile phone, number, and/or email address) in each transaction to maintain multi-factor authentication in compliance with the Bangko Sentral ng Pilipinas Circular No. 958, Series of 2017 on Technology Risk Management. The ATMs also allow the use of QR codes to validate transactions.

1,205

Biometrics-enabled  
ATMs Nationwide

The ATM innovation serves to enhance both customer experience and security, as well as reduce plastic waste. Customers no longer need to have or bring plastic ATM cards and memorize their Personal Identification Numbers (PINs). The biometric ATMs also protect customers from unauthorized withdrawals due to card skimming or cloning. Popularizing the use of biometric features in ATMs likewise aims to bring down the amount of plastic generated for ATM card production.

As of end 2021, BDO has deployed a total of 1,205 biometrics-enabled ATMs, with majority of the retrofitted machines located in the National Capital Region and the rest deployed in large provinces nationwide. BDO aims to retrofit an additional 795 ATM for biometrics capabilities in 2022.

Customer response to the biometrics-enabled ATMs has been very positive and in favor of security measures and convenience. The ATMs also reinforced BDO's reputation as the innovative bank that lives up to the "We find ways" philosophy in service of its customers' needs.

## Agency banking with Cash Agad

Cash Agad is a banking solution which allows debit and prepaid cardholders to perform banking transactions through point-of-sale (POS) machines deployed to Cash Agad partner agents, such as *sari-sari* stores, groceries, hardware shops, pawnshops, cooperatives, and other local establishments. Due to the limited mobility brought about by COVID-19 lockdowns during virus surges and the lack of public transportation, Cash Agad agents in the provinces and remote areas became the main option for people to withdraw cash from their bank accounts.

In 2021, Cash Agad continued to grow, with increased transactions at 60.6 million from the previous year's 41.4 million. Total cash withdrawals also went up to ₱262 billion, from 2020's ₱176.5 billion. Cash Agad's agent network in 2021 was at 9,530, compared to 8,872 previously, and covered 88% of the total municipalities in the country, compared to last year's 86%.

Just as the year was coming to a close, a week before Christmas, Super Typhoon Odette (international name: Rai) hit the Visayas and Mindanao regions in Southern Philippines, affecting 1.8 million people and displacing 600,000 from their homes and places of business. BDO's Cash Agad partner agents once again pulled through for their communities. With many bank branches and ATMs damaged by the super typhoon, top partner stores provided critical withdrawal services to cash-strapped families across calamity-stricken regions for food, water, medicine, transportation out of danger zones, and immediate home repairs. Cash Agad allowed families to survive the first week of the devastation, while awaiting relief and recovery assistance, particularly in the rural areas on the outskirts.



Cash Agad promotes sales for partner MSMEs in the community

60.6  
million

Cash Withdrawal  
Transactions

9,530

Partner Agents

88%

Philippine  
Municipalities Covered



## Improving financial wellness through investing

BDO Trust continues to support the bank's advocacy for financial inclusion and responsible investing through its continuing financial literacy campaign, BDO Easy Investment Plan, PERA, and the BDO ESG Equity Fund.

BDO Trust prides itself in having a dedicated team that provides financial education programs to clients for over a decade before the inception of the Sustainable Development Goals. BDO Trust teaches proper budgeting, wise investing habits, and retirement planning to different audiences: clients, employees, teachers, and blue-collared workers, to name a few. The group's advocacy for financial wellness led to the development of the BDO Easy Investment Plan (EIP) which allows clients to invest in Unit Investment Trust Funds (UITFs) for minimum investment amounts of ₱1,000 (US\$20) for peso-denominated funds and US\$200 for United States dollar-denominated funds. Through the EIP, clients build up their emergency fund or invest for their financial goals affordably. BDO also became the first institution to offer the Personal Equity and Retirement Account (PERA) to Filipinos to help them augment their retirement pay and plan for a comfortable retirement. By providing financial education and offering BDO EIP and PERA, the Bank makes it possible for Filipinos to have better access to financial products and services. These initiatives help promote social and economic inclusion in the country.

Throughout 2021, BDO Trust conducted several live and recorded webinars teaching both clients and potential clients proper budgeting, wise investing habits, and retirement planning. The use of technology enabled BDO Trust to carry out its training and educational activities despite limited mobility. This also allowed us to reach 1,779 participants across the country. BDO Trust runs different types of seminars to cater to the different investment needs of Filipinos: **Start** (on the basics of investing), **Fit** (on how to create a simple and effective financial plan), **Move** (on understanding how to diversify your investment portfolio), and **Forward** (on how to prepare for your retirement). BDO Trust also offered special webinars on demand for clients interested to invest in PERA or to know more about the benefits and features of BDO Easy Investment Plan.

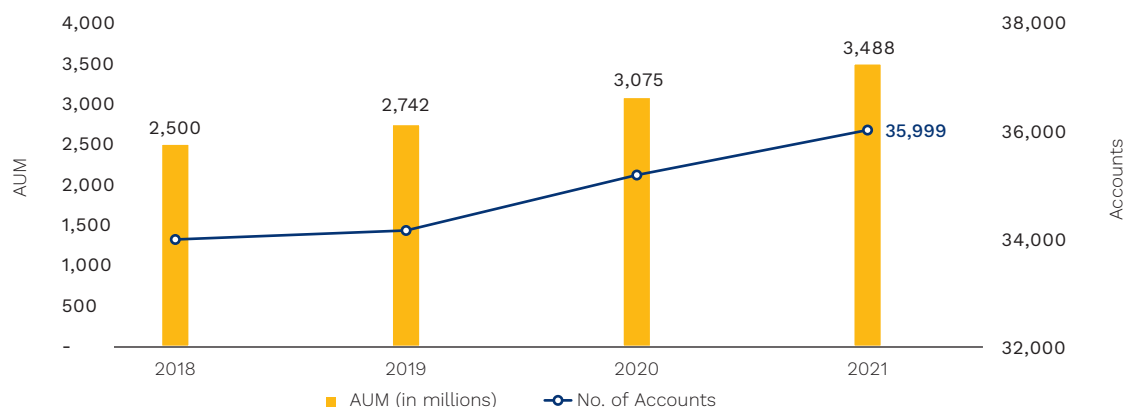
Webinars Held in 2021	Total Number of Financial Literacy Talks Conducted	Total Number of Participants
<b>Start</b> (Basics of investing)	13	1,129
<b>Fit</b> (How to create a financial plan)	3	165
<b>Move</b> (How to diversify your investment portfolio)	2	33
<b>Forward</b> (How to prepare for your retirement)	6	425
<b>Special Webinars</b>	16	791
<b>Total</b>	40	2,543

### BDO Easy Investment Plan

The BDO Easy Investment Plan (EIP) serves both novice and savvy investors who have increasing interest in the EIP. This is evident through the consistent growth of Assets Under Management (AUM) for the past three years, resulting in AUM almost reaching the ₱3.5 billion mark. Almost 36,000 clients have EIP accounts with BDO Trust.

₱3.5  
billion  
EIP Assets Under  
Management  
36,000  
EIP Clients

## BDO Easy Investment Plan



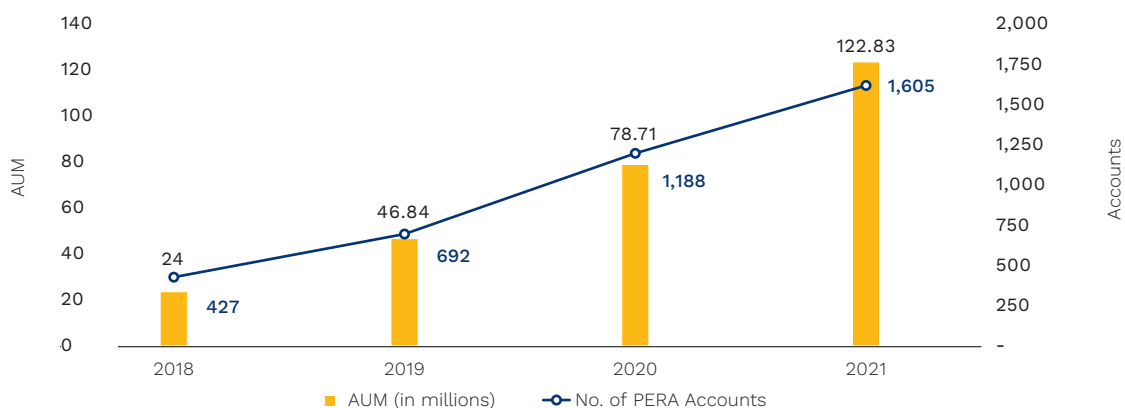
## BDO Personal Equity and Retirement Account (PERA)

BDO Trust was the first trust entity accredited by the Bangko Sentral ng Pilipinas and the Bureau of Internal Revenue to become an administrator for PERA, a voluntary retirement savings account. Since December 2016 when PERA was launched, BDO Trust has continued to push for PERA through free retirement seminars to both clients and the general public. As of December 31, 2021, BDO Trust serviced 1,605 PERA individual contributors with a total investment of ₱122.83 million in BDO PERA UITFs, up from ₱84 million the previous year.

**₱122.83**  
million  
PERA Investments

**1,605**  
PERA Individual  
Contributors

### PERA



## BDO ESG Equity Fund

The BDO ESG Equity Fund was created in 2015, the country's first ESG-themed UITF to support and promote local companies supportive of societal and sustainability goals, primarily defined through exemplary environmental, social, and good governance attributes — factors that measure the sustainability and ethical impact of an investment.

The BDO ESG Equity Fund subscribes to specific guidelines based on the International Finance Corporation's (IFC) criteria for ESG investing — an advantage of the Bank's longtime productive partnership with the IFC. The Fund does not invest in companies with the primary business of selling alcohol or tobacco, or engaging in gaming or mining.

The Fund has the potential to grow exponentially in size and importance as more investors start to see value in socially responsible investing. More clients prefer companies that manage their environmental and social risks and practice good governance which they believe create positive contributions to society. BDO has taken a more active approach in promoting the BDO ESG Equity Fund to both retail and institutional clients.

In the past five years since it was first launched, the BDO ESG Equity Fund Net Asset Value (NAV) has grown considerably. As of end December 2021, the Fund's NAV is at ₱179.12 million or approximately US\$3.5 million. That's a 223% increase or an average growth of 29% in NAV per year for the past 6 years. Year-to-date, the Fund has grown by 88% mainly due to clients starting to consider sustainable investing and also due to its outstanding performance. The Fund has returned 5.89% to investors in the past year, outperforming the Philippine Stock Exchange index (PSEi), by more than 5%. The Fund also provided robust long term returns, outperforming the PSEi by more than 3% in a 5-year period and since its inception. The BDO ESG Equity Fund posted 1.44% Compound Annual Growth Rate (CAGR) since its inception compared to the benchmark CAGR of 0.93%.

**223%**

Net Asset Value Growth  
from 2016-2021

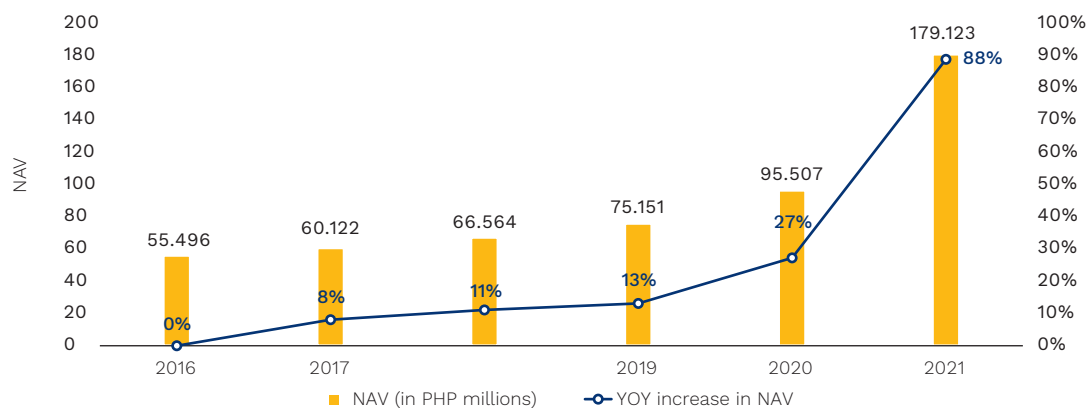
**88%**

BDO ESG Equity  
Fund Growth

**5.89%**

Return On Investments  
in 2021

#### BDO ESG Equity Fund





## BDO's Cash Management Footprint

As a full-service universal bank with the widest branch network, BDO has become one of the biggest providers of Cash Management Services (CMS) in the country. This remained true all throughout the pandemic as BDO facilitated both non-digital and digital CMS. Clients appreciated how BDO was able to operate even during weekends and, whenever possible, during extended banking hours. Access to cash, especially via payments and collections, became crucial to the survival and recovery of businesses and individual customers during the pandemic crisis.

BDO provides CMS in all major cities including cash pick-up and delivery, checks printing and releasing, and postdated checks warehousing. The Bank's corporate online banking platform, Business Online Banking (BOB), provides banking convenience in a secure way, wherever the customer is located.

In 2021, BDO Cash Management's total client base reached 61,277 corporate names. Of this total, 42% were either newly on-boarded into Cash Management Services (CMS), or expanded their CMS business by signing up for additional CMS products. Total CMS transaction volume in 2021 was a little over 100 million, with value of more than ₱8 trillion in processed transactions for collections and payments combined.

With the continuing impact of the pandemic in 2021, BDO CMS focused on introducing, educating, and migrating customers to its digital products and services. The CMS team continued to leverage on the strength and convenience of BDO channels in providing digital solutions so that customers can continue to bank safely from their homes or offices.

Recognizing that small and medium enterprises (SMEs) were hit hardest by the pandemic, BDO CMS focused its efforts in supporting this market segment. The move resulted in significant percentage gains from both new clients or new availments from current clients by 83% in 2021.

### Product sustainability via partnership

Apart from the CMS team's own efforts to deliver Cash Management, they also forged partnerships in support of the Bank's Product Sustainability Strategy that commits to provide banking access to the underserved. BDO CMS provided access to cash machines in partnership with ATM providers who have the capability to install ATMs at an accelerated pace and use cash recycling, reducing efforts, and optimizing cash servicing. CMS also sponsored the settlement requirements of fintech companies or e-Money providers to further accelerate financial inclusion. The CMS team now consciously seeks out business partners with particular objectives that are in line with the principles of BDO's Sustainability Framework.

₱8  
trillion  
CMS Transactions  
Processed

100  
million  
CMS Transactions  
Volume

42%  
CMS Deals Growth

## CASE STUDY

# Harvesting success for East-West Seed Company

East-West Seed (EWS) is a global seed company that develops, produces, and markets hybrid tropical vegetable seeds to some 20 million smallholder farmers worldwide. Founded in 1982 in Lipa City, Batangas, Dutch seedsman Simon Groot and Filipino seed trader Benito Domingo had a vision to improve the income of smallholder farmers in the tropics through its high-quality seeds. But just like a seed that began seeking fertile ground to thrive in, EWS struggled at first to gain the confidence of the Filipino farmers.

EWS has since grown to become one of the 10 largest vegetable seed companies in the world. Using superior vegetable breeding combined with a carefully cultivated nurtured relationship with local farmers wherever it operates, East-West Seed has grown exponentially over the many years and holds market leader position in not just the Philippines but also Thailand, Indonesia, Myanmar, and Sri Lanka, while also expanding its business activities in India, China, South America, and Africa.

Amid the pandemic, East-West Seed also hit a milestone on the financial side of things: the company recently switched to digital platforms in handling most of their financial transactions and processes. According to Julius Sulit, Country Finance Head for East-West Seed Philippines (EWPH), the pandemic posed constraints on the way the company accessed its funds, collected payments, and issued checks. Before the pandemic, a lot of these processes were done manually by him and his team. But when the pandemic hit, many bank branches were closed; it was no longer possible to physically transact with banks.

The CMS provided by BDO to East-West Seed Philippines included the automated check writing facility that allowed the company to hand over the tasks of check writing to BDO.

Switching to automated check writing also meant that the record-keeping and access to financial information became digital as well. Julius said that this is more convenient since he could now quickly access the information he needs on his laptop with just a few clicks. Once the nominated authorizer of the company approves the transactions, the checks are printed by BDO and then picked up by the payees at a BDO branch, making for a convenient and stress-free customer experience. Even processing of customer payments is made so much easier.

“Overall, BDO cash management helped us become more efficient in terms of time and monetary cost for our financial operations. We save so much time, money, and effort now that many of these financial administrative tasks were integrated into a cash management system,” said Julius.



*East-West won over Filipino farmers with higher returns from hybrid seeds tailored to local farming conditions*

## Finding ways for Filipino workers overseas

Despite the spread of new and more contagious variants of the COVID-19 virus in 2021, BDO Remit successfully expanded its business and greatly increased its transactions volume globally, thanks to its ability to sustain 24/7 operations facilitating remittance transactions from Overseas Filipinos Workers (OFWs) worldwide.

Amid the pandemic, BDO Remit offices remained open, while its marketing representatives in Asia, Middle East, North America, and Europe continued to serve their clients who were in dire need to send money as emergency assistance to their loved ones in the Philippines. The Bank even opened an office in Dubai, one of its largest markets in the Middle East, which served as an OFW hub to assist customers on their accounts and other financial queries.

Sustaining its presence and operations served the Bank well, as it facilitated thousands of overseas accounts in 2021, representing an 84% increase from the previous year. BDO remittance transactions grew by 17%, while its remittance volume also grew by 18% as of December 2021. This is a remarkable accomplishment as the remittance industry volume grew by only 5% as of the same period (per BSP data).

### Sailing through rough times

BDO Remit clients who maintain a Kabayan Savings account benefitted greatly from the Bank's sustained operations as they were able to receive remittances easily. Cash was always available at ATMs that were open 24/7. ATMs were also a safer way to claim money as they were less crowded than other cash pick-up locations. Among the OFWs who very much needed assistance during the pandemic were Filipino seafarers. As they worked through different time zones, they needed financial service providers that can support them at any given time. BDO Remit received recommendations from its manning agency partners for its round-the-clock service dependability that ensured remittances were credited on time, particularly during lockdowns. As manning agencies continued to trust BDO Remit, some of them even required their seafarers to open BDO accounts before boarding.

# 17%

Growth in  
Total Remittance  
Transactions

# 18%

Growth in Total  
Remittance Volume



The new BDO office in Dubai

***"We appreciate that BDO was the only bank catering to our needs during the height of the pandemic, especially during the early months of the lockdown."***

***Magsaysay Maritime Corporation***



## Championing the countryside

Most OFW family beneficiaries are based in the provinces, with limited to zero access to banking services. To enable OFW family beneficiaries to easily encash their remittances, BDO Remit campaigned for greater awareness of the Bank's Cash Agad banking solution in areas with high concentration of OFW families. Where bank branches or ATMs are too far and too expensive to travel to, Cash Agad partner agents such as sari-sari stores, pharmacies, groceries, hardware stores, and other establishments in the community can cash out through point-of-sale machines. BDO Remit also collaborated with local government units for the use of basketball courts and waiting sheds for visible marketing space. BDO Remit also conducted a parallel campaign abroad to inform OFWs themselves of the Cash Agad service.

## Together apart

While other banks' remittance services were disrupted due to the pandemic, BDO Remit continued with its Pre-Departure Orientation Seminars (PDOS), in collaboration with the Overseas Workers Welfare Administration (OWWA). As the PDOS shifted from face-to-face to virtual, BDO Remit provided support to OWWA by quickly implementing enhanced internet connections in its classrooms at United Nations Avenue and Padre Faura in Manila as part of efforts to help the government agency achieve continuous deployment of Filipinos overseas. As of December 2021, some 173,737 participants benefitted from 3,762 financial literacy lessons conducted by BDO Remit as part of the PDOS.

BDO Remit hoped to hold its annual *Pamaskong Handog* (Christmas Treat) concert in the traditional face-to-face manner similar to previous years. However, due to the surge in COVID cases in the Philippines, the team instead held a *Salu-salo* (Christmas gathering) in its offices in Hong Kong, Macau, Japan, United Arab Emirates, the United States, Canada, Italy, France, and the United Kingdom.

BDO Remit invited its long-time, valued clients and treated them to a "Filipino Christmas" get-together with lots of food and fun games with their countrymen. The clients were grateful for a very meaningful celebration and expressed their heartfelt appreciation to BDO Remit for making them experience the Filipino Christmas spirit after being on lockdown for several months.



A Cash Agad partner agent in Barangay Apalit, Pampanga, Northern Luzon, 12 kilometers away from the closest city

173,737

OFWs

Financial Literacy  
Lessons Participants

3,762

Financial Literacy  
Lessons Conducted



BDO Remit held get-togethers for clients at its overseas offices



Scan to view Pamaskong Handog videos online

## CASE STUDY

# Achieving golden hopes with financial management

Adding to the OFWs' models of inspiration is Hidilyn Diaz, the Philippines' first-ever Olympic gold medalist, who joined BDO's family of brand ambassadors in October. The Bank tapped Hidilyn as its advocate for financial literacy for the underserved and unbanked markets.

Hidilyn's experience resonates with OFWs, as she trains abroad for various weightlifting competitions to represent the country and receives allowances while she is away from home.

During her introductory press conference, Hidilyn — who once wanted to work as a bank teller — shared the lessons she has learned from handling her finances after receiving financial incentives.

*“Mahalaga ring may relationship at tiwala tayo sa bangko kung saan natin ilalagay ang ating mga pinaghirapan. Tiwala tayo sa kanila kasi expert sila sa pagtulong palaguin ang ating mga finances. Halimbawa, kung gusto kong magtayo ng negosyo pagkaretiro ko, o bigyan ko ng retirement ang aking mga magulang, alam nila kung paano nila ako gagabayan. Importante ring may serbisyo sila kung saan ako makakapagpadala ng pera sa pamilya ko sa Zamboanga habang nagte-training ako sa abroad. Nakita ko lahat ‘yan sa BDO,” she said. (It's also important to have a relationship and trust in the bank where we deposit the fruits of our labor. We should be able to trust them in growing our finances. For instance, if I want to start a business when I retire or provide retirement funds for my parents, the bank should have the expertise to advise and guide me. It's also important that they can provide services wherever I am training abroad so I can send money to my family in Zamboanga. I found all these in BDO.)*

Hidilyn's narrative is a microcosm of the dilemmas facing OFWs and their families when it comes to managing hard-earned money from working overseas. Her testimonial serves as a powerful advocacy for the Bank and the importance of personal financial management among millions of OFWs worldwide.



Heavyweight lifter Hidilyn Diaz, the Philippines' first Olympic gold medalist and BDO brand ambassador



Financial literacy for OFWs is one of Hidilyn's advocacies

---

# Sustainability Contribution Strategy



BDO supports the Philippine economic development goals through financial inclusion and impact financing in renewable energy, infrastructure, eco-friendly solutions, green facilities, and disaster resilience initiatives.

BDO contributes to the country's sustained economic growth through delivering various banking products and services that help create a dynamic business environment, promote local and foreign investments, and accelerate economic activities.

BDO Foundation champions financial inclusion as one of its two key advocacies. The Foundation partners with various institutions to bring financial education and scale it to large target sectors, from public school students, teachers and non-teaching personnel to Overseas Filipino Workers to members of the Armed Forces to police personnel nationwide.





# Economic Impact

Over the years, BDO has strengthened its position as the country's leading full-service bank with capabilities to serve every Filipino's banking needs. The Bank continues to expand its business franchise through sustained branch expansion focused on provincial areas, supplemented by Automated Teller Machines (ATMs), digital channels and agency banking, as well as increased market coverage to include the unbanked and underserved segments of the population in support of financial inclusion. These initiatives have allowed BDO to generate and distribute economic value, supporting economic activity in the country.

As COVID-19 infection cases fell with rising vaccination coverage, the Bank continued to safeguard the health and well-being of its employees and clients through sustained health and safety protocols, regular testing, and active vaccination campaign; ensure the availability of its products and services through branches and digital channels despite recurring lockdowns; and support communities through quick disaster response and financial inclusion initiatives.

## Economic Value Table Brief

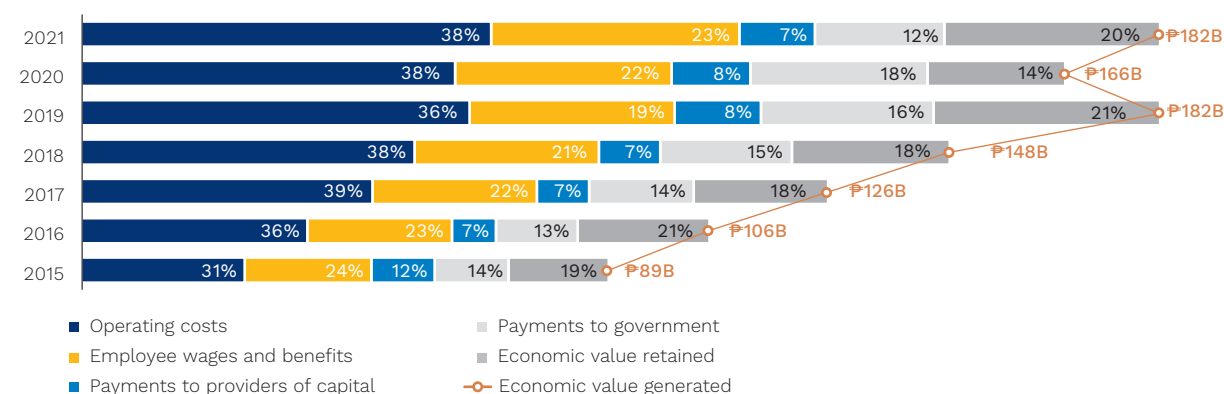
Increased economic activities following the easing in mobility restrictions and gradual economic re-opening allowed the Bank to post a 9% increase in its direct economic value generated to ₱182 billion in 2021, almost back to pre-pandemic 2019 levels after the 9% decline in 2020. Over the last five (5) years, the Bank's direct economic value generated went up by 11% on a CAGR basis, notwithstanding the negative impact of the pandemic on Bank operations in 2020.

Of the total direct economic value generated, about 80% or ₱145 billion went to direct economic value distributed, marking a slight increase over 2019-2020 levels. Wages and benefits increased by 12% to ₱42 billion, representing nearly 29% of total economic value distributed, and effectively benefitting more than 38,000 BDO employees, helping create multiplier impact on domestic demand/consumption. Meanwhile, other operating costs rose by 9% to ₱69 billion, including expenses incurred to keep both BDO clients and employees safe through various measures, including regular antigen testing of employees.

The Bank's total tax payments amounted to almost ₱22 billion, representing its contribution in government's efforts to revive economic activity following the country's deepest contraction in 2020. In addition, the Bank's community investments amounted to ₱86 million as BDO actively carried out its corporate social responsibility through BDO Foundation, by providing relief, funding rehabilitation, and helping advance the recovery of disaster-stricken communities in the country, as well as supporting the government's vaccination drive through the donation of vaccines to identified sectors.

### Economic Value Table

Figures in %



# Managing Climate Change Risks and Opportunities

BDO recognizes that climate change brought about by accelerated economic growth and globalization is a planetary issue that requires an urgent global, coordinated response. To this end, BDO supports the landmark 2015 Paris Agreement between the world's governments that commits to the common goal of limiting global temperature increase to well below 2 degrees Celsius, while pursuing efforts to limit the increase to 1.5 degrees. BDO also supports the Philippines' nationally determined contribution to the Paris Accord to reduce its greenhouse gas (GHG) emissions within the coming years leading up to 2030.

BDO recognizes that increased carbon emissions result in heightened environmental and social risks — in particular, transition risks and physical risks that can directly impact the Bank's financial value chain. The Bank recognizes that it plays a critical role in the Philippines towards contributing to a global low carbon economy pathway primarily through utilizing its financial resources, extensive operations and network, and access to millions of Filipinos worldwide.

## Managing our Environmental, Social, and Governance impact

Over the years, the Bank has adhered to sustainable finance practices that long incorporated Environmental, Social, and Governance (ESG) in a way that it conducts business as an organization and as a bank committed to sustainability.

From a risk perspective, the Bank has abided by its Social and Environmental Management System (SEMS) Policy that risk-categorizes all corporate and commercial borrowing accounts according to their social and environmental impact since 2010. The Bank's SEMS was co-developed with the International Finance Corporation (IFC) and based on IFC's ESG standards. SEMS categorizes ESG risks as High, Medium, and Low, based on type (sector/industry), location (proximity to environmentally and socially sensitive areas), sensitivity (potential impact whether irreversible/reversible), and extent of environmental/social issues.

The Bank's SEMS policy prohibits financing of any activity engaged in the following:

- production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements or subject to international bans,
- production or trade in weapons and munitions, gambling, online gaming and equivalent enterprises,
- any business related to pornography and/or prostitution,
- production or activities involving harmful or exploitative forms of forced labor/harmful child labor,
- commercial logging operations in primary tropical moist forest,
- production or trade in wood or other forestry products other than from sustainably managed forests, among others.

This early integration of ESG risks in the lending practice shows the Bank's adoption of sustainability in its business operations to achieve stability and resilience in the financial value chain. It also antedates any global, regional or local regulations or incentives for sustainable finance from a risk perspective.

## Pioneering Sustainable Finance

Simultaneously, BDO also instituted its Sustainable Energy Finance (SEF) Program in 2010, in partnership with the IFC to leverage on its global experience in green finance particularly in the technical evaluation of renewable energy, energy efficiency and green building projects. In the same year, BDO created the Sustainable Energy Finance Desk, later renamed the Sustainable Finance (SF) Desk, to strengthen its internal capabilities in financing opportunities within the spectrum of sustainable energy projects and provide value-added technical advisory to clients to ensure the projects' viability.

The SF Desk has conducted intensive capacity building among BDO lending, credit, and branch officers to raise awareness on the economic, environmental, and social benefits of financing sustainable energy projects. Apart from renewable energy, the trainings built the knowledge and confidence of branch officers and staff to engage clients in looking into their business operations and finding opportunities to improve energy savings through options such as retrofitting buildings, adapting energy efficient lighting and air-conditioning systems, and developing green buildings.

The SF Desk also authored the BDO Sustainable Finance Framework (SFF) for the use of financial instruments to fund responsible projects that facilitate climate resilience and promote inclusive economic growth. The SFF ensures the strategic resilience of financial products and services in accordance with BDO's five Sustainability Strategies and aligned with UN Sustainable Development Goals (UN SDGs).

The BDO SFF was certified and endorsed by Sustainalytics, a leading and independent ESG research and ratings provider based in New York. In its Second Party Opinion (SPO), Sustainalytics expressed that "BDO's Sustainable Finance Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines of 2018, Green Loan Principles 2020, and the ASEAN Sustainability Bond Standards 2018." Sustainalytics also stated that the SFF's eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 2, 6, 7, 8, 11, 12, and 15. The SPO paved the way for BDO to announce its plan to offer its first ASEAN Sustainability Bond in early 2022.

## Regulatory mandate for a Sustainable Finance Framework

On June 26, 2021, the BDO Board of Directors approved the BDO Group's transition plan towards a Sustainable Finance Framework (SFF), in compliance with the Bangko Sentral ng Pilipinas (BSP) Circular 1085 of the same name.

Not to be confused with the BDO SFF for bonds issuance, the BSP-mandated SFF compels all Philippine banks to embed sustainability principles, including those covering environmental and social risk, in the following areas: Corporate Governance Framework; Risk Management Systems; Strategic Objectives; and Bank Operations. The transition is set within a 3-year period, from 2020 to 2023. BSP 1085 also mandates the integration of environmental and social (E&S) risks in the enterprise-wide risk management frameworks of banks into the Environmental & Social Risk Management System (ESRMS). BSP Circular 1128 on the particular guidelines for the ESRMS was released in October 2021.

The Board deliberations and final approval of the transition plan took place in both the May and June 2021 full Board meetings. With key discussions led by the BDO Chairperson and the President & CEO, the Board set out the following directions for the Bank's transition:



- **Sustainability at BDO is a journey that takes into consideration the Philippine context and the complexity and scope of BDO operations.** The Bank will continuously assess and find the optimal mix of trade-offs to strike a balance between national economic development that requires affordable energy and the broader goal of climate sustainability. The Bank also recognizes that the transition will not happen overnight, but BDO is committed to keep moving forward to achieve its sustainability goals and be responsible for its economic, environmental, and social impact to clients, communities, and the country.
- **BDO will take an institutional approach to Sustainability.** The Transition Plan covers the whole BDO Group and prioritizes 7 Key Focus Areas where BDO can make the most significant environmental, social, and governance impact as a conglomerate. These Focus Areas were aligned with the five BDO Sustainability Strategies, the BSP Circular 1085, and the UN Sustainable Development Goals.

## BDO Transition Plan to a Sustainable Finance Framework: Key focus areas

Objective	Focus Area	ESG Impact
Ensure that the <b>counterparties follow Sustainability principles</b> and apply environmental and social (E&S) criteria in their governance, conduct of business, and operations	<b>Counterparties</b>	BDO: Sustainability Strategies 2, 5 BSP: Sustainable Finance Framework feature: E&S principles embedded in bank operations UN: Sustainable Development Goals (SDG) 1, 8, 10, 12
<b>Ensure that we embed E&amp;S criteria</b> in existing and future <b>products and services</b> , and <b>map these</b> against the 5 Sustainability Strategies and 17 Sustainable Development Goals	<b>Products and Services</b>	BDO: Sustainability Strategy 1 BSP: Sustainable Finance Framework feature: E&S considered in bank products and services UN: Sustainable Development Goals (SDG) 9, 10
Ensure that <b>E&amp;S impact is a key consideration</b> in the execution of <b>key operational processes</b>	<b>Key Processes</b>	BDO: Sustainability Strategy 2 BSP: Sustainable Finance Framework feature: E&S embedded in bank operations UN: Sustainable Development Goals (SDG) 12
Enhance alignment of <b>HR Policies</b> with <b>equitable and inclusive workplace practices</b> that promote a <b>sustainable mindset</b> among employees	<b>HR Policies</b>	BDO: Sustainability Strategy 3 BSP: Sustainable Finance Framework feature: E&S embedded in bank operations and governance UN: Sustainable Development Goals (SDG) 5, 8, 10
Ensure that <b>Facilities Management</b> systems <b>mitigate Environmental Impact</b> and <b>support sustainable practices</b>	<b>Facilities Management</b>	BDO: Sustainability Strategy 2 BSP: Sustainable Finance Framework feature: E&S embedded in operations UN: Sustainable Development Goals (SDG) 6, 12
Ensure that <b>Strategic Focus Areas</b> support the <b>Bank's Sustainable Finance Framework</b>	<b>Strategic Focus</b>	BDO: Sustainability Strategies 2, 4 BSP: Sustainable Finance Framework feature: considered in Strategic Objectives UN: Sustainable Development Goals (SDG) 1, 2, 5, 9, 13, 17
Strengthen <b>Board Governance</b> with E&S <b>risk-based oversight</b> to promote a sustainability culture and mindset	<b>Board Governance</b>	BDO: Sustainability Strategy 5 BSP: Sustainable Finance Framework feature: E&S as part of risk management discipline and corporate governance UN: Sustainable Development Goal (SDG) 16

Earlier in the year, BDO engaged the services of Ernst & Young (EY) Philippines/SGV to assist in crafting the transition plan and ESRMS for the BDO Group. The Focus Areas were identified after EY/SGV's Group-wide gap assessment of BDO's ESG maturity and ESG impact based on BSP 1085 requirements. To implement the plan, BDO established its Sustainability Governance Structure (see pages 14 and 15), which identified Technical Working Groups for each Focus Area, composed of representatives from concerned business groups, support groups, and subsidiaries whose expertise were critical in achieving their focus area objective. Each Working Group was tasked to review and enhance existing policies, craft policies currently not covered by the Bank, identify practices that needed to be articulated as policies, and create programs to bring the policies and practices to life.

Working Group members also engaged in data gathering and research to use as baseline for crafting draft policy, programs, and processes. Data gathering across the Bank's operations and supply chain proved to be a major challenge, given the Bank's scope and complexity. As the Working Groups engage more closely with employees on the ground and support suppliers in their own sustainability journey, data and analytics will be critical in tracking the Bank's progress and identifying metrics and sustainability goals for the short, medium, and long term. In 2022, the Working Groups will continue to focus on achieving these and regularly reporting to the Board Committees on progress.

## Environmental & Social Risk Management System (ESRMS)

BDO will build on its SEMS Policy for its ESRMS, based on the BSP expectations. In consultation with EY/SGV, the Bank has identified opportunities to further embed E&S criteria in credit and operations, along with an ESRMS responsibility matrix and structure.

EY/SGV is currently conducting an E&S risk assessment of the BDO loan portfolio based on the Philippine Standard Industrial Classification (PSIC), the prevailing industry taxonomy in the Philippines.

## BDO Unibank Group Loan Portfolio (Consolidated)

Industry/Sector	Percent of Loan Portfolio
Financial and Insurance Activities	16.6%
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	14.8%
Real estate activities	12.8%
Wholesale and retail trade	11.8%
Electricity, gas, steam, and air conditioning supply	11.8%
Manufacturing	8.6%
Transportation and storage	3.7%
Arts, entertainment and recreation	3.2%
Construction	2.9%
Information and communication	1.8%
Accommodation and food service activities	1.7%
Education	1.5%
Human health and social work activities	1.3%
Water supply; sewerage, waste management and remediation activities	1.1%
Agriculture, forestry and fishing	0.6%
Mining and quarrying	0.4%
Professional, scientific and technical activities	0.4%
Administrative and support service activities	0.3%
Public administrative and defense; compulsory social security	0.0%
Activities of extraterritorial and organizations and bodies	0.0%
Other service activities	4.70%
Total	100%

Source: BDO Audited Financial Statements 2021, Notes to Financial Statement 36.c Significant Credit Exposures for Loans

## Sustainable Finance: Catalyst for ESG Transition

For more than a decade, BDO Sustainable Finance has led the Bank's financing of eligible green and social impact projects.

This includes business activities such as renewable energy, energy efficiency, green building, clean transportation, pollution prevention and control, sustainable management of natural resources and land use, eco-efficient technology, sustainable water and waste water management, terrestrial and aquatic biodiversity conservation, climate change adaptation, affordable housing, access to essential services, employment generation and food security.

As a pioneer in Sustainable Finance since 2010, BDO has achieved significant experience and a robust portfolio of eligible projects with quantifiable positive economic, environmental and social impacts. This has become the Bank's baseline in developing the BDO Sustainable Finance Framework (BDO SFF) which serves as its guidepost in issuing Green, Social and Sustainability Bonds and other debt financing instruments that allow the bank to diversify funding sources and broadens investor base to include ESG-focused investors.

Under the BDO SFF, eligible projects are expected to reduce the Philippines' environmental footprint and assist in the energy transition towards a low-carbon economy, as well as drive socio-economic development nationwide.



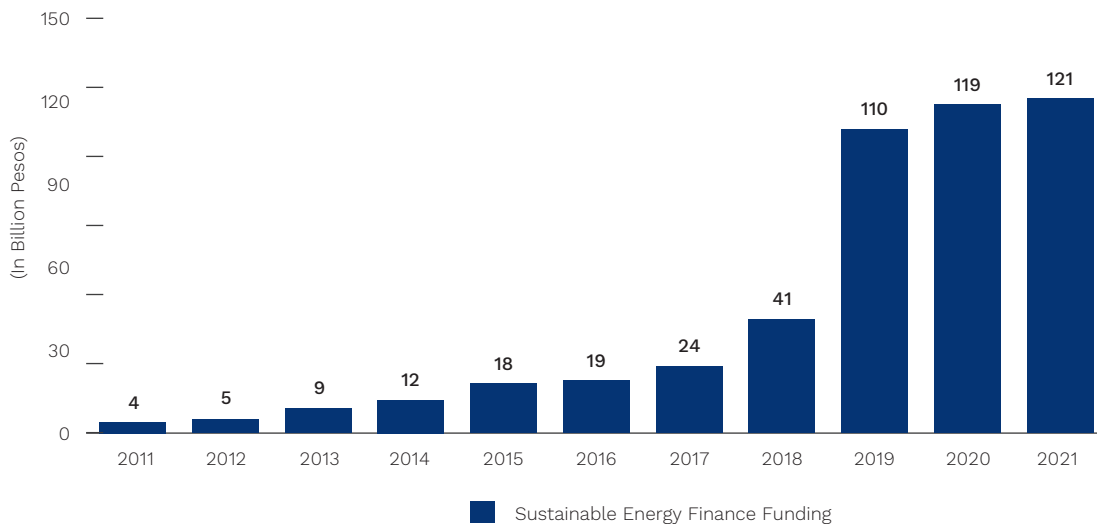
Eligible green projects require environmental benefits such as a reduced carbon footprint and vulnerability of communities to climate change. Eligible social projects require positive social outcome for the impoverished, excluded, marginalized, vulnerable, disabled, undereducated, underserved and unemployed populations.

The BDO SFF identifies the following activities as ineligible for financing:

- Production or trade in weapons and munition
- Online gaming and equivalent enterprises
- Hydroelectric plant with weir height of over 50 meters
- Illegal logging, illegal mining, illegal fishing, forced labor, child labor
- Production of tobacco products and palm oil
- Fossil-fuel power generation or transmission, and activities dedicated to support expansion of fossil fuel-based technologies

BDO Sustainable Finance catalyzes accelerating green recovery by financing resilient and pandemic-ready projects that aim to achieve a sustainable financial value chain. As of December 31, 2021, BDO financed 54 Sustainable Energy projects, with total Sustainable Finance funded to date at ₱548 billion.

### BDO Sustainable Energy Finance



## CASE STUDY

### Harnessing energy from biomass

The United States Energy Information Administration (US-EIA) defines biomass as “renewable organic material that comes from plants and animals.” The EIA states that biomass can be burned directly for heat or converted to renewable liquid and gaseous fuels through various processes. Firewood is one example, while animal or human waste processed chemically or biologically is another.

As a renewable energy source, biomass offers huge clean energy capacity opportunities for the Philippines, where there is an abundant supply of biomass resources. These include agricultural crop residues, forest residues, animal wastes, agroindustrial wastes, municipal solid wastes, and aquatic biomass. Agricultural waste products as biofuels offer an abundant, stable, and environmental alternative for fossil fuels energy sources.

Grass Gold Renewable Energy Corporation (Grass Gold) is among BDO's clients engaged in renewable energy power generation. Its first power plant project is the construction and operation of a 12MW (gross) Napier grass-fired plant in Llanera, Caridad Sur, Nueva Ecija province which started commercial operations in December 2019.

Grass Gold utilizes napier grass, known locally as “buntot-pusa” for its stalk that closely resembles a cat's tail. Napier grass is a perennial tropical grass used as feedstock and also found in abundance in the Philippines. Recent studies show that it is also an ideal crop for renewable energy power generation since it produces huge biomass and can be harvested multiple times a year. It has very low water and nutrient requirements and can be grown in marginal or uncultivated land. It also planted on slopes to increase soil fertility and reduce soil erosion. (Source: <https://plantvillage.psu.edu/topics/napier-grass/infos/>.)

BDO supports Grass Gold's biomass power plant project as part of its sustainable finance projects for renewable energy. The Bank is a pioneer in financing biomass power plants, having financed the country's first Rice Husk-fired Biomass Power Plant in 2013. To date, BDO has financed 164 megawatts (MW) of biomass power plants that have resulted in significant positive environmental and social impacts in the Philippines.

In 2021, biomass power plants funded by BDO generated employment for 170,915 farmers nationwide. The projects also resulted in the avoidance of greenhouse gas emission of 487,250 metric tonnes by converting 1,583,082 tonnes of agricultural waste to feedstock or raw material fuel for biomass power plants.



Photo Credit: Grass Gold Renewable Energy Corp.

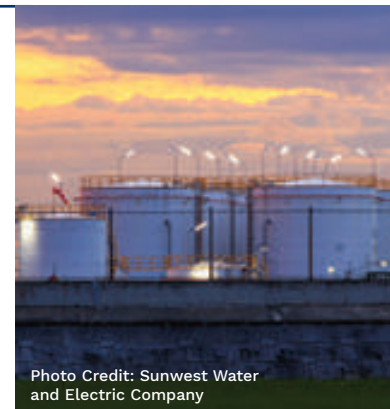
## Economic, Environmental, and Social Impact

Description	2020	2021
<b>Total Sustainable Finance Funded to Date</b>	<b>₱400.9 billion</b>	<b>₱548 billion</b>
<b>Total installed Renewable Energy Capacity (SDG 7: Affordable and Clean Energy)</b>	<b>2,184 MW</b>	<b>2,230 MW</b>
Renewable energy projects funded to date	50	54
Carbon dioxide avoided per year by funded renewable energy projects (SDG 13: Climate Action)	4,170,744 tonnes	4,266,687 tonnes
Equivalent passenger vehicles taken off roads yearly	885,381	905,887
Equivalent tree seedlings grown over 10 years	68,953,558	70,550,565
Families Served by Renewable Energy Projects	1,968,067	1,994,189
Loans disbursed in the past 5 years for national projects	₱32.9 billion	₱39.5 billion
Loans disbursed in the past 5 years for airports	₱12.4 billion	₱12.4 billion
Loans disbursed in the past 5 years for road networks	₱18.4 billion	₱18.4 billion
SDG 2: Zero Hunger	3,052 smallholder farmers, 47 public webinars conducted on vegetable farming	3,052 farmers
Road Network Development	152.23km	167.73km
Financing Facilitated (Roads)	₱18.4 billion	₱19.3 billion
Vehicles Served	136.9 million	138.1 million
Carbon emissions annually reduced through efficient roadways	4,260.09 tonnes	4,260.43 tonnes
Biomass Capacity	164 MW	164 MW
Geothermal Capacity	1,189 MW	1,189 MW
Mini Hydro Capacity	431 MW	433 MW
Solar Capacity	339 MW	369 MW
Wind Capacity	62 MW	75 MW
Disbursed Loan Amount per RE Technology Type	Biodiesel: ₱68.5 million Bioethanol: ₱201 million Biomass: ₱16.7 billion Geothermal: ₱4.3 billion Hydro: ₱15.7 billion Solar: ₱12.5 billion Wind: ₱2.9 billion	Biodiesel: ₱137 million Bioethanol: ₱570 million Biomass: ₱22.5 billion Geothermal: ₱17 billion Hydro: ₱28.1 billion Solar: ₱12.6 billion Wind: ₱2.9 billion
Bioethanol Production	44.12 million liters per year	44.12 million liters per year
Biodiesel Production	60 million liters per year	60 million liters per year



## Biodiesel

Installed Capacity <b>60 ML/Y*</b>	Disbursed Loan Amount <b>₱137 million</b>	GHG avoidance per year based on Net (in tonnes CO <sub>2</sub> e) <b>12,000</b>
GHG avoidance per year based on Gross (in tonnes CO <sub>2</sub> e) <b>153,732</b>	Equivalent passenger vehicle off the road per year <b>32,640</b>	Equivalent tree seedlings grown for 10 years <b>2,541,996</b>



## Bioethanol

Installed Capacity <b>44.12 ML/Y*</b>	Disbursed Loan Amount <b>₱571 million</b>	GHG avoidance per year based on Net (in tonnes CO <sub>2</sub> e) <b>35,296</b>
GHG avoidance per year based on Gross (in tonnes CO <sub>2</sub> e) <b>49,540</b>	Equivalent passenger vehicle off the road per year <b>10,518</b>	Equivalent tree seedlings grown for 10 years <b>819,153</b>



## Biomass

Installed Capacity <b>164 MW</b>	Disbursed Loan Amount <b>₱22.5 billion</b>	Net Energy Generation (MWh/year) <b>1,013,497</b>	Gross Energy Generation (MWh/year) <b>1,202,683</b>
Value of energy generation per year (Php/year) <b>₱4.9 billion</b>	GHG avoidance per year based on Net (in tonnes CO <sub>2</sub> e) <b>410,604</b>	GHG avoidance per year based on Gross (in tonnes CO <sub>2</sub> e) <b>487,250</b>	
Equivalent passenger vehicle off the road per year <b>103,451</b>	Equivalent tree seedlings grown for 10 years <b>8,056,785</b>	No. of households/families (average of 6 persons per family) supplied by RE <b>230,131</b>	
Amount of agricultural wastes converted to feedstock/power T/Yr <b>1,583,082</b>	No. of farmers supported <b>170,915</b>		



## Geothermal

Installed Capacity <b>1,189 MW</b>	Disbursed Loan Amount <b>₱17.0 billion</b>	Net Energy Generation (MWh/year) <b>5,848,520</b>	Gross Energy Generation (MWh/year) <b>6,498,355</b>
Value of energy generation per year (Php/year) <b>₱28.7 billion</b>	GHG avoidance per year based on Net (in tonnes CO <sub>2</sub> e) <b>2,369,446</b>	GHG avoidance per year based on Gross (in tonnes CO <sub>2</sub> e) <b>2,632,717</b>	
Equivalent passenger vehicle off the road per year <b>558,969</b>	Equivalent tree seedlings grown for 10 years <b>43,532,535</b>	No. of households/families (average of 6 persons per family) supplied by RE <b>1,328,002</b>	



## Hydro

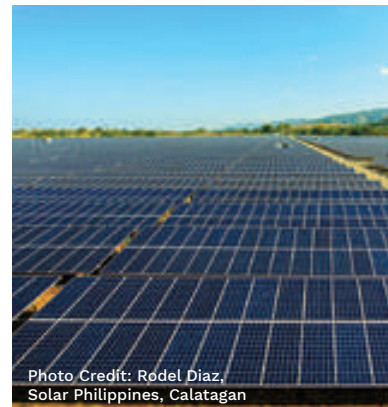
Installed Capacity <b>433 MW</b>	Disbursed Loan Amount <b>₱28.1 billion</b>	Net Energy Generation (MWh/year) <b>1,255,024</b>	Gross Energy Generation (MWh/year) <b>1,387,445</b>
Value of energy generation per year (Php/year) <b>₱6.1 billion</b>	GHG avoidance per year based on Net (in tonnes CO <sub>2</sub> e) <b>508,455</b>	GHG avoidance per year based on Gross (in tonnes CO <sub>2</sub> e) <b>562,104</b>	
Equivalent passenger vehicle off the road per year <b>119,344</b>	Equivalent tree seedlings grown for 10 years <b>9,294,506</b>	No. of households/families (average of 6 persons per family) supplied by RE <b>284,974</b>	



Photo Credit: Sunwest Water and Electric Company

## Solar

Installed Capacity <b>369 MW</b>	Disbursed Loan Amount <b>₱12.6 billion</b>	Net Energy Generation (MWh/year) <b>458,950</b>	Gross Energy Generation (MWh/year) <b>549,141</b>
Value of energy generation per year (Php/year) <b>₱2.2 billion</b>	GHG avoidance per year based on Net (in tonnes CO <sub>2</sub> e) <b>228,086</b>	GHG avoidance per year based on Gross (in tonnes CO <sub>2</sub> e) <b>270,230</b>	
Equivalent passenger vehicle off the road per year <b>57,374</b>	Equivalent tree seedlings grown for 10 years <b>4,468,307</b>	No. of households/families (average of 6 persons per family) supplied by RE <b>104,212</b>	



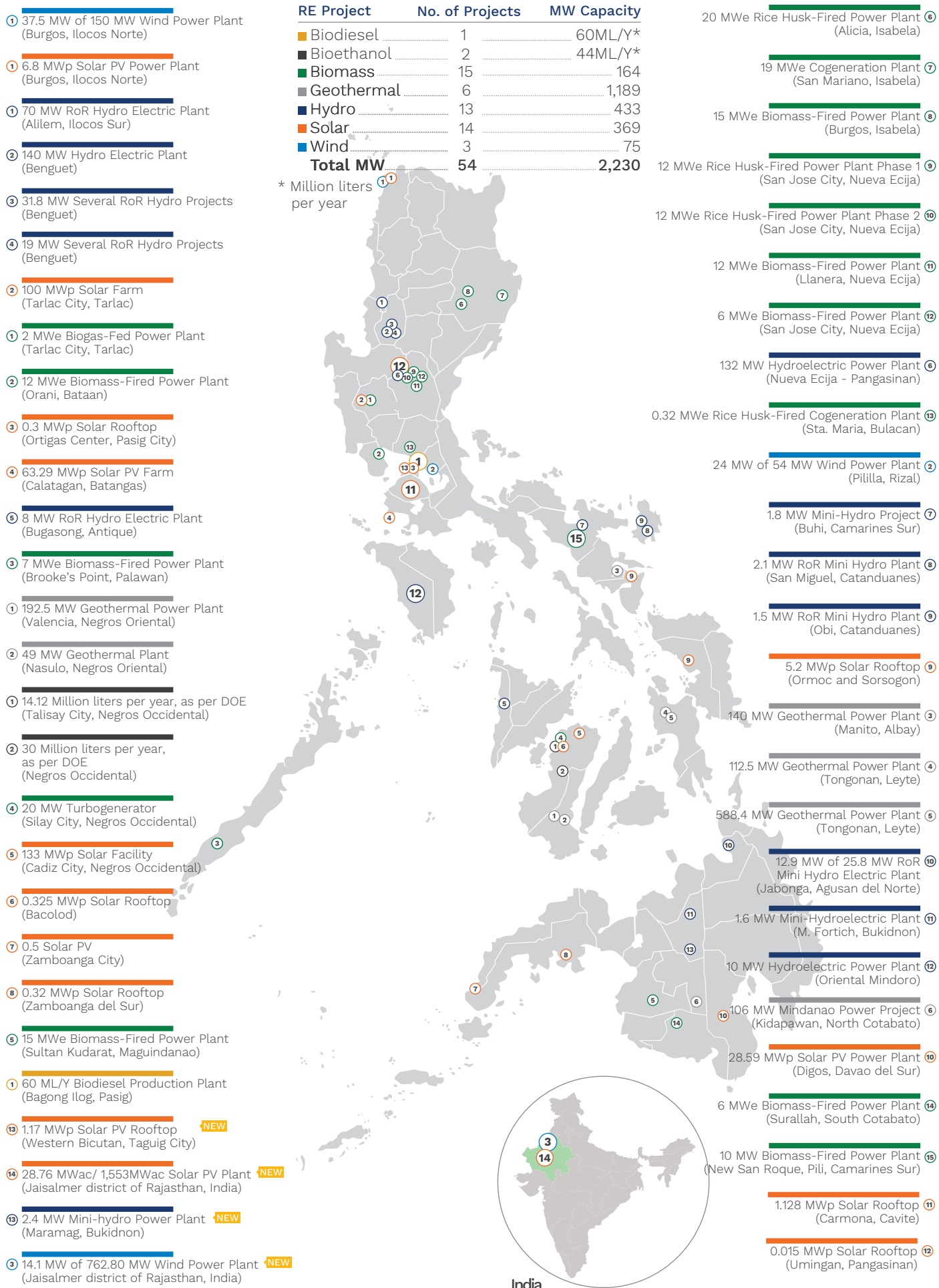
## Wind

Installed Capacity <b>75 MW</b>	Disbursed Loan Amount <b>₱2.9 billion</b>	Net Energy Generation (MWh/year) <b>206,419</b>	Gross Energy Generation (MWh/year) <b>218,620</b>
Value of energy generation per year (Php/year) <b>₱1.0 billion</b>	GHG avoidance per year based on Net (in tonnes CO <sub>2</sub> e) <b>104,525</b>	GHG avoidance per year based on Gross (in tonnes CO <sub>2</sub> e) <b>111,113</b>	
Equivalent passenger vehicle off the road per year <b>23,591</b>	Equivalent tree seedlings grown for 10 years <b>1,837,284</b>	No. of households/families (average of 6 persons per family) supplied by RE <b>46,871</b>	



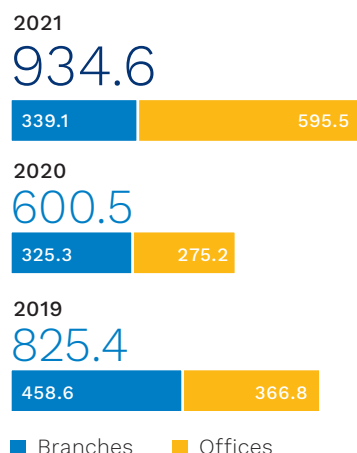


# BDO Sustainable Energy Finance Project Map

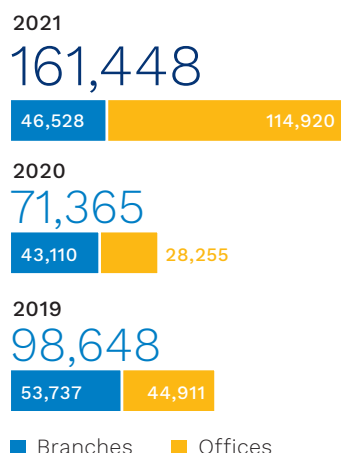


## BDO Resource Consumption

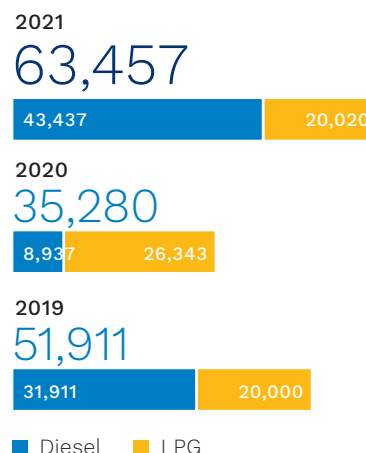
**Water Consumption**  
(in '000 cu.m)



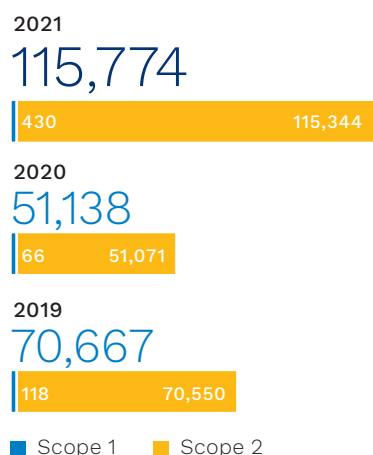
**Electricity Consumption**  
(in '000 kWh)



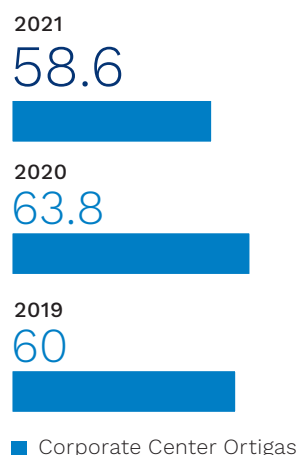
**Fuel Consumption**  
(in liters)



**GHG Emissions <sup>1,2</sup>**  
(in tonnes CO<sub>2</sub>e)



**Recycled Water**  
(in million liters)



<sup>(1)</sup> Calculated following the operational control approach of the Greenhouse Gas Protocol. Moreover, Scope 2 emissions were computed using the 2015-2017 National Grid Emission Factors provided by the Department of Energy.

<sup>(2)</sup> Scope 1 emissions were based on the fuel consumption of the company, while Scope 2 emissions were based on the purchased electricity of the company

BDO's resource consumption in 2021 continued to be directly impacted by government-imposed lockdowns during the pandemic. Three particular factors account for the increased consumption from both pre-pandemic 2019 figures and the 2020 consumption figures: lockdowns, BDO's split operations strategy, and the temporary relocation of BDO offices in Makati City.

Lockdowns and prolonged high alert levels were more frequent in 2021 due to the Delta surge. Offices and branches observed shortened work hours and more groups implemented work-from-home arrangements which meant lower electricity use and water consumption. However, these were also offset by the continuous implementation of the Bank's business continuity strategy for Split Operations, where business groups and support groups maintained physical presence in both corporate hubs at Makati City and Ortigas Center in Mandaluyong City, along with other key sites in Metro Manila. Split operations effectively doubled the office space needs for business and support groups in these locations.

At the same time, BDO implemented temporary office transfers throughout 2021, as it emptied the BDO Corporate Center Makati's (CCM) North and South Towers to clear the way for the planned construction of a new BDO CCM campus in the same location. Business groups and support offices were relocated to several buildings nearby (BDO Towers Valero, BDO Towers Paseo, BDO Salcedo Tower, and The Podium West Tower), while both North and South Towers were still in operation.

BDO also opened 12 additional branches nationwide to better serve clients in areas where financial services were greatly needed.

The Bank remains committed to measuring its resource consumption and managing its carbon footprint as it continues to grow as the country's largest bank with the most number of branches and corporate facilities.

## Resilient Recovery for Economic Frontliners

On the second year of the COVID-19 pandemic, BDO branches — the Bank's frontline unit — showed that continuous operation was not just about survival, but also about the agility to embrace and thrive in the new normal. True to the Bank's Customer-Focused value, branch frontliners took on the critical task of providing uninterrupted access to financial services, in order to address BDO customers' most pressing and evolving financial needs, and to keep the economy going with much needed cash.

BDO branches continued to operate even during higher alert level periods by strictly observing mandatory health protocols to keep both employees and customers safe. The Bank's manpower resources were adjusted based on the community quarantine classification and COVID-19 status in areas where they operate, and this was communicated widely to customers so they can plan and prepare for their transactions accordingly.

### The value of vaccination

To protect the Bank's frontliners, BDO prioritized weekly COVID-19 testing for branch employees. Once vaccines became available, BDO launched its vaccination program for employees and their families, once again prioritizing branch frontliners. Regular COVID-19 screening tests were held at BDO corporate offices and large office hubs, while vaccines and boosters were administered in coordination with the branches' respective local government units.

As a result, 98.2% of branch personnel were vaccinated in 2021, enabling them to be fully prepared and protected to serve the needs of our customers wherever and whenever face-to-face transactions were possible and necessary.

Other prevention measures observed at BDO branches were the following: 1) a mandatory temperature check for all upon entering bank premises, and a second mandatory check for employees at midday; 2) wearing of face masks and face shields; 3) provision of health kits to employees, specifically alcohol for hygiene and vitamins for personal consumption; 4) provision of alcohol and sanitizers for the use of customers; and 5) imposed physical distancing inside branch premises.



*Throughout the pandemic, 99% of BDO branches remained open and ready to provide banking services, albeit with reduced manpower and shortened bank hours.*



In terms of infection control, COVID Care telemedicine facilities were made available to employees for consultations with doctors and health diagnostic services. COVID-19 tests were done weekly during surge periods, such as during the Delta variant surge from July to October 2021. Otherwise, testing was conducted twice monthly for client-facing employees and once for those working in the backroom. Employees who turned out to be close contacts of a confirmed positive case were automatically scheduled for a Reverse Transcription Polymerase Chain Reaction (RT-PCR) test for COVID-19. Upon testing, the concerned employees were required to go on home quarantine and advised to isolate from other household members, while awaiting test results. Employees who tested positive were given a complete health kit containing a thermometer, a pulse oximeter, medicines for colds and cough, a gargle solution, and vitamins. Contact tracing was conducted through the QSafe app.

Branches with COVID-positive cases were disinfected through daily misting done by accredited service providers that adhere to Occupational Safety and Health Standards on disinfection methods. In addition, workstations and high-touch areas were subject to regular deep cleaning and disinfection.

To supplement the branches' prevention and infection control measures, employees were kept informed on proper safety and hygiene practices via email and on-site posters. The vaccinations, as well as related policies and programs to help prevent the virus from spreading, are aligned with the UN Sustainable Development Goal (SDG) 3 on ensuring Good Health and Well-being.

98.2%

BDO Branch  
Personnel Vaccinated

12

New BDO  
Branches Opened

## Keeping the economy running

Demonstrating its commitment to support the country's economy during the pandemic, the bank kept 99% of its branches open, with some branches able to resume Saturday banking despite reduced manpower. A "buddy branch" system was also implemented to support transactions for clients of closed branches or those with shortened hours. BDO opened 12 new branches in 2021 — proof that presence and access for clients remained a top priority.

While some clients chose to do banking transactions in the comfort of their homes, there were still a substantial number of clients who preferred or needed to transact at branches.

For clients who have shifted towards convenient and safe online banking, BDO promoted the features of its digital channels. Online transactions and services include viewing of account balances and transaction details, sending money and paying bills, and new account opening. As online payment activity soared during the pandemic, BDO branches also took the opportunity to promote BDO Pay. Developed by the Bank's digital banking group, BDO Pay enables customers to make payments using a QR code, request funds, and split bills.

At the branches, a new Customer Relations Management (CRM) system for onboarding new clients was implemented as part of the branch transformation initiatives of the bank. Clients could open a new account in these convenient ways. First, clients submit the new account application form online without visiting the branch. Clients are then

invited to a virtual interview, for the Bank to perform the Know-Your-Customer validation process. Another way to open accounts would be using a dedicated laptop or using the client's own digital device, all inside the branch; hence without need for filling up of paper forms.

Branches also adopted a new queue management system that offered paperless transactions processing where clients can input their transactions in a kiosk in the branch, instead of filling up forms. For a more seamless and safer customer experience, clients have the option to book an appointment online for their branch visits, receive a QR code to be scanned once they reach the branch, and immediately fall in queue. This new customer experience generated positive response in lesser physical interactions, time-saves and an efficient digitized way of banking.

With continuous operations throughout the year, BDO branches showed consistent growth in deposits, with peso savings and current accounts posting 14% growth in 2021. Foreign currency denominated savings accounts growth was at 11% and total funds grew by 8%.

These services not only paved the way for clients to have better financial access when they needed it most, but they also support SDG 17 on Partnerships for the Goals, specifically target 17.8, which aims to “fully operationalize the technology bank and science, technology and innovation capacity-building mechanism for least developed countries by 2017 and enhance the use of enabling technology, in particular information and communications technology.”

## BDO Network Bank

As the Philippines' largest community bank, BDO Network Bank (BDONB) brings modern and relevant banking services to unbanked and underserved communities. Unbanked Filipino adults are at 51.2 million, out of a total 72 million adults, according to the latest financial inclusion survey report of the Bangko Sentral ng Pilipinas (BSP). BDONB aims to fill this gap with a wide range of banking products that include loans, deposits, remittances, bills payment and other banking services through its network of 351 branches and loan offices, and 334 Automated Teller Machines across the Philippine archipelago. In 2021, BDONB marked a 34% increase in its number of branches and loan offices compared to pre-pandemic numbers in 2019, and a 20% increase from the previous year.

## MSME Financing

BDONB focuses on the development of the Micro, Small, and Medium Enterprises (MSME) market segment. In 2021, MSME loan bookings rose 75% from the previous year and MSME loans were made available in 45 new offices. MSME standalone offices increased by 23% compared to 2019 and an increase of 16% in 2021 compared to 2020. BDONB personnel servicing this market segment likewise grew by 13%. MSME teams drive financial education by advising clients on how to improve their businesses, and reinforcing the importance of saving and connecting with the bank to manage their finances. BDONB teams also led various outreach initiatives to communities affected by the pandemic and natural disasters.

14%

CASA Deposit Growth

11%

Foreign Currency  
CASA Deposit Growth



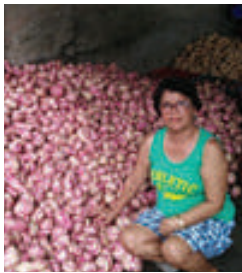
*Rose Joy Reyes, BDO Network Bank depositor in Naga. BDONB made it possible for her to continue her business during the pandemic, ensuring ease of transactions from Luzon to Mindanao.*

75%

MSME Loan  
Booking Growth

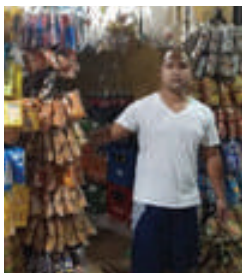
## Client Success Stories

---



**Merlinda Coronado**, is a persistent business owner from humble beginnings. She started selling two sacks of sweet potatoes in the wet markets of Nagcarlan, and eventually grew her business up to a point where she now delivers tons of sweet potatoes from Tarlac, Zambales, and Bataan to the provinces of Cavite and Batangas. The loan granted to her by BDONB helped her buy additional sweet potatoes to supply her growing number of clients. Because of the continuous growth of her business, she was also able to buy a truck to help her with her deliveries and employ 15 employees who also have their own families to support.

**Arlene Gener** expressed her gratitude to BDONB for her access to additional inventory after she applied for and received a business loan in 2020. She is a widow, mother of two kids, and a former overseas Filipino worker in Dubai where she served as a family driver for three years. She returned to the country and became an entrepreneur in 2017. Using the money she saved from working abroad, Arlene started her rice retailing business in the Sta. Maria, Bulacan Public Market. Today, she is one of its biggest retailers, selling an average of 500 sacks of rice per week, and providing work for her three employees.



**Dranreb Magpoc** is a former OFW who worked in Riyadh at a banking institution for two years. He left this stable job because he couldn't stand being away from his family, and returned to the Philippines to support his wife who manages their grocery store in Cainta, Rizal. The couple availed of the BDONB business loan that helped their business grow as they were able to open another stall. The additional income produced from their business helped them cover the tuition of their children. He and his family are grateful for their situation given that many lost their jobs during the pandemic.

**Liza Castro** is a single mom to two kids and a Master Teacher at Batad Central School in Iloilo province. A client since 2016, Liza is thankful to BDONB for helping her open various businesses such as online selling of health products and a pisonet business. Pisonet was coined from the words peso (piso) and internet (net), and refers to vending machine-type computer kiosks that allow users to access the internet in small increments of time. The business addresses the needs of gaming enthusiasts, students, or professionals who cannot afford the minimum hourly rates of regular internet cafes or only need to use the internet for a short time. Liza's earnings made it possible for her to renovate her house and buy her own multi-cab, a small light truck for business. With advice from BDONB, she was able to consolidate her debt and manage her proceeds.



**Leofer Alviola**, married with two kids and a local government employee, started a meat dealing business at the Digos Public Market in Davao del Sur. She has been a BDONB client for over 15 years and has availed of loans multiple times. Her first loan was used for additional capital, while succeeding loans were used for business growth. During the height of the pandemic, she was able to expand her own meat corner. The expansion successfully addressed the needs of customers who wanted to avoid going to the more heavily populated public market.



## Salary Loans for Public School Teachers

Of the salary loan releases in 2021, 58% were for teachers in Mindanao where the BDONB's main area of operations is located. In 2021, loan balance grew by 21.5%, the highest Accounts Receivable on record. Loan releases grew substantially by 40% compared to 2019 due to easing of pandemic restrictions. BDONB's customer base grew by almost 25% as it continues to expand in rural areas nationwide. In terms of Salary Loans reach, there was an increase of 26% in 2021 compared to 2019 and an increase of 20% in 2021 as compared to 2020 figures.

BDONB provides other support services for teachers. Bank employees arranged for financial wellness discussions to help teachers manage their finances. During the second year of the pandemic, BDONB continued to support the *Brigada Eskwela* (School Brigade) and *Balik-Eskwela* (Back to School) initiatives of the Department of Education by providing school supplies such as bond paper, pad paper, printers, and ink, and health protection supplies like alcohol and face masks to public schools in remote areas of the country. BDONB also closely worked with BDO Foundation and SM Foundation to donate laptops and computer equipment.

More than the provision of loans as start-up capital to small businesses and salary loans to public school teachers and government employees to fund their needs, BDONB's main campaign is to drive inclusive economic growth across all its market coverage. By teaching clients to borrow with purpose, BDONB forges strong and lasting banking relationships with the unbanked and underserved market so that they also understand the value of saving, investing, and growing their finances for a healthy financial future.

## BDO Foundation: Financial Inclusion through financial education

As the COVID-19 pandemic continued to severely impact the economic well-being of Filipinos in 2021, BDO Foundation's efforts to promote financial inclusion gained greater significance and scale.

Working closely with the Bangko Sentral ng Pilipinas (BSP), BDO Foundation continued to collaborate with the Department of Education (DepEd), Overseas Workers Welfare Administration (OWWA), Civil Service Commission (CSC), and Armed Forces of the Philippines (AFP) for the implementation of financial education programs. Building on the success of these partnerships, the Foundation and the BSP also partnered with the Bureau of Fire Protection (BFP), Philippine National Police (PNP), Bureau of Fisheries and Aquatic Resources (BFAR), and Agricultural Credit Policy Council (ACPC) for the launch of new financial education programs in 2021.

The partnerships benefit public school students, teachers and non-teaching personnel; overseas Filipino workers (OFWs) and their families; civil servants; uniformed and civilian personnel of the armed forces; personnel of the government's fire service agency; the police; fisherfolk; and farmers.

The financial education programs, which support BDO Foundation's financial inclusion advocacy and BSP's National Strategy for Financial

21.5%

Salary Loan  
Balance Growth

40%

Salary Loan  
Releases Growth

25%

BDONB Customer  
Base Growth



BDO Foundation has developed 26 financial education videos, all of which are available for viewing on the BDO Unibank YouTube channel.

Inclusion, help strengthen the capability of government agencies to provide financial literacy training to their beneficiaries. The programs are embedded and mainstreamed in the existing training and development initiatives of the partner agencies. They aim to equip the target audience with the tools, knowledge, and resources to make sound financial decisions through lessons on saving, budgeting and financial planning, debt management, entrepreneurship, investments, insurance, digital literacy, scam prevention, and retirement planning.

In 2021, several projects were completed to support the deployment of the programs nationwide.

- DepEd issued DepEd Order No. 022, Series of 2021, detailing its Financial Education Policy to ensure that financial education will be taught nationwide using the materials developed by BDO Foundation. The policy covers all learners, teachers, and non-teaching personnel from public and private elementary, junior and senior high schools, as well as learning centers for Special Education, Alternative Learning Systems, Indigenous Learning Systems, and the Madrasah Education Program covering Muslim culture, customs, and traditions.
- The Foundation and DepEd partnered with Huawei Philippines as sponsors for a teacher competition called the “Search for the Best Supplemental Learning Materials in the Teaching of Defined Key Concepts in Science and Mathematics.” The nationwide contest was designed to encourage teachers to submit innovative learning modules that integrate financial literacy into the teaching of Science and Math subjects. The partnership with Huawei included the donation of 33 laptops to selected public schools.
- AFP officers conducted a focus group discussion funded by BDO Foundation, to identify the financial literacy lessons that the armed forces will cover in its training courses.
- The Foundation, BFAR, and BSP created the Fish N’ LEarn game, an innovative gamified teaching tool designed to make financial literacy lessons engaging for fishers. Through the training intervention, participants are expected to learn lessons on conserving marine resources, saving for the future, expanding sources of income, proper use of insurance, and debt management. The target audience will be provided with instructional materials, cards, and play money produced by BDO Foundation.
- In partnership with BSP, CSC, AFP, BFP, and BFAR, four learning modules were drafted for civil servants, armed forces personnel, firefighters, and fishers. Three new financial education videos for the armed forces were produced. Five virtual learning sessions were conducted for DepEd, CSC, and BFAR personnel. An online training session was also facilitated for farmers in partnership with East-West Seed.

For the fourth consecutive year, BDO Foundation supported the BSP’s Financial Education Stakeholders Expo, a five-day virtual event that gathered financial education advocates. Together with the BDO Trust and Investments Group, the Foundation featured the Personal Equity and Retirement Account or PERA in its virtual booth. Working with BDO Remit, film actor and BDO brand ambassador Piolo Pascual shared financial literacy lessons and his personal approach to money management in a plenary session on “Preparing the Filipino Youth for a Financially Healthy Future.”



*The financial education program for public schools, BDO Foundation’s partnership project with the DepEd and BSP, aims to institutionalize financial education in the K to 12 curriculum and in the regular training programs for teachers and non-teaching personnel.*

**2,676,297**  
No. of beneficiaries reached to date through financial education programs



*The Fish Right program of the United States Agency for International Development (USAID) supports the financial education program for fisherfolk.*

Guided by the “We find ways” philosophy, BDO Foundation continues to serve communities in need despite the lockdowns and limited mobility during the pandemic, mindful of the Bank’s commitment to sustainable development, social responsiveness, and nation-building.

## Other projects

- Donation of 170 computers and ten scanners to public schools in partnership with BDO Network Bank in support of DepEd’s Basic Education Learning Continuity Plan during the pandemic
- Donation of over 900 books to Caritas Manila and the Manila City Library
- Sponsorship of SEAMEO INNOTECH’s “Digital Well-being of Filipino Learners: A Webinar on Youth Cybersafety and Digital Citizenship,” an online event that featured discussions on how educators can cultivate a secure online environment for learners amid the pandemic

## Sustainability Partnerships

BDO believes in the power of collective action to generate greater understanding and action for sustainability. Bearing in mind the environmental, social, and governance topics important to our stakeholders, the year 2021 saw the Bank engage in key partnerships to advance sustainability initiatives in the region and in the Philippines.

### Regional Collaboration: Asian Transition Finance Study Group

The energy transition from fossil fuel to renewable sources of energy is key to the global response to climate change. For financial institutions, this means divesting from fossil fuel financing and shifting to renewables, while encouraging enabling technology and supporting clients throughout the transition. In Asia, the transition journey takes on a complexity of its own, given, among others, the lack of a common framework to enable financial support for transition to happen in ASEAN countries.

The Asian Transition Finance Study Group was established in September 2021, led by MUFG Bank of Japan, in pursuit of an Asian version of transition finance that is more realistic and achievable for Asian nations. The Study Group aims to supplement existing guidelines on transition finance to help financial institutions implement the guidelines. The Group recognizes that both private and public funds will be critical in achieving the transition, and thus, clear guidelines and approaches to transition finance will be instrumental in supporting the mobilization of private capital.

BDO joined regular meetings throughout 2021 and continuing in 2022, with other key financial institutions from Japan, Indonesia, Malaysia, Thailand, Singapore, and Vietnam, along with the International Finance Corporation, and other US and European financial institutions which invest and lend in Asia. The Study Group’s recommendations and activities will be shared with key Asian economic and climate meetings, including the Asia Green Growth Partnership Ministerial Meeting.

BDO believes that its sustainability journey, along with other Asian financial institutions, will be more gradual in pace compared to counterpart banks in Europe and the United States. But in collaborating with others, BDO welcomes the opportunity to bring everyone towards the same direction and better manage the energy transition for Asian nations.



## Business and Human Rights: Partnership with the Philippine Commission on Human Rights

BDO partnered with the Philippine Commission on Human Rights (CHR) to better understand and uphold the role of business, and in particular the Bank, in respecting and protecting human rights.

The partnership aims to build BDO's capacity to create and implement its own Human Rights policy across its operations; help BDO create its own Human Rights Impact Assessment Tool that can inform BDO's risk assessment for social risks; and overall, manage BDO's human rights impact and responsibility to respect and protect the human rights of its stakeholders.

The CHR has conducted sessions on the UN Guiding Principles on Business and Human Rights with BDO senior officers, and with a core group of key employees who are part of the Bank's technical working groups on ESG focus areas. In 2022, BDO and the CHR will continue to conduct learning sessions for key business units and support units, particularly in relation to human rights in the workplace, in lending, and in the Supply Chain.



## Empowering Women in MSMEs: Financial Education with the International Labour Organization

Early in 2021, BDO participated in the study "Rebuilding Better: Assessment of Women Entrepreneurs' Needs and Available Support Services during COVID-19 in Malaysia, Philippines and Thailand" conducted by the International Labour Organization's (ILO) Rebuilding Better: Fostering Business Resilience Post-COVID-19 Project. Supported by J.P. Morgan, the Project aims to support women entrepreneurs to recover from the COVID-19 pandemic and adopt more sustainable and resilient business models by strengthening their access to training, finance and markets, while incorporating digitalization as a cross-cutting theme.

BDO shared financial inclusion initiatives that target micro, small, and medium enterprises: BDO Network Bank's focus on the unbanked and underserved in communities outside of urban areas, and BDO Foundation's financial education programs across various sectors of society. These sectors cover public school students, teachers, non-teaching personnel, Overseas Filipino Workers, government employees, military personnel, police personnel, firefighters, fisherfolk, and farmers.

The study, which aimed to inform the strategy and workplan of the Rebuilding Better Project, recommended that when it comes to access to finance, the Rebuilding Better Project should include financial and non-financial options for women entrepreneurs who do not want to take on debt, given that many entrepreneurs are hesitant to do so during the COVID-19 crisis, and should also seek opportunities to link financial support with non-financial support, such as through financial literacy training.

In 2022, BDO will collaborate with the ILO in a series of webinars for women entrepreneurs addressing their needs for financial products and services, as well as financial advice on budget management, savings, credit, and investments.



International  
Labour  
Organization

---

# Human Capital Sustainability Strategy

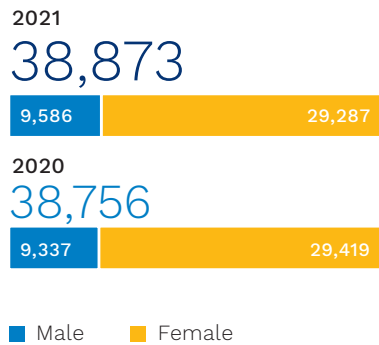


Sustainability is everyone’s responsibility at BDO. The Bank aims to develop a “can lead” workforce with a sustainability mindset that BDO bankers can bring to work, at home, and wherever they find themselves in the world. BDO bankers strive to live the core values of Customer Focus, Out-of-the-Box Thinking, Right Attitude, and Excellent Execution with a sustainability perspective embedded in everything they do.

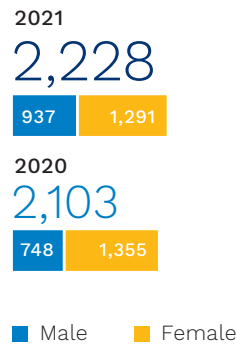


# Employee Profile

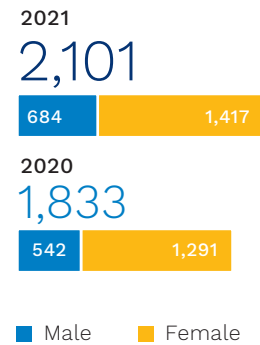
## Employee Count



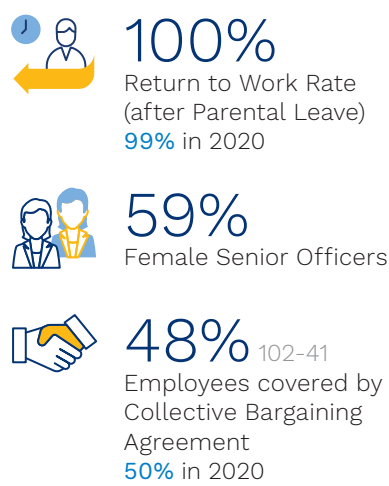
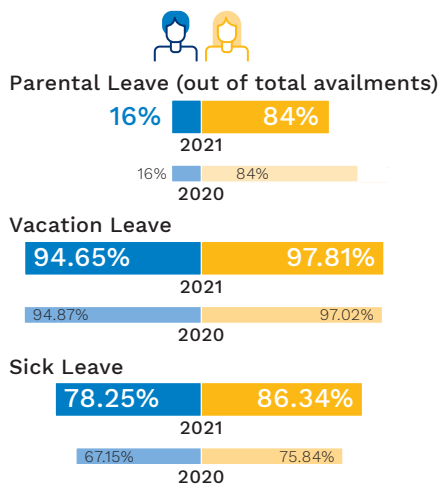
## New Hires



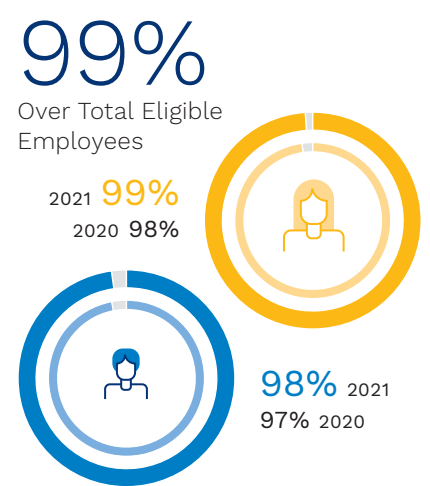
## Employee Separations



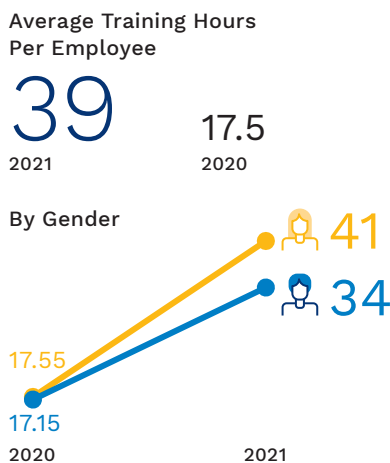
## Leave Availments



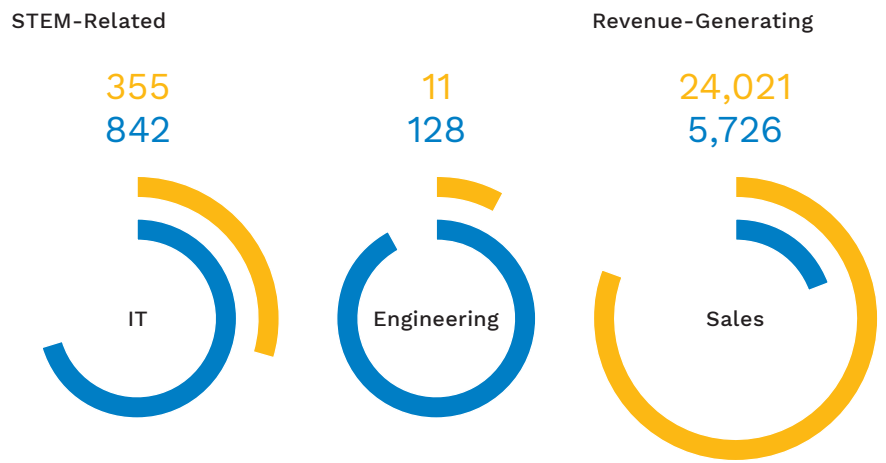
## Employee Appraisal



## Training & Development



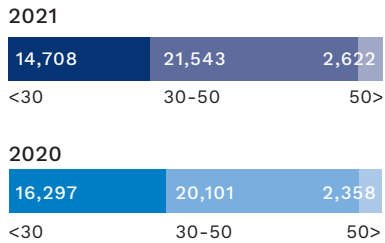
## Employee Functions



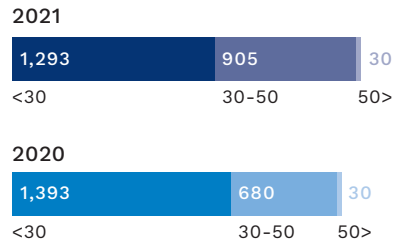


## By Age Group

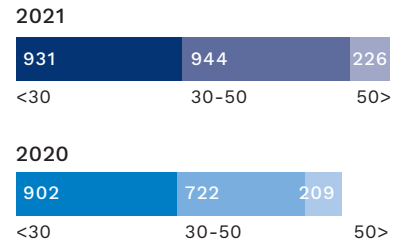
### Employee Count



### New Hires



### Employee Separations



## Employee Count by Location

### Luzon

30,568  
2021

30,540  
2020

### Visayas

3,680  
2021

3,634  
2020

### Mindanao

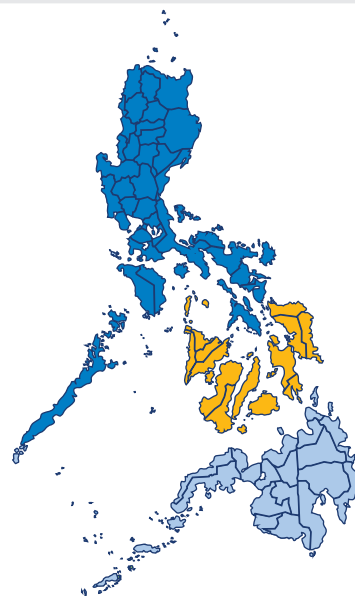
4,526  
2021

4,487  
2020

### Abroad

99  
2021

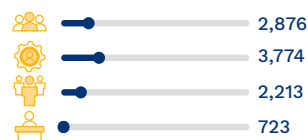
95  
2020



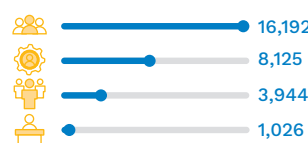
## By Level

### 2021 Gender Diversity

#### Male



#### Female

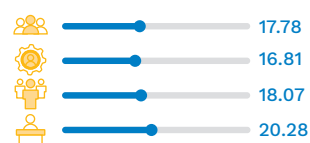


### Average Training Hours

#### 2021



#### 2020



### Employee Appraisal

#### 2021



#### 2020



**Rank and File**  
Junior Management: First line managers or supervisors  
Middle Management: Managerial roles below senior management  
Senior Management: Executives up to two levels from the Chief Executive Officer (e.g. Senior Vice President, First Vice President)

The second year of the pandemic brought new challenges for the BDO organization on top of already existing ones. But this period also presented new opportunities that allowed the Bank to enhance existing workplace policies and procedures in order to better provide for employees' needs, and at the same time promote workplace effectiveness and efficiency.

## Equal Opportunity Employer

BDO is committed to promote a work environment that fosters diversity, equity, and inclusion, where everyone receives fair and equal treatment, equal rights, and opportunities regardless of gender, ethnicity, race, age, religion, sexual orientation, and disability, and are valued for their unique contributions to BDO's success.

The Bank ensures that employment practices and policies are in compliance with labor laws, regulations, and standards in countries where it operates. BDO seeks the best talents who are selected, engaged, compensated, and promoted, as the case may be, based on merit and performance.

## BDO Culture and Values

"We find ways" is at the heart of BDO's culture of service, excellence, and innovation. Our employees share and live up to our common C-O-R-E values as BDO bankers.

**Customer-Focused.** Everything each BDO banker does is in the service of the customer's financial objectives and interests. This redefines the Bank's role beyond simply providing financial services, to a driver of financial inclusion. The Bank reaches out to current clients and the large number of unbanked and underserved Filipinos, and partners with them to fulfill their aspirations toward a more sustainable financial future.

**Out-of-the-Box Thinking.** Every BDO banker is encouraged to challenge conventional banking practices, beliefs, and processes for a better way to achieve client's objectives, without compromising quality, ethics, or good governance. As the country's largest bank, innovation and ideation are born out of the Bank's drive to think differently and from diverse perspectives.

**Right Attitude.** All BDO bankers are encouraged to go the extra mile to meet the client's objectives. This is demonstrated in every BDO banker's commitment to excellent customer service and strong customer relationships. Incorporated in BDO's human resource trainings is the development of values such as integrity, team spirit, hard work, and service. Complementing BDO's commitment to build long term relationships with customers is the bank's efficient business processes and user-friendly digital tools.

**Excellent Execution.** As the largest full-service financial institution in the Philippines, BDO is committed to doing it right, on time, and according to expectations each and every day.



*BDO is an equal opportunity employer and values employees' unique contributions to the Bank's success.*

# Employee Safety and Well-being

BDO is committed to ensuring the physical, social, and mental well-being of its more than 38,000 employees in the Philippines and abroad, and prioritizing occupational health and safety at all times. The Bank abides by the general labor standards and the occupational health and safety standards, in all the countries where it operates.

BDO's Health & Safety Committee is composed of Senior Management Team members from Premises and Facilities Management, Security & Investigation Division, Human Resources, Branch Banking Group, Consumer Banking Group, and the bank employees' labor union. The Health & Safety Committee manages and drives the Health & Safety Program of the Bank. Documents of the Committee activities are submitted on a regular basis to the DOLE, which in turn, audits the Bank with the same regularity.

The COVID-19 pandemic continued to be the greatest challenge to BDO bankers' health and safety, as the pandemic entered its second year in 2021. The Bank's mandate remained clear: mitigate the rising number of COVID-19 infections nationwide as it impacts employees, and within the Bank, achieve herd immunity with at least 70% vaccination among employees.

To address this critical task, the Human Resources (HR) Group provided continuous HR services that made sure employees had access to necessary healthcare, particularly amid the surge of the COVID-19 Delta variant. Employee safety was reinforced and maintained through (1) regular and more frequent antigen testing and PCR-testing; (2) contact tracing of affected employees; (3) quarantine and isolation monitoring; (4) health care assistance; (5) additional leave benefits; and (6) financial assistance. The Bank also distributed COVID-19 health kits among employees, and set-up additional PCR testing sites nearer to branches and offices. These efforts effectively identified emerging cases among employee clusters and helped mitigate spread through immediate quarantine and isolation.

In terms of vaccination, the biggest challenge was to convince employees to get inoculated, given varying levels of anxiety on the safety, effectiveness, and side effects of various vaccines made available in the country. HR collaborated with concerned business groups within BDO and the SM HR Group in the roll-out of an Employee Vaccination Program that would allow employees and bank custodials throughout the country to have access to COVID-19 vaccines. BDO partnered with local government units and with SM Malls that served as vaccination venues, to facilitate employee vaccination for two vaccine doses and a first booster towards the end of the year. The Vaccination Program was also promoted through widespread dissemination of health advisories, active monitoring of unvaccinated employees in different business units, and management encouragement during team meetings. Employees were also allowed to go on leave if their vaccination appointment fell on a workday. By the end of 2021, all these efforts resulted in a 97% vaccination rate for the Bank's total population, exceeding its initial target of 70%.

**97%**  
BDO Employees  
Vaccination Rate





In the 4th quarter of 2021, the Vaccine Program was extended to employee dependents, both adults and minors. Employees were also allowed to donate vaccines to their preferred beneficiaries through BDO Foundation. By December 2021, booster vaccination was implemented for BDO senior employees and those with co-morbidities, following government guidelines on priority groups.

A major component of the Bank's COVID-19 response was also providing the following additional accommodations for employees;

- Additional sick leaves for COVID-19 quarantine / isolation
- Official business leave for vaccination day
- Official business leave for those who had close contact with a positive case, while waiting for test results
- Flexibility to work from home based on the employee's role and business units' function,
- Rotational Team A and Team B reporting on site
- Split of critical teams into dual reporting sites

All these efforts made BDO bankers feel safe and well-protected in the workplace and at home, given the extended vaccine coverage for their family members. Employee attendance improved overall and employees learned to adjust their work load capacity to continue to deliver services, in situations where a skeletal workforce had to be enforced due to quarantine requirements. Employees also showed willingness to go the extra mile in ensuring that critical activities in their respective teams were prioritized.

Having peace of mind helped employees maintain their productivity and effectively allowed continuous delivery of essential services to customers and clients, even with limited manpower capacity and changing pandemic policies mandated by the government.

## Employee Rights 102-41

The pandemic presented a unique set of challenges and opportunities for BDO's Labor Union. In 2021, a new set of officers was elected to represent employee members in the Labor Management Council. Much of the Council's work focused on employee health and safety, as the country entered a different phase of the pandemic marked by the prolonged Delta surge. Communication lines were strengthened and discussions were made more open as Management and the Union worked hand-in-hand to protect employees and maintain industrial peace and harmony at the Bank, while meeting its commitment to the public to deliver essential services.

## Employee Training and Development

Among the changes that became necessary as a result of the pandemic was shifting from face-to-face into virtual training. Despite social distancing restrictions, employees are enabled to pursue continuous learning through online courses and virtual instructor-led classroom trainings. One of the urgent needs was to develop virtual learning courses that supported sales and marketing efforts, through virtual selling and virtual targeted communication to customers.

The Bank also pursued blended learning opportunities where virtual learnings were complemented with manager coaching and hands-on training for new hires. This approach strengthened team relationships and facilitated knowledge transfer more efficiently.

Throughout 2021, the Bank continued to offer online courses related to Regulatory/Mandatory topics, Products and Services, Systems and Processes, Soft Skills, and Development Programs. Mandatory courses include the Code of Business Ethics and Conduct, Anti-Money Laundering Act, Data Privacy Fundamentals, Operational Risk Management, Business Continuity, Anti-Sexual Harassment in the Workplace, Social Media Awareness, and Social Engineering Attack.

HR also continued to drive the Bank's flagship leadership development programs — the Officership Development Program (ODP) and Management Development Program (MDP) — with all classes held virtually. The MDP equips leaders with skills to develop high potential employees to take on managerial roles and enhances the productivity of their teams. The ODP is a full-time training program that aims to equip aspiring junior officers with the technical knowledge, as well as leadership, communication, and customer service skills in performing their new role as Junior Assistant Managers in the Bank. It enables individual contributors to develop the mindset and behaviors of a leader. In 2021, a total of 416 employees participated in the MDP compared to 215 the previous year, while 419 trained for the ODP in 2021, compared to 214 in 2020. Passing these leadership programs is one of several criteria that makes an employee eligible for promotion.

On the other hand, business skills training courses effectively equip employee learners with updates on products, services, systems and processes, while consultative selling workshops enable client-facing learners to offer clients with the appropriate financial solutions they need. Leadership workshops continue to focus on coaching and communication. Overall, these courses enable employees to effectively perform their respective roles in supporting the business and responding to customer's needs in the context of "We Find Ways," particularly during challenging business conditions, such as the ongoing pandemic.

In 2021, HR-Training also created a series of eLearning courses on Sustainability at BDO for employees bank-wide. Sustainability Consciousness 101 was designed for onboarding new employees and officers, Sustainability 102 was for all incumbent employees, while Sustainability 103 was tailor-fit for people managers who are expected to be role models and to promote the sustainability mindset among teams they manage. All courses provide an overview of BDO's sustainability philosophy and framework, current initiatives based on the latest BDO Sustainability Report, and expectations for BDO bankers in collectively driving sustainability in the work they do at the Bank and as individuals at home or anywhere outside the Bank. These courses will be rolled out in 2022.

## Digitization

In line with the digital transformation that was made more urgent by the pandemic, HR fast-tracked the transformation of its processes and systems of core HR functions into one integrated digital system to standardize and improve efficiency. HR migration and implementation of the employee data management system was successfully conducted in July 2021. Other core HR functions on Recruitment and Performance Management are next in line for digitization and targeted for release in the new HR System in 2022.

All these accomplishments and strides in 2021 have made BDO more resilient and responsive to the needs of both its employees and clients. The Bank is now poised to transition to the next normal with a strong foundation to continue finding ways to make life better for all its stakeholders.

## BDO Green Champions at work and at home <sup>102-43</sup>

At BDO, sustainability begins at home, literally and figuratively. While the Bank ensured that sustainability is an integral part of its business, it also made sure that employees, who are BDO's main brand ambassadors, adopted and practiced the same sustainable mindset.

The Bank continuously promoted its initiatives through various internal communication channels, including its employee newsletter, The Wayfinder, and an emailer called eNewsgram. It also enjoined employees to share their own sustainability initiatives so colleagues can draw inspiration from them.

In sharing their own journeys, BDO also encouraged everyone to participate in the SM Green Movement, an environmental project led by BDO's parent company, SM Investments Corporation. The SM Green Movement aims to lessen the SM Group's carbon footprint by promoting a greener lifestyle at home and at work among employees of the Group.

Launched in 2019, the SM Green Movement showcases how each company within the SM Group contributes to sustainability. More importantly, it also serves as a platform for employees to share their own green practices with everyone across SM's ecosystem.

In 2021, BDO bankers got to know more about their own sustainability advocates — the BDO Green Champions. Among them are Sharlene May Cua and Tonette Amistoso of the Institutional Banking Group; June Abigail Josue and Chiqui On of the Consumer Banking Group; Mark Rhyan Montenegro of Comptrollership; and Francis Tumpag and Renan Ferrer of the Branch Banking Group.

It's the little things that matter the most. Through their own small but meaningful actions, the BDO Green Champions are able to contribute to a greener, more sustainable world for future generations. Here, in their own words, are some of their green practices:

---

### Sharlene May Cua

#### China Desk, Institutional Banking Group

"Fostering sustainability may be a huge task, but starting it in our own little way makes it a lot easier. Not long ago, the topic of renewable energy and energy efficiency piqued my interest. That's when I started to participate in trainings and capacity-buildings tackling these topics. Listening to experts not only enhanced my knowledge on renewable energy and efficiency, but also allowed me to share my learnings with others.

Since we are also spending more time at home because of the pandemic, I became more conscious about the energy that I consume. I began to explore energy-saving smart appliances and made sure I have efficient cooling and lighting at home. In my own little way, I'm able to lessen our country's carbon footprint."



*BDO bankers are the Bank's brand ambassadors in adopting and practicing a sustainability mindset.*







### **Renan Ferrer**

**BDO Aklan – CityMall Branch, Branch Banking Group**

“In our home, I started a green living project by planting flowering trees and fruit-bearing trees such as Palawan Cherry Blossom, rambutan, santol, jack fruit, and a lot of ornamental plants. My other siblings also embrace the idea by growing organic backyard vegetables such as pechay, siling labuyo, okra, eggplant, patola, squash, calamansi, cucumber, and string beans for our family’s consumption. We also sell our excess harvest in the market. The concept of farm-to-table has been a practice in most neighborhoods in our province. The idea of helping others and being a responsible individual for the benefit of the community and the environment is an efficient way of living sustainably and peacefully.”

---

### **June Abigail Josue**

**Service Fulfillment Unit, Consumer Banking Group**

“I have been donating plastic materials to The Plastic Flamingo ([www.theplaf.com](http://www.theplaf.com)), a social enterprise that aims to tackle marine plastic pollution in the country. They transform collected plastics into eco-lumbers: posts and planks. Since I discovered that group, I have been consciously avoiding buying grocery products made of plastic materials.”



### **Chiqui On**

**Collections Assurance, Reporting and Testing,  
Consumer Banking Group**

“I am fostering sustainability by minimizing use of paper and plastic in my daily work and personal activities. I avoid printing reports if these can be submitted digitally. I also bring and use my own tumbler and utensils when buying takeout.”

---

### **Mark Rhyen Montenegro**

**Loans Administration, Comptrollership**

“At work, I re-utilize used papers by printing on the clean side. It helps the Bank save on cost. Also, I manually shred used papers/forms to save on electricity cost. At home, we use rain water to clean our toilets and water our plants. This practice has helped us save on water costs. We also use solar equipment to charge multiple devices instead of plugging them into electrical sockets.”





### **Tonette Amistoso**

#### **Commercial Banks, Institutional Banking Group**

“We all know that climate change, global warming, and resource depletion are real and their impact on human and other living things can be devastating. It’s high time that we grab any opportunity to help reduce our carbon footprint. As a minimalist, I make sure that everything I own and use are put to its maximum purpose. I am more mindful of the products that I buy, making sure that they are, as much as possible, recyclable. I try to repurpose most of the things that I buy so I am able to minimize our household’s waste. I always bring a reusable shopping bag whenever I visit the grocery.”

---

### **Francis Tumpag**

#### **BDO Cebu Mandaue – North Branch, Branch Banking Group**

“My household is practicing the 3 Rs (Reduce, Reuse, Recycle) to foster sustainability and protect the environment. To reduce waste, we buy only what is needed and select items with less packaging. Using eco bags while shopping at SM stores and other supermarkets allows me to use less packaging as well. We also repurpose used glass bottles as containers for staples like vinegar, soy sauce, salt, sugar, and we convert PET bottles into pots for our plants. We are also able to conserve water and other resources by ensuring that we fix leaking water pipes, managing the use of our LPG, and turning off electronic appliances when not in use, among others.”



Some of the BDO Green Champions are also featured in the SM Green Movement website. To view the video interviews with Tonette Amistoso, Sharlene May Cua, Mark Rhyen Montenegro, Francis Tumpag, and other sustainability advocates of the SM Group, visit this link: [www.smgreenmovement.com/our-green-champions/](http://www.smgreenmovement.com/our-green-champions/).

---

# Disaster Response Sustainability Strategy



In identifying Disaster Response as one of its key sustainability strategies, BDO takes into consideration the physical risks that come with the geographical location of the Philippines that makes it vulnerable to climate change. Disasters critically impact the safety and well-being of our employees, customers, and communities, and pose disruption and damage to the bank's operations and facilities.

To best mitigate the environmental and social impact of natural and man-made disasters, the Bank chose to focus its resources on the aftermath of such events — to immediately provide relief, fund rehabilitation, and help advance recovery of disaster-stricken communities in the Philippines. This supports the United Nations Sustainable Development Goal 13 on Climate Action — to strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.





# BDO Foundation: Finding ways to serve the Filipino

As the coronavirus lingered and variants threatened the well-being of Filipinos, BDO Foundation, the corporate social responsibility arm of BDO Unibank, continued to find ways to make its disaster response programs more responsive to the needs of underserved sectors of society.

## Pandemic response

In the second year of the pandemic, BDO Foundation continued to help control the spread of the virus, assist frontliners, and provide aid for people vulnerable to the effects of the health crisis. The Foundation helped communities cope with COVID-19 amid the surge in cases by supporting the healthcare programs of partner local government units.

BDO Foundation's pandemic response included the following:

- Distribution of food assistance in marginalized communities all over the country in partnership with Ako Bakwit, Caritas Philippines, Tanging Yaman Foundation, and social action centers
- Donation of hygiene kits to health workers and patients in Capiz, Iloilo, and Negros Oriental provinces
- Provision of manpower support — nurses and medical technicians — for the vaccine rollout of General Santos City and Iloilo City to mitigate the surge in cases due to the Delta variant of the COVID-19 virus



*BDO Foundation has donated vaccines for frontliners in key cities with the highest COVID-19 cases.*

### Relief Operations

Served more than

**49,000**

calamity-stricken families

### COVID-19 Pandemic Response

Served

**16,750**

families

**2,055**

health workers  
and patients

**1,800**

vaccinees



- Contribution to the Project Balik Buhay Salary and Bonus Assistance for our Bidas program, which provided financial incentives to nurses stationed in the intensive care units, emergency rooms, and COVID wards of hospitals in Cebu, an initiative supported by the Department of Health and Office of the Presidential Assistant for the Visayas
- Vaccination of beneficiaries nominated by vaccine donors from BDO

BDO Foundation's COVID-19 programs benefited 16,750 families, 2,055 health workers and patients, 1,800 vaccinees in General Santos and Iloilo, nurses in eight hospitals, and 1,066 vaccinees nominated by donors as well as people in 30 parishes and persons deprived of liberty in 48 prisons. The initiatives were backed by BDO Unibank and BDO Network Bank branches, local government units, medical organizations, hospitals, non-governmental organizations, and volunteers who provided logistical assistance on the ground.

## Relief operations

In line with its disaster response advocacy and in the spirit of *bayanihan* or volunteerism, BDO Foundation provided relief aid and mobilized volunteers for provinces placed under a state of calamity due to typhoons, earthquakes, volcanic eruptions, and fires.

The initiative benefited more than 49,000 calamity-stricken families devastated by Typhoons Bising (international name: Surigae), Fabian (Cempaka), Maring (Kompasu), and Odette (Rai), as well as survivors of a fire incident in Occidental Mindoro and the Taal Volcano eruptions.



*BDO Foundation provided food assistance to non-governmental organization Ako Bakwit for the benefit of economically disadvantaged and displaced persons affected by the pandemic.*

### Handog sa 'Yo ng BDO Foundation Food Assistance

Distributed food packs to  
**20,000**  
underserved families in  
25 provinces



### Rural Health Units (RHUs)

**21**  
Rehabilitated RHUs  
in the provinces

**10**  
Previously rehabilitated RHUs,  
maintained and repaired

Helped improve delivery  
of primary patient care  
to more than

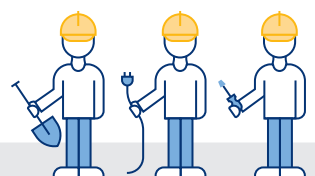
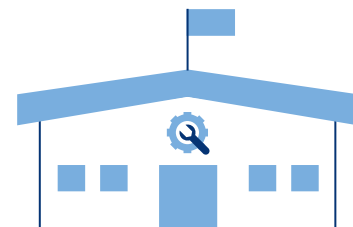
**700,000**  
individuals

**121**  
Renovated RHUs  
to date



### Tech-Voc Training Facility

More than  
**140**  
students stand to  
benefit every year



The relief work was made possible with the support of BDO and BDO Network Bank branches. Volunteers from church groups, the military, local government units, and non-governmental organizations provided logistical support.

## Handog sa 'Yo ng BDO Foundation

BDO Foundation provided food assistance for economically disadvantaged communities all over the country as part of a Christmas gift-giving initiative dubbed Handog sa 'Yo ng BDO Foundation. In partnership with Caritas Philippines, the social arm of the Philippine Catholic Church, the Foundation distributed food packs to 20,000 underserved families in 25 provinces in Luzon, the Visayas, and Mindanao.

Handog sa 'Yo was aimed at giving back to the community during the holiday season and supplementing the food supply of families during hard times. Implementation was made possible with the support of parishes and diocesan social action centers as well as BDO and BDO Network Bank branches.

## Rehabilitation and upkeep of Rural Health Units

BDO Foundation intensified efforts to rehabilitate rural health units (RHUs) in economically disadvantaged and disaster-affected areas all over the Philippines to facilitate access to quality healthcare services during the pandemic. Despite logistical limitations caused by COVID-19, the Foundation renovated 21 RHUs in the provinces of Batangas, Bohol, Catanduanes, Ilocos Sur, Iloilo, Isabela, Masbate, Negros Occidental, Samar, and Surigao del Norte.

BDO Foundation improved the health centers' layout, interiors and exteriors, lobbies and waiting areas, offices, birthing clinics, consultation rooms and treatment rooms, pharmacies, and facilities. The Foundation also installed new furniture and fixtures to accommodate more patients. Construction also included breastfeeding stations for nursing mothers, play areas with books and toys for children, and comfortable waiting lounges for senior citizens. With renovations completed, rural doctors, nurses, and midwives are now better equipped to provide primary patient care to more than 700,000 individuals, many of whom cannot afford to go to hospitals.

In addition to the rehabilitation of RHUs, BDO Foundation also completed the maintenance and repair of 10 previously rehabilitated health centers in Agusan del Sur, Aklan, Biliran, Camarines Sur, Ilocos Sur, North Cotabato, Nueva Ecija, Samar, and Sorsogon provinces for the benefit of more than 560,000 people.

Officers from BDO Unibank and BDO Network Bank branches helped the Foundation identify RHUs that needed assistance.

Through its rehabilitation program, the Foundation contributes to the achievement of Sustainable Development Goal 3 to ensure healthy lives and promote the well-being of all people at all



*Volunteers prepare to distribute food packs to underserved families in Zambales as part of the Handog sa 'Yo ng BDO Foundation Christmas gift-giving program.*



*According to Dr. Rachele Jean Sanchez, municipal health officer of Placer in Surigao del Norte, "On behalf of Placernons, I would like to express our gratitude to BDO Foundation for finding ways for us amid this pandemic."*



ages. As a pandemic response, the initiative is critical as RHUs support efforts to curb the spread of the coronavirus. Health centers provide free antigen testing and implement the vaccination programs of local government units.

## Construction of Tech-Voc Training Facility

BDO Foundation continued to look after the welfare of disaster-affected Filipinos long after the typhoons have gone. Dumangas town in Iloilo province was hard hit by Super Typhoon Yolanda (Haiyan) in 2013. To help rebuild the community, the Foundation constructed a technical-vocational training facility at the Don Bosco Technical and Vocational Education and Training Center – Dumangas, in partnership with the Salesian Society of St. John Bosco.

The two-storey structure serves as a workshop, where senior high school students can learn technical-vocational livelihood skills. The building enables administrators to introduce new courses, accommodate more enrollees, and teach more learners.

It supports Don Bosco's mission to educate, evangelize, and capacitate Filipino youth. The Center educates economically disadvantaged and out-of-school youth for gainful employment in the Philippines and abroad. More than 140 students stand to benefit every year from the facility the Foundation built.

BDO Foundation's initiative in Iloilo contributes to the achievement of Sustainable Development Goal 8 to promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all.

## Other projects

- Distribution of food assistance to more than 2,200 underserved families in Aklan, Capiz, Cebu, Davao del Sur, Iloilo, Leyte, Metro Manila, Pangasinan, Rizal, and Samar in partnership with BDO Network Bank, Beiersdorf Philippines, Jesuit Communications Foundation, and U.S.-Philippines Society
- Donation of more than 1,400 healthcare products and other items to Ako ang Saklay Foundation for underserved families in Nueva Ecija
- Sponsorship of the sixth general assembly of Zero Extreme Poverty Philippines 2030 themed "Creating a Better Normal Towards Sustainable Communities", which served as a venue for discussions of efforts to address the effects of the pandemic



*BDO Foundation built a technical-vocational training facility in Dumangas, Iloilo to support Don Bosco's efforts to educate disadvantaged youth in the Visayas.*

---

# Governance-based Sustainability Strategy



We continuously enhance our corporate governance framework to sustain superior business performance anchored on the principles of accountability, transparency, integrity, and fairness, together with our partners.



# Good Governance to Create a Sustainable Future

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

BDO affirms its deep commitment to the highest standards of corporate governance practice firmly anchored on the principles of accountability, fairness, integrity, transparency, and performance consistently applied throughout the institution. 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 complies, where appropriate, with the Philippine Securities & Exchange Commission (SEC) Code of Corporate Governance for Publicly-Listed Companies and with the Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions. It follows relevant 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 (ACGS) which serve as essential points of reference.

## Our Board of Directors and Governance Structure

Responsibility for good governance lies with the Board. It is responsible for providing effective leadership and overall direction to foster the long-term success of the Bank. It oversees the business affairs of the Bank, reviews the strategic plans and performance targets, financial plans and budgets, key operational initiatives, capital expenditures, acquisitions and divestments, annual and interim financial statements, and corporate governance practices. It oversees management performance, the enterprise risk management, internal control systems, financial reporting and compliance, related party transactions, continuing director education, and succession plans for the Board and the Chief Executive Officer (CEO). It considers sustainability issues related to the environment and social factors as part of its sustainable banking practices.

The Board is composed of 11 seats, with one vacancy as of December 31, 2021 reserved for an independent director<sup>1</sup>. The members of the Board are all professionals with various expertise in fields relevant to BDO's business and strategic plans such as banking, accounting and finance, law, merchandise marketing, strategy formulation, bank regulations, information technology, sustainability, and risk management. It is led by a Non-Executive Chairperson with five Independent Directors, three Non-Executive Directors, and two Executive Directors who are the Vice Chairman and the President & CEO.

The present composition of the Board exceeds the minimum regulatory standards which require that independent and non-executive directors account for the majority. Independent and Non-Executive Directors of the Bank comprise 82% (nine of 11) of the Board. With five of 11 Board seats allocated for independent directors, the Bank goes beyond the 1/3 minimum requirement of the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission. Independent Directors comprised the majority

<sup>1</sup> Atty. Gilberto C. Teodoro, Jr., Independent Director, resigned from the Board of Directors effective October 7, 2021. His replacement, Mr. Vipul Bhagat, Independent Director, was appointed by the Board of Directors on January 8, 2022.



(six of 11 or 54.50%) of the Board until April 2021<sup>2</sup>, conforming with international best practices. Independent directors chair eight of nine Board Committees, namely Risk Management, Audit, Corporate Governance, Related Party Transactions, IT Steering, Nominations, Compensation, and Trust. 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.

The Board is aided by four advisors who are considered as integral parts of the Board and whose influence are akin to directors. Their opinions and recommendations are taken into consideration by the Board members. The presence of a female Board advisor provides an independent view of the Bank and complements the two female non-executive directors.

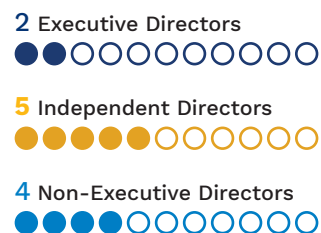
The Board is responsible for the screening of new directors through the Nominations Committee. The Nominations Committee leads the process of identifying and evaluating the nominees for directors. It evaluates the balance, skills, knowledge and experience of the existing Board and the requirements of the Bank. The result of the evaluation determines the role and key attributes an incoming director should have. The Nominations Committee receives recommendations for potential candidates and uses, to the extent possible, external search firms or external databases in selecting the pool of candidates for the new members of the Board. The Nominations Committee recommends the most suitable candidate to the Board for appointment or election as director.

For reelection of incumbent directors, the Nominations Committee also considers the results of the most recent annual evaluation of the performance of the Board, Board Committees, and peer evaluation made by the Board members and advisors or by an independent third party evaluator, attendance record in meetings, participation in Board activities and overall contribution to the functioning of the Board.

In evaluating the suitability of an individual board member and promoting diversity in the composition of the Board, the Nominations Committee annually reviews the Board and Board Committee composition to ensure appropriate balance of skills, competencies, experience of its members, and diversity to ensure the alignment with the new regulations. The Committee recommends to the Board of Directors the slate of nominees for election to the Board of Directors during the Bank's annual stockholders' meeting. The Committee takes into account the relevant qualifications of every candidate nominated for election, with competence and integrity as the primary factors, including other criteria such as, among others, physical and mental fitness,

## Board snapshot

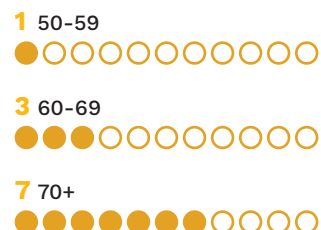
### DIRECTOR INDEPENDENCE



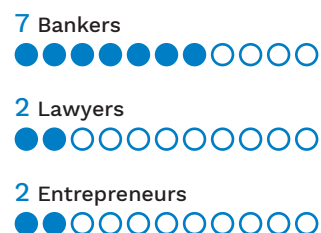
### DIRECTOR DIVERSITY



### DIRECTOR AGE



### SKILLS, EXPERIENCE & BACKGROUND



<sup>2</sup> Former Lead Independent Director, Mr. Jones M. Castro, Jr., was reclassified to non-executive director on April 23, 2021, in order to comply with the nine-year term limit for independent directors.

relevant educational and professional background, personal track record, experience and training, commitment to contribute, willingness to serve, and interest to remain engaged and involved, without regard to race, gender, ethnic origin, religion, age, or sexual orientation.

The Board is also responsible for approving the selection and appointment of a competent executive management led by the President and CEO including the heads of units who exercise control functions i.e. Chief Compliance Officer, Chief Risk Officer, and Chief Internal Auditor. Fit and proper standards are applied in the selection of key officers and utmost consideration is given to their integrity, technical expertise, and banking industry experience.

Considering the changes done, complexity and scope of the Bank's business, the Board believes that its current size and composition provide sufficient diversity among its directors, foster critical discussion, and promote balanced decision-making. It views diversity at the Board level, which includes differences in skills, experience, gender, sexual orientation or preference, age, education, race, business and other related experience, as an essential element in maintaining an effective board for strong corporate governance.

During the year, the Board approved, reviewed, and oversaw the Bank's financial budget and capital funding, business targets and strategies, quarterly declaration of dividends, and the release of the 2020 audited financial statements within 57 days from year end. Its oversight functions include the review of operational and financial performance of senior management and work of the various committees in accordance with their Terms of Reference.

In 2021, the Board focused on the Bank's strategic plans. Six special Board meetings were called in 2021 to specifically discuss the Bank's strategies for an enhanced customer journey, seamless digital transformation, effective wealth management initiatives, and robust cyber security measures. The Board approved and confirmed the expanded business model of its overseas branch to include dealing and offering of securities and collective investment schemes, and providing custodial services.

The Board continued with its efforts in countering the effects of COVID-19 pandemic in its operations. Constant monitoring of the adequacy of the Bank's provision was made at Board level in 2021. Similarly, the Board kept track of the Bank's COVID-19 response programs, particularly the regular testing and vaccination of its employees.

The Board also oversaw matters related with sustainability. It approved a three-year transition plan aimed at embedding sustainability principles in the Bank's corporate governance framework, risk management systems, strategic objectives, and operations.

# Improving Board Effectiveness

## Board Performance

A yearly self-assessment is conducted focusing on the performance of the Board, directors, Committees and senior management, through the Corporate Governance Committee, using an approved set of questionnaires. The performance evaluation process begins with sending out customized Board Evaluation Questionnaires to each director and advisor. They are required to complete the questionnaire and explain the rationale of their response. The results of which are tabulated and consolidated. In 2021, the Corporate Governance Committee endorsed to the Board the continuous engagement of the services of an external facilitator for its yearly self-assessment. To the Committee, engaging an independent party every year, rather than every three years as recommended by the SEC, provides more governance inputs to the Board and allows comparability and continuity of aspects examined.

For 2021, the Bank reappointed PwC Philippines (PwC) as external facilitator for the 2021 Board Effectiveness Evaluation (BEE) as continuation of being the external facilitator for the 2019 and 2020 BEE. PwC facilitated a peer and self-evaluation process on the Board, Board Committees, and individual directors.

## Continuing Education for Directors

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. All directors of BDO Unibank complied with the annual corporate governance training requirement of four hours in 2021.

Nine directors of BDO Unibank attended the in-house corporate governance seminar facilitated by Gartner Executive Programs last September 1, 2021. It concentrated on the impact of geopolitics on digital business, design and delivery for customer facing digital products, and digital leadership. Two directors attended the corporate governance seminar facilitated by the Institute of Corporate Directors last September 30, 2021 with topics on sustainability, artificial intelligence, and digitalization, among others.

## Chairperson of the Board

The Chairperson is primarily responsible for leading the Board and ensuring its effectiveness. She provides leadership to the Board, fosters constructive relationships between directors, promotes an open environment for critical discussions and constructive debate on key issues and strategic matters, and ensures that the Board of Directors exercises strong oversight over the Bank's business and performance of senior management. She takes a lead role in ensuring that the Board provides effective governance of the Bank and continues to operate at a very high standard of independence with the full support of the directors.



## Independent and Non-Executive Directors' Meeting

A regular meeting is held by Independent and Non-Executive Directors (INED) with the heads of the control functions (i.e. Chief Risk Officer, Chief Compliance Officer, and Chief Internal Auditor) as well as the external auditor, without the presence of management or any bank executive, to discuss various matters or issues outside the Audit Committee and Risk Management Committee meetings. The meeting is chaired by the Lead Independent Director. In 2021, the INED conducted three (3) sessions and the results of these sessions were discussed with the Bank's Executive Directors in three (3) separate sessions.

## Board Committees

The Board has established nine committees to help in discharging its duties and responsibilities. These committees derive their authority from and report directly to the Board. Their mandates and scopes of responsibility are set forth in their respective Terms of Reference, which are subjected to annual review and may be updated or changed in order to meet the Board's needs or for regulatory compliance. The number and membership composition of committees may be increased or decreased by the Board as it deems appropriate, consistent with applicable laws or regulations specifically on the majority membership and chairmanship of independent directors in various committees. As of December 31, 2021, eight of nine board-level committees are chaired by Independent Directors.

## The Board of Directors

- Responsibility for good governance lies with the Board.
- It is responsible for providing effective leadership and overall direction to foster the long-term success of the Bank.
- It oversees the business affairs of the Bank, reviews the strategic plans and performance targets, financial plans and budgets, key operational initiatives, capital expenditures, acquisitions and divestments, annual and interim financial statements, and corporate governance practices.
- It oversees management performance, the enterprise risk management, internal control systems, financial reporting and compliance, related party transactions, continuing director education, and succession plans for the Board and CEO.
- It considers sustainability issues related to the environment and social factors as part of its sustainable banking practices.

### Executive Committee

- Exercises power of the Board in the management and direction of the affairs of the Bank.
- Acts as main approving body for loans, credits, advances or commitments and property-related proposals.
- Reviews and recommends for Board approval major credit policies, including delegation of credit approval limits.

### Board Audit Committee

- Oversees the financial reporting process, system of internal control and risk management systems, internal and external audit functions, and compliance with governance policies, applicable laws and regulations.
- 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 publicly-listed companies.
- 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.

### Corporate Governance Committee

- Assists the Board in formulating the governance policies and overseeing the implementation of the governance practices of the Bank as well as its subsidiaries and affiliates.
- Conducts annual performance evaluation of the Board of Directors, its committees, executive management, peer evaluation of directors, and conducts a self-evaluation of its performance.
- Oversees the continuing education program for directors and key officers and proposes relevant training for them.

### Trust Committee

- Reviews and approves transactions between trust and/or fiduciary accounts, accepts and closes trust and other fiduciary accounts, and approves the investment, reinvestment and disposition of funds or property.
- Evaluates trust and other fiduciary accounts at least once a year.
- Reviews Trust and Investment Group's overall performance, profile of funds and assets under its management, industry position, and the risk management reports.
- Approves offering of new products and services, establishment and renewal of lines and limits with financial institutions, and investment outlets and counterparties.

### **Risk Management Committee**

- Responsible for the oversight of the enterprise risk management program of the Bank.
- Responsible for approving risk appetite levels, risk management policies, risk tolerance limits and approves the appropriate strategies for managing and controlling risk exposures, including preventing and/or minimizing impact of losses if risk becomes real.
- Oversees the implementation and review of the risk management plan including the system of limits of discretionary authority delegated by the Board of Directors to management under its purview and ensures that immediate corrective actions when limits are breached.
- Responsible for evaluating the continued relevance, comprehensiveness and effectiveness of the risk management framework.
- Works with the Audit Committee in certifying in the Annual Report the adequacy of the Bank's internal control and risk management systems and controls.

### **Nominations Committee**

- Leads process of identifying candidates for election and appointment of directors and all other positions requiring appointment of the Board of Directors, giving full consideration to succession planning and the leadership needs of the Group. In particular, this process includes the profiling of the skills and competencies of the currently serving directors, the gaps in skills and competencies identified and the search for candidates who are aligned with the Bank's directions to fill the gaps. It then makes appropriate recommendations to the Board.
- Makes recommendations to the Board on the composition and chairmanship of the various committees.
- Reviews structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive Directors, and makes recommendations to Board with regard to any changes.

### **Compensation Committee**

- Provides oversight on directors' compensation and remuneration of senior management and other key personnel, ensuring that the compensation scheme is consistent with the Bank's culture and strategy, effectively aligned with prudent risk taking and commensurate with corporate and individual performance.
- Ensures consistency of the compensation policies and practices across the Group.

### **Information Technology Steering Committee**

- Provides oversight and governance over the Bank's IT functions, including approvals of information technology-related policies and practices of the Bank and applicable guidelines.
- Informs the Board of both internal and external IT-related developments and activities, potential challenges and risks, progress vs. strategic objectives.
- Approves and endorses to the Board IT-related best practices, strategic plans, policies and procedures.
- Responsible for understanding, managing and mitigating technology risks that confront the Bank and its subsidiaries, ensuring that the risks are properly managed and mitigated, and monitoring of IT performance including status of major IT projects and issues.

### **Related Party Transactions Committee**

- Assists the Board in its oversight of the conduct of all Related Party Transactions (RPTs) to protect the interests of the Bank and its stakeholders.
- Ensures proper disclosure of all approved RPTs in accordance with applicable legal and regulatory requirements and confirmation by majority vote at the Annual Stockholders' meeting of the Bank's significant transactions with related parties.

Further information regarding BDO's Board and Committees can be found in the Annual Report and at [www.bdo.com.ph](http://www.bdo.com.ph).



# Independent Control Functions

## Compliance

BDO's Compliance Group, through the Chief Compliance Officer (CCO), oversees the design of the Bank's compliance system and the overall compliance framework executed through a Compliance Program, and promotes their effective implementation. BDO Compliance Group reports to and is under the direct supervision of the Board Audit Committee. It is responsible for overseeing, coordinating, monitoring and ensuring compliance of the Bank with existing laws, rules and regulations through the implementation of the overall compliance system and program in accordance with the requirements of the BSP and other regulatory agencies, including but not limited to the identification and control of compliance risks, prudential reporting obligations as well as compliance training. BDO's Compliance System forms the processes, people, policies and other components that, as an integral unit, ultimately drive the Bank's initiatives to conform to industry laws, regulations and standards. In line with the Bank's initiatives is its commitment to ensure that activities of the Bank and its personnel are conducted in accordance with all applicable banking laws and regulations and industry standards, and this commitment to compliance serves to protect the Bank and its stakeholders. BDO's Compliance Group, as provided in its Charter, conducts independent compliance tests and reports to the Board Audit Committee any significant compliance issues or breaches.

The Anti-Money Laundering Department (AMLDD) under the Compliance Group, together with the Anti-Money Laundering Committee (AMLCom), focuses on the enforcement of the Bank's Anti-Money Laundering (AML) Counter-Terrorist Financing (CTF) Program, and Combating Proliferation Financing (CPF), in accordance with the Anti-Money Laundering Law as amended; Terrorism Financing Prevention and Suppression Act, and Anti-Terrorism Act (ATA) and their respective Implementing Rules and Regulations (IRRs). The Bank also adheres with BSP and Anti-Money Laundering Council (AMLC) Rules, Regulations and Directives. The AML Program of the Bank is articulated in the Bank's Board- approved Money Laundering and Terrorist Financing Prevention Program (MTFPP) Manual, which covers AML/CTF/CPF policies and information such as: (i) customer on-boarding, (ii) customer risk assessment and due diligence, (iii) handling and monitoring of clients and their transactions, (iv) Covered and Suspicious reporting, (v) record-keeping, (vi) AML/CTF training (vii) AML System and technology platforms, and (viii) Institutional Risk Assessment. AMLDD likewise oversees the investigation of suspicious transactions under the auspices of the AMLCom that is comprised of select key senior officers of the Bank.

The Compliance Group and its compliance program endeavors to protect the Bank's franchise, manage compliance risks and simultaneously supports the business goals and growth of the institution by providing appropriate compliance insights and regulatory guidance to safeguard the Bank and its stakeholders.

## Internal Audit

The Internal Audit Function covers the entire Group including foreign and local subsidiaries and offices. It adheres to the principles required by the ISPIIA (International Standard for the Professional Practice of Internal Auditing), COSO Internal Control-Integrated Framework, COBIT (Control Objectives for Information and Related Technology), the Internal Audit Definition and Code of Ethics.

It provides assurance and a systematic, disciplined approach to evaluate and improve effectiveness of risk management, internal control, and governance processes. Upholding a commitment to integrity and accountability, Internal Audit provides value to senior management and governing bodies as objective source of independent advice, not only by promoting the professional development of its auditors but also by keeping abreast of relevant changes in regulations and trends in technology.

Internal Audit reports to the Board of Directors through the Board Audit Committee (parent bank and respective subsidiaries). It seeks BAC approval for the annual audit plan, provides updates on accomplishments, reports results of audit conducted and tracks resolution of audit findings. In its year-end closing report, Internal Audit attests to the fulfillment of its mandated responsibilities and provides overall assurance on the effectiveness of internal control, risk management and governance processes.

## Compliance with the SEC Code of Corporate Governance

Publicly-listed companies are advised to disclose in their Annual Report the company's compliance with the Code of Corporate Governance and where there is non-compliance, to identify and explain the reason for such issue. We confirm that as of December 31, 2021, the Bank has substantially complied with the recommendations of the Code except for the following: 1) Policy on retirement age of directors; 2) Disclosure of executive remuneration on an individual basis; 3) voting system for majority of non-related party shareholders to approve material related party transactions during shareholders meeting; 4) voting mechanism such as supermajority or "majority of minority" to protect the minority shareholders against action of controlling shareholder. For a more detailed discussion on the matter, please refer to the BDO Annual Report.

## Corporate Policies and Practices

### BDO 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 BDO Code of Conduct and Business Ethics (the Code) outlines the principles and policies that govern the activities of the Bank and sets forth the rules of conduct in the workplace and the standards of behavior of its directors, officers and employees in their activities and relationship with external stakeholders.

The Bank upholds the virtues of honesty and integrity among its employees and instills a sense of commitment toward duty and responsibility. All employees are expected to observe discipline in attending to their jobs and in interacting with co-workers. Supervisors and managers are expected to foster self-discipline and serve as role models to their subordinates. Bank officers are expected to intelligently and consistently apply the accepted principles of people management. All cases/violations must be reported. Failure to do so either by oversight or deliberate cover up is subject to appropriate disciplinary action.

The Office of the Human Resources is responsible for overseeing the implementation of this Code across the BDO Unibank Group. It receives reports of violations and ensures that a confidential investigation is undertaken. As necessary, it may endorse the handling of the investigation to the Cases Review Secretariat for the appropriate action and recommendation. The Audit Committee, at its discretion, may periodically report the Code of Conduct and Business Ethics cases to the Board of Directors. The Compliance Office will address lapses in compliance with regulatory requirements arising from the administrative cases due to the violation of this Code.

## Internal Fraud, Breach of the Code, or other Unethical/Illegal Activities

BDO believes that the key to long-term sustainability and success largely depends on having a good name and solid reputation in the industry. Any director or employee who becomes aware of any violations of law, regulations, or policies should report the same to appropriate authorities, with protection from reprisal and discrimination. Reporting of violations should be done in good faith and without malice. This is embodied in the BDO Policy of Disclosure of Sensitive/Confidential Matters to management that governs the policies and procedures in the handling of whistleblower cases.

## Data Privacy

BDO implements strict compliance with data privacy and protection laws. All personal data, including sensitive and confidential information obtained in the course of employment, directorship, engagement of services, or other work or business-related relationships with BDO, shall not be divulged unless authorized in accordance with internal and regulatory requirements, and shall not be used for any personal or financial gain.

The Bank has in place a Data Privacy Management Program (DPMP), which serves as the framework for protecting the data privacy rights of the Bank's data subjects, to ensure compliance with the Philippine Data Privacy Act (PDPA). BDO's DPMP strives to comply with the Five Pillars of Data Privacy Accountability and Compliance of the National Privacy Commission.

1. **Appointment of Data Privacy Officer.** The Bank appointed a Data Protection Officer (DPO) who is registered with the National Privacy Commission (NPC). Compliance Officers for Privacy (COPs) in each business and support unit (BSU) were also appointed to ensure proper coordination in the implementation of any initiatives related to the Bank's DPMP.
2. **Conduct of Privacy Impact Assessment.** The Bank completed a Privacy Impact Assessment (PIA) for the whole BDO Group to assess privacy risks and ensure that necessary security measures are in place that will mitigate risks to personal data, and uphold the data privacy rights of individuals. The results of the PIA were reported to the Risk Management Committee (RMC) of the BDO Board.
3. **Privacy Management Program and Privacy Manual.** The Bank's DPMP is part of its Data Privacy Manual (DPM), which serves as a framework for protecting the data privacy rights of the Bank's data subjects. The Bank codified its DPM to serve as a reference for all units of the Bank in complying with Republic Act 10173, also known as the Data Privacy Act of 2012. All bank personnel are required to comply with the terms set out in the Manual.
4. **Implement Data Privacy and Protection Measures.** Even before the Data Privacy Act was passed into law, data privacy and protection measures were already in place in BDO's processing of personal data. However, implementation of these measures was not a one-time activity, but a continuous process. Foremost among these steps are the establishment of the Enterprise Data Privacy Policy, Data Privacy Statement, and Breach Reporting Procedures, including the templates for Consent, Data Sharing Agreement, and Outsourcing Agreement Supplements. Privacy risk monitoring was also enhanced using the existing operational risk management tools of the Bank. To ensure continuous education within BDO, an eLearning course on Data Privacy is sent to employees as part of an Awareness Program. The Bank has also intensified its data privacy awareness with an in-depth training for COPs and complaints management training for Customer Contact Center personnel.



5. **Exercise of Breach Reporting Procedures.** As a precaution and to proactively manage personal data breach incidents, the Bank documented in its Data Privacy Manual the detailed procedures in reporting potential personal data breaches. Breach reporting is also included in the Bank's Data Privacy Training and Awareness Program.

The RMC is also regularly updated with respect to the progress of the Bank's compliance to the PDPA. In view of its commitment to comply with data privacy requirements, and as part of its continuing assessment and development efforts, the Bank actively participates in data privacy forums of the NPC and liaises with other DPOs of the Bankers Association of the Philippines (BAP).

## Consumer Protection Practices

BDO's financial consumer protection framework is anchored on disclosure and transparency, protection of client information, fair treatment, effective recourse, and financial education and awareness. The framework ensures that consumer protection practices are embedded in our operations and considered in the development and implementation of our products and services.

The Board is primarily responsible in maintaining an effective oversight on the Bank's consumer protection policies and programs. Senior management implements the Board-approved strategy and ensures that control mechanisms are in place. BDO's Consumer Assistance Management System reflects the Bank's commitment that our customers are treated fairly, honestly, and professionally at all stages of their relationship with the Bank. To ensure its effective implementation, BDO Customer Contact Center records customer complaints and monitors its resolution in adherence to established standard operating procedures and service level agreements. Customer feedback and complaints are analyzed and these are reported to the Board's Risk Management Committee on a periodic basis.

BDO devotes resources to ensure that customers are provided with accessible, affordable, independent, fair, accountable, timely, and efficient means for resolving complaints with their financial transactions. In 2021, CAMS logged around 8 million customer cases of which only 6% were problem-related in nature. Majority of the cases were inquiries (5.2 million or 65%) and requests (2.3 million or 29%).

## Supply Chain and Approach to Procurement

BDO sources 99.6% of its supplies from a local supply chain. The Bank follows a Manual on General Procurement Guidelines that establishes the policies on procurement of products and services and provides a framework of efficient, consistent, transparent and compliant purchasing practices across all Business Units (BU) of the Bank. BDO also has an online Vendor Accreditation System (VAS) that serves as the central storage facility of all Bank accredited vendors/suppliers, and contractors. The VAS provides real time status of vendor evaluation for accreditation, allows the upload of required documents for vendor accreditation, and generates reports for monitoring and reference. The Bank works with its suppliers to generate awareness and understanding of sustainability principles to help identify and mitigate the supply chain's environmental and social impact. The Bank also aims to find ways to build its supply chain's resilience to both natural and man-made disasters brought about by climate change.

## Acceptance/Solicitation of Gifts, Bribery, and Corruption

The Bank has zero tolerance for the solicitation and acceptance, directly or indirectly, of any gift (including entertainment services or activities), gratuity, commission or any form of payment from clients, business partners, suppliers and third party service providers in connection to a service that may, in any way, influence the Director's, Officer's or employee's decision-making in exchange for any unnecessary favorable treatment. Likewise, BDO commits to comply with anti-corruption and bribery laws in all jurisdictions it operates. BDO will not make political donations that may be interpreted as an attempt to encourage favorable treatment of BDO and/or its directors and employees.

## Anti-Money Laundering, Counter-Terrorist Financing, and Proliferation Financing

BDO is committed to conduct business with the highest ethical standards and in full compliance with all applicable laws and regulations. The Bank seeks to prevent the flow of illicit funds on money laundering, combat terrorist financing, and proliferation financing by establishing policies and guidelines that would detect and report on red flags for these activities. These are articulated in the Board-approved Money Laundering and Terrorist Financing Prevention Program Manual (MTPP) which requires mandatory compliance from front liners and Bank officers.

BDO has also adopted the following pillars in its Anti-Money Laundering (AML), Counter-Terrorist Financing (CTF) and Combating Proliferation Financing (CPF) initiatives:

- **Know Your Client (KYC).** Acquiring the necessary information and performing validation to establish the identity of the client, including beneficial owners, are part of the core processes in the Bank's efforts to prevent money laundering, and terrorist and proliferation financing. Policies, procedures and tools are in place to screen new and existing clients and transactions. For product-specific transactions such as trade, KYC and screening extend to counterparties, vessels, ports, routes, and commodities, standards for establishing and maintaining business relationships are explicit and defined.
- **Know Your Employee (KYE).** Managing attendant AML, CTF, and CPF risks; safeguarding assets; and the protection of stakeholders are among the primary considerations in maintaining a strong and responsible workforce. Recruitment and screening standards cover physical, mental, social, and moral aptitude in order to strictly adhere to the fit and proper rule for bank personnel as prescribed by relevant regulations. To implement the KYE process, there is continuing monitoring of employees' lifestyle, behavior and compliance with the Bank's code of conduct. Employees are required to uphold professionalism and integrity in all their dealings at all times and they are encouraged to report any form of adverse behavior or practice as espoused in the Bank's Corporate Governance Manual on whistle-blowing and anti-bribery and corruption.
- **Ongoing Monitoring and Independent Checking.** Product and transaction owners perform and actively monitor changes in profile, behavior, and transaction patterns of their customers through cyclical due diligence, daily and periodic monitoring reports, on-site visits, sales calls, and other means to secure updated information.

Designated Unit Compliance Coordinators (UCCs) for branches and business units check compliance with the AML Program of the Bank on a monthly basis. Moreover, the Bank's AML Department under the Compliance Group conducts year round Independent Compliance Testing (ICT) based on risk-based AML roadmap that is approved by the Bank's Board Audit Committee.

The Bank also employs an enterprise-wide AML monitoring system which generates alerts based on pre-defined scenarios and specific parameters. Alert scenarios were configured to flag accounts and transactions that may be suspiciously connected with sanctioned and designated lists. These alert scenarios are subject to annual review and assessment.

The Risk Classification Process (RCP) is a module under the AML system that runs risk classifiers on transactional behavior across the institution's customer database. The RCP automates the process of integrating the onboarding or prior risk classification of a client and the actual transactional behavior. The RCP process supports an updated and current customer risk profile.

For AML System and funds flow monitoring, an interim tool enables monitoring of customers' activities on an aggregate basis and equips the AML investigators to pull information on all accounts and transactions of particular customers and their related accounts.

- **Regulatory Reporting.** The Bank adheres to all the prescribed regulatory reporting requirements including Covered and Suspicious Transactions (CTRs and STRs). The Bank's AML system facilitates the reporting of CTRs and STRs, while a Robotics Process Automation (RPA) assists in the reporting procedures. CTRs are transactions above P500,000 in value, while STRs are transactions with suspicious indicators. STRs are reportable regardless of amount and these include attempted transactions.
- **Record Retention.** BDO strictly upholds the confidentiality and integrity of Bank records and adheres to AML rules and regulations on record management. Records are either retained for a minimum of five (5) years or in perpetuity.
- **Training.** AML, CTF, and CPF awareness initiatives and trainings are integral in the organization's compliance culture that promotes proficient management of money laundering risks. Regulatory advisories and AML bulletins are regularly cascaded to employees to promote familiarity and knowledge of regulations and emerging AML risks, typologies and crimes. All new employees are required to take mandatory AML, CTF, and CPF basic e-learning courses prior to deployment while existing personnel undergo regular AML e-learning modules, refresher courses, and classroom and virtual trainings conducted by the AML Department. Key personnel for the effective implementation of the Bank's AML program subscribe to external trainings conducted by regulators, industry specialists and global AML experts.

## Stakeholder Communication 102-43

BDO implemented a comprehensive communication plan on the Bank's sustainability initiatives to generate wider awareness and understanding of how the Bank helps fuel the economy, protect the environment, and contribute towards positive social impact in the country.

Key themes for sustainability stories focused on the following:

- Support to micro, small and medium enterprises (MSMEs)
- Accreditation of the Bank's Sustainable Finance Framework by Sustainalytics, for future bond issuances
- Sustainable Finance projects
- Asia's Top Sustainability Advocate award
- Sustainability Bond issuance



The Bank's Corporate Communications team shared stories with traditional media (including national broadsheets, tabloids, and provincial publications), online news sites, as well as bloggers with targeted market segments as their followers. The stories were also widely shared on BDO's own social media accounts on LinkedIn and Facebook and select bloggers.

Throughout the year, the Sustainability Office also actively represented BDO in several virtual forums and webinars to share the plan on the Bank's sustainability initiatives as disclosed in the 2020 Sustainability Report. Among these were the HSBC Sustainability Summit on banks and achieving net zero; BusinessWorld Insights' Forum on how ESG criteria guides leading companies; the Nordic Embassies Forum on gender equality in the workplace; and the 5th Asia Sustainability Reporting Summit on corporate governance and sustainability.

## Looking Ahead

The Bank is now in the era of digital transformation and we continue to look at ways to optimize the use of the new technologies to strengthen our corporate governance practices while remaining vigilant on 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. This is essential going forward 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. BDO continues to be mindful of these and creating a positive impact on sustainability as it continues to report annually on its sustainability performance and contribution to the UN Sustainable Development Goals.

# GRI Content Index



**MATERIALITY  
DISCLOSURES SERVICE**

**2022**

For the Materiality Disclosures Service, GRI Services reviewed that the GRI content index is clearly presented and the references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report.

GRI Standard	Disclosure	Page Number(s), Direct Answer and/or URLs	Reason for Omission
<b>GRI 101: Foundation 2016</b>			
<b>General Disclosures</b>			
<b>GRI 102: General Disclosures 2016</b>	<b>Organizational Profile</b>		
	102-1	Name of the organization	2, 4
	102-2	Activities, brands, products, and services	4-5, 8-9, 20-31, 32-53, 65-69
	102-3	Location of headquarters	91
	102-4	Location of operations	4
	102-5	Ownership and legal form	4
	102-6	Markets served	4, 22-23, 27, 29-30, 32, 45, 57
	102-7	Scale of the organization	4, 8-9
	102-8	Information on employees and other workers	56-64
	102-9	Supply chain	81
	102-10	Significant changes to the organization and its supply chain	None to report
	102-11	Precautionary principle or approach	8-9, 32-53
	102-12	External initiatives	8-9, 53-54
	102-13	Membership in associations	89
	102-22	Composition of the highest governance body and its committees	71-77
	102-23	Chair of the highest governance body	75
	<b>Strategy</b>		
	102-14	Statement from senior decision-maker	6-7
	<b>Ethics and Integrity</b>		
	102-16	Values, principles, standards, and norms of behavior	5, 57-59, 79-83
	<b>Governance</b>		
	102-18	Governance structure	14-15, 69-83
	<b>Stakeholder Engagement</b>		
	102-40	List of stakeholder groups	18
	102-41	Collective bargaining agreements	56, 60
	102-42	Identifying and selecting stakeholders	18
	102-43	Approach to stakeholder engagement	17-18, 62, 83
	102-44	Key topics and concerns raised	16-18

GRI Standard	Disclosure	Page Number(s), Direct Answer and/or URLs	Reason for Omission
<b>Reporting Practice</b>			
	102-45 Entities included in the consolidated financial statements	BDO Unibank, Inc. (parent) and Subsidiaries	
	102-46 Defining report content and topic boundaries	15-17	
	102-47 List of material topics	16	
	102-48 Restatements of information	None	
	102-49 Changes in reporting	None	
	102-50 Reporting period	January to December 2021	
	102-51 Date of most recent report	2020 (published in 2021)	
	102-52 Reporting cycle	Annual	
	102-53 Contact point for questions regarding the report	91	
	102-54 Claims of reporting in accordance with the GRI Standards	Inside front cover	
	102-55 GRI Content Index	85-88	
	102-56 External assurance	No external assurance	

## Material Topics

GRI Standard	Disclosure	Page Number(s), Direct Answer and/or URLs	Reason for Omission
<b>Economic Performance</b>			
<b>GRI 103: Management Approach 2016</b>	103-1 Explanation of the material topic and its boundary	16	
	103-2 The management approach and its components	10-18, 32-33	
	103-3 Evaluation of the management approach	14-15, 33	
<b>GRI 201: Economic Performance 2016</b>	201-1 Direct economic value generated and distributed	33	
<b>Indirect Economic Impacts</b>			
<b>GRI 103: Management Approach 2016</b>	103-1 Explanation of the material topic and its boundary	16	
	103-2 The management approach and its components	12-18	
	103-3 Evaluation of the management approach	14-15, 20-21	
<b>GRI 203: Indirect Economic Impacts 2016</b>	203-1 Infrastructure investments and services supported	32-33, 38-44	
	203-2 Significant indirect economic impacts	20-31, 46, 51-54, 56-57, 65-69	



GRI Standard	Disclosure		Page Number(s), Direct Answer and/or URLs	Reason for Omission
Energy				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	16	
	103-2	The management approach and its components	10-18	
	103-3	Evaluation of the management approach	16-17	
GRI 302: Energy 2016	302-1	Energy consumption within the organization	46	
Water				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	16	
	103-2	The management approach and its components	10-18	
	103-3	Evaluation of the management approach	16-17	
GRI 303: Water and Effluents 2018	303-3	Water withdrawal	46	
Emissions				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	16	
	103-2	The management approach and its components	10-18	
	103-3	Evaluation of the management approach	16-17	
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	46	
	305-2	Energy indirect (Scope 2) GHG emissions	46	
Employment				
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its boundary	16	
	103-2	The management approach and its components	10-18, 55-61	
	103-3	Evaluation of the management approach	55-61	
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	56	

GRI Standard	Disclosure	Page Number(s), Direct Answer and/or URLs	Reason for Omission
<b>Training and Education</b>			
<b>GRI 103: Management Approach 2016</b>	103-1	Explanation of the material topic and its boundary	16
	103-2	The management approach and its components	10-18
	103-3	Evaluation of the management approach	60-61
<b>GRI 404: Training and Education 2016</b>	404-1	Average hours of training per year per employee	56-57
	404-2	Programs for upgrading employee skills and transition assistance programs	60-61
<b>Local Communities</b>			
<b>GRI 103: Management Approach 2016</b>	103-1	Explanation of the material topic and its boundary	16
	103-2	The management approach and its components	10-18
	103-3	Evaluation of the management approach	65-69
<b>GRI 413: Local Communities 2016</b>	413-1	Operations with local community engagement, impact assessments, and development programs	29-31, 49-53, 65-69

## Sector Disclosures: Financial Services

	Disclosure	Page Number(s), Direct Answer and/or URLs	Reason for Omission
<b>Product Responsibility</b>			
<b>Product Portfolio</b>	DMA	Disclosure of management approach	10-18
	FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	20-31, 38-45
	FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	38-45
<b>Active Ownership</b>	DMA	Disclosure of management approach	10-18
	FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues	37, 38-45, 49-54, 66-69

---

# Memberships in Associations

ACI Philippines the Financial Markets Association Inc.

Association of Bank Compliance Officers, Inc.

Association of Bank Remittance Officers, Inc.

Association of Philippine Correspondent Bank Officers, Inc.

Australian-New Zealand Chamber of Commerce Philippines, Inc.

Bank Marketing Association of the Philippines

Bank Security Management Association of the Philippines Incorporated

Bankers Association of the Philippines

Bankers Institute of the Philippines, Inc.

British Chamber of Commerce of the Philippines, Inc.

Clearing Officers Club, Inc.

Credit Card Association of the Philippines, Inc.

Dutch Chamber of Commerce in the Philippines, Inc.

Employers Confederation of the Philippines

Financial Executives Institute of the Philippines

French Chamber of Commerce in the Philippines - Le Club Inc.

Fund Managers Association of the Philippines, Inc. (FMAP)

German-Philippine Chamber of Commerce & Industry Inc.

Healthcare Information Management Association of the Philippines, Inc.

Information Systems Audit and Control Association, Inc. (ISACA)

Institute of Internal Auditors Philippines, Inc.

Israel Chamber of Commerce of the Philippines, Inc.

IT & Business Process Association of the Philippines, Inc.

Italian Chamber of Commerce in the Philippines, Inc.

Japanese Chamber of Commerce and Industry of Cebu, Inc.

Korean Chamber of Commerce Philippines (KCCP), Inc.

Makati Business Club, Inc.

Management Association of the Philippines

Money Market Association of the Philippines, Inc. (MART)

National Association of Securities Broker Salesmen, Inc.

Nordic Chamber of Commerce of the Philippines, Inc.

People Management Association of the Philippines, Inc.

Phil. Association of National Advertisers, Inc.

Philippine Payments Management, Inc.

Singapore Philippines Association Inc.

Spanish Chamber of Commerce in the Philippines

The American Chamber of Commerce of the Philippines, Inc. (AMCHAM Philippines)

The Canadian Chamber of Commerce of the Philippines, Inc.

The Japanese Association Manila Inc.

The Japanese Chamber of Commerce and Industry of the Philippines, Inc.

The Philippines-Japan Society, Inc.

Trust Officers Association of the Philippines, Inc.



---

# Sustainability and ESG Awards and Recognition

## **Platinum Award**

(2010–2021)

*The Asset ESG Corporate Awards 2021*

## **BDO Unibank: The Best of Asia awardee**

(2005–2019, 2021)

*Corporate Governance Asia*

*16th Asian ESG Award 2021*

## **BDO Unibank, Asian Excellence awardee**

(2011–2021)

## **Best Investor Relations Company (Philippines) awardee**

(2011–2021)

## **Best Corporate Communications awardee**

(2014–2015, 2017–2021)

## **Asia's Best CSR awardee**

(2020–2021)

*Corporate Governance Asia*

*11th Asian Excellence Award 2021*

## **3G Championship Award in Transparency**

## **3G Championship Award in Service Excellence**

## **3G Excellence Award in Education & Literacy Programme**

*Global Good Governance Awards 2021*

## **Top Sustainability Advocates in Asia**

*Asia Corporate Excellence & Sustainability Awards (ACES) 2021*

## **Best Local Currency Green Bond (Philippines)**

(Energy Development Corporation PHP5 billion dual-tranche Asean green bond; BDO Capital & Investment Corporation as issue manager, lead underwriter and bookrunner)

*The Asset Triple A Country Awards 2021*

## **Water Deal of the Year**

(Wawa JVCo PHP20 billion Term Loan Facility, BDO Unibank as lender and BDO Capital & Investment Corporation as lead arranger and sole bookrunner)

*The Asset Triple A Infrastructure Awards 2021*

## **BDO Foundation: COVID Management Initiative of the Year – Philippines**

*Asian Banking & Finance*

*Retail Banking Awards 2021*

## **BDO Foundation, Inc. for COVID-19 Pooled Testing and Other Initiatives for Underserved Sectors of Society (Category: Health Promotion)**

*Enterprise Asia's Asia Responsible Enterprise Awards (AREA) 2021*

## **Women in the Workforce**

**Rank #1 in Asian Banks and in the Philippines: Women as percentage of total staff**

**Rank #4 in Asian Banks and #3 in the Philippines: Percentage of women VPs**

**Rank #1 in the Philippines: Percentage of recent graduate hires that are women**

*Asiamoney Leaders for Women Survey 2021*



The 2021 Sustainability Report can be viewed and downloaded online at [www.bdo.com.ph/company-disclosures/sustainability-report](http://www.bdo.com.ph/company-disclosures/sustainability-report).

The 2021 Annual Report and the Financial Supplements can be viewed and downloaded online at [www.bdo.com.ph/company-disclosures/annual-reports](http://www.bdo.com.ph/company-disclosures/annual-reports).

BDO Unibank is regulated by the Bangko Sentral ng Pilipinas with contact number +63 (2) 8708-7087, email address [consumeraffairs@bsp.gov.ph](mailto:consumeraffairs@bsp.gov.ph), and webchat at [www.bsp.gov.ph](http://www.bsp.gov.ph).

For concerns, please visit any BDO branch nearest you, or contact us through our 24x7 hotline +63 (2) 8631-8000 or email us via [callcenter@bdo.com.ph](mailto:callcenter@bdo.com.ph).

## Contact Information

### COMPANY HEADQUARTERS

#### **BDO Unibank, Inc.**

BDO Corporate Center  
7899 Makati Avenue  
Makati City 0726  
Philippines  
Telephone: +63 (2) 8840-7000  
Company website: [www.bdo.com.ph](http://www.bdo.com.ph)

### INVESTOR AND SUSTAINABILITY INQUIRIES

BDO Unibank, Inc. welcomes inquiries from analysts, investors, and the financial community.

#### **BDO Investor Relations and Planning**

31/F BDO Towers Valero  
8741 Paseo de Roxas Avenue  
Salcedo Village  
Makati City 1226  
Philippines  
Telephone: +63 (2) 8840-7000  
locals 36069, 34809, 33581  
Email: [irandcorplan@bdo.com.ph](mailto:irandcorplan@bdo.com.ph)

#### **BDO Sustainable Finance**

10/F BDO Towers Valero  
8741 Paseo de Roxas Avenue  
Salcedo Village  
Makati City 1226  
Philippines  
Telephone: +63 (2) 8840-7000  
locals 37170, 34568, 34567, 45406  
Email: [bdo-sf@bdo.com.ph](mailto:bdo-sf@bdo.com.ph)

#### **BDO Sustainability Office**

35/F BDO Corporate Center Ortigas  
12 ADB Avenue  
Ortigas Center  
Mandaluyong City 1554  
Philippines  
Telephone: +63 (2) 8688-1288 local 34803  
Email: [sustainability@bdo.com.ph](mailto:sustainability@bdo.com.ph)





COVER SHEET

						0	9	7	8	6	9
--	--	--	--	--	--	---	---	---	---	---	---

S.E.C. Registration Number

B	D	O		L	E	A	S	I	N	G		A	N	D		F	I	N	A	N	C	E		I	N	C			
---	---	---	--	---	---	---	---	---	---	---	--	---	---	---	--	---	---	---	---	---	---	---	--	---	---	---	--	--	--

(Company's Full Name)

B	D	O			C	O	R	P	O	R	A	T	E		C	E	N	T	E	R		O	R	T	I	G	A	S		
---	---	---	--	--	---	---	---	---	---	---	---	---	---	--	---	---	---	---	---	---	--	---	---	---	---	---	---	---	--	--

N	O	.	1	2		A	D	B	A	V	E	N	U	E	O	R	T	I	G	A	S	C	E	N	T	E	R		
---	---	---	---	---	--	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	--	--

M	A	N	D	A	L	U	Y	O	N	G		C	I	T	Y		P	H	I	L	I	P	P	I	N	E	S		
---	---	---	---	---	---	---	---	---	---	---	--	---	---	---	---	--	---	---	---	---	---	---	---	---	---	---	---	--	--

(Business address: No. Street City / Town / Province)

ROBERTO E. LAPID
------------------

Contact Person

(632) 8688-1288
-----------------

Company Telephone Number

1	2
---	---

Month

3	1
---	---

Day

Fiscal Year

REVISED MANUAL ON CORPORATE GOVERNANCE
--

FORM TYPE

Any day in April
------------------

Annual Meeting

N/A
-----

Secondary License Type, If Applicable

--	--	--	--

Dept. Requiring this Doc.

--

Amended Articles Number/Section

--

Total No. of Stockholders

--

Domestic

--

Foreign

To be accomplished by SEC Personnel concerned

--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--

LCU

CASHIER

STAMPS
--------

Remarks: Please use BLACK ink for scanning purposes.

**01 March 2021**

**SECURITIES AND EXCHANGE COMMISSION**

Corporate Governance and Finance Department  
G/F Secretariat Building, PICC Complex,  
Roxas Blvd., Pasay City

Attention: **Atty. RACHEL ESTHER J. GUMTANG-REMALANTE**  
Director, Corporate Governance and Finance Department

Dear Atty. Gumtang-Remalante:

We respectfully submit herewith the Revised Manual on Corporate Governance of BDO Leasing and Finance, Inc. (BDOLF) duly signed by BDOLF's Chairperson and Compliance Officer. The Revised Manual on Corporate Governance was approved by BDOLF's Board of Directors on March 01, 2021.

We trust that you will find the foregoing satisfactory.

Sincerely,

**BDO Leasing and Finance, Inc.**

By:

  
**Angelita C. Tad-y**  
Compliance Officer



## **Revised Manual on Corporate Governance**



# **BDO LEASING AND FINANCE INC. CORPORATE GOVERNANCE MANUAL**

## **INTRODUCTION**

As a publicly listed company, BDO Leasing and Finance, Inc. (BDOLF) believes that the key to long-term sustainability and success largely depends on having a good name and solid reputation in the market place. Thus, the business and operations of the Company will be conducted in accordance with the principles and best practices of good corporate governance.

BDOLF's corporate governance practices are anchored on our core values which guide us in our decisions, interactions and relationships with our shareholders and other stakeholders. These are as follows:

- **Commitment to Customers**  
We are committed to delivering products and services that surpass customer expectations in value and every aspect of customer services, while remaining prudent and trustworthy stewards of their wealth.
- **Commitment to a Dynamic and Efficient Organization**  
We are committed to creating an organization that is flexible, responds to change, and encourages innovation and creativity. We are committed to the process of continuous improvement in everything we do.
- **Commitment to Employees**  
We are committed to our employees' growth and development and we will nurture them in an environment where excellence, integrity, teamwork, professionalism, and performance are valued above all else.
- **Commitment to Shareholders**  
We are committed to providing our shareholders with superior returns over the long term.

The essential points of reference of this Manual are the principles enunciated in the SEC Code of Corporate Governance (CCG) for Publicly-Listed Companies and the latest Enhanced Corporate Governance Guidelines for the Bangko Sentral ng Pilipinas<sup>1</sup> - Supervised Financial Institutions under BSP Circular 969.

Through this manual, the Board aims to promote adherence, further strengthen the Group's commitment to good corporate governance, and align our corporate governance system with the international practice taking into account the continuous developments in national regulations.

The Board of Directors, management and staff hereby acknowledge that this Manual will be their guide to principled actions and responsible conduct in fulfilling their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which the Company operates. The Manual, in conjunction with the Company's Articles of Incorporation, By-Laws and the Terms of Reference of the respective Board Committees, constitutes the governance framework of the Company.

---

<sup>1</sup> SEC Memorandum Circular No. 19 based on the observance of the "comply or explain" principle aiming to illustrate clearly the way in which BDO incorporates the recommendations of the Code. When a particular recommendation is not complied with, the underlying circumstances are explained so that shareholders and other stakeholders would understand the stance of the Company and provisions of BSP Circular 747, 749, 757 and 871. The following sections of the Manual detail our compliance with the principles and recommendations of the Code and mandates of the BSP including our specific stance on recommendations that the Company would not be able to adopt at this time.

---

## SECTION 1. THE BOARD'S GOVERNANCE RESPONSIBILITIES

---

### BOARD GOVERNANCE FRAMEWORK

#### Board of Directors

1. **Mix.** The Board shall be composed of qualified directors with an appropriate mix of competence, expertise and diverse skills to enable it to perform its roles and responsibilities effectively. The stockholders of the Company shall elect the members of the Board during the annual meeting. (Recommendation 1.1, SEC CCG)
2. **Composition.** The Board of Directors of the Company shall have eleven (11) members composed of executive and non-executive directors, the latter including independent directors. The non- executive directors shall constitute at least majority of the Board to promote the independent oversight of management by the board of directors, and who shall be owners of at least (1) share of the common stock of the Company complemented and aided by one (1) adviser. (Recommendation 1.2, SEC CCG)
3. **Director Orientation and Continuing Education.** All new directors joining the Board, except those specifically exempted under BSP Circular 969, are required to undergo an orientation program within 3 months from date of election or appointment. This is intended to familiarize the new directors on their statutory/fiduciary roles and responsibilities in the Board and Committees, the Company's strategic plans, enterprise risks, group structures, business activities, compliance programs, Code of Conduct and Business Ethics, Personal Trading Policy and Corporate Governance Manual. All directors are also encouraged to participate in continuing education programs at the Company's expense to maintain a current and effective Board. The orientation program for first time directors shall be for at least 8 hours, while the annual continuing training shall be at least for 4 hours. The training programs should cover topics relevant in carrying out their duties and responsibilities as directors. All members of the Board of Directors are required to attend the annual corporate governance training. (Recommendation 1.3, SEC CCG)
4. **Board Diversity.** The Company recognizes that diversity among its directors will foster critical discussion and promote balanced decision by the Board by utilizing the differences in perspectives of its directors. It views diversity at the Board level which includes difference in skills, experience, gender, sexual orientation, age, religion, education, race, business and other related expertise as an essential element in maintaining an effective board for strong corporate governance.

The Board as a whole should possess all of the necessary skills, experience and functional expertise to oversee the strategic direction of the Company. In determining the optimum composition of the Board and in filling vacancies, the Nominations Committee will consider all aspects of diversity in order to maintain an appropriate balance of skills, background, experience, and knowledge on the Board.

The Company also recognizes the important role of women with appropriate and relevant skills and experience that can contribute to the diversity of perspectives in the Board.

The diversity representation of the Board will be part of the annual performance and effectiveness evaluation of the board and committees. The Corporate Governance Committee will include this in its report to the Board of the final results of the annual performance evaluation. (Recommendation 1.4, SEC CCG)

5. **Independent Officers.** In performing its duties, the Board shall be assisted by a Corporate Secretary and a separate Compliance Officer with a rank of Vice President who are not members of the Board. They should attend annually a training on corporate governance. Members of the board of directors shall not be appointed as Corporate Secretary or Compliance Officer.

**Corporate Secretary.** The Corporate Secretary is an officer of the Company and shall be a Filipino citizen. He shall work and deal fairly and objectively with all the constituencies of the Company, namely, the Board, management, stockholders and other stakeholders. He must have the legal skills of a chief legal officer, if he is not the general counsel. He should also have adequate administrative skills and the interpersonal skills of a human resources officer. He should also possess adequate knowledge and work experience in the operations of leasing and financing business. The duties and responsibilities of the Corporate Secretary shall be the following:

- Assists the Board and the Board committees in the conduct of their meetings, including preparing annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its committees to set agendas for those meetings;
- Safe keeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the Company;
- Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the corporation, and advises the Board and the Chairman on all relevant issues as they arise;
- Works fairly and objectively with the Board, management and stockholders and contributes to the flow of information between the Board and management, the Board and its committees and the Board and its stakeholders, including shareholders;
- Advises on the establishment of board committees and their terms of reference;
- Informs members of the Board, in accordance with the by-laws, of the agenda of their meetings at least five working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
- Performs required administrative functions;
- Keeps custody of the Stock Certificate Book, Stock and Transfer Book, the Corporate Seal, and other records, papers and documents of the Company;
- Prepares ballots for the annual election of directors, and keep a complete and up-to-date roll of the stockholders and their addresses;
- Submits to the Securities and Exchange Commission at the end of the Company's fiscal year an annual certification on the attendance of the directors during the Board meetings
- Oversees the drafting of the by-laws or its amendments and ensures that they conform with regulatory requirements; and
- Performs such other duties and responsibilities as maybe provided by the SEC. (Recommendation 1.5, SEC CCG)
- Ensure that suitable equipment and facilities for an efficient and secure conduct of meeting by remote communication and the visual and audio recordings are properly safekept/stored (SEC Memorandum Circular No. 6, Series of 2020)



**Compliance Officer.** Company's Compliance Officer (CO) shall be appointed by the Board of Directors and shall be subject to the confirmation by the SES Committee of the BSP. The CO of the Company shall report functionally to the Audit Committee, and administratively to the Office of the President.

The Compliance Officer shall have commensurate skills and expertise to provide appropriate guidance and direction to the Company on the development, implementation and maintenance of the compliance program.

The role of the Compliance Officer includes the following:

- Ensures proper onboarding of new directors;
- Monitors, reviews, evaluates and ensures the compliance by the Company, its officers and directors with the relevant laws, the SEC Code, rules and regulations and all governance issuance of regulatory agencies thru the implementation of the Company's compliance system and program in accordance with the requirements of the BSP, including but not limited to the identification and control of compliance risks, prudential reporting obligations as well as compliance training;
- Reports the matter to Senior Management and the Board if violations are found and recommends the imposition of appropriate disciplinary action;
- Ensures the integrity and accuracy of all documentary submission to regulators;
- Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
- Identifies possible areas of compliance issues and works towards the resolution of the same;
- Ensures the attendance of board members and key officers to relevant trainings;
- Tracks and evaluates all new regulations or amendments to existing regulatory issuances and disseminates these immediately to the implementing units for their information and action.
- Initiates requests for policy pronouncements or revisions to ensure new regulations are made part of the Company's policies and procedures.
- Provides guidance, advisories and training to employees on significant laws and regulations.
- Liaises with the regulatory authorities (i.e. BSP and SEC) and to appear before these bodies upon summons to clarify matters related to the compliance system as well as compliance with the provisions and requirements of the SEC's Revised Code of Corporate Governance as well as the Company's Corporate Governance Manual.
- Performs such other duties and responsibilities as may be provided by the SEC. (Recommendation 1.6, SEC CCG)

---

## **SECTION 2. ESTABLISHING CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD**

---

### **DUTIES, FUNCTIONS & RESPONSIBILITIES OF THE BOARD**

**Fiduciary Duty.** The Board acts on behalf of the Company and as such, it is vested with the fiduciary duties of loyalty and care for which Board members should act on a fully informed basis, in good faith, with due diligence, and in the best interest of the Company and all shareholders. (Recommendation 2.1, SEC CCG)

**Key Functions.** The Board shall fulfill certain functions, including the following:

- Review and guide corporate strategy, risk management policies and procedures, annual budgets and business plans, and monitor their implementation;
- Set financial objectives, monitor implementation and corporate performance; and
- Approve the issuance of capital stocks, distribution of dividends, strategic plans, major capital expenditures, acquisitions, equity investments, fixed assets, mergers, joint ventures, divestments, and significant related party transactions. (Recommendation 2.2, SEC CCG)

For the roles and responsibilities of the Chairperson in Recommendation 2.3, please refer to Section 5.

**Responsibilities.** The Board is collectively responsible for the sustainable long-term shareholder value of the institution, sustain its competitiveness, profitability and industry leading position in a manner consistent with its corporate objectives.

It leads in establishing the tone and practices of good corporate governance at the top. It sets the Group's corporate values and high ethical standards of business conduct for itself and all members of the Group. Through its oversight, monitoring and review functions, the Board ensures that the Group is being run in a sound and prudent manner on a going concern basis in order to fulfill its obligations to all majority and minority shareholders while upholding and protecting the interests of different constituencies. To this end, the Board exercises the following responsibilities:

1. **Management Succession Planning.** The Board, in coordination with the Corporate Governance Committee, shall ensure that the Company has in place an appropriate and updated succession planning for key executives to address emergency in the event of extraordinary circumstances and ensure continuity of operations. (Recommendation 2.4, SEC CCG)

On the retirement age of directors, however, the Board recognizes the fact that chronological age is not the main factor in determining effectiveness of the director in discharging its duties and responsibilities. Rather, the Board will lose valuable wisdom from the senior directors. By law, once directors are elected by shareholders, they could not be removed because of age. Hence, the Board decided to hold in abeyance the implementation of the retirement age policy for directors.

2. **Remuneration and Other Incentives of Directors and Senior Management.** The levels of remuneration of the Company shall be sufficient to attract and retain experienced and professional directors and officers needed to run the Company successfully. The board of directors shall approve a remuneration and other incentives policy that is appropriate and consistent with the Company's operating and risk culture, long-term business and risk appetite, performance, and control environment. Said policy shall cover all employees and should be designed to encourage good performance that supports the long-term interest of the Company and its stakeholders. It shall be aligned with prudent risk taking and explicitly discourage excessive risk taking as defined by internal policies. The BDO Unibank's Compensation Committee shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes, at least annually, to ensure that it operates and achieves the objectives as intended.

The Company shall consider the following in the design of the remuneration and other incentives policy:

- a. The remuneration and incentives package shall take into account the employee's position, role, responsibilities and activities in the Company. It shall also consider the risks that the employee takes on behalf of the Company. In this regard, it should be sensitive to prospective risks and risk outcomes that have been realized and considers the overall performance of the Company.

b. Remuneration and incentive pay-out schedule should be sensitive to the time-horizon of risk. The policy may include provisions that defer payment until risk outcomes are better known or provisions under which remuneration and incentives may be reduced or reversed if new facts emerge showing that the remuneration and incentives paid was based on erroneous assumptions, such as misreporting or if it is discovered that the employee has failed to comply with internal policies or legal requirements.

c. Remuneration of employees in risk control functions (i.e., Internal Audit, Compliance, and Risk Management Functions) shall be based on the achievement of their objectives and shall be independent of the business lines which they oversee.

d. The remuneration and other incentives policy for directors should be consistent with the long-term interest of the Company, does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities. It shall be submitted for approval of the stockholders.

The Company's annual reports and information statements shall include a clear, concise and understandable disclosure of all plan and non-plan compensation awarded to, earned by, paid to, or estimated to be paid to, directly or indirectly to all individuals serving as the CEO or acting in a similar capacity during the last completed fiscal year, and the Company's four (4) most highly compensated executive officers other than the CEO who were serving as executive officers at the end of the last completed year. (Recommendation 2.5, SEC CCG)

- 3. Selection, Nomination and Election of Board Members.** The Nominations Committee is tasked to undertake the process of identifying the qualifications of directors aligned with the company's strategic direction. In evaluating the suitability of individual board member and promoting diversity in the composition of the Board, the Nominations Committee should take into account the relevant qualifications of every candidate nominated for election such as among others, physical/mental fitness, relevant educational and professional background, personal track record, experience/training, commitment to contribute, willingness to serve and interest to remain engaged and involved without undue prejudice to race, gender, ethnic origin, religion, age or sexual orientation. At least one of the non-executive directors should have prior working experience in the financial industry or a relevant business group. For the reelection of incumbent directors, the Nominations Committee should also consider the results of the most recent self-assessment of the Board and peer evaluation, director's attendance record in meetings, participation in Board activities and overall contribution to the functioning of the Board. A former partner or employee of the Company's current external auditing firm will not be qualified for nomination as member of the Board. The Nominations Committee will use to the extent possible, external search firm or external data bases in selecting the pool of candidates for the members of the Board. Any stockholder, whether majority or minority has the right to nominate candidates for seats in the Board of Directors who possess all the qualifications and none of the disqualifications of Directors as prescribed in the Company's By-Laws and the rules of BSP and SEC. Election/appointment of directors shall be subject to the confirmation by the Monetary Board. The process of nominating a person to the directorship position during the Annual Stockholders' Meeting is discussed in the Information Statement (SEC Form 20-IS) filed and disclosed to the Securities and Exchange Commission and sent to the shareholders and/or posted on the website and the Philippine Stock Exchange The registration process to participate and vote during the Annual Stockholders' Meeting is provided in the Notice of Annual Stockholders' Meeting. Any succeeding resignation, retirement, or replacement of directors shall be reported to the appropriate department of the SES with twenty (20) banking days after such resignation/retirement/replacement.



Qualifications and Disqualifications of Directors. The qualifications and disqualifications, whether permanent or temporary, of directors are enumerated in **ANNEX A** hereof.

Aside from the qualifications required by relevant regulations, a director must:

- a. Have a practical understanding of the business of the Company; and,
- b. As applicable, be a member of good standing in the relevant industry, business, or professional organizations.

#### **4. Related Party Transactions**

The Company has established policies and procedures on related party transactions. These include definition of related parties, coverage of RPT policy, guidelines in ensuring arm's-length terms, identification and prevention or management potential or actual conflicts of interest which arise, adoption of materiality thresholds, internal limits for individual and aggregate exposures, whistle-blowing mechanisms, and restitution of losses and other remedies for abusive RPTs. The RPT Committee reviews and endorses to the Board for final approval all material RPTs.

Related party transactions, whose value may exceed 10% of the Company's total assets, require review of an external independent party to evaluate the fairness of its terms and conditions and approval of 2/3 vote of the Board, with at least a majority of the independent directors voting affirmatively. (SEC Memorandum Circular No. 4, Series of 2019)

The Related Party Transactions policy applies to BDOLF and its subsidiary as applicable and intended to ensure that every related party transaction is conducted in a manner that will protect the Company from conflict of interest which may arise between the Company and its Related Parties; and proper review, approval, ratification and disclosure of transactions between the Company and any of its related party/ies as required in compliance with legal and regulatory requirements. The policy also requires that any member of the RPT Committee who has a potential interest in any related party transaction shall abstain from the discussion and endorsement of the related party transaction and any member of the Board who has an interest in the transaction must abstain from the deliberation and approval of any related party transaction.

Please refer to **ANNEX B** for the Revised Related Party Transactions Policy. (Recommendation 2.7, 5.6 and 8.5, SEC CCG)

#### **5. Selection of Executive Management Team and Annual Performance Evaluation**

It is the responsibility of the Board to approve the selection and appointment of a competent executive management led by the President/CEO including the heads of control functions i.e. Compliance Officer, Chief Risk Officer and Chief Internal Auditor. Fit and proper standards must be applied in the selection process of key officers and due consideration must be given to their integrity, technical expertise and banking industry experience. The Board, through the Corporate Governance Committee, shall undertake the evaluation of the Executive Management team performance including the President/CEO based on established performance management framework and standards that are consistent with the Company's strategic objectives. (Recommendation 2.8 and 2.9, SEC CCG)

Qualifications and Disqualifications of Officers. The qualifications and disqualifications, whether permanent or temporary, of officers are enumerated in **ANNEX A** hereof.

Persons Disqualified to Become Officers (BSP MORB Section 138)

- a. The spouses or relatives within the second degree of consanguinity or affinity holding officership positions across the following functional categories within a Company:
  - i. Decision making and senior management function, e.g. President, Chief Executive Officer (CEO), Chief Operating Officer (COO), General Manager, and Chief Financial Officer (CFO);
  - ii. Treasury function, e.g., treasurer or treasury head;
  - iii. Recordkeeping and financial reporting functions, e.g , controller and chief accountant
  - iv. Safekeeping of assets, e.g., chief cashier;
  - v. Risk management function, e.g. Chief Risk Officer;
  - vi. Compliance function, e.g. Compliance Officer; and
  - vii. Internal audit function, e.g., Chief Audit Executive.
  - viii. The spouse or a relative within the second degree of consanguinity or affinity of any person holding the position of manager, cashier, or accountant of a branch or branch-lite unit of a Company or their respective equivalent positions is prohibited from holding or being appointed to any of said positions in the same branch or branch-lite unit.
- b. Any appointive or elective official, whether full time or part time, except in cases where such service is incidental to the financial assistance provided by the government or government-owned or -controlled corporations (GOCCs) or in cases allowed under existing laws.

## **6. Internal Control and Risk Management**

It is the responsibility of the Board to oversee that a sound and effective enterprise-wide risk management framework and appropriate internal control systems are in place to manage the risks and to provide reasonable assurance against material misstatement or loss. It is also responsible to review and approve the nature and extent of the key business risks that the Company is taking in pursuing its strategic objectives and providing oversight over its risk management policies and procedures, and approving the Internal Audit Charter. (Recommendation 2.10 and 2.11, SEC CCG)

## **7. Board Charter**

The Charter of the Board of Directors (“Board Charter”) of BDO Leasing and Finance, Inc. (“BDOLF”) serves as a guide to BDOLF’s directors in the performance of their functions. It clearly states the roles, responsibilities, structure, and powers of the Board of Directors, subject to the provisions of the Corporation Code of the Philippines, BDOLF’s Articles of Incorporation and By-Laws, other applicable laws or regulations, corporate governance best practices and policies of the Board.

The Revised Corporate Governance Manual of BDOLF already incorporates in great detail the Board Charter. The Manual formally sets out and clearly specifies the roles, responsibilities, structure and powers of the Board, as well as embodies other relevant matters consistent with and in the light of the SEC Code of Corporate Governance for Publicly – Listed Companies.

The BDOLF Board of Directors acknowledges that this Manual as it incorporates the Board Charter, is their over-all guide to principled actions and responsible conduct in carrying out their fiduciary duties. (Recommendation 2.12, SEC CCG)

## **DUTIES & RESPONSIBILITIES OF THE BOARD OF DIRECTORS**

**As a BSP-regulated financial institution, the following are the specific duties and responsibilities of the Board of Directors and specific duties of the Directors as mandated in BSP Circular 969:**

### **SPECIFIC DUTIES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS**

The board of directors is primarily responsible for defining the Company's vision and mission. It has the fiduciary responsibility to the Company and all its shareholders including minority shareholders. It shall approve and oversee the implementation of strategies to achieve corporate objectives. It shall also approve and oversee the implementation of the risk governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework. It shall approve the selection of the CEO and key members of senior management and control functions and oversee their performance.

- a. The board of directors shall define the Company's corporate culture and values. It shall establish a code of conduct and ethical standards in the Company and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the board of directors shall:
  - (1) Approve a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the Company as well as the corresponding disciplinary actions and sanctions. The code of conduct shall explicitly provide that directors, officers, and all personnel are expected to conduct themselves ethically and perform their job with skill, due care, and diligence in addition to complying with laws, regulations, and company policies.
  - (2) Consistently conduct the affairs of the Company with a high degree of integrity and play a lead role in establishing the Company's corporate culture and values. The board of directors shall establish, actively promote, and communicate a culture of strong governance in the Company, through adopted policies and displayed practices. The board of directors shall ensure that the CEO and executive team champion the desired values and conduct, and that they face material consequences if there are persistent or high profile conduct and value breaches.
  - (3) Oversee the integrity, independence, and effectiveness of Company's policies and procedures for whistleblowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or the board of directors itself. It shall prevent the use of the facilities of the Company in the furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting money laundering fraud, bribery or corruption.
- b. The board of directors shall be responsible for approving Company's objectives and strategies and in overseeing management's implementation thereof. In this regard, the board of directors shall:
  - (1) Ensure that the Company has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.
  - (2) Approve the Company's strategic objectives and business plans. These shall take into account the Company's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the board of directors shall establish a system for measuring performance against plans.

- (3) Actively engage in the affairs of the Company and keep up with material changes in the Company's business and regulatory environment as well as act in a timely manner to protect the long term interests of the Company.
  - (4) Approve and oversee the implementation of policies governing major areas of the Company's operations. The board of directors shall regularly review these policies, as well as evaluate control functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues.
- c. The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel. In this regard, the board of directors shall:
- (1) Oversee selection of the CEO and other key personnel, including members of senior management and heads of control functions based on the application of fit and proper standards. Integrity, technical expertise, and experience in the Company's business, either current or planned, shall be the key considerations in the selection process. Moreover, since mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the Company.
  - (2) Approve and oversee the implementation of performance standards as well as remuneration and other incentives policy. The policy should be consistent with the long-term strategic objectives and financial soundness of the Company and should promote good performance, convey acceptable risk-taking behavior, and reinforce the Company's operating and risk culture.
  - (3) Oversee the performance of senior management and heads of control functions:
    - (a) The board of directors shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.
    - (b) The board of directors shall hold members of senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the board of directors performance expectations. These expectations shall include adherence to the Company's values, risk appetite and risk culture, under all circumstances.
    - (c) The board of directors shall regularly meet with senior management to engage in discussions, question, and critically review the reports and information provided by the latter.
    - (d) Non-executive board members shall meet regularly, other than in meetings of the audit, risk oversight, corporate governance, and related party transactions committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.
  - (4) Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the board of directors shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions.
  - (5) Ensure that personnel's expertise and knowledge remain relevant. The board of directors shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments



relevant to their areas of responsibility.

- (6) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the Company at all times, and that all transactions involving the pension fund are conducted at arm's length terms.
- d. The board of directors shall be responsible for approving and overseeing implementation of the Company's corporate governance framework. In this regard, the board of directors shall:
- (1) Define appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed:
    - (a) The board of directors shall structure itself in a way, including in terms of size and frequency of meetings, so as to promote efficiency, critical discussion of issues, and thorough review of matters. The board of directors shall meet regularly to properly discharge its functions, and likewise have discussions on values, conduct, and behaviors.
    - (b) The board of directors shall create committees to increase efficiency and allow deeper focus in specific areas. The number and nature of board level committees would depend on the size of the Company and the board of directors, the Company's complexity of operations, as well as the board of directors, long-term strategies and risk tolerance.
    - (c) The board of directors shall regularly review the structure, size and composition of the board of directors and board level committees with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation of the structure, size and composition of the board of directors and board-level committees shall be adopted which shall include, but not limited to, benchmark and peer group analysis. The results of assessment shall form part of the ongoing improvement efforts of the board of directors.
    - (d) The board of directors shall adopt policies aimed at ensuring that the members of the board of directors are able to commit to effectively discharge their responsibilities, which shall include policy on the number of directorship positions and/or other internal/external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the Company's operations.
    - (e) The board of directors shall ensure that individual members of the board of directors and the shareholders are accurately and timely informed of a comprehensive and understandable assessment of the Company's performance, financial condition, and risk exposures. All members of the board of directors shall have reasonable access to any information about the Company at all times. The board of directors shall also ensure that adequate and appropriate information flows internally and to the public.
    - (f) The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the CEO, the individual directors, and the Company itself, which may be facilitated by the corporate governance committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each board member taking into account his or her performance in the board of directors and board-level committees.
    - (g) The board of directors shall maintain appropriate records (e.g., meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The board of directors shall also ensure that independent views in meetings of the board of directors shall be given full consideration and all such meetings shall be duly minuted.

- (2) Develop a remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The board of directors shall ensure that the policy is consistent with the long-term interest of the Company, does not encourage excessive risk-taking, and is not in conflict with the directors fiduciary responsibilities.
- (3) Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.
- (4) Conduct and maintain the affairs of the Company within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound practice.
- (5) Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities. The board of directors shall ensure that the Company's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability.
- (6) Oversee the development, approve, and monitor implementation of corporate governance policies. The board of directors shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.
- (7) Approve an overarching policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged. In this regard:
  - (a) The board of directors shall approve all material RPTs, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the board of directors. All final decisions of the board of directors on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders meetings and duly reflected in the minutes of board of directors and stockholders' meetings.
  - (b) The board of directors shall delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the board of directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.
  - (c) The board of directors shall establish an effective system to:
    - (i) Determine, identify and monitor related parties and RPTs;
    - (ii) Continuously review and evaluate existing relationships between and among businesses and counterparties; and

Identify, measure, monitor and control risks arising from RPTs. The system should be able to define related parties' extent of relationship with the Company; assess situations in which a nonrelated party (with whom the Company has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulatory

supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the Bangko Sentral and audit functions for review. Any changes in the policies and procedures shall be approved by the board of directors.

- (d) The board of directors shall maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the Company is well-insulated from any going concern issue of related parties.
  - (e) The board of directors shall oversee the integrity, independence, and effectiveness of the policies and procedures for whistle blowing. The board of directors should ensure that senior management addresses legitimate issues on RPT that are raised. The board of directors should take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals.
- (8) Define an appropriate corporate governance framework for group structures, which shall facilitate effective oversight over entities in the group. The board of directors of the parent company shall ensure consistent adoption of corporate governance policies and systems across the group. In this regard:
- (a) The board of directors shall define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account nature and complexity of operations, size and the types of risks to which the Company and its subsidiaries are exposed, The board of directors shall also establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements.
  - (b) The board of directors shall define the risk appetite for the group, which shall be linked to the process of determining the adequacy of capital of the group.
  - (c) The board of directors shall ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems.
  - (d) The board of directors shall define and approve policies and clear strategies for the establishment of new structures.
  - (e) The board of directors shall understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group's capital, risk profile and funding under normal and contingent circumstances. The board of directors shall ensure that the group's corporate governance framework includes appropriate processes and controls to identify and address potential intra-group conflicts of interest, such as those arising from intra-group transactions.
  - (f) The board of directors shall develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.
  - (g) The board of directors shall require the risk management, compliance function and

internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board of directors approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board of directors.

In cases where the Company is a subsidiary/affiliate of a non-Bangko Sentral regulated parent company:

- (a) The board of directors shall define and approve policies and clear strategies for the establishment of new structures (e.g., subsidiaries/affiliate of the Company). The board of directors shall also report to the Bangko Sentral any plan to create additional group structures.
  - (b) The board of directors shall understand the roles, relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the Company's capital, risk profile and funding under normal and contingent circumstances.
- e. The board of directors shall be responsible for approving Company's risk governance framework and overseeing management's implementation thereof, In this regard, the board of directors shall:
- (1) Define the Company's risk appetite. In setting the risk appetite, the board of directors shall take into account the business environment, regulatory landscape, and the Company's long term interests and ability to manage risk.
  - (2) Approve and oversee adherence to the risk appetite statement (RAS), risk policy, and risk limits.
  - (3) Oversee the development of, approve, and oversee the implementation of policies and procedures relating to the management of risks throughout the Company.
  - (4) Define organizational responsibilities following the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions for the second line of defense, and the internal audit function for the third line of defense. In this regard:
    - (a) The board of directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.
    - (b) The board of directors shall ensure that non-executive board members meet regularly, with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees, in the absence of senior management.
- f. The board of directors shall be responsible to approve and oversee the implementation of the Company's consumer protection policies, as well as the mechanism to ensure compliance with said policies.

## **SPECIFIC DUTIES AND RESPONSIBILITIES OF A DIRECTOR**

The position of a director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the Company itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The members of the board of directors should exercise their "duty of

BDOLF Corporate Governance Manual 14



care" and "duty of loyalty" to the institution.

- a. To remain fit and proper for the position for the duration of his term.
- b. To conduct fair business transactions with the Company and to ensure that personal interest does not bias board decisions,
- c. To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public.
- d. To devote time and attention necessary to properly discharge their duties and responsibilities.
- e. To act judiciously.
- f. To contribute significantly to the decision-making process of the board.
- g. To exercise independent judgment.
- h. To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation and by-laws the requirements of the Bangko Sentral and where applicable, the requirements of other regulatory agencies.
- i. To observe confidentiality.

The Company shall furnish all of their first-time directors with a copy of the specific duties and responsibilities of the board of directors and as an individual director prescribed under Subsections X143.1 and X143.2, upon election. The Company must keep on file certification under oath of the directors concerned that they have received copies of such specific duties and responsibilities and that they fully understand and accept the same.

---

### **SECTION 3. ESTABLISHING BOARD COMMITTEES**

---

#### **BOARD COMMITTEES**

The Board shall establish committees which it can delegate its functions but not its responsibilities. These committees derive their authority from and report directly to the Board. Their mandates and scope of responsibilities are set forth in their respective Terms of Reference which are subject to review and update annually or when there are significant changes therein. The number and membership composition of committees could be increased or decreased by the Board as it deems appropriate and consistent with applicable laws or regulations specifically on the majority membership and chairmanship of independent directors in various committees. (Recommendation 3.1, SEC CCG)

In this regard, the board of directors shall:

- a. Approve, review, and update, at least annually or whenever there are significant changes therein, the respective Terms of Reference of each committee or other documents that set out its mandate, scope and working procedures. Said documents shall articulate how the committee will report to the full board of directors, what is expected of the committee members, and tenure limits for serving on the committee. The board of directors shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.
- b. Appoint members of the committees taking into account the optimal mix of skills and experience to allow the board of directors, through the committees to fully understand and objectively evaluate the relevant issues. In order to promote objectivity, the board of directors shall appoint independent directors and non-executive members of the board of directors to

the greatest extent possible. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight and Corporate Governance, Related Party Transactions committees, without prior approval of the Monetary Board.

- c. Ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.
- d. Constitute the following Board-level committees:
  - 1. **Executive Committee.** The Executive Committee acts on behalf of the Board as the main approving body for Company exposures particularly approval/confirmation of credit proposals, investments, and disposal of acquired assets. The Executive Committee shall be composed of at least three (3) members, who shall be appointed / designated by the Board of Directors.
  - 2. **Audit Committee.** The Audit Committee ensures the integrity of financial reporting and provides oversight of the internal and external audit functions. It is vested by the Board with the following authority:

#### **Internal Audit Division**

- a. It shall be responsible for organizing the Internal Audit Division as well as appointing or removing the head of Internal Audit and key internal auditors.
- b. It shall perform oversight function over the Internal Audit Division.
- c. It shall review the annual internal audit plan to ensure its conformity with the objectives of the Company. The plan shall include audit scope, resources and budget necessary and timetable for its implementation.
- d. It shall ensure that Internal Audit Division examines, evaluates and improves the effectiveness of risk management, internal control and governance processes of the organization.
- e. It shall review the internal audit reports, report major issues to the Board and ensure that management is taking corrective actions in a timely manner to address weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.
- f. It shall conduct discussions with management on the effectiveness of the internal control system.
- g. It shall ensure that the internal audit function maintains an open communication with senior management, the Audit Committee, external auditors and supervisory authority.
- h. It shall report to the Board of Directors the annual performance appraisal of the head of Internal Audit and key audit officers.
- i. It shall recommend for approval of the Board of Directors the remuneration of the head of Internal Audit as well as the key audit officers.

#### **External Audit**

- a. It shall recommend to the BOD the appointment, re-appointment and/or change of external auditor.
- b. It shall review the Engagement Letter and discuss with the external auditor the nature, scope and expenses of the audit prior to the commencement of the audit work.
- c. It shall review the Management Letter submitted by the external auditor, as well as management's response to the external auditor's findings and recommendations before endorsing the same to the BOD for its approval.

- d. It shall evaluate non-audit work if any is done by the external auditors and disallow it if it will conflict with their duties as external auditors.
- e. It shall review the Management Representation Letter stating management's responsibility over the financial statements and financial reporting process.

### **Operational, Financial, and Anti-Money Laundering Compliance**

- a. It shall review and approve the annual plan of the Compliance Office and Anti-Money Laundering Unit.
- b. It shall review the quarterly, half-year and annual financial statements before their submission to the BOD.
- c. It shall review the reports of BSP and other regulatory bodies as well as notices on financial or administrative penalties incurred due to delayed/non-submission/erroneous submission of required regulatory reports.

The Committee shall be composed of at least three (3) non-executive directors, majority of whom shall be independent directors. Advisers may also be appointed to the Audit Committee by the Board of Directors.

Audit Committee members shall preferably be with accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Company. It shall have access to independent experts to assist them in carrying out its responsibilities. The Chairman of the Committee may not be the Chairman of any other committee.

Membership exclusions apply to the Chief Executive Officer, Chief Financial Officer and/or Treasurer, or officers holding equivalent positions. (Recommendation 3.2, SEC CCG)

3. **Corporate Governance Committee.** The Corporate Governance Committee is primarily tasked to assist the Board in formulating the policies and overseeing the implementation of the corporate governance practices of the Company as well as its subsidiaries and affiliates. Annually, it also conducts the performance self-evaluation of the Board of Directors, its committees, executive management and also peer evaluation of directors using the Revised Board of Directors and Peer Evaluation Survey forms. It also oversees the implementation of the Directors Orientation and Continuing Education Policy. The Committee shall be composed of at least three (3) non-executive directors, majority of whom shall be independent directors. (Recommendation 3.3., SEC CCG)
4. **Nominations Committee.** The Nomination Committee leads the process for identifying and makes recommendations to the Board on, candidates for appointment as Directors of the Company as well as those other positions requiring appointment by the Board of Directors, giving full consideration to succession planning and the leadership needs of the Group. In particular, this process includes the profiling of the skills and competencies of the currently serving directors, the gaps in skills and competencies identified and the search for candidates who are aligned with the Company's directions to fill the gaps. It also makes recommendations to the Board on the composition and chairmanship of the various committees. It keeps under review the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non- executive Directors, and makes recommendations to the Board with regard to any changes. The Committee shall be composed of three (3) members, all of whom are independent directors including the Chairman.
5. **Risk Management Committee.** The Risk Management Committee is responsible for the development of the Company's risk policies, sets the risk appetite and defines the appropriate strategies for identifying, quantifying, managing and controlling risk exposures including preventing and/or minimizing the impact of losses when they occur. It oversees the implementation and review of the risk management plan on an integrated

enterprise-wide basis, system of limits of management's discretionary authority delegated by the Board and takes immediate corrective actions when breached. It is also responsible to reassess the continued relevance, comprehensiveness and effectiveness of the risk management plan and revise it when needed. It works with the Audit Committee in certifying in the Annual Report the adequacy of the Company's internal control and risk management systems. The Committee shall be composed of at least three (3) members of the Board of Directors, two (2) of whom are independent directors including the Chairman who shall possess a range of expertise as well as adequate knowledge of the Company's risk exposure. The Chairman of the Committee may not be the Chairman of any other committee. (Recommendation 3.4, SEC CCG)

- 6. Related Party Transactions Committee-** The Related Party Transactions Committee (RPTC) assists the Board in its oversight of the conduct of all Related Party Transactions (RPTs) to protect the interests of the Company and its stakeholders. It ensures proper disclosure of all approved RPTs in accordance with applicable legal and regulatory requirements and confirmation by majority vote on the Annual Stockholders' meeting the Company's significant transactions with related parties. The Committee shall be composed of at least 3 regular members who are all independent directors and an Adviser. The Chairman of the Committee is one of the independent directors. (Recommendation 3.5, SEC CCG)

#### **Committee Charters**

Each Board Committee has its own Terms of Reference stating its constitution, purpose, scope of authority, duties and responsibilities, membership, tenure limits, meetings, reporting process and hierarchy, and disclosure. These are published in the Company's website. (Recommendation 3.6, SEC CCG)

---

### **SECTION 4. FOSTERING COMMITMENT**

---

#### **BOARD OPERATIONS**

**Board Meetings - Frequency.** The Board will meet monthly (every last Saturday of the month or as scheduled) and will hold additional meetings as necessary. Schedule of regular board meetings for the coming year is set in advance before the start of the new calendar year and published in the Board Calendar of Activities for the information and guidance of all directors and advisers.

- 1. Board and Committee Meetings – Attendance Requirements.** All directors are required to attend in person at least 50% of both scheduled and special meetings of the Board, the annual stockholders meeting and the meetings of the Board Committees as prescribed in their respective charters on which they serve.

The absence of a director in more than fifty percent (50%) of all regular and special meetings of the board of directors during his/her incumbency is a ground for disqualification in the succeeding election. All directors are expected to prepare diligently for the meetings to evaluate and add value to the items presented, actively participate and contribute meaningfully to the discussions of the Board. In view of modern technology, however, attendance of at least 75% at Board and committee meetings through video or teleconference or other manner that may be allowed by the Bangko Sentral ng Pilipinas is required. The attendance and participation of members in committee meetings shall be considered in the assessment of continuing fitness and propriety of each director as member of board-level committees and the board of directors. An independent director shall always be in attendance. However, the absence of an independent director may not affect the quorum requirements if he is duly notified of the meeting but deliberately and without justifiable cause fails to attend the meeting. (Recommendation 4.1, SEC CCG)



Consistent with SEC Memorandum Circular No. 06 (Series of 2020), Directors who cannot physically attend or vote at board meetings can participate and vote through remote communication such as videoconferencing, teleconferencing, or other alternative modes of communication that allow them reasonable opportunities to participate. However, directors or trustees cannot attend or vote by proxy at board meetings. If a Director intends to participate in a meeting through remote communication, he/she shall notify in advance the Presiding Officer and the Corporate Secretary of his/her intention. The Corporate Secretary shall note such fact in the Minutes of the meeting. The Office of the Corporate Secretary may issue internal procedures for the conduct of board meetings through remote communication or alternative modes of communication to address administrative, technical and logistical issues.

## **2. Board Meetings – Notice, Agenda and Materials.**

The Corporate Secretary shall send the notice of the meeting to all Directors in accordance with the manner of giving notice as provided in the bylaws or by board resolution. Notice of meetings may be sent to all directors through electronic mail, messaging service or such other manner as may be provided in the bylaws or by board resolution. The notice of meetings shall include the following information:

- a. The date, time, and place of the meeting;
- b. The agenda of the meeting;
- c. All pertinent materials for discussion which shall be numbered and marked in such manner that the director can easily follow and participate in the meeting;
- d. That a director may participate via remote communication;
- e. Contact information of the Corporate Secretary or office staff whom the director may communicate;
- f. When the meeting is for the election of directors or officers, the requirements and procedure for nomination and election;
- g. The fact that there will be a visual and/or audio recording of the meeting; and,
- h. Other instructions to facilitate participation in the meeting through remote communications.

The agenda and information package for each board and committee meeting should be sent to each director in hard or electronic copy at least 5 business days in advance, whenever possible and appropriate.

- 3. Directors' access to Senior Officers and Advisers.** Group Heads will be invited to attend the regular meetings of the Board. Other senior officers will be invited to Board meetings to provide inputs on specific board agenda items, as the need arises. The Directors have free and unrestricted access to senior management and the Corporate Secretary's Office may arrange meetings with senior officers of the Company, at the request of any director. The Company will continue to engage advisers to the Board and its sub-Committees to provide independent counsel and resources as necessary.
- 4. Multiple Board Seats.** Independent and Non- Executive Directors may concurrently serve in Boards of other publicly-listed corporations provided it will not exceed a maximum of 5 companies including BDOLF and its listed subsidiary. This limit does not apply to Executive Directors. Provided further that the capacity of a director to devote quality time and attention in performing his duties and responsibilities is not compromised. He/She must notify the Board before accepting a directorship in another company. (Recommendation 4.2 and 4.3, SEC CCG)
- 5. Confidentiality.** It is important that directors respect the sensitivity of information received during their service as a director. As such, they are expected to maintain confidentiality of this information at all times.

## **SECTION 5. REINFORCING BOARD INDEPENDENCE**

---

### **Independent Directors**

An independent director is a person who, apart from shareholdings and fees receive from the corporation, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to materially interfere with the exercise of independent judgment in carrying out the responsibilities as a director. Independent directors must be elected by the shareholders present or entitled to vote in absentia during the election of directors. Independent directors shall be subject to rules and regulations governing their qualifications, disqualifications, voting requirements, duration of term and term limit, maximum number of board memberships and other requirements that the Securities and Exchange Commission will prescribe to strengthen their independence and align with international best practices. (Section 22, Revised Corporation Code)

The Company shall have at least five (5) independent directors who are free of material relations with the management, controllers, or others that might reasonably be expected to interfere with the independent exercise of his/her best judgment for the exclusive interest of the Company to ensure its independence and exercise unfettered judgment on all corporate matters. (Recommendation 5.1, SEC CCG)

**Nomination and Election of Independent Directors.** Selection, nomination and election of independent directors shall be done in accordance with the standard election procedures of the Company's By-Laws. The independent directors will be clearly identified together with the date of their first election to the Board of Directors. He shall be assiduous.

#### **An independent director shall be any person who:**

- a. is not or was not a director, officer or employee of the Company, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his election/appointment;
- b. is not or was not a director, officer or employee of the Company's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;
- c. is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;
- d. is not a close family member of any director, officer or a stockholder holding shares of stock sufficient to elect one seat in the board of the Company or any of its related companies;
- e. is not acting as a nominee or representative of any director or substantial shareholder of the Company, any of its related companies or any of its substantial shareholders; and
- f. is not or was not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election;
- g. is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms length and could not materially interfere with or influence the exercise of his judgment.
- h. is not appointed in the Company, its subsidiaries, affiliates or related interests as Chairman

“Emeritus”, “Ex-Officio”, Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board of Directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;

- i. is not affiliated with any non-profit organization that receives significant funding from the Company or any of its related companies or substantial shareholders; and
- j. is not employed as an executive officer of another company where any of the covered Company’s executives serve as directors.

An independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director’s independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Management and Corporate Governance Committee, without prior approval of the Monetary Board. (Recommendation 5.2, SEC CCG)

**Tenure/Term Limits of Independent Directors.** Elected members of the Board serve for a one-year term and until their successors are elected. An independent director of the Company may only serve as such for a total cumulative tenure of nine (9) years reckoned from January 1, 2012 after which, the independent director shall be perpetually barred from re-election as such in the Company, but may continue to qualify for nomination and re-election as a non-independent director. If there is no suitable replacement, the Board may justify the retention of independent directors after serving 9 years subject to the approval by the shareholders during the Annual Shareholders’ Meeting. (Recommendation 5.3, SEC CCG)

## **Separation of Roles and Functions**

### **Board Chair and President/CEO**

The Board Chairperson and President/CEO collectively are responsible for the leadership of the company. The Chairperson’s primary responsibility is for leading the Board and ensuring its effectiveness while the President/CEO is responsible for running the Company’s business.

The positions of the Board Chairperson and the Company President/CEO shall be held by different individuals and their roles are separate and distinct from each other to achieve a balance of authority, clear accountability, and better capacity for independent decision making.

### **Qualifications of the Chairperson of the Board of Directors**

To promote checks and balances, the Chairperson of the board of directors shall be a non-executive director or an independent director, and must not have served as CEO of the Company within the past three (3) years,

The role of the Board Chairperson includes the following:

1. Provides leadership in the Board of Directors by ensuring effective functioning of the Board, including maintaining a relationship of trust with board members;
2. Ensures that the board takes an informed decision through a sound decision making process, encourage and promote critical discussions, ensure dissenting views are expressed and fully considered within the decision-making process;
3. Ensures that the meetings of the Board of Directors are held in accordance with the Bylaws of the Company;
4. Ensures that the Board of Directors exercises strong oversight over the Company’s business and performance of senior management to minimize if not eliminate issues that may affect its reputation in the market place;

5. Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the Company, considering the development in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;
6. Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;
7. Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
8. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
9. Assures availability of proper orientation for first-time directors and continuing training opportunities for all directors; and
10. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on. (Recommendation 2.3, SEC CCG)

#### **Chief Executive Officer (CEO)**

The CEO shall be the overall-in-charge for the management of the business and affairs of the Company governed by the strategic direction and risk appetite approved by the board of directors. He shall be primarily accountable to the board of directors in championing the desired conduct and behavior, implementing strategies, and in promoting the long-term interest of the Company.

In fulfilling his executive role, the President/CEO acts within the delegated authority vested to him by the Board and has the following roles and responsibilities, among others:

1. Determines the Company's strategic direction and formulates and implements its strategic plan on the direction of the business;
2. Communicates and implements the corporation's vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same;
3. Oversees the operations of the Company and manages human and financial resources in accordance with the strategic plan;
4. Builds the corporate culture and motivates the employees of the Company;
5. Has a good working knowledge of the Company's industry and market and keeps up-to-date with its core business purpose;
6. Directs, evaluates and guides the work of the key officers of the Company;
7. Reports to the Board the monthly actual operating performance of the Company versus approved plans and directions and to the stockholders the state of affairs of the Company for the preceding year at the annual stockholders' meeting;
8. In conjunction with the Board Chairperson, serves as a link and represents the Company to customers, regulators, shareholders, financial industry and the general public; and



9. Receives instructions from the Board and ensures full compliance. (Recommendation 5.4, SEC CCG)

#### **Lead Independent Director.**

A Lead Independent Director shall be appointed by the Board of Directors from amongst the independent directors to serve for 1 year or until replaced to perform the following functions, among others:

1. Serves as an intermediary between the Chairperson and the other directors when necessary;
2. Leads the independent directors at board meetings in raising queries and pursuing matters
3. Convenes and chairs meetings of the non-executive directors without the presence of the executive directors; and
4. Contributes to the performance evaluation of the Chairperson, as required. (Recommendation 5.5, SEC CCG)

#### **Duties and Responsibilities of Officers**

- a. To set the tone of good governance from the top.
- b. To oversee the day-to-day management of the BSFI.
- c. To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency.
- d. To promote and strengthen check and balances system in the BSFI.

#### **Executive Sessions of Non-Executive Directors.**

The non-executive members of the Board will meet at least twice a year or as needed in executive session with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees without the presence of senior management. To be chaired by the Lead Independent Director, these sessions will provide the opportunity to discuss topics and issues related to independent checks and balances that the non- executive directors may deem appropriate. The agenda of the meetings will be determined by the Lead Independent Director in consultation with the other independent and non-executive directors. He will communicate to the Board Chairperson, President and any other executive directors the results of the discussions and consensus reached at the meetings. (Recommendation 5.7, SEC CCG)

For Recommendation 5.6, please see subsection on Related Party Transactions under Section 2 of this Revised Corporate Governance Manual.

---

### **SECTION 6. ASSESSING BOARD PERFORMANCE**

---

#### **Board Effectiveness**

The Board recognizes the importance and benefits of conducting annual self-assessment to determine its effectiveness. The Board, through the Corporate Governance Committee, shall undertake the evaluation of its performance as a collective body, its Committees including the performance of the Chairperson to determine whether they are functioning effectively, pinpoint areas for improvement and assess whether it possesses the right mix of backgrounds and competencies. The Committee shall report the results of the self-assessment to the Board. Every three years, the assessment shall be supported by an external facilitator. (Recommendation 6.1)

In addition, the Director Peer Evaluation shall also be conducted annually. This is intended to encourage improved performance and effectiveness of directors by identifying areas that need improvement. Each director is requested to rate his/her colleagues on the Board using the prescribed rating scale and questions. The Corporate Governance Committee shall report also the results of the peer evaluation to the Board.

The criteria for the self-assessment of the Board performance and peer evaluation have been in place based on functions, roles and responsibilities provided in the Board and Committee Charters, and published in the Company's website.

The Corporate Governance Committee shall report the overall results of the annual self-assessment of the Board through the Annual Report. (Recommendation 6.2, SEC CCG)

---

## **SECTION 7. STRENGTHENING BOARD ETHICS**

---

### **High Ethical Standards in Doing Business**

Our corporate governance practice adheres to five (5) basic principles of integrity, transparency, fairness, accountability and performance. It is the responsibility of the Board including the officers and staff to follow at all times the established governance policies and practices as these are put in place to protect the Company's reputation, assets and businesses. BDOLF has institutionalized the highest ethical standards through the strict implementation of the BDO Unibank Code of Conduct and Business Ethics that addresses insider trading, dealing with external constituencies, potential conflicts of interest, confidentiality and information security, protection and proper use of corporate assets and responsibility to report in case of violations. The Code outlines the principles and policies that govern the activities of the institution and 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 stakeholders. These reflect the core values the institution subscribes to and promotes. (Recommendation 7.1, SEC CCG) The Office of the Human Resources and the Office of the Corporate Secretary shall be responsible to disseminate the Code to all Directors, Officers and Staff for their information and proper guidance. It should be posted in the Company's website and intranet to be accessible to all covered individuals and shall form part of the HR and compliance policies of the Company. (Recommendation 7.2, SEC CCG)

---

## **SECTION 8. ENHANCING COMPANY DISCLOSURE POLICIES AND PROCEDURES**

---

### **Adequate and Timely Information**

The essence of good corporate governance is transparency. The Board commits at all times to meet all disclosure requirements particularly those involving material information as mandated by regulators within the prescribed period.

1. All material information, both financial and non-financial, about the Company that may adversely affect its viability or the interests of the stockholders and other stakeholders shall be publicly and timely disclosed such as, among others earnings results, material acquisition or disposition of assets, off balance sheet transactions, related party transactions, company's ownership structure, beneficial ownership whether direct or indirect of at least 5% of the company shares including that of the directors and senior officers, and the remuneration of members of the Board and Management. (Recommendation 8.6, SEC CCG)

2. Information on BDO Group business structure including subsidiaries, joint ventures/special purpose vehicles and the participation of significant shareholders, directors and senior officers will be provided and updated regularly in the corporate website.
3. Biographical details on individual board members and key officers to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment. (Recommendation 8.3, SEC CCG)
4. Audited financial statements will be released not later than 60 days after the close of the financial year together with a statement that management is responsible for its preparation and fair presentation in accordance with the financial reporting standards in the Philippines for Companies.
5. All such information shall be disclosed through the appropriate disclosure mechanisms of the Philippine Securities Exchange and submissions to the Securities and Exchange Commission for the interest of its stockholders and other stakeholders.
6. The Company will not put up barriers or impediments that will prevent stockholders from communicating or consulting with one another on any issues related to the Company.

The BDO Unibank Code of Conduct and Business Ethics provides clear rules on disclosure of information and strictly prohibits the unauthorized disclosure, use and passing on of sensitive/confidential, non-public information for personal gain and is considered illegal. (Recommendation 8.1, SEC CCG)

### **Personal Trading Policy**

As part of BDO Group, BDOLF adopts the BDO Unibank's Personal Trading Policy. The purpose of this policy is to promote compliance with applicable securities laws and regulations by BDO Unibank, Inc. and its subsidiaries in order to promote fairness and preserve its good reputation in the marketplace.

This policy is applicable to all directors, officers and employees of BDO Unibank, Inc. and its subsidiaries who in the discharge of their duties, may gain access to material non-public, price-sensitive information about BDO and non-BDO publicly-traded securities. It does not include BDO shares granted/acquired through the Employee Stock Option Program.

Within three (3) trading days from booking date, officers with the rank of Senior Vice President and up are required by regulation to report any changes in beneficial ownership of BDO securities to the Securities and Exchange Commission and Philippine Stock Exchange. (Recommendation 8.2, SEC CCG)

### **Governance Policies, Programs and Procedures**

The corporate governance system of BDOLF focuses on the objective of maximizing value creation on a sustainable basis for the benefit of all stakeholders in a manner that is supported by the right values, culture and business conduct throughout the Group. In pursuing this objective, BDOLF has continuously evolved its corporate governance standards to include essential elements of regulations, international best practices and voluntary commitments.

The Board has put in place the following governance policies that affirm our deep commitment to a high standard of corporate governance, among others. These are submitted to regulators and posted in the Company's website:

1. Revised Code of Conduct and Business Ethics
2. Related Party Transactions
3. Policy on Disclosure of Sensitive or Confidential Matters to Management (Whistle Blower Policy)
4. Personal Trading Policy
5. Conflict of Interest Policy
6. Board Diversity Policy
7. Term Limit of Independent Directors
8. Dividend Policy
9. Policy and Data Relating to Health, Safety & Welfare of Employees
10. Directors Orientation and Continuing Education Policy

Governance programs and procedures implemented are follows:

1. Bi-annual disclosure of conflicts of interest;
2. Annual Board Performance Self-Assessment
3. Group Corporate Governance Oversight of Subsidiaries
4. Executive Sessions of Independent and Non-Executive Directors with Compliance Officer, Chief Risk Officer, Chief Internal Auditor and External Auditor
5. Independent Directors Meeting with Executive Directors
6. Selection of Board members using 3<sup>rd</sup> party data bases and external search firms (Recommendation 8.7, SEC CCG)

On the disclosure of the remuneration on an individual basis for Board members and Executive Officers, the Board has serious concerns given the possible adverse security issues and poaching of talents by competitors in the industry. Hence, it has decided it will not be to the best interest of the Company to do so at this time. It will disclose the remuneration figures on a consolidated basis only. (Recommendation 8.4, SEC CCG)

For Recommendation 8.5, please see subsection on Related Party Transactions under Section 2 of this Revised Corporate Governance Manual.

---

## **SECTION 9. STRENGTHENING THE EXTERNAL AUDITOR'S INDEPENDENCE AND IMPROVING AUDIT QUALITY**

---

### **Audit Committee Oversight Function**

The Audit Committee is responsible for making recommendations to the Board in relation to the appointment, reappointment, removal and fees of the External Auditor based on approved criteria such as but not limited to technical and industry expertise, skills, resources, reputation, and quality of service delivery. The appointment, reappointment, removal and fees of the External Auditor should be approved by the Board and ratified by the Shareholders. Removal or change of the External Auditor should be disclosed to regulators and the public through the Company's website and proper disclosures. (Recommendation 9.1, SEC CCG)

As part of its assurance process, the Audit Committee is mandated to monitor the independence of the External Auditor to ensure the true objectivity of the financial statements. All services provided by the External Auditor are required to be approved by the Audit Committee. Prior to the commencement of audit work, the Audit Committee should receive a written confirmation from the External Auditor of its independence and objectivity. The policy of rotating the lead engagement partner of the External Auditor every 5 years should be strictly enforced. Any change in BDO Group's External Auditor shall require shareholders' approval (SEC Memorandum Circular No. 08, Series of 2018). The Committee is also responsible to review and monitor the External Auditor's suitability and effectiveness on an annual basis. (Recommendation 9.2, SEC CCG)



To avoid conflict of interest and impairment of independence, the Audit Committee has in place the lists of non-audit services which may not be provided by the External Auditor. (Recommendation 9.3, SEC CCG)

---

**SECTION 10. INCREASING FOCUS ON NON-FINANCIAL AND SUSTAINABILITY REPORT REPORTING**

---

The Company shall release an annual sustainability report in accordance with internationally recognized frameworks and standards. It shall outline the Company's economic, environmental, social, and governance performance. The sustainability report shall be attached to the Annual Report (SEC Form 17-A).

---

**SECTION 11. PROMOTING A COMPREHENSIVE AND COST-EFFICIENT ACCESS TO RELEVANT INFORMATION**

---

Investor Relations is a key component of the Company's corporate governance framework, promoting transparency and active engagement with investors, analysts, credit rating agencies, and other external stakeholders. The unit communicates the strategic direction, as well as financial and operating results of the Company by means of media and analysts' briefings; participation in investor conferences, roadshows, conference calls and one-on-one meetings; and official disclosures via PSE EDGE, company website, and through the media, if necessary or if applicable, to ensure timely and accurate dissemination of public, material and relevant information. From time to time, the BDO Unibank's Investor Relations Unit is joined by other members of the Senior Management team in investor meetings and corporate access activities in order to impart more insights on BDO's operations.

As part of the BDO Group, BDO Unibank, Inc.'s Investor Relations Unit also regularly conveys feedback from investors and analysts and prepares shareholder and industry analysis reports to Senior Management and to the Board, for a better appreciation of market sentiment towards the company as well as to provide updates on shareholder developments and industry performance. (Recommendation 11.1, SEC CCG)

---

**SECTION 12. STRENGTHENING THE INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK**

---

To ensure safe and sound operations, the Company has in place an adequate and effective internal control system that provides reasonable assurance that it will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives.

The Company prudently manages the risks associated with its business and operations. It has in place an enterprise risk management framework designed to enhance risk management through a holistic and integrated framework so that all material risks faced by the Company are identified, measured, evaluated, mitigated, monitored and appropriately managed. (Recommendation 12.1, SEC CCG)

**Independent Audit Function**

An effective and efficient internal audit function constitutes the third line of defense in the system of internal control. As such, the BDO Group has in place an independent audit function, through which the Company's Board, Senior Management, and Stockholders may be provided with reasonable assurance of the efficacy of the risk management, control and governance processes, in accordance with the international internal audit principles and standards. The functions of Internal Audit are as follows, among others:

1. Provides an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in (1) promoting the right values and ethics, (2) ensuring effective performance management and accounting in the organization, (3) communicating risk and control information, and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;
2. Performs regular and special audit as contained in the annual audit plan and/or based on the company's risk assessment;
3. Performs consulting and advisory services related to governance and control as appropriate for the Company;
4. Performs compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the Company;
5. Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the Company;
6. Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals; and whether the operations or programs are being carried out as planned;
7. Evaluates specific operations at the request of the Board or Management, as appropriate; and
8. Monitors and evaluates governance processes. (Recommendation 12.2, SEC CCG)

#### **Role of Chief Internal Auditor**

The Board shall appoint a qualified Chief Internal Auditor to carry out the audit function, and shall require the Chief Internal Auditor to report to the Audit Committee that will allow the internal audit function to fulfill its responsibilities without impediment. The following are the responsibilities of the Chief Internal Auditor:

1. Periodically reviews the internal audit charter and presents it to senior management and the Board Audit Committee for approval;
2. Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organizational goals;
3. Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval;
4. Spearheads the performance of the internal audit activity to ensure it adds value to the Company;
5. Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan;
6. Presents findings and recommendations to the Audit Committee and gives advice to senior management and the Board on how to improve internal processes;
7. Conducts independent assessment of adequacy and effectiveness of management and IT control frameworks, risk management and governance processes of all units of the Company including subsidiaries and affiliates;
8. Monitors the resolution of internal control weaknesses noted during the examination with the end view of mitigating risks and strengthening the control environment; and
9. Certifies that the conduct of auditing activities is in accordance with the International Standards on the Professional Practice of Internal Auditing. (Recommendation 12.3, SEC CCG)

## **Independent Risk Management Function**

The BDO Group has in place a separate risk management function responsible for overseeing risk-taking activities across the Company and subsidiary. The function entails defining a risk management strategy, identifying and analyzing key risk exposures, evaluating and categorizing each identified risk using the predefined risk categories and parameters, establishing a risk register, developing a risk mitigation plan, communicating and reporting significant risk exposures including business risks, and monitoring and evaluating the effectiveness of the Company's risk management processes. (Recommendation 12.4, SEC CCG)

### **Role of the Chief Risk Officer**

A Chief Risk Officer ("CRO") shall be appointed or replaced with prior approval from the Board of Directors. It shall also ensure the independence of the CRO by providing direct access to the Board and Risk Management Committee (RMC) without any impediment.

The Chief Risk Officer shall be independent from executive functions, business line responsibilities, operations and revenue-generating functions. The CRO may report functionally to the RMC and administratively to the President. The RMC shall review and approve the performance of the CRO.

The functions of the CRO are as follows, among others:

1. Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;
2. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board Risk Oversight Committee;
3. Suggests ERM policies and related guidance, as may be needed;
4. Provides insights on the following:
  - Risk management processes are performing as intended;
  - Risk measures reported are continuously reviewed by risk owners for effectiveness; and
  - Established risk policies and procedures are being complied with;
5. Facilitates in the identification, measurement, monitoring, reporting and control of credit risks, market and liquidity risks and operational risks.
6. Monitors and assesses decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
7. Reports to senior management, Risk Management Committee and the Board of Directors the results of the assessment and monitoring of risk exposures. (Recommendation 12.5, SEC CCG)

### **Role of Corporate Governance Officer (CGO)**

#### **a. The functions of the CGO are as follows among others:**

1. Assists the Corporate Governance Committee in ensuring compliance with regulatory and best practice requirements in corporate governance;
2. Performs oversight function of the Corporate Governance Committee of parent Company to all subsidiaries and affiliates;
3. Ensures that the meetings of the Corporate Governance Committee are held in accordance with the Terms of Reference;
4. Oversees the preparation of the agenda of the CG Committee meeting in coordination with the Office of the Corporate Secretary;
5. Keeps the CG committee fully informed of any new regulatory developments and best practices in corporate governance; and
6. Recommends the trainings and seminars for the continuing education of the Board of

Directors.

**b. Oversight of BDO Unibank's Corporate Governance Officer**

**The Corporate Governance Officer of BDO Unibank acts as the adviser to the Corporate Governance Committee of BDOLF. As an adviser the CGO of BDO Unibank:**

1. Oversees the corporate governance activities of BDOLF and subsidiary to ensure compliance with regulations and alignment with the Company's corporate governance policies and practices;
2. Provides guidance and assistance to the Committee in complying with new regulations and mandates, replying to deficiencies noted during examinations, and submissions required yearly to regulatory and rating bodies; and
3. Serves as a resource person in updating the Committee of new regulations, trends in good corporate governance and best practices that could be implemented.

---

**SECTION 13. PROMOTING SHAREHOLDER RIGHTS**

---

**A.** The Board of Directors shall be committed to respect the following rights of the stockholders:

**1. Right to Nominate**

Any stockholder, whether majority or minority has the right to nominate candidates for seats in the Board of Directors who possess all the qualifications and none of the disqualifications of Directors as prescribed in the Company's By-Laws and the rules of BSP and SEC.

**2. Voting Rights.**

- a. Shareholders shall have the right to participate and vote in the Annual Stockholders Meeting including the right to elect, remove and replace directors, vote on certain corporate acts in accordance with the Corporation Code such as changes or amendments to the company's By-Laws and Articles of Incorporation, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code, issuance of additional shares and appointment of the external auditor.
- b. Each outstanding share is entitled to one vote unless a preferred share is expressly denied voting entitlement.
- c. Cumulative voting shall be used in the election of directors.
- d. A director shall not be removed without cause if it will deny minority shareholders representation in the Board.
- e. The right to vote of stockholders may be exercised in person, through a proxy, or when authorized in the bylaws, through remote communication or *in absentia*. The right to vote of stockholders may be exercised also through remote communication or *in absentia* when authorized by the majority of the board of directors, provided, that the resolution shall only be applicable for a particular meeting. In the election of directors and officers, stockholders may vote through remote communication or *in absentia*, notwithstanding the absence of a provision in the bylaws of such corporations (SEC Memorandum Circular No. 06, Series of 2020)

**3. Power of Inspection**



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

#### **4. Right to Information**

- a. The shareholders shall be provided, upon request with information about the Company's directors and officers, their holdings of the Company's shares, and dealings with the Company.
- b. The shareholders, including minority shareholders, shall have access to any information relating to matters for which the management is accountable.
- c. The shareholders, including minority shareholders, shall be granted the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.

#### **5. Right to Dividends**

- a. Shareholders shall have the right to receive dividends subject to the discretion of the Board of Directors as enunciated in the BDOLF Dividend, as the same may be amended.
- b. The Company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital except;
  - i. When the Company is prohibited by the BSP or under any loan agreement with any financial institution or creditor to declare dividends without its consent and such consent has not been secured.
  - ii. When such retention is clearly necessary under special circumstances obtaining in the Company, such as a need for special reserves for possible contingencies.
  - iii. When justified by definite corporate expansion projects or programs approved by the Board.

#### **6. Appraisal Right**

The shareholders shall have appraisal right or the right to dissent and demand payment for the fair value of their shares in the manner provided for under Section 82 of the Corporation Code.

- a. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares or of authorizing preferences in any respect superior to those of outstanding shares of any class.
- b. In case of the disposition of all or substantially all of the corporate property and assets as provided for in the Corporation Code.
- c. In case of sale, lease, exchange, transfer, mortgage, pledge or other merger or consolidation or the extension or shortening the term of corporate existence. (Recommendation 13.1, SEC CCG)

#### **Annual and Special Stockholders' Meeting**

- B.** The Board of Directors shall be transparent and fair in the conduct of the annual and special stockholders' meetings.

1. The stockholders (both retail and institutional) shall be encouraged to attend personally or by proxy such meetings of the stockholders in a place easily accessible to all investors. The Office of the Corporate Secretary will issue the Notice of the Annual Stockholders Meeting at least 28 business days before the meeting date which includes the time, place and proposed agenda items together with a brief rationale for its inclusion thru mail, facsimile transmission or electronic mail and publication in newspapers of general circulation published in Metro Manila.

The notice of shall further be accompanied by other relevant matters such as the following:

- a. When attendance, participation, and voting by remote communication or in absentia, are authorized, the requirements and procedures to be followed when a stockholder elects either option;
- b. Manner of casting of votes and the period during which vote by remote communication or in absentia will be accepted;
- c. Contact information of the Corporate Secretary or office staff whom the stockholder or member may notify about his or her option;
- d. When the meeting is for the election of directors, the requirements and procedure for nomination and election; and,
- e. The fact that there will be visual and audio recording of the meetings (for future reference).

All pertinent materials for discussion shall be numbered and marked by the Corporate Secretary in such manner that the stockholder or member participating through remote communication can easily follow and participate.

In case of postponement of stockholders' regular meetings, written notice shall be sent to all stockholders of record at least two (2) weeks prior to the date of the meeting.

They shall be given the opportunity to ask and receive answers to their questions relating to the Company. A summary of the questions asked and answers given will be included in the Minutes of the Annual Stockholders Meeting and posted on the corporate website. (Recommendation 13.2, SEC CCG)

When so provided in the bylaws or by majority of the board of directors, stockholders who cannot physically attend at stockholders' meetings may participate in such meetings through remote communications or other alternative modes of communication. (SEC Memorandum Circular No. 06, Series of 2020)

2. Accurate and timely information shall be made available to the stockholders to enable them to make sound judgment on all matters brought to their attention for consideration or approval such as but not limited to the result of the votes taken during the most recent Annual or Special Shareholders' Meeting which shall be publicly available the next working day. In addition, the minutes thereof shall be posted in the Company's website with five (5) business days from the end of the meeting. (Recommendation 13.3, SEC CCG)
3. The rights of the stockholders shall be promoted and impediments to the exercise of those rights shall be removed. An adequate avenue shall be provided for the stockholders to seek timely redress for breach of such rights. Specifically, the Company has put in place an Alternate Dispute Resolution mechanism to resolve intra-corporate dispute in an amicable and effective manner. Please refer to **ANNEX C** for the policy. (Recommendation 13.4, SEC CCG)
4. Appropriate steps shall be taken to remove excessive or unnecessary costs and other administrative impediments to the stockholders' participation in meetings whether in person or by proxy.
5. The introduction of additional, previously unannounced items into the Notice of Annual

Stockholders' Meeting or agenda of the Annual Stockholders' Meeting will not be allowed.

6. The services of an independent body will be engaged to ensure that voting procedures and standards are adhered to. Results of the vote for each agenda item will be posted in the corporate website not later than the next business day after the Annual Stockholders Meeting.

## **Shareholder Relations**

The Board gives high priority to balanced, clear and transparent communications with shareholders. BDO Unibank, Inc. has a dedicated Investor Relations Unit that has a comprehensive program that articulates the Company's strategic directions and manages relationships with investors, analysts, credit rating agencies, and other external stakeholders.

BDO Unibank, Inc.'s Investor Relations Unit is also responsible for conveying the Company's financial performance and disseminating information through various channels like one-on-one meetings, investor conferences and roadshows, conference calls, and official disclosures posted via PSE EDGE and company website. (Recommendation 13.5, SEC CCG)

---

## **SECTION 14. RESPECTING RIGHTS OF STAKEHOLDERS AND EFFECTIVE REDRESS FOR VIOLATION OF STAKEHOLDER'S RIGHTS**

---

### **The Company's Stakeholders**

Corporate Governance is about acceptance by management of the inalienable rights of shareholders and respecting the interests of other stakeholders. In this context, the Company's stakeholders are the shareholders, customers, employees, creditors, suppliers, service providers, counterparties, government, regulators, competitors, and communities in which the Company operates. Our corporate governance practice strives to harmonize their respective interests to promote cooperation between them and the Company in conducting its business affairs. (Recommendation 14.1, SEC CCG)

### **Fair Treatment and Protection of Stakeholders**

The Company 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:

#### **1. Shareholders**

The Company 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 Company provide that all shares in each class should carry the same rights and any changes in the voting rights to be approved by them. The Company accepts the votes cast by nominees and custodians on 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 as well to protect the interests of minority shareholders such as the Related Party Transactions Policy to manage potential conflicts of interests arising from related party transactions and the Personal Trading Policy that prohibits insider trading. Please see Section 13 for the rights of the shareholders.

#### **2. Investors**

As part of BDO Group, BDOLF adopts a pro-active relationship with its stockholders through BDO Unibank's Investor Relations' comprehensive engagement program. The BDO Unibank's BDOLF Corporate Governance Manual

Investor Relations Unit actively cultivates relationships with current and potential investors by joining conferences and roadshows in the key global financial markets. The BDO Unibank's Investor Relations Unit also conducts regular one-on-one meetings, conference calls and briefings with investors and analysts. Aside from meeting institutional investors, the Company 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 are also shared through official disclosures posted via PSE EDGE and company website.

### **3. Customers**

BDOLF is also committed to treat clients fairly. The minimum standard to ensure that clients are treated fairly is the Regulations on Financial Consumer Protection. It has established a Consumer Protection Risk Management System to identify, measure, monitor, and control consumer protection risks inherent in its operations. Through the "We Find Ways" service program of BDO Group, BDOLF is committed to meet clients' needs by providing them with high quality customer service and relevant products and services.

### **4. Creditors, Counterparties and Suppliers**

The Company is committed to meet its contractual obligations with all creditors and counterparties based on the covenants agreed with them. In the conduct of its business dealings, the Company 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 Company'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.

### **5. Employees**

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

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

As a financial institution, BDOLF 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 directs, 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 Group employees in their dealings with clients, suppliers, business partners and service providers. It covers the Company'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.

### **6. Business Competitors**

The Company 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 Company's competitors.



## **7. Government and Regulators**

The Company 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. (Recommendation 14.2, SEC CCG)

## **Stakeholders' Engagement**

The Company employs a multi-pronged communications strategy handled by specific units to promote transparency and actively engage with its various stakeholders, as well as increase awareness and visibility about the Company.

Communication with the core audience is handled by the following: As part of BDO Group, BDO Unibank's Investor Relations and Corporate Planning (IR and Corplan) for institutional investors, analysts, credit rating agencies, and other external stakeholders; the BDOLF Corporate Secretary's office (CorSec) for retail investors and other shareholders; and both IR and BDOLF CorSec for the Board members and Senior Management. Also, communications requiring media involvement are done in conjunction with the BDO Unibank's Corporate Communications Group (MCG). (Recommendation 14.3, SEC CCG)

---

## **SECTION 15. ENCOURAGING EMPLOYEES' PARTICIPATION**

---

The Company has established policies and programs for the benefit of the employees:

### **a. Health and Safety**

BDOLF 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.

### **b. Employee Welfare**

BDOLF 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. In terms of compensation, the benefits program for the employees of the Company and subsidiaries is embodied in the Collective Bargaining Agreement.

### **c. Training and Development**

The Company 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 Company allocates every year a training budget for these developmental programs. (Recommendation 15.1, SEC CCG)

## **Anti-Corruption Policy**

The Company 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. (Recommendation 15.2, SEC CCG)

## **Whistle Blowing Policy**

The policy covers the tipping off of any incident, situation, circumstance or problem involving fraud

and/or violation of policies for further investigation which may result in or resulted in monetary loss and/or negative impact to the image of the Company.

Reporting may be done thru any available means such as but not limited to SMS text (e.g. BDO Watch), letter, email or phone call directly to the Office of the President (OP) or the appropriate Head of the Unit concerned. For concerns directly involving the President, the report should be addressed to the Board of Directors thru the Office of the Chairperson. For RPT-related concerns, the report should be addressed to the Chairman, Related Party Transactions Committee. (Recommendation 15.3, SEC CCG)

---

## **SECTION 16. ENCOURAGING SUSTAINABILITY AND SOCIAL RESPONSIBILITY**

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

Recognizing its social development role, the Company has instituted socio-civic programs geared towards empowerment of marginalized communities and promoting environmental protection as a way of giving back particularly to the communities in which we operate and to the society in general through the active involvement and participation of its employees.

#### **1. Disaster Response Advocacy**

The main focus is relief, rehabilitation and reconstruction in disaster hit areas.

#### **2. Environmental Initiatives**

As part of BDO Group, BDOLF adopts the Social and Environmental Management Systems Policy (SEMS) to ensure that environmental and social consciousness is incorporated in the day-to-day operations of the Company for the benefit of all its stakeholders, employees, and the community it operates.

#### **3. Sustainability, climate change and wildlife protection**

Equally important to the Company is our commitment to enhance the sustainability of the environment thru information, education and advocacies.

### **DISCLOSURE AND TRANSPARENCY COMMUNICATION PROCESS**

1. This Manual shall be available for inspection by any stockholder of the Company at all times. It shall be submitted to the SEC and posted in the Company's website.
2. The Board of Directors and management of the Company shall ensure the dissemination of this Manual to all employees and related parties, and to likewise encourage compliance in the process.
3. This Manual shall be disseminated to all directors, officers and employees of the Company, including subsidiaries and affiliates to ensure their awareness of the corporate governance policies and practices of the Company and to encourage them to comply thereto at all times.

### **MONITORING AND ASSESSMENT**

1. The Board of Directors shall designate the Compliance Officer of the Company to establish an evaluation system to determine and measure compliance with this Manual.
2. This Manual shall be subject to at least an annual review by the Corporate Governance Committee of the Board of Directors.

BDO Leasing and Finance, Inc.  
Corporate Governance Manual

IN WITNESS WHEREOF, we have hereunto set our hands at Mandaluyong, Philippines  
this \_\_\_\_ day of 01 MAR 2021 2021.

  
TERESITA T. SY

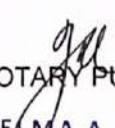
Chairperson

  
ANGELITA C. TAD-Y

First Vice President and Compliance Officer

SUBSCRIBED AND SWORN TO before me this \_\_\_\_ day of MAR 01 2021, 2021,  
affiants exhibited to me their respective Competent Evidence of Identity as shown below:

Name	Competent Evidence of Identity
Teresita T. Sy	Passport No. [REDACTED] DFA NCR-East/Aug. 03, 2022, and TIN No. [REDACTED]
Angelita C. Tad-y	Passport No. [REDACTED] DFA Manila/Mar. 25, 2029, and TIN No. [REDACTED]

  
NOTARY PUBLIC

ATTY. THELMA A. CESISTA  
Notary Public until 06-30-21  
Apt No. 0291 19  
PTR # 4573931 1 06-21 IBP # 04997  
Roll No. 34414 MCLE VI-0020496  
31st Flr. BDO Corporate Center  
18 ADB Ave., Mandaluyong City

Doc. No. 38  
Page No. 09 XIII  
Book No. XIII  
Series of 2021.

## **Qualifications and Disqualifications of Directors and Officers**

### **Qualifications of Directors**

He must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness; relevant education/financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.

In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under MORB Sec. 138 (Persons disqualified to become directors) as amended by BSP Circular No. 1076.

A director shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using Appendix 101 as guide within twenty (20) banking days from the date of election. Non-submission of complete documentary requirements or their equivalent within the prescribed period shall be construed as his failure to establish his qualifications for the position and results in his removal from the board of directors.

The Bangko Sentral shall also consider its own records in determining the qualifications of a director.

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

### **Qualifications of Officers**

An officer must be fit and proper for the position he is being appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered: integrity/probity, education/training, and possession of competencies relevant to the function such as knowledge and experience, skills and diligence.

In assessing an officer's integrity/probity, consideration shall be given to the office/s market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An appointed officer has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Section 138. An officer shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using Appendix 101 as guide within twenty (20) banking days from the date of meeting of the board of directors in which the officer is appointed/promoted. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position and results to his/her removal therefrom. Appointment of Treasurer and heads of internal audit, risk management and compliance functions regardless of rank, and other officers with the rank of senior vice president and above shall be subject to the confirmation by the Monetary Board or Supervision and Examination



Sector (SES) Committee of the Bangko Sentral ng Pilipinas, as the case may be. Any succeeding resignation, retirement, or replacement of officers as mentioned shall be reported to the appropriate department of the SES with twenty (20) banking days after such resignation/retirement/replacement.

## **Persons Disqualified to become Directors**

### **A. Permanent Disqualification**

- a. Persons who have been convicted by final judgment or order by a court, or competent administrative body for offenses involving moral turpitude, fraud, estafa, embezzlement, extortion, counterfeiting, forgery, bribery, false affirmation, perjury, malversation, swindling, theft and other fraudulent acts, violation of B.P. Blg. 22 (Anti-Bouncing Check Law), violation of R.A. No. 3019 (Anti-Graft and Corrupt Practices Act), violation of R.A. No. 9150, as amended (Anti-Money Laundering Act), and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees);
- b. Persons who have been convicted by final judgment by a court or other tribunal for violation of securities and banking laws, rules and regulations.
- c. Persons who have been convicted by final judgment for cases filed against them for offenses under R.A. No. 3591, as amended (PDIC Charter);
- d. Persons who have been convicted by final judgment of a court for offenses which involves moral turpitude, or for offenses which they were sentenced to serve a term of imprisonment of more than six (6) years or a violation of the Corporation Code committed within five (5) years prior to the date of his election.
- e. Persons who have been judicially declared with finality as insolvent, spendthrift or incapacitated to contract.
- f. Persons who were found to be culpable for the bank's closure as determined by the Monetary Board.
- g. Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the Bangko Sentral, where a penalty of removal from office is imposed, and which resolution of the Monetary Board has become final and executory; and
- h. Persons found liable by any government agency/corporation, including government financial institution, for violation of any law, rule or regulation involving dishonesty, misconduct, or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affects their fitness and propriety as directors/officers, and which finding of said government institution has become final and executory;
- i. Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that [a] involves the purchase or sale of securities as defined in the Securities Regulation Code (SRC), [b] arises out of the person's conduct as underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, BDO Corporate Governance Manual commodity trading advisor, or floor broker, or [c] arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliate person or any of them.
- j. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Securities and Exchange Commission (SEC) or any court or administrative body of competent jurisdiction from [a] acting as underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; [b] acting as director or officer of a bank, quasi-

bank, trust company, investment house, or investment company; [c] engaging in or continuing any conduct or practice in any of the above capacities mentioned in [a] and [b] above, or willfully violating the laws that govern securities and banking activities.

The disqualification should also apply if (a) such person is the subject of an order of the SEC, BSP or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulations Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the Commission or BSP, (b) such person has otherwise been restrained to engage in any activity involving securities and banking; or (c) such person is the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

- k. Any person who has been adjudged by final judgment or order of the SEC, court or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, SRC or any other law administered by the SEC or the Bangko Sentral ng Pilipinas (BSP), or any of its implementing rules, regulations or orders.
- l. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated above.
- m. Other grounds as the SEC may provide.

#### **B. Temporary Disqualification.**

The following are temporarily disqualified from holding a director position:

- a. Persons who have shown unwillingness to settle their financial obligations, as evidenced by, but not limited to,
  - the person has failed to satisfy any financial obligation that has been adjudicated by a court;
  - the person has filed for insolvency or suspension of payments that adversely affects his/her fitness and propriety as director or officer; or
  - a person who is delinquent in the payment of: an obligation with a bank where he/she is a director or officer; or at least two (2) obligations with other banks/FIs.
- b. Persons involved in the closure of banks pending their clearance by the Monetary Board;
- c. Persons confirmed by the Monetary Board to have committed acts or omissions, which include failure to observe/discharge their duties and responsibilities prescribed under existing regulations, that: (i) caused undue injury or disadvantage to the bank through manifest partiality, evident bad faith or gross inexcusable negligence; (ii) caused or may have caused material loss or damage to BDO Corporate Governance Manual the bank, its depositors, creditors, investors, stockholders, to the Bangko Sentral or to the public in general; or (iii) exposed the safety, stability, liquidity or solvency of the bank to abnormal risk or danger;
- d. Persons found to have been involved in any irregularity/violation which constitutes a just cause for dismissal/termination as defined under the Labor Code of the Philippines, as amended, regardless of any action taken by the bank;
- e. Persons certified by, or in the official files of, foreign financial regulatory authorities, financial intelligence units, or similar agencies or authorities of foreign countries, as charged with commission of, or having committed, irregularities or violations of any law, rule or regulation, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his/her duties;
- f. Persons, other than those disqualified to become directors/officers), who after conduct of investigation by domestic financial or commercial regulatory authorities, financial intelligence

- units, or similar agencies or authorities such as the Securities and Exchange Commission (SEC), Anti-Money Laundering Council (AMLC), or the Philippine Deposit Insurance Corporation (PDIC), have complaints filed against them by the aforementioned authorities/units/agencies pending before a court of law or quasi-judicial body, or convicted by said court or quasi-judicial body but whose conviction has not become final and executory, for offenses involving violation of laws, rules and regulations, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his/her duties;
- g. Persons with cases pending before a court or other tribunal, or those convicted by said court or tribunal but whose conviction has not become final and executory, for offenses involving: (i) dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22 (Anti-Bouncing Check Law), violation of R.A. No. 3019 (Anti-Graft and Corrupt Practices Act), violation of R.A. No. 9160, as amended (Anti-Money Laundering Act), and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees); or (ii) violation of securities and banking laws, rules and regulations;
  - h. Persons who have been convicted by a court for an offense involving moral turpitude, and persons who have been sentenced to serve a term of imprisonment of more than six (6) years for other crimes but whose conviction has not yet become final and executory;
  - i. Persons with pending cases for offenses under R.A. No. 3591, as amended (PDIC Charter), or those who have been convicted for said cases but whose conviction has not yet become final and executory;
  - j. Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the Bangko Sentral, where a penalty of removal from office is imposed, and which resolution of the Monetary Board is on appeal, unless execution or enforcement thereof is restrained by the appellate court.
  - k. Persons against whom a formal charge has been filed or who are found liable by any government agency / corporation, including government financial institution, for violation of any law, rule or regulation involving dishonesty, misconduct or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affects their fitness and propriety as directors/officers, and which finding of said government institution is on appeal, unless execution or enforcement thereof is restrained by the appellate court; and Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the Bangko Sentral, where a penalty of suspension from office or fine is imposed, unless the finding is on appeal and the execution of enforcement thereof is restrained by the appellate court.
  - l. Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the Bangko Sentral, where a penalty of suspension from office or fine is imposed, unless the finding is on appeal and the execution of enforcement thereof is restrained by the appellate court.
  - m. Dismissal or termination for cause as director of any publicly-listed company, public company, registered issuer of securities and holder of a secondary license from the Commission. The disqualification should be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;
  - n. If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with; and
  - o. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

### **Disqualifications of Officers**

- a. The permanent disqualifications for Directors in items "a" to "h" and temporary disqualifications in items "a" to "l" shall also apply to Officers.

BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

1. Definition of Related Party

*Related Party*<sup>1</sup> shall refer to:

**A. DOSRI**

1. Directors of BDOLF, as defined in MORB Subsec. X141.1
2. *Officers* of BDOLF, as defined in MORB Subsec. X142.1<sup>2</sup>
3. *Stockholder*<sup>3</sup> of BDOLF owning at least 1% of the Company's subscribed capital stock, singly or collectively with: i) spouse and/or relatives within the first degree of consanguinity or affinity, or relative, by legal adoption; ii) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; iii) a corporation, association or firm more than fifty percent (50%) of which is owned by the stockholder and/or his spouse and/or other first degree relatives by consanguinity, affinity or legal adoption.
4. *Related Interest* which shall refer to any of the following:
  - 4.1. Spouse or relative within the first degree of consanguinity or affinity, or relative by Legal adoption, of a director, officer or stockholder of BDOLF;
  - 4.2. Partnership of which a director, officer, or stockholder of BDOLF or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;
  - 4.3. Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;
  - 4.4. Corporation, association or firm of which any or a group of directors, officers, stockholders of the BDOLF and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm;
  - 4.5. Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in items 4.2 and 4.4;
  - 4.6. Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the lending Company or which controls majority interest of BDOLF pursuant to MORB Subsec. X303.1;

1 Related Parties (RP) refer to the following : DOSRI, Subsidiaries, Affiliates and Other Related Parties acting for themselves, as representative or agent for others, or as guarantors, sureties, endorsers, mortgagors, pledgers, assignors, or in any capacity in which (i) they become obligated or may become obligated to BDOLF to pay money or its equivalent or by any means whatsoever or (ii) there is a transfer of resources, services or obligations between BDOLF and the RP.

2 BDO Officers that are seconded to BDOLF shall be classified as Officer of both BDO and the host subsidiary. Checking with BDO HR shall be required to confirm if an officer of a subsidiary is seconded.

3 Stockholder shall refer to any stockholder of record in the books of the Company, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts. Stockholder shall also refer to a juridical person such as corporation, association or firm.



BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

4.7. Corporation, association or firm which has an existing management contract or any similar arrangement with the parent corporation of BDOLF; and

4.8. Non-governmental organizations (NGOs)/foundations that are engaged in retail Microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers of the BDOLF or any related Company.

**B.** *Subsidiary*<sup>4</sup> shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by BDOLF.

**C.** *Affiliates* shall refer to an entity linked directly or indirectly to BDOLF by means of:

1. Ownership, control as defined under MORB Subsec. X146.1, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;
2. Interlocking directorship or officership, where the concerned director or officer owns; controls, as defined under MORB Subsec. X146.1; or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty;
3. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of BDOLF and at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty;
4. Management contract or any arrangement granting power to BDOLF to direct or cause the direction of management and policies of the borrowing entity/counterparty; or
5. Permanent proxy or voting trusts in favor of BDOLF constituting at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;

*Note: In cases where the borrowing entity/counterparty is linked to BDOLF both as DOSRI & as a Subsidiary or Affiliate, the DOSRI rules shall apply.*

**D.** *Other Related Party*<sup>5</sup> which shall refer to any of the following:

1. An entity linked directly or indirectly to BDOLF by means of:
  - a. Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;
  - b. Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal shares in the borrowing corporation/counterparty;
  - c. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of BDOLF, and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty;
  - d. Permanent proxy or voting trusts in favor of BDOLF constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty.

<sup>4</sup> As defined in Section 1 of BSP Circular No. 914, Series of 2016

<sup>5</sup> As defined in Section 6 of BSP Circular No. 914, Series of 2016

BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

2. Second degree relatives by consanguinity (grandparents, grandchildren, brothers and sisters) or affinity (grandparents-in-law, brothers-in-law and sisters-in-law), legitimate or common-law<sup>6</sup>, of Directors and select Senior Officers of BDOLF (SVP or higher who has the ability to exercise significant influence on the outcome of the transaction<sup>7</sup>);
  3. Directors, Officers<sup>8</sup> and Stockholders<sup>9</sup> (DOS) of the affiliated<sup>10</sup> companies of BDOLF ;
  4. Spouse, and those relatives up to the second degree, by consanguinity (parents, children, grandchildren, brothers and sisters) or affinity (parents-in-law, children-in-law, grandparents-in-law, grandchildren-in-law, brothers-in-law and sisters-in-law), legitimate or common-law, of Directors, and Officers<sup>11</sup> in affiliated companies of BDOLF.
  5. Persons/juridical entities that do not qualify as Other Related Party based on above definitions, but which the business unit / delegated approver, with abundance of caution, opted to classify as such, subject to the evaluation and approval of the Related Party Transactions Committee (RPTC).
2. The Company shall maintain a central Related Party Database<sup>12</sup> to be used as reference by business units.
  3. Transactions of the Company with a Related Party shall be allowed. However, business units shall ensure that such transactions are conducted on an arm's length basis, or in the ordinary course of business.
  4. Coverage of the Related Party Transactions (RPT) Policy
    - a. The policy on RPTs shall cover the following:

Credit Transactions	Non-credit Transactions
1. Credit lines / facilities (on- and off-balance sheet)	1. Services <ul style="list-style-type: none"> <li>- consulting, professional, agency &amp; other service arrangements / contracts</li> <li>- construction arrangements / contracts</li> </ul>
2. Write-off of related party transactions	2. Goods & Materials <ul style="list-style-type: none"> <li>- sale, purchase or supply of any goods or materials</li> </ul>
3. Borrowing, commitments, fund transfers (representing advances / loan accommodations) and guarantees and sureties	3. Lease arrangements / contracts (as Lessor or Lessee)
	4. Assets <ul style="list-style-type: none"> <li>- purchases &amp; sales of assets including transfer of technology &amp; intangible items (research &amp; development, trademarks &amp; license agreements)</li> </ul>

6 Relatives arising from a relationship between a man and a woman who live exclusively with each other as husband and wife without the benefit of marriage.

7 Per BOD-approved guidelines dated June 25, 2016

8 Officer of the affiliated company" shall refer to: President, Chief Executive Officer, Chief Financial Officer, or Treasurer.

9 "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity **holding more than 50%** of the subscribed capital of the affiliated company.

10 Affiliated companies shall refer to the following: a. juridical/corporate Related Interests (RI); b. subsidiaries & affiliates of BDOLF; c. Any party that BDOLF exerts direct/indirect control over (as provided in item H1.a.1 of the RP Checklist) , or that exerts direct/indirect over BDOLF (as provided in item H.1.a.2 of the RP Checklist).

11 "Officer of the affiliated company" shall refer to: President, Chief Executive Officer, Chief Financial Officer, or Treasurer.

12 Posted in the designated BDOLF Shared Folder. For Officers, the BDO Employee Self-service shall be used as reference.

BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

	<p>5. Investments</p> <ul style="list-style-type: none"> <li>- investments and/or subscriptions for debt/equity issuances <b>not</b> traded in an active market</li> <li>- establishment of joint venture activities</li> </ul> <p>6. Trading &amp; derivative transactions <b>not</b> traded in an active market</p> <p>7. Guarantees, sureties and other grant of security interest issued by a related party for any of the above transactions</p>
--	---

b. Transactions excluded from the materiality threshold & reporting requirements shall include, but not limited, to the following:

1. regular trade transactions involving purchases and sales of financial instruments traded in an active market
2. those granted under BSP-approved fringe benefits program

Business units shall be responsible for identifying other transactions which may be excluded from the RPT approval & reporting requirements, providing justification, coordinating such with Compliance, and securing the necessary approval from RPTC & BOD once clearance from Compliance is obtained.

Note: Please refer to **Annex 1** for the sample memo to RPTC & BOD.

c. Related Party Transactions (RPTs) shall include not only transactions which are entered into with related parties, but also outstanding transactions which were entered into with an unrelated party that subsequently became a related party.

Note: Please refer to item II.9 for the detailed guidelines on handling changes in relationships.

5. The Related Party Transactions Committee or RPTC shall be primarily responsible for the assessment of material RPTs, and the regular reporting to the Board of Directors of the status and aggregate exposures to related parties.

6. Review and Approval of Related Party Transactions (RPTs)

- a. The following general approval matrix shall be observed to ensure the proper review and approval of transactions between the Company and a Related Party:

BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

Related Party Transactions <sup>13</sup>	Related Party	DISPOSITION		
		Transaction Approval	Approval / Endorsement	Approval
		Delegated Authority <sup>14</sup>	RPTC <sup>15</sup>	BOD <sup>15</sup>
1. All transactions within / above materiality threshold (material RPTs), including select <u>aggregated non-material non-credit</u> RPTs breaching materiality threshold <sup>16</sup>	All	✓	✓	✓
2. Transactions below materiality threshold (non-material RPTs) involving:				
- Credit transactions	DOSRI, Subsidiaries & Affiliates	✓		✓
- Write-off	All	✓		✓
3. Non-material RPTs except those cited in item 2 above	All	✓		

Note: Above approval, matrix shall also apply to updating of terms of conditions. Prior approval shall be required for updating of terms & conditions of RPTs previously approved by the RPTC & BOD, and those, which will result in breach of materiality threshold based on company's aggregated exposure to the borrower / counterparty. Please refer to **Annex 2** for the specific approval matrix.

- b. RPTs for review / approval shall be evaluated based on the following factors:
- b.1. whether the terms of the transaction are fair or not more favorable than similar transactions with non-related parties;
  - b.2. whether the outcome of the transaction would pose any potential reputational risk issues;
  - b.3. whether the transaction would present an improper conflict of interest for any director or senior officer of the Company;
  - b.4. the availability of other sources of comparable products or services;

<sup>13</sup> Existing DOSRI rules (such as but not limited to the following: BSP Circular No. 423 re Ceilings on Loans/Credit Accommodations to DOSRI; BSP Circular No. 560 re Ceilings on Loans/Credit Accommodations to Subsidiaries/Affiliates; BSP Circular No. 737 re Real Estate and Chattel Transactions with DOSRI/Employees; BSP Circular No. 749 re Guidelines on Corporate Governance) shall apply. Guarantees, sureties and other grant of security interest issued by a related party for the covered transactions shall likewise be subject to the requirements of the policy.

<sup>14</sup> based on the latest approval matrix

<sup>15</sup> To be coursed thru the Office of the Corporate Secretary; existing procedures on the endorsement of transaction for review & approval/confirmation of the designated reviewing committee / Board of Directors shall continue to be observed.

<sup>16</sup> Applicable to sale of assets, sale/purchase of goods & materials, and leases; prior to RPTC/BOD approval shall be required if aggregated YTD RPT shall reach the Php 10M materiality threshold for credit and Php 1M materiality threshold for non-credit.



BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

- b.5. the material facts of the proposed transaction, including its aggregate value vis-a-vis the Company's aggregate exposure limits
- b.6. any other information (e.g., price discovery mechanism, etc.) deemed relevant to allow determination if terms are comparable to those given to unrelated parties or reasonable under the circumstances
- c. To facilitate the approval and/or confirmation of RPTs, and the subsequent reporting of material RPTs to BSP, the secretariat / designated personnel of the delegated approving authority shall sort the approval media of proposed RPTs, and prepare the corresponding report. (*Exhibit 1-1A*).
- d. Any member of the reviewing committee / Board of Directors who has a potential interest in any proposed RPT shall abstain from the discussion or deliberation.

7. Role of Business Units

To facilitate the proper evaluation of related party transactions (RPT), concerned business units shall perform the following:

- a. Identification of a related party (RP) account, and determination of the appropriate RP classification
- b. Tagging of the appropriate RP code in the respective system or database (i.e., Ambit Asset Finance [AAF], Factors Management System [FaMS], Fund Management System [FMS], and/or ICBS-CIF)

Note: Business units which are non-CIF owners / without access to ICBS shall endorse the account for tagging to the respective CIF owner.<sup>17</sup> Endorsement shall be made via e-mail and shall include the established RP classification of the account.

- c. Obtaining data to show that terms and conditions granted to related borrower / counterparty are not more favorable than similar transactions with non-related parties, or are comparable with similar transactions of other companies/entities
- d. Disclosure of the required data in the applicable transaction document (e.g., Credit Proposal, Request for Booking, Purchase Order, etc.)

Please refer to **Annex 3** for the Duties and Responsibilities of all concerned units on RPT processing & reporting.

8. Guide in Determining a Related Party & Tagging of Accounts

- a. Business units shall make use of the applicable information sheet (e.g., Customer Information Record / equivalent document & Related Party Questionnaire (*Exhibit 3*) for individual<sup>18</sup>, General Information Sheet for non-individual<sup>19</sup>) to determine whether a client / counterparty is a related party.
- b. To determine client's / counterparty's classification<sup>20</sup> with finality, business units shall be required to **accomplish & print** the Related Party Checklist (*Exhibit 2*).

---

<sup>17</sup> CIF owner shall be determined based on the client's/counterparty's existing relationship with the Company.

<sup>18</sup> includes sole proprietorship, for RPT purposes

<sup>19</sup> or the equivalent document for other type of entities

<sup>20</sup> Includes 'Non-Related Party' please refer to BSD M2016/0145 ( re: Updated RP Code Field in ICBS-CIF) for the updated list of RP classification & respective codes

BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

However, for counterparties initially identified as Director & spouse / relatives up to 1<sup>st</sup> degree of Directors, Officer & spouse/relatives up to 1<sup>st</sup> degree of Officers, Stockholder (owning at least 1%), or Subsidiary based on the accomplished / submitted information sheet, use of RP Checklist shall no longer be required. Confirmation of RP classification shall be done as follows:

Identified RP Classification	Reference
Director, Stockholder (owning at least 1%) or Subsidiary, and spouse/relatives up to 1 <sup>st</sup> degree of Directors & Officers	Related Party (RP) Database <sup>21</sup>
Officer	Employee Self-service (ESS)

Business units shall document verification made by affixing the following details in the corresponding information sheet (i.e., RP Questionnaire for individual & GIS for non-individual):

1. RP classification (i.e., Director, Officer, Stockholder, or Subsidiary, or Related Interest (for spouse/relatives up to 1<sup>st</sup> degree of BDOLF Directors /Officers)
  2. Date of verification
  3. Signature of reviewing & approving personnel
- c. Business units shall ensure that accounts identified and confirmed to be a related party are properly tagged in the respective transaction system/database ( AAF, FaMS, FMS, and/or ICBS-CIF)

To determine if the client / counterparty has already been tagged in ICBS, business units shall refer to the RP Database. Tagging of accounts in ICBS shall be done on the following instances:

- if client's / counterparty's name is found in the database but without a Logical Branch Code
- if client's / counterparty's name is found in the database but RP classification is incorrect / not updated
- if client's / counterparty's name is not found in the database.

Notes:

- To facilitate updating of RP Database, both the newly-identified related parties and non-related parties<sup>22</sup> shall be tagged in AAF, FaMS, FMS, and/or ICBS accordingly.
  - Please refer to BSD M2016/0145 (Updated RP Code Field in ICBS-CIF) for the updated RP Codes
  - For names without indicated CIF owner / Logical Branch Code<sup>23</sup> & names not found in the database, CIF owner shall be identified based on the client's / counterparty's existing relationship with the Company, as disclosed in the Customer Information Sheet (CIS) or equivalent document.
  - In exception cases where identified RPs do not have any transaction captured in AAF, FaMS, FMS and/or ICBS (e.g. Lessors who may not be maintaining an account with the Company), business units shall request inclusion in the RP Database by sending an e-mail to Compliance.<sup>24</sup>
- d. Details of verification against the RP Database, and subsequent tagging in the AAF, FaMS, FMS and/or ICBS-CIF or endorsement to Compliance shall be recorded in the applicable information sheet (e.g., RP Questionnaire, GIS or RP Checklist).

<sup>21</sup> posted in the designated BDOLF Shared folder. For Officers, the BDO Employee Self-Service shall be used as reference.

<sup>22</sup> to cover those accounts previously identified/tagged as RP but subsequently became a non-RP

<sup>23</sup> Identified as RP based on available information with the Office of the Corporate Secretary

<sup>24</sup> Specific e-mail address to be announced by Compliance separately

BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

- e. Concerned CIF Owner and Compliance shall send an e-mail confirmation on successful tagging in ICBS, AAF, FaMS, and FMS and inclusion in RP Database, respectively, to the requesting business unit within three (3) banking days upon receipt of request.
- f. Compliance Office shall be responsible for the periodic updating of the RP Database, as follows:

RP Classification	Schedule of Updating
Directors, Stockholders & Subsidiary <sup>25</sup>	Monthly or as necessary
Related Interests <sup>26</sup> , Affiliates <sup>27</sup> & Other Related Party <sup>28</sup>	
Directors, Officers <sup>29</sup> & Stockholders <sup>30</sup> of Select Affiliated <sup>31</sup> Companies	Quarterly or as necessary

\*The List of Select Senior Officers of BDOLF (SVPs & up with significant influence)<sup>32</sup> shall be updated as necessary.

The RP Database shall bear the notation 'Updated as of (date)' for the guidance of the business units.

9. To capture subsequent changes in relationships (i.e., unrelated party becoming a related party & vice versa, and changes in RP classification), business units shall require existing clients / counterparties to accomplish the Related Party Questionnaire<sup>33</sup> (*Exhibit 3*) (for individual) or submit updated General Information Sheet (for non-individual) on the following instances:

- upon renewal of the credit facility / agreement / contract;
- upon re-accreditation of vendor / service provider or renewal of contract, whichever comes first;
- upon updating of terms & conditions;
- upon client's voluntary disclosure of information (for client-initiated updating)

The RPT approval & reporting requirements shall apply based on the client's updated/latest RP classification (i.e. to be determined upon accomplishment of RP Questionnaire / Checklist, or verification of information against the RP Database<sup>34</sup>), and the amount involved in the transaction. Please refer to **Annex 2** for the Approval Matrix.

Note: To ensure that the RP Database is up-to-date, immediate updating of RP code tagging in AAF, FaMS, FMS and/or ICBS-CIF following the account's change in classification shall be done.

25 Identified as RP based on available information with the Office of the Corporate Secretary

26 via extract file from AAF, FaMS, FMS or ICBS-CIF

27 Compliance Office shall consolidate data from the Office of the Corporate Secretary and those extracted from AAF, FaMS, FMS and/or ICBS-CIF, prior to posting in the RP Database. The list is partial or non-exclusive in nature. Business units shall look at the ownership structure of the concerned entity and conduct due diligence to determine if it is an affiliate of BDOLF as defined in item II.1.C.

28 Compliance Office shall consolidate data from the Office of the Corporate Secretary and those extracted from AAF, FaMS, FMS and/or ICBS-CIF, prior to posting in the RP Database.

29 "Officer of the affiliated company" shall refer to: President, Chief Executive Officer, Chief Financial Officer, or Treasurer.

30 "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity **holding more than 50%** of the subscribed capital of the affiliated company.

31 Affiliated companies shall refer to the following: a. juridical/corporate Related Interests (RI); b. subsidiaries & affiliates of BDOLF; c. Any party that the bank exerts direct/indirect control over, or that exerts direct/indirect control over BDOLF

32 one of the references in identifying Other Related Parties

33 The handling Account Officer/frontliner may accomplish the questionnaire based on interview with the client / highly-reliable sources, in exception cases where it is not practicable for the client to accomplish such.

34 Posted in the designated BDOLF Shared Folder; for Officers, reference will be the BDO's Employee Self-service (ESS)

#### 10. Disclosure Requirements for Related Party Transactions

- a. Transaction approval documents shall bear the following information:
- a.1. related party classification of client / counterparty, and the basis for such classification
  - a.2. comparative terms and conditions (vs. non-RPTs of the company, or other company's similar transaction)

Notes:

1. In cases where relevant pricing terms are not available at the time of approval (such as interest rate which shall be determined upon loan booking and not upon initiation of credit proposal), disclosure on the timing and documentation of such shall be done on the appropriate transaction media (e.g., Credit Proposal). To illustrate, the following notation shall be indicated on the Credit Proposal upon credit initiation for BDOLF Marketing Units:

"The actual interest rate to be charged at booking date shall be comparable to similar transactions of non-related parties similarly situated or risk-rated, and will be substantiated/documented in the Request for Booking."

2. Transaction documents not bearing the required disclosures shall be returned by the designated personnel / secretariat of the delegated authority to the concerned business unit.
- b. To further aid RPTC/BOD in determining whether the transaction is fair or not more favorable than similar transactions with non-related parties, the prescribed benchmarking template (*Exhibit 1-E for credit transaction & Exhibit 1-F for non-credit transactions*) shall be accomplished by business units for all RPTs.

Note: For credit transactions, the interest rate<sup>35</sup> charged at booking date shall be reported to RPTC by re-submitting the corresponding benchmarking template used for the approved credit facility, with the actual interest rate likewise benchmarked against non-RPT accounts. Deviations from the rates approved by the management shall require disclosure.

- c. Disclosure of details<sup>36</sup> of material related party transactions shall be made by the Company in its Annual Stockholders' Meeting, and in the Annual Report, as necessary. Likewise, the Company's updated policy regarding related party transactions shall be disclosed in the website & in the Annual Corporate Governance Report.

#### 11. Reporting of Related Party Transactions

In addition to the required reports on transactions with DOSRI, Subsidiaries & Affiliates, the following reports shall be prepared:

<sup>35</sup> Determined following BDOLF's Guidelines on Pricing of Loans reviewed and approved by the RPTC

<sup>36</sup> Nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments.



BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

a. Reports for BSP

Report Name	Purpose	Unit Responsible for Manual Preparation/ Extraction	Unit Responsible for Consolidation / Submission to Designated Recipient	Schedule of Submission
1. Report on Material Related Party Transactions (Annex A)	Compliance to regulatory requirement	<p>- Comptrollership-Subsidiaries Accounting (<i>based on Exhibit 1/1A prepared by the Secretariat of the delegated approving authority</i>)</p> <p>Notes:</p> <p>a. The parent bank's report shall contain <u>all the company's transactions with any related party</u>, (i.e., including all subsidiaries &amp; affiliates, whether BSP-supervised or not).</p> <p>b. In case both the company and the counterparty are supervised by BSP, only the lessor, in case of a lease contract, or the party engaging/requesting the services, in case of other contracts, shall do the reporting of the transaction.</p> <p>c. Please refer to <i>Exhibits 1 &amp; 1A</i> for the report template.</p>	<p>Comptrollership-FRCD</p> <p>Note: The Annex A to be submitted to BSP by Comptrollership - FRCD shall also include the RPTs to be reported by BSP-supervised non-bank financial subsidiaries of BDO.</p>	<p>Submission by the Office of the Corporate Secretary / Comptrollership-Subsidiaries Accounting to Comptrollership - FRCD:</p> <p><u>Within fourteen (14) calendar days after the reference quarter</u></p> <p>Submission by Comptrollership - FRCD to BSP:</p> <p><u>Within twenty (20) calendar days after the reference quarter</u></p>

BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

b. Internal Reports

Report Name	Purpose	Unit Responsible for Preparation/ Extraction (for automated reports)	Unit Responsible for Consolidation / Submission to Designated Recipient	Schedule of Submission
1. Report on Material RPTs (Exhibit 1-1A)	To secure RPTC / BOD's approval	Designated Unit / Concerned Business Unit		Prior to execution of transaction
2. Report on Aggregated Non-material, Non-credit RPTs Breaching the Materiality Threshold (Exhibit 1B)				
3. Monthly Report on Outstanding Exposures to Related Parties ( <i>Annex B</i> )	For use by RPTC in monitoring credit exposures (as to status, total exposures per related party group, & aggregate exposures to all related parties)	BDOLF Comptrollership		Within eight (8) banking days after the reference month
4. Annual Report on Non-Material RPTs (Aggregated per RP) Exhibit 1C-1D	To facilitate monitoring of exposure, & for RPTC/BOD's confirmation/notation	Designated Unit / Concerned Business Unit <sup>37</sup>		Within ten (10) calendar days after year-end
5. Quarterly Report on Conglomerate Structure	For use by RPTC in monitoring changes in relationship	Office of the Corporate Governance		Within five (5) banking days prior to the next scheduled RPTC meeting

12. Stress Testing of Exposures

- a. On an annual basis, BDOLF RMU - Risk Management Unit (RMU) shall conduct a stress testing exercise on the company's related party exposures to determine its impact on capital adequacy ratios
- b. The RPTC shall be furnished by RMG-RASCU with the results of the stress testing exercise.

13. Handling of Abusive RPTs<sup>38</sup>

- a. Abusive RPTs shall be handled as follows:

<sup>37</sup> For RPTs not coursed thru / reported by the Secretariat of the delegated approving authority (e.g. credit transactions, leases)

<sup>38</sup> An RPT not conducted at arms's length

BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

Personnel involved in the Complaint	Unit Responsible for Investigation
Employee	Cases Review Committee (CRC)-Secretariat
Director	Corporate Governance Committee <sup>39</sup>

- b. Any member of the investigating committee who is a subject of the complaint shall recuse himself/herself from participating in the handling of the case.
- c. Reporting and investigation of abusive RPTs shall be handled following the Company's existing code of conduct and Whistleblowing Guidelines, while restitution of losses and remedies for abusive RPTs shall be handled following the Company's Cases Review Guidelines (for employees) and applicable guidelines (for Directors)

14. RPT Awareness Training

- a. Compliance shall coordinate with HR- Training for the inclusion and updating of the RPT module in the company's training program for employees.

15. Roles of Internal Audit and Compliance

- a. Internal Audit shall perform a periodic review of the effectiveness of the Company's system, controls and policies governing related party transactions, and shall report findings in the RPTC meeting following the issuance of the final report to concerned business unit.
- b. Compliance shall ensure that the Company's policies are up-to-date. It shall also conduct compliance test review of related party accounts/transactions to check concerned unit's compliance with RPT requirements, and shall report findings in the RPTC meeting following the issuance of the final report to concerned business unit.

<sup>39</sup> Thru the Office of the Corporate Governance

**Date** : \_\_\_\_\_

**For** : **Related Party Transactions Committee (RPTC)**  
**Board of Directors (BOD)**  
**BDO Leasing and Finance, Inc.**

**Thru** : **The Office of the Corporate Secretary**

**From** : **<Name>**  
**<Rank> and <Department / Group Name> Head**

**Subject** : **Request for Exclusion from RPT Approval & Reporting Requirements**

---

The Management of <Department / Group Name> would like to request the approval of the RPTC & BOD for the exclusion of \_\_\_\_\_ from the existing RPT approval & reporting requirements based on the following justifications:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

(Specify & attach supporting documents, as necessary.)

Please rest assured that the cited transaction will continue to be handled on an arm's length basis.

Thank you.

**<Name>**  
**<Rank>**  
**<Department> Head**

**<Name>**  
**<Rank>**  
**<Group> Head**



# RPT Approval Matrix

## Annex 2

I. Credit Transactions						
Transaction <sup>1</sup>	Amount	Related Party	DISPOSITION			
			Transaction Approval	Endorsement	Approval	Confirmation
			Designated Approver <sup>2</sup>	RPTC	BOD	
A. Within / Above Materiality Threshold						
1. Credit Facilities, Investments & Joint Ventures	PhP10M & above per transaction	All	✓	✓	✓	
2. Write-off of Related Party Transactions	PhP1M & above per transaction		✓	✓	✓	
B. Below Materiality Threshold						
1. Credit Facilities, Investments & Joint Ventures	below PhP10M	DOSRI, Subsidiaries or Affiliates	✓		✓	
2. Write-off of Related Party Transactions	below PhP1M		✓		✓	
C. Below Materiality Threshold						
1. Credit Facilities, Investments & Joint Ventures	below PhP10M	Other Related Parties	✓			✓
2. Write-off of Related Party Transactions	below PhP1M		✓		✓	

1 Existing DOSRI rules (such as but not limited to the following: BSP Circular No. 423 re Ceilings on Loans/Credit Accommodations to DOSRI; BSP Circular No. 560 re Ceilings on Loans/Credit Accommodations to Subsidiaries/Affiliates; BSP Circular No. 737 re Real Estate and Chattel Transactions with DOSRI/Employees; BSP Circular No. 749 re Guidelines on Corporate Governance) shall apply.

2 based on the latest approval matrix

## RPT Approval Matrix

II. Non-credit Transactions						
Transaction <sup>3</sup>	Amount	Related Party	DISPOSITION			
			Transaction Approval	Endorsement	Approval	Confirmation
			Designated Approver <sup>4</sup>	RPTC	BOD	
A. Within / Above Materiality Threshold						
1. Services	PhP1M and above per transaction	All	✓	✓	✓	
2. Goods and Materials	PhP1M and above per transaction		✓	✓	✓	
3. Leases	PhP1M and above per transaction		✓	✓	✓	
4. Assets	PhP1M and above per transaction		✓	✓	✓	
B. Below Materiality Threshold						
1. Services	below PhP1M	All	✓			✓
2. Goods and Materials	below PhP1M		✓			✓
3. Leases	below PhP1M		✓			✓
4. Assets	below PhP1M		✓			✓

<sup>3</sup> Existing DOSRI rules (such as but not limited to the following: BSP Circular No. 423 re Ceilings on Loans/Credit Accommodations to DOSRI; BSP Circular No. 560 re Ceilings on Loans/Credit Accommodations to Subsidiaries/Affiliates; BSP Circular No. 737 re Real Estate and Chattel Transactions with DOSRI/Employees; BSP Circular No. 749 re Guidelines on Corporate Governance) shall apply.

<sup>4</sup> based on the latest approval matrix

### A. Business Units

1. Determine related party classification of the borrower / counterparty.
2. Tag/Facilitate tagging of accounts in the respective system or database (e.g., Ambit Asset Finance (AAF) for borrowing clients; applicable system / database for supplies / service providers, lessees, lessors, etc.) and in ICBS/AAF.

For non-CIF owner BUs, request change in tagging and monitor receipt of confirmation on the updated RP tag in ICBS/AAF from the CIF owner.

In exception cases where identified related parties do not have any transaction captured in ICBS/AAF, request inclusion in the RP Database by sending an e-mail to Compliance<sup>1</sup>, and monitor receipt of confirmation.

3. Obtain data to show that terms and conditions granted to related borrower / counterparty are not more favorable than similar transactions with non-related parties, or are comparable with similar transactions of other entities. Please refer to *Exhibit 1E & Exhibit 1F* for the benchmarking template for credit & non-credit RPTs, respectively.
4. Disclose the required data in the applicable transaction document (e.g., Credit Proposal, Request for Booking, Purchase Order, etc.).
5. Submit related party transactions (RPTs) for approval to the delegated authority.
6. Submit non-material RPTs to the RPTC & Board of Directors for confirmation<sup>2</sup>.
7. Provide justification for additional transaction/s to be excluded from materiality threshold & reporting requirements, if any, coordinate such with Compliance, and secure RPTC and BOD's approval once clearance from Compliance is obtained.
8. Secure approval from RPTC on proposed classification of counterparties who do not fail in any of the definitions specified in item II.1 of the PPC, but whose interests may pose actual or potential conflict with the interest of the company.

### B. CIF Owners

1. Tag accounts in ICBS/AAF, and as applicable, send e-mail confirmation on successful tagging to the requesting business unit within three (3) banking days.
2. Following existing DOSRI rules, secure BOD approval for the outstanding credit transactions of accounts with changed classification (i.e., from non-RP to RP, or change to higher RP classification).

### C. Delegated Approving Authority<sup>3</sup>

1. Review and approve transactions following existing approval guidelines.
2. Endorse material and select non-material RPTs to the delegated approving authority.

### D. Secretariat of the Delegated Approving Authority

---

1 specific e-mail address to be announced by Compliance separately  
 2 For RPTs not coursed thru / reported by the Secretariat of the delegated approving authority(e.g. credit transactions, leases)  
 3 based on the latest approval matrix

1. Sort RPTs for endorsement to the delegated authority, as follows:

Type of RPT	Delegated Authority	Disposition
a. all material RPTsand select <u>aggregated non-material non-credit</u> RPTs breaching materiality threshold <sup>4</sup>	Related Party Transactions Committee (RPTC) and Board of Directors (BOD)	Approval
b. non-material RPTs involving:  b.1. credit accommodations to DOSRI, Subsidiaries or Affiliates;  b.2. write-off (regardless of related party)	BOD	Approval
c. Non-material RPTs except those cited in item 1.b above	BOD	Confirmation

2. Prepare & submit for review the Report on Material RPTs (*Exhibit 1/1A*) to be attached to the approval media of proposed material RPTs.

3. Transmit documents, as follows:

Item for Transmittal	Recipient
<b>a. Material RPTs</b> and select aggregated non-material, non-credit RPTs breaching the materiality threshold  Hardcopy of transaction approval documents and Report on Material RPTs ( <i>Exhibit 1/1A</i> )  Softcopy of the Report on Material RPTs ( <i>Exhibit 1/1A</i> )	RPTC  Office of the Corporate Secretary
<b>b. Non-material RPTs cited in item D.1.b above</b>  Hardcopy of transaction approval documents	BOD
<b>c. Non-material RPTs except those cited in item D.1.b above</b>  Hardcopy of transaction approval documents	Concerned business unit (for subsequent submission to BOD for confirmation)

#### E. Related Party Transactions Committee (RPTC)

1. Evaluate the following and endorse the same to the Board of Directors (BOD) for approval:

- a. proposed material RPTs
- b. proposed additional transaction/s for exclusion from materiality threshold & reporting requirements

<sup>4</sup> applicable to sale of assets, sale/purchase of goods & materials, and leases; prior RPTC/BOD approval shall be required if aggregated YTD RPT shall reach the PHP10M materiality threshold for credit transactions and PHP1M for non-credit transactions



2. Report to BOD the Company's aggregate exposure to each related party, and the total amount of exposures to all related parties on a monthly basis.

3. Review & confirm non-material RPTs

4. Evaluate and approve classification of counterparties who do not fall in any of the definitions specified in item II. 1 of the PPC, but whose interests may pose actual or potential conflict with the interest of the company, as determined by the concerned business unit.

#### **F. Board of Directors (BOD)**

1. Review & approve the following:

- a. proposed material RPTs
- b. proposed non-material RPTs involving credit accommodations to DOSRI, Subsidiary or Affiliate, & write-off (regardless of related party)
- c. proposed additional transaction/s for exclusion from materiality threshold & reporting requirements

2. Review & confirm non-material RPTs except those cited in item F.1.b above.

#### **G. Office of the Corporate Secretary**

1. Update / Furnish Compliance Unit with the following data:

- a. Directors of BDOLF
- b. Stockholders of BDOLF (owning at least 1% of the Company's total subscribed capital)
- c. Subsidiaries of BDOLF
- d. Select Affiliates<sup>5</sup> of BDOLF
- e. Directors, Officers<sup>6</sup> and Stockholders<sup>7</sup> of select affiliated<sup>8</sup> companies

2. Update the Report on Material RPTs (*Exhibit 1/1A*) by specifying the date of approval of BOD as the "Transaction Date".

3. Consolidate softcopies of Report on Material RPTs (*Exhibit 1/1A*) on a quarterly basis, and transmit the following documents to Comptrollership-FRCD within fourteen (14) calendar days after the reference quarter:

- a. signed hardcopy of Report/s on Material RPTs (*Exhibit 1/1A*)
- b. softcopy of consolidated Report on (approved) Material RPTs

#### **H. BDO Comptrollership - Financial and Reporting Control Department (FRCD)**

1. On a quarterly basis, receive and consolidate the Report on Material RPTs of the main bank and its BSP-supervised non-bank financial subsidiaries.

2. Check the consolidated Report on Material RPTs against the corresponding signed hardcopy upon receipt of the documents from the Office of the Corporate Secretary (for the main company's RPTs) and Comptrollership - Subsidiaries Accounting (for the RPTs of BSP-supervised non-bank financial subsidiaries of the company).

---

5 The list is partial and non-exclusive in nature. Business units shall look at the ownership structure of the concerned entity and conduct due diligence to determine if it is an affiliate of BDOLF as defined in item II.1.C. of the PPC

6 "Officer of the affiliated company" shall refer to the President, Chief Executive Officer, Chief Financial Officer, or Treasurer.

7 "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity **holding more than 50%** of the subscribed capital of the affiliated company.

8 Affiliated companies shall refer to the following: a. juridical/corporate Related Interests (RI); b. subsidiaries & affiliates of BDOLF; c. Any party that the bank exerts direct/indirect control over, or that exerts direct/indirect control over BDOLF.

3. Prepare *Annex A* cover and secure appropriate approvals.
4. Submit the signed-off *Annex A* to BSP within 20 calendar days after the reference quarter.

#### **I. BDOLF Comptrollership**

1. Prepare / Extract Monthly Report on Outstanding Exposures to Related Parties (Annex B) and submit the same to RPTC thru the Office of the Corporate Secretary (i.e., within 8 banking days after the reference month).

#### **J. Concerned Business Units**

1. On a monthly basis, re-submit to RPTC the benchmarking template of account/s (i.e., material RPTs previously-approved by RPTC) with loan/finance lease availments to present the actual interest charged at booking date.

#### **K. RMU**

1. On an annual basis, conduct a stress testing exercise on the company's related party exposure vis-a-vis the established capital, and furnish RPTC with the results.

#### **L. Compliance Unit**

1. Provide the data on select Senior Officers of the Company (SVPs and up who has the ability to exercise significant influence on the outcome of the RPT).
2. Perform updating of RP Database on a regular basis.
3. Conduct compliance test review of related party accounts/transactions to check concerned unit's compliance with RPT requirements, and report findings in the RPTC meeting following the issuance of the final report to concerned business unit
4. Ensure that the company's policies are up-to-date.
5. Facilitate inclusion (in the RP Database) of identified RPs without any transaction captured in ICBS/AAF, and send an e-mail confirmation on successful inclusion to the requesting business unit within three (3) banking days upon receipt of request.
6. Coordinate with business units requesting exclusion of transactions from the RPT approval & reporting requirements.
7. Coordinate with HR- Training for the inclusion and updating of the RPT module in the company's training program for employees.

#### **M. Internal Audit**

1. Perform a periodic review of the effectiveness of the company's system, controls and policies governing related party transactions, and report findings in the RPTC meeting following the issuance of the final report to concerned business unit

**Annex A**

Category:

Category A-1

Deadline:

20 calendar days  
after the reference  
quarter

Name of Bank	Code
Address	

**Report on Material Related Party Transactions**

As of	
	(Quarter-End)

REPUBLIC OF THE PHILIPPINES)

\_\_\_\_\_) S.S.

I solemnly swear that all matters set forth in this report are true and correct, to the best of my knowledge and belief.

\_\_\_\_\_  
Signature of Officer / Alternate

SUBSCRIBED AND SWORN TO BEFORE ME this \_\_\_\_\_ day of  
\_\_\_\_\_, 20\_\_, affiant exhibiting to me his Community Tax Certificate No. \_\_ A  
on \_\_\_\_\_ 20\_\_.

Notary Public

Until December 31, 20\_\_\_\_\_

PTR No. \_\_\_\_\_

Place \_\_\_\_\_

Doc. No. \_\_\_\_\_

Page No. \_\_\_\_\_

Book No. \_\_\_\_\_

Series of \_\_\_\_\_

**Material Related Party Transactions**  
**(Name of Company)**      **(Code)**  
**Date**

**Annex A**

Company and Subsidiary / Affiliate	Related Counterparty	Relationship Between the Parties	Transaction Date	Type of Transaction	Amount / Contract Price	Terms	Rationale for Entering into the Transaction
<b>A. BDO Leasing and Finance, Inc.</b>							
1. Subsidiaries & Affiliates							
2. DOSRI							
3. Others							
<b>B. Subsidiary 1</b>							
1. Subsidiaries & Affiliates							
2. DOSRI							
3. Others							
<b>C. Subsidiary 2</b>							
1. Subsidiaries & Affiliates							
2. DOSRI							
3. Others							
<b>D. Affiliate 1</b>							
1. Subsidiaries & Affiliates							
2. DOSRI							
3. Others							
<b>E. Affiliate 2</b>							
1. Subsidiaries & Affiliates							
2. DOSRI							
3. Others							

*Please indicate in the last column (rationale for entering into the transaction) if the counterparty was a non-related party at the time when the transaction was entered into.*



BDO Leasing and Finance, Inc.  
Report on Outstanding Exposures to Related Parties  
As of \_\_\_\_\_

**Annex B**  
**Monthly Report**

Account Name	Outstanding Balance	Aggregate Ceiling*
<b>I. DOSRI</b>		
<b>A. Current Accounts</b>		
<b>Total Current</b>		
<b>B. Past Due Accounts</b>		
<b>Total Past Due</b>		
<b>C. ITL (Items in Litigation)</b>		
<b>Total ITL</b>		
<b>Total DOSRI</b>		PHP _____
<b>II. Subsidiaries &amp; Affiliates</b>		
<b>A. Current Accounts</b>		
<b>Total Current</b>		
<b>B. Past Due Accounts</b>		
<b>Total Past Due</b>		
<b>C. ITL</b>		
<b>Total ITL</b>		
<b>Total Subsidiaries &amp; Affiliates</b>		PHP _____
<b>III. Other Related Parties</b>		
<b>A. Current Accounts</b>		
<b>Total Current</b>		
<b>B. Past Due Accounts</b>		
<b>Total Past Due</b>		
<b>C. ITL</b>		
<b>Total ITL</b>		
<b>Total Other Related Parties</b>		PHP _____
<b>GRAND TOTAL</b>		

\*Allowable Aggregate Ceiling for DOSRI, Subsidiaries & Affiliates, & Other Related Parties is based on the following:

- a. DOSRI - Maximum of 15% of BDOLF's Qualifying Capital
- b. Subsidiaries & Affiliates - Maximum of 15% of BDOLF's Qualifying Capital
- c. Other Related Parties - Maximum of 4x of the Qualifying Capital

Company's Total Net Worth - \_\_\_\_\_  
15% of Total Loan Portfolio - \_\_\_\_\_

I. BDOLF's Transactions

(Note: Please fill out this portion for CREDIT RPTs only.)

Company and Subsidiary / Affiliate	Related Counterparty (Name of Related Counterparty, including co-users/co-borrowers (for credit RPTs))	Relationship Between the Parties (what makes the parties "Related Parties", e.g., counterparty is a stockholder, etc.)	Transaction Date (the date the transaction was approved by the BOD; to be accomplished by the Office of the Corporate Secretary upon	Type of Transaction (covered transactions as specified in the PPC)	Amount / Contract Price (should be within or above the materiality threshold)	Terms (duration of the contract / transaction)	Rationale for Entering into the Transaction (to be accomplished only for renewal / updating of T&C of an existing RPT)*	Type of Transaction (Please check.)			Is credit accommodation advised? (Y/N)	Is credit accommodation secured? (Y/N)	Type of Security (if secured)	Credit Risk Rating of Borrower	Maximum Tenor of Credit Accommodation	Maximum Loanable Amount
								New	Renewal w/ Increase	Renewal w/o Increase						
A. Subsidiaries & Affiliates (refers to ALL the subs & affiliates of BDO Leasing and Finance, Inc., whether BSP-supervised or not)													(e.g., deposit security, real estate security, etc.)			
B. DOSRI (refers to DOSRI of BDO Leasing and Finance, Inc.)																
C. Other Related Parties (related counterparties not covered by A & B above)																

Note: Pricing of the material RPTs is equal or at least comparable to the pricing given to similarly-rated transactions with non-related parties.

\*As applicable, please indicate in the last column (Rationale for Entering into the Transaction) if the counterparty was a non-related party at the time when the transaction was entered into.

Prepared by:

Reviewed/Approved by:

**Report on Material Related Party Transactions (for Leases & Services)**

Date: \_\_\_\_\_

**Exhibit 1-A**

**Report on Material RPTs (for Leases and Services)**

**I. BDOLF's Transactions**

Company and Subsidiary / Affiliate	Related Counterparty (Name of Related Counterparty)	Relationship Between the Parties (what makes the parties "Related Parties", e.g., counterparty is a stockholder, etc.)	Transaction Date (the date the transaction was approved by the BOD; to be accomplished by the Office of the Corporate Secretary upon BOD approval)	Type of Transaction (covered transactions as specified in the PPC)	Amount / Contract Price (should be within or above the materiality threshold)	Terms (duration of the contract / transaction)	Rationale for Entering into the Transaction (to be accomplished only for renewal / updating of T&C of an existing RPT)
A. Subsidiaries & Affiliates (refers to the subs & affiliates of BDO Leasing and Finance, Inc.)							
A.1. With BSP-supervised Subsidiaries as the Counterparty							
A.1.a. With Company as Lessor or Requestor of Service							
A.1.b. With Company as Lessee or Provider of Service							
A.2. With non-BSP-supervised Subsidiaries as the Counterparty							
B. DOSRI (refers to DOSRI of BDO Leasing and Finance, Inc.)							
C. Other Related Parties (related counterparties not covered by A & B above)							

Note: Pricing of the material RPTs is equal or at least comparable to the pricing given to similarly-rated transactions with non-related parties.

\*As applicable, please indicate in the last column (Rationale for Entering into the Transaction) if the counterparty was a non-related party at the time when the transaction was entered into.

Prepared by:

Reviewed/Approved by:

**Exhibit 1-B**

**Report on Aggregated Non-material, Non-credit RPTs Breaching Materiality Threshold**  
**Date:** \_\_\_\_\_

<b>Type of Transaction:</b>	<b><i>Purchase of Goods</i></b>
<b>Name of Counterparty:</b>	
<b>Relationship of BDOLF to Counterparty:</b>	
<b>Year-to-Date Aggregate Exposure to cited RP:</b>	
<b>Amount / Contract Price of New Transaction:</b>	
<b>Total Exposure to Counterparty</b>	<b>-</b>

**Prepared by:**

**Noted by:**



**Report on Non-material RPTs for Confirmation by RPTC & BOD****Business Unit:** \_\_\_\_\_**Date:** \_\_\_\_\_**I. Non-credit Transactions**

Related Party	No. of RPTs for the Year	Total Amount of RPTs for the Year
<b>A. Subsidiaries &amp; Affiliates (refers to subs &amp; affiliates of BDOLF)</b>		
1. Related Party 1		
2. Related Party 2		
<b>B. DOSRI (refers to DOSRI of BDOLF)</b>		
1. Related Party 1		
2. Related Party 2		
3. Related Party 3		
<b>C. Other Related Parties (related parties not covered by A &amp; B above)</b>		
1. Related Party 1		
2. Related Party 2		

**II. Credit Transactions**

Name of Counterparty (Name of Related Party including co-users/co-borrowers)	No. of RPTs for the Year	Total Amount of Credit Line/Facility
<b>A. Other Related Parties</b>		
1. Related Party 1		
2. Related Party 2		

**Prepared by:****Noted by:**

**Report on Non-material Credit RPTs (Previously-approved by BOD) for Notation by RPTC****Business Unit:** \_\_\_\_\_**Date:** \_\_\_\_\_

Name of Counterparty (Name of Related Party <u>including co-users/co-borrowers</u> )	No. of RPTs for the Year	Total Amount of Credit Line / Facility
<b>A. Subsidiaries &amp; Affiliates (refers to subs &amp; affiliates of BDOLF)</b>		
1. Related Party 1		
2. Related Party 2		
<b>B. DOSRI (refers to DOSRI of BDOLF)</b>		
1. Related Party 1		
2. Related Party 2		
3. Related Party 3		

**Prepared by:****Noted by:**

## RMG Guidelines

1. Following are the five (5) criteria to be used when identifying comparable non-RPT accounts against which the RPT account shall be benchmarked:

- a. **Facility** - pertains to the type of credit accommodation extended to the RPT. This could be short-term or long-term in nature.
- b. **Risk Rating** - based on the most recent approved risk rating of the RPT and its comparables
- c. **Industry** - based on category per Philippine Standard Industrial Classification (PSIC) code
- d. **Firm Size** - classified as Micro, Small, Medium or Large category
- e. **Collateral** - collateral/s securing the credit facility/ies

2. The AO shall perform benchmarking by checking BDOLF Marketing Unit portfolio for similarly-situated non-RPT accounts using all the five (5) criteria, on a best effort basis.

3. The RPT Benchmarking Template shall be prepared and attached to the Credit Proposal of the RPT for approval. The terms and conditions shall likewise be matched on a per facility basis, for comparability. However, only the NON-STANDARD terms and conditions shall be indicated in the matrix.

4. Upon loan availment, the same benchmarking template shall be updated by indicating the actual interest rates (likewise benchmarked against non-RPT accounts), and re-submitted to the RPTC on a monthly basis.

**NOTE:** In case the chosen non-RPT account has no availment at the time of the related party's loan availment, an alternate non-RPT account matching the identified parameters, may be used.

**RPT Benchmarking Template (CREDIT)**

Date: \_\_\_\_\_

Details of Facility	RP Account (_____)	Non-RP Account 1 (_____)	Non-RP Account 2 (_____)
<b>CRITERIA FOR SELECTION OF COMPARABLE NON-RPT ACCOUNTS:</b>			
Facility			
Risk Rating			
Industry			
Firm / Asset Size			
Collateral			
<b>COMPARATIVE TERMS AND CONDITIONS</b>			
<b>FACILITY1</b>			
INTEREST RATE			
LOAN VALUE OF COLLATERAL			
TOP UP/PAY DOWN PROVISION			
OTHER NON STANDARD TERMS & CONDITIONS			
Date of Availment			
<b>FACILITY2</b>			
INTEREST RATE			
LOAN VALUE OF COLLATERAL			
TOP UP/PAY DOWN PROVISION			
OTHER NON STANDARD TERMS & CONDITIONS			
Date of Availment			
<b>REMARKS (as applicable)</b>			

Prepared by:

Approved by:



**Benchmarking Template for RPT (NON-CREDIT)**

**Exhibit 1-F**

<b>RPT Details</b>	<b>Account Name / Related Party</b>	<b>Non-RPT Account</b>	<b>Non-RPT Account</b>
<b>A. Basis for Selection (of Comparable Non- RPT Accounts)</b>			
<b>B. Comparative Terms &amp; Conditions</b>			
<b>Applicable metrics</b> (e.g., unit cost, approved indicative price, lease rate, service fee, etc.), <b>and</b> <b>other relevant details</b> [e.g., interest rate, repayment period & collateral (for sale of assets), price discovery mechanism employed (as applicable), etc.]			
<b>C. Remarks</b>			

**Prepared by:**

**Approved by:**

<b>RELATED PARTY QUESTIONNAIRE (Individual)</b>			
<b>Name of the Client / Counterparty</b>			
<b>Date Accomplished</b>			
1. Are you a director, officer or stockholder of BDOLF and/or affiliated companies?		[ ] Yes    [ ] No	
If YES, please specify the following:			
Company Name: _____ [ ] Director    [ ] Officer    [ ] Stockholder			
Company Name: _____ [ ] Director    [ ] Officer    [ ] Stockholder			
Company Name: _____ [ ] Director    [ ] Officer    [ ] Stockholder			
For stockholders: Do you own shares of stocks of BDOLF and/or affiliated companies, collectively with your spouse and/or relatives within the first degree of consanguinity or affinity, or relative by legal adoption?    [ ] Yes    [ ] No			
If YES, please specify the following:			
Name of Co-owner: _____ Relationship: _____			
2. Are you a spouse or a first degree relative, i.e., parent or child (biological, legally adopted, or in-law) of a Director, Officer, Stockholder of BDOLF and/or affiliated companies?		[ ] Yes    [ ] No	
If YES, please specify the following: <i>(Please attach additional sheets as necessary.)</i>			
Name of Relative  <div style="display: flex; justify-content: space-between; border-top: 1px solid black; margin-top: 10px;"> <span>Last Name</span> <span>First Name</span> <span>Middle Name</span> </div> <div style="display: flex; justify-content: space-between; border-top: 1px solid black; margin-top: 10px;"> <span>Last Name</span> <span>First Name</span> <span>Middle Name</span> </div> <div style="display: flex; justify-content: space-between; border-top: 1px solid black; margin-top: 10px;"> <span>Last Name</span> <span>First Name</span> <span>Middle Name</span> </div>			Company Name  <div style="border-top: 1px solid black; height: 20px; margin-top: 10px;"></div> <div style="border-top: 1px solid black; height: 20px; margin-top: 10px;"></div> <div style="border-top: 1px solid black; height: 20px; margin-top: 10px;"></div>
3. Are you a second degree relative, i.e., grandparent, brother, sister, (biological, legally adopted, or in-law) of a Director, Officer, Stockholder of BDOLF and/or affiliated companies?		[ ] Yes    [ ] No	
If YES, please specify the following: <i>(Please attach additional sheets as necessary.)</i>			
Name of Relative  <div style="display: flex; justify-content: space-between; border-top: 1px solid black; margin-top: 10px;"> <span>Last Name</span> <span>First Name</span> <span>Middle Name</span> </div> <div style="display: flex; justify-content: space-between; border-top: 1px solid black; margin-top: 10px;"> <span>Last Name</span> <span>First Name</span> <span>Middle Name</span> </div> <div style="display: flex; justify-content: space-between; border-top: 1px solid black; margin-top: 10px;"> <span>Last Name</span> <span>First Name</span> <span>Middle Name</span> </div>			Company Name  <div style="border-top: 1px solid black; height: 20px; margin-top: 10px;"></div> <div style="border-top: 1px solid black; height: 20px; margin-top: 10px;"></div> <div style="border-top: 1px solid black; height: 20px; margin-top: 10px;"></div>
<b>Accomplished by:</b> _____			

<b>Signature Over Printed Name</b>	
<b>For BDOLF Use Only</b>	
<b>Borrower's/Counterparty's RP Classification / Date of Verification against RP Database / ESS<sup>1</sup></b>	<b>Reviewed/Approved By</b>
<b>ACTION TAKEN</b>	
<b>For borrower/counterparty with CIF record:</b>	
- Tagged in ICBS/AAF-CIF; or	Date Tagged:
- Referred to CIF owner for tagging	Date Referred via E-mail:  CIF Owner:
<b>For counterparty without any transaction captured in ICBS:</b>	
- Sent e-mail to Compliance Unit for inclusion in the RP Database	Date Referred via E-mail:
<b>Accomplished by:</b>	<b>Reviewed/Approved by:</b>
<hr/> <b>Name &amp; Designation</b>	<hr/> <b>Name &amp; Designation</b>

---

1 For identified BDOLF Director, Officer or Stockholder (owning at least 1%) only

## GUIDE IN DETERMINING RELATED PARTY CLASSIFICATION & ACCOUNT TAGGING

RELATIONSHIP	RELATED PARTY TAG
1. Director of BDOLF	Director
2. Officer* of BDOLF  *Officer refers to Junior Assistant Managers and up	Officer
3. Stockholder* of BDOLF  *Owning (personally or through agent/representative/trustee) <u>at least 1% of the bank's subscribed capital stock</u>	Stockholder
4. Spouse or first degree relative, i.e., parent and children (biological, legally adopted, or in-law) of a BDOLF Director, Officer or Stockholder (DOS)	Related Interest
5. Second degree relative, i.e., grandparent, brother, sister, (biological, legally adopted, or in-law) of a BDOLF Director or Senior Officer (i.e., select SVP or higher who has the ability to exercise significant influence in the outcome of the transaction)	Other Related Party (ORP)
6. Director of Affiliated* Companies  *Affiliated companies shall refer to: a. juridical/corporate Related Interests (RI) b. subsidiaries & affiliates of BDOLF c. Any party that the company exerts direct/indirect control over, or that exerts direct/indirect control over BDOLF	Other Related Party
7. Officer* of Affiliated Companies  *Officer of the affiliated company shall refer to the President, Chief Executive Officer, Chief Financial Officer, or Treasurer of an affiliated company.	Other Related Party
8. Stockholder* of Affiliated Companies  *Stockholder of an affiliated company shall refer to an <u>individual stockholder</u> of an affiliated company and/or his relatives within the first degree of affinity or consanguinity <b>holding more than 50%</b> of the subscribed capital of the affiliated company.	Other Related Party
9. Spouse, parent, child, grandparent / grandchild / brother / sister (biological, legally adopted, or in-law) of a Director or an Officer* of BDOLF's affiliated companies  *Officer of the affiliated company shall refer to the Officer of the BDO Unibank, Inc. with the rank of Senior Vice President and up and officers of the affiliated companies specifically their President, Chief Executive Officer, Chief Financial Officer, or Treasurer.	Other Related Party

**Note: Identified non-related party shall likewise be tagged in ICBS/AAF accordingly (i.e., as Non-RP).**



**Related Party Checklist**  
Updated as of \_\_\_\_\_

**Name of Borrower / Counterparty:** \_\_\_\_\_  
**Date Accomplished:** \_\_\_\_\_

	<b>Relationship Disclosed by Borrower / Counterparty</b>	<b>Applicable to: (Type of Borrower / Counterparty)</b>	<b>Yes / No</b>	<b>RP Tag if the answer is YES<sup>1</sup></b>	<b>Basis for the RP Tag (applicable to items D-H; cite specific relationship)</b>
A.	Is the borrower/counterparty a director of BDOLF as verified against the Related Party (RP) Database <sup>2</sup> ?  Note: Chairman Emeritus is not deemed a director in BDOLF.	Individual		Director	
B.	Is the borrower/counterparty an officer of BDOLF as verified against ESS?  Note: BDO officers seconded to BDOLF shall be classified as <u>Officer of both the main bank and the host subsidiary</u> . To confirm if an officer of a subsidiary is seconded, please check with BDO-HR.	Individual		Officer	
C.	Is the borrower/counterparty a stockholder* of BDOLF as verified against the RP Database?  *Owning (personally or through agent/representative/trustee) at least 1% of BDOLF's subscribed capital stock	Both individual & non-individual		Stockholder	
D.	Does the borrower/counterparty own at least 1% of BDOLF's subscribed capital stock collectively with any of the following:  1. spouse and/or other first degree relatives by consanguinity, affinity or legal adoption;  2. partnership where the stockholder and/or his spouse and/or other first degree relatives by consanguinity, affinity or legal adoption, is a General Partner;  3. corporation, association or firm more than 50% of which is owned by the stockholder and / or his spouse and/or other first degree relatives by consanguinity, affinity or legal adoption.	Both individual & non-individual		Stockholder	
E.1.a	Is the borrower/counterparty a spouse of a BDOLF Director, Officer or Stockholder* (DOS)?  *Owning (personally or through agent/representative/trustee) at least 1% of BDOLF's subscribed capital stock (refer to item D above)	Individual		Related Interest	
E.1.b	Is the borrower/counterparty a parent, parent-in-law or legally adoptive parent of a BDOLF DOS?	Individual		Related Interest	
E.1.c	Is the borrower/counterparty a child (biological or legally adopted) or child-in-law of a BDOLF DOS?	Individual		Related Interest	

- 
- 1 **RELATED PARTIES (RP)** refer to the following: DOSRI, Subsidiaries, Affiliates and Other Related Parties acting for them selves, as representative or agent for others, or as guarantors, sureties, endorsers, mortgagors, pledgors, assignors, or in any capacity in which (i) they become obligated or may become obligated to BDO to pay money or its equivalent or by any means whatsoever or (ii) there is a transfer of resources, services or obligations between BDO and the RP.
- 2 posted in the designated BDOLF Sharefolder. For Officers, the BDO Employee Self-Service shall be used as reference.

E.2	<p>Is the borrower/counterparty a partnership? If yes, is there a general partner* who is also:</p> <p>a. a director, officer, or stockholder (DOS) of BDOLF; or</p> <p>b. a spouse of a BDOLF DOS; or</p> <p>c. a relative within the first degree of consanguinity or affinity or a relative by legal adoption of a BDOLF DOS?</p> <p><i>*A general partner is one whose liability to third persons extends to his separate property.</i></p>	Non-individual		Related Interest	
E.3	<p>Is the property/interest/right being mortgaged, pledged or assigned to secure the loan or credit accommodation, co-owned by the borrower with:</p> <p>a. a BDOLF DOS; or</p> <p>b. a spouse of a BDOLF DOS; or</p> <p>c. a relative within the first degree of consanguinity or affinity or a relative by legal adoption of a BDOLF DOS?</p> <p><i>Note: This will not apply if the mortgage, pledge or assignment covers only the borrower's undivided interest.</i></p>	Both individual & non-individual		Related Interest	
E.4	<p>Does any or a group of BDOLF Directors, Officers, Stockholders* or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption directly hold or own at least twenty percent (20%) of the subscribed capital or equity of the borrower/counterparty?</p> <p><i>*Refer only to natural persons</i></p> <p><i>Note: Item E.4 refers to direct ownership of the stockholdings. Thus, beneficial or indirect ownership of the stocks in the borrower corporation is not included in the computation.</i></p>	Non-individual		Related Interest	
E.5	<p>Is the borrowing entity/counterparty wholly or majority-owned (i.e., more than 50%) or controlled<sup>3</sup> by a Related Interest identified in Items E.2 and E.4?</p> <p><i>Note: Item E.5 also refers to direct ownership in the borrower corporation. Thus, beneficial or indirect ownership of the stocks in the borrower corporation is not included in the computation.</i></p>	Non-individual		Related Interest	

### 3 Control of an enterprise **exists** when there is:

- a. Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
- b. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
- c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
- d. Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
- e. Any other arrangement similar to any of the above.

Control is **presumed to exist** if there is ownership or holding, **whether direct or indirect**, of 20 percent or more of a class of voting shares of a company. Should BDOLF choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, BDOLF shall submit a written commitment that: (1) shares owned or held are exclusively for investment purposes; (2) BDOLF's representative will not serve on the board of directors and will not nominate any candidate to serve on the board or otherwise seek board representation; (3) BDOLF will have only limited contacts with the enterprise/other party that are customary for interested shareholders; (4) BDOLF will engage only in normal and customary transactions with the other party/enterprise; and (5) BDOLF will not pledge the shares acquired to secure a loan with any institution.

E.6	<p>Does the borrowing entity/counterparty own or control<sup>3</sup> directly or indirectly, whether singly or as part of a group of related interest, at least twenty percent (20%) of the subscribed capital of a substantial stockholder* of BDOLF, or that which controls<sup>3</sup> majority interest of BDOLF?</p> <p><i>*Substantial Stockholder refers to a person or a group of persons, natural or juridical, whose ownership in a company allows it to elect at least one (1) member of the board of directors; or with stockholdings of at least 10% of any class of equity securities of the company.</i></p>	Non-individual		Related Interest	
E.7	<p>Is the borrower/counterparty a corporation, association or firm which has an existing management contract or any similar arrangement with BDOLF's parent corporation?</p> <p><i>*A management contract is any contract whereby</i></p> <ol style="list-style-type: none"> <li>1. the borrower/counterparty undertakes to manage or operate all or substantially all of the business [affairs] of BDOLF's parent corporation, whether such contracts are called service contracts, operating agreements or otherwise; or</li> <li>2. BDOLF's parent corporation undertakes to manage or operate all or substantially all of the business [affairs] of the borrower/counterparty, whether such contracts are called service contracts, operating agreements or otherwise.</li> </ol> <p><i>Note: This requires Business Unit / Account Officer to check if the borrower has an existing management contract with BDOLF's parent corporation.</i></p>	Non-individual		Related Interest	
E.8	<p>Is the borrowing entity/counterparty a non-governmental organization engaged in retail financing, incorporated by any of the DOS of BDOLF or any related company?</p>	Non-individual		Related Interest	
F.	<p>Does BDOLF directly or indirectly own, control<sup>3</sup> and hold with power to vote, more than 50% of the outstanding voting stock of the borrowing entity/counterparty?</p> <p><b><i>For the list of BDOLF Subsidiaries, please refer to the Related Party Database posted in BDOLF Shared Folder.</i></b></p>	Non-individual		Subsidiary	
G.	<p>Is the borrower/counterparty related to BDOLF by any of the following means:</p> <ol style="list-style-type: none"> <li>1.a BDOLF directly or indirectly owns or controls<sup>3</sup> with power to vote, at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</li> <li>1.b The borrowing entity/counterparty directly or indirectly owns or controls<sup>3</sup> with power to vote, at least 20% of the outstanding voting stock of BDOLF;</li> </ol> <p><b><i>For the list of existing BDOLF Affiliates, please refer to the Related Party Database posted in BDOLF Shared Folder.<sup>4</sup></i></b></p> <ol style="list-style-type: none"> <li>2. There is an interlocking directorship or officership, where the concerned BDOLF director or officer directly or indirectly owns or controls<sup>3</sup> with power to vote, at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</li> </ol>	Non-individual		Affiliate	

4 The list of Affiliates is **partial and non-exclusive** in nature. Business units shall look at the ownership structure of the concerned entity and conduct due diligence to determine if it is an affiliate of BDOLF as defined in item G.

	<p>3. There are common stockholders which directly or indirectly own at least 10% of the outstanding voting stock of BDOLF AND at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>4. There is an existing management contract* or any arrangement granting power to BDOLF to direct the management and policies of the borrowing entity/counterparty;</p> <p>*A management contract is any contract whereby BDOLF undertakes to manage or operate all or substantially all of the business [affairs] of the borrower/counterparty, whether such contracts are called service contracts, operating agreements or otherwise.</p> <p>5.a There is a permanent proxy or voting trusts in favor of BDOLF constituting at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>5.b There is a permanent proxy or voting trusts in favor of the borrowing entity/counterparty constituting at least 20% of the outstanding voting stock of BDOLF.</p>				
H.1	<p>Is the borrower/counterparty related to BDOLF by any of the following means:</p> <p>a.1 BDOLF directly or indirectly owns or controls<sup>3</sup> with power to vote, 10% to less than 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>a.2 The borrowing entity/counterparty directly or indirectly owns or controls<sup>3</sup> with power to vote, 10% to less than 20% of the outstanding voting stock of BDOLF;</p> <p>b. There is an interlocking directorship or officership, except in cases involving independent directors or directors holding nominal shares in the borrowing entity/counterparty;</p> <p>c. There are common stockholders which own at least 10% of the outstanding voting stock of BDOLF directly or indirectly, AND directly own 10% to less than 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>d.1 There is a permanent proxy or voting trusts in favor of BDOLF constituting 10% to less than 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>d.2. There is a permanent proxy or voting trusts in favor of the borrowing entity/counterparty constituting 10% to less than 20% of the outstanding voting stock of BDOLF.</p>	Non-individual		Other Related Party	
H.2	<p>Is the borrower/counterparty a grandparent / grandchild / brother / sister (biological, legally adopted, or in-law) of a Director or a Senior Officer (select SVP or higher who has ability to exercise significant influence in the outcome of the transaction) of BDOLF?</p> <p><b><i>Please refer to the List of BDOLF Senior Officers With Significant Influence posted in BDOLF Shared Folder.</i></b></p>	Individual		Other Related Party	



H.3	Is the borrower/counterparty a Director, Officer <sup>5</sup> , Stockholder <sup>6</sup> of BDOLF's affiliated* companies?  *Affiliated companies shall refer to: a. juridical/corporate Related Interests (RI) b. subsidiaries & affiliates of BDOLF c. any party that BDOLF exerts direct/indirect control over <u>as provided in item H.1.a.1</u> , or that exerts direct/indirect control over BDOLF <u>as provided in item H.1.a.2</u>	Individual		Other Related Party	
H.5	Is the borrower / counterparty not a related party based on the definitions above, but as an exercise of prudence and with utmost caution, is being considered as such.	Both individual & non-individual		Other Related Party	

**Note: If the counterparty is determined to be both a Related Interest and a Subsidiary or Affiliate, the prevailing RP classification / tag will be Related Interest.**

CONFIRMATION OF RP CLASSIFICATION & TAG	
Identified Classification of Counterparty	
Date of Checking in the Database	
Is the Counterparty found in the Database?	[    ] YES                      [    ] NO
If yes, is the determined classification consistent with the tag in RP Database?	[    ] YES                      [    ] NO
Note: If answer is NO to any of the questions, facilitate	

<sup>5</sup> "Officer of the affiliated company" shall refer to the Officer of the BDO Unibank, Inc. with the rank of Senior Vice President and up and officers of the affiliated companies specifically their President, Chief Executive Officer, Chief Financial Officer, or Treasurer.

<sup>6</sup> "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity **holding more than 50%** of the subscribed capital of the affiliated company.

	tagging in ICBS or AAF / inclusion in RP Database & fill-out the ACTION TAKEN portion below.
<b>ACTION TAKEN</b>	
<b>A. For borrower/counterparty with CIF record:</b>	
- Tagged in ICBS-CIF/AAF; or	Date Tagged:
- Referred to CIF owner for tagging	Date Referred via E-mail:  CIF Owner:
<b>B. For RPs without any transaction captured in ICBS</b>	
- Sent e-mail to Compliance Unit for inclusion in the RP Database	Date Referred via E-mail:
<b>Accomplished by:</b>	<b>Reviewed/Approved by:</b>
<hr/> <b>Name &amp; Designation</b>	<hr/> <b>Name &amp; Designation</b>

## **BDO LEASING & FINANCE, INC.**

### **Handling of SEC-defined Material Related Party Transactions (Supplement to BDOLF Related Party Transaction Policy)**

#### **I. Overview**

This Supplemental Policy establishes the guidelines to be observed in handling material related party transactions as defined in the Securities & Exchange Commission (SEC) Memorandum Circular No. 10, Series of 2019.

All other guidelines specified in BDOLF Related Party Transaction Policy shall remain to be in force.

#### **II. Definition of Terms**

- A. Related Party** - refers to the related parties defined in BDOLF Related Party Transaction Policy (i.e., Director, Officer, Stockholder, Related Interest, Subsidiary, Affiliate, Other Related Party (ORP)) **and** Extended ORP.
- B. Extended ORP** - 3<sup>rd</sup> to 4<sup>th</sup> degree relatives, by consanguinity or affinity, legitimate or common-law<sup>1</sup>, of Directors and select Senior Officers of BDOLF (i.e., SVP or higher who has the ability to control or to exercise significant influence on the outcome of the transaction).
- C. Related Party Transaction (RPT)** - a transfer of resources, services or obligations between BDO and a related party, regardless of whether a price is charged. **(For the list of covered transactions, please refer to 4.a of BDOLF Related Party Transaction Policy).**
- D. SEC Materiality Threshold** - ten percent (10%) of BDOLF's total assets based on the latest audited financial statement.
- E. Material RPT** - any RPT, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of BDO's total assets.

#### **III. General Guidelines**

##### **A. Determination of SEC-defined Material RPTs**

1. Borrowers/counterparties with the following transactions shall be subjected to the Expanded Related Party Checklist (*Exhibit 1*):
  - a. single transaction breaching the SEC materiality threshold<sup>2</sup>
  - b. aggregated credit availments for the past 12 months that breached the internal materiality threshold<sup>3</sup>

If the borrower/counterparty is determined as an Extended ORP, the concerned business unit shall advise the Compliance Office to include such related party in the Related Party Database.

1 relatives arising from a relationship between a man and a woman who live exclusively with each other as husband and without the benefit of marriage  
2 Currently set at PHP4.1 B; subsequent threshold shall be advised by Comptrollership based on the latest year-end audited financial statements  
3 Equivalent of **90%** of the **SEC** materiality threshold

## **BDO LEASING & FINANCE, INC.**

### **Handling of SEC-defined Material Related Party Transactions (Supplement to BDOLF Related Party Transaction Policy)**

2. Transaction of borrowers/counterparties confirmed to be a related party shall be handled by the concerned Account Officer (AO)/Processor, as follows:

Transaction	Disposition
Single transaction breaching the <b>SEC</b> materiality threshold	For referral to external independent party <sup>4</sup> and approval of designated authorities (per Section B)
Aggregated credit availments for the past 12 months that breached the internal materiality threshold	For notification to the designated unit <sup>5</sup>
Aggregated transactions (credit and non-credit) for the past 12 months that breached the SEC materiality threshold	For referral to external independent party <sup>6</sup> and approval of designated authorities (per Section B)

3. Aggregated credit availments that breached the internal materiality threshold shall be handled as follows:
- Upon receipt of notification from AO, designated unit shall issue an advisory to the concerned business units to trigger reporting of covered transactions of the concerned related party.
  - Concerned business units shall report the following to the designated unit for consolidation:
    - transactions for the past 12 months reckoned from the date of notification
    - subsequent transactions
  - The designated unit shall disseminate/post the list of related parties and corresponding covered transactions as a guide for concerned units in handling subsequent transactions.
  - The concerned business unit with the latest transaction that will breach the internal materiality threshold shall automatically request evaluation of an external independent party.

#### **B. Review and Approval of Material RPTs**

- Identified material RPTs shall be evaluated by an external independent party appointed by the Board of Directors (BOD).
- As a general rule, terms and conditions of material RPTs subjected to external evaluation shall be applied to subsequent transactions. Otherwise, the latter shall require another round of evaluation.
- Material RPTs shall be approved as follows:

4 May include, but not limited to, auditing/accounting firms and 3rd party consultants who will handle evaluation of the material RPTs

5 Unit to consolidate data submitted by business units

6 May include, but not limited to, auditing/accounting firms and 3rd party consultants who will handle evaluation of the material RPTs



**BDO LEASING & FINANCE, INC.**Handling of SEC-defined Material Related Party Transactions  
(Supplement to BDOLF Related Party Transaction Policy)

Transaction	Related Party	DISPOSITION		
		Transaction Approval	Approval / Endorsement	Approval
		Delegated Authority	RPTC	BOD
Single material RPT	DOSRI, Subs, Affiliates, Other Related Party (ORP), & Extended ORP	✓	✓	✓
Aggregated credit availments for the past 12 months that breached the SEC materiality threshold				

Note: SEC-defined material RPTs shall be approved by at least 2/3 vote of the BOD, with at least a majority of the independent directors voting to approve the proposed transaction. In case a majority of the independent directors' vote is not secured, the material RPT may be ratified by the vote of the stockholders representing at least 2/3 of the outstanding capital stock.

**C. Disclosure and Reporting Requirements**

1. Approved material RPTs shall be reported to the Securities and Exchange Commission (SEC) via the Advisement Report on Material RPT (*Annex A*).

The cited report shall be signed by the Corporate Secretary (or designated alternate) together with the concerned related party (or authorized representative); and submitted by the designated unit to the SEC within three (3) calendar days after execution date of the transaction.

2. A summary of approved material RPTs during the reporting year shall likewise be disclosed in the Bank's Integrated Annual Corporate Governance Report (I-ACGR) submitted every May 30.

Expanded Related Party Checklist  
Updated as of \_\_\_\_\_

Name of Borrower / Counterparty: \_\_\_\_\_  
Date Accomplished: \_\_\_\_\_

	Relationship Disclosed by Borrower / Counterparty	Applicable to: (Type of Borrower / Counterparty)	Yes / No	RP Tag if the answer is YES <sup>1</sup>	Basis for the RP Tag (appli- cable to items D-H; cite spe- cific relation- ship)
A.	Is the borrower/counterparty a director of BDOLF as verified against the Related Party (RP) Database <sup>2</sup> ?	Individual		Director	
B.	Is the borrower/counterparty an officer of BDOLF as verified against ESS?  Note: BDO officers seconded to subsidiaries shall be classified as <u>Officer of both the main bank and the host subsidiary</u> . To confirm if an officer of a subsidiary is seconded, please check with BDO-HR.	Individual		Officer	
C.	Is the borrower/counterparty a stockholder* of BDOLF as verified against the RP Database?  *Owning (personally or through agent/representative/trustee) at least 1% of BDO's subscribed capital stock	Both individual & non-individual		Stockholder	
D.	Does the borrower/counterparty own at least 1% of BDOLF's subscribed capital stock collectively with any of the following:  1. spouse and/or other first degree relatives by consanguinity, affinity or legal adoption;  2. partnership where the stockholder and/or his spouse and/or other first degree relatives by consanguinity, affinity or legal adoption, is a General Partner;  3. corporation, association or firm more than 50% of which is owned by the stockholder and / or his spouse and/or other first degree relatives by consanguinity, affinity or legal adoption.	Both individual & non-individual		Stockholder	
E.1.a	Is the borrower/counterparty a spouse of a BDOLF Director, Officer or Stockholder* (DOS)?  *Owning (personally or through agent/representative/trustee) at least 1% of BDOLF's subscribed capital stock (refer to item D above)	Individual		Related Interest	
E.1.b	Is the borrower/counterparty a parent, parent-in-law or legally adoptive parent of a BDOLF DOS?	Individual		Related Interest	
E.1.c	Is the borrower/counterparty a child (biological or legally adopted) or child-in-law of a BDOLF DOS?	Individual		Related Interest	
E.2	Is the borrower/counterparty a partnership? If yes, is there a general partner* who is also:  a. a director, officer, or stockholder (DOS) of BDOLF; or  b. a spouse of a BDOLF DOS; or  c. a relative within the first degree of consanguinity or affinity or a relative by legal adoption of a BDO DOS?	Non-individual		Related Interest	

<sup>1</sup> **RELATED PARTIES (RP)** refer to the following: DOSRI, Subsidiaries, Affiliates and Other Related Parties acting for them selves, as representative or agent for others, or as guarantors, sureties, endorsers, mortgagors, pledgors, assignors, or in any capacity in which (i) they become obligated or may become obligated to BDOLF to pay money or its equivalent or by any means whatsoever or (ii) there is a transfer of resources, services or obligations between BDOLF and the RP.

<sup>2</sup> posted in the designated BDOLF Share Folder. For Officers, the BDO Employee Self-Service shall be used as reference.

	<p>*A general partner is one whose liability to third persons extends to his separate property.</p>				
E.3	<p>Is the property/interest/right being mortgaged, pledged or assigned to secure the loan or credit accommodation, co-owned by the borrower with:</p> <p>a. a BDOLF DOS; or</p> <p>b. a spouse of a BDOLF DOS; or</p> <p>c. a relative within the first degree of consanguinity or affinity or a relative by legal adoption of a BDOLF DOS?</p> <p>Note: This will not apply if the mortgage, pledge or assignment covers only the borrower's undivided interest.</p>	Both individual & non-individual		Related Interest	
E.4	<p>Does any or a group of BDOLF Directors, Officers, Stockholders* or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption directly hold or own at least twenty percent (20%) of the subscribed capital or equity of the borrower/counterparty?</p> <p>*Refer only to natural persons</p> <p>Note: Item E.4 refers to direct ownership of the stockholdings. Thus, beneficial or indirect ownership of the stocks in the borrower corporation is not included in the computation.</p>	Non-individual		Related Interest	
E.5	<p>Is the borrowing entity/counterparty wholly or majority-owned (i.e., more than 50%) or controlled<sup>3</sup> by a Related Interest identified in Items E.2 and E.4?</p> <p>Item E.5 also refers to direct ownership in the borrower corporation. Thus, beneficial or indirect ownership of the stocks in the borrower corporation is not included in the computation.</p>	Non-individual		Related Interest	
E.6	<p>Does the borrowing entity/counterparty own or control<sup>4</sup> directly or indirectly, whether singly or as part of a group of related interest, at least twenty percent (20%) of the subscribed capital of a substantial stockholder* of BDOLF, or which controls<sup>4</sup> majority interest of BDOLF?</p> <p>*Substantial Stockholder refers to a person or a group of persons, natural or juridical, whose ownership in a company allows it to elect at least one (1) member of the board of directors; or with stockholdings of at least 10% of any class of equity securities of the company.</p>	Non-individual		Related Interest	
E.7	<p>Is the borrower/counterparty a corporation, association or firm which has an existing management contract or any similar arrangement with BDOLF's parent corporation?</p> <p>*A management contract is any contract whereby</p> <p>1. the borrower/counterparty undertakes to manage or operate all or substantially all of the business [affairs] of BDOLF's parent corporation, whether such contracts are called service contracts, operating agreements or otherwise; or</p>	Non-individual		Related Interest	

<sup>3</sup> Control of an enterprise **exists** when there is:
 

a. Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
 b. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
 c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
 d. Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
 e. Any other arrangement similar to any of the above.

	<p>2. BDOLF's parent corporation undertakes to manage or operate all or substantially all of the business [affairs] of the borrower/counterparty, whether such contracts are called service contracts, operating agreements or otherwise.</p> <p><a href="#">Note: This requires Business Unit / Account Officer to check if the borrower has an existing management contract with BDOLF's parent corporation.</a></p>				
E.8	Is the borrowing entity/counterparty a non-governmental organization engaged in retail financing, incorporated by any of the DOS of BDOLF or any related bank?	Non-individual		Related Interest	
F.	Does BDOLF directly or indirectly own, control <sup>4</sup> and hold with power to vote, more than 50% of the outstanding voting stock of the borrowing entity/counterparty?	Non-individual		Subsidiary	
G.	<p>Is the borrower/counterparty related to BDOLF by any of the following means:</p> <p>1.a BDOLF directly or indirectly owns or controls<sup>4</sup> with power to vote, at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>1.b The borrowing entity/counterparty directly or indirectly owns or controls<sup>4</sup> with power to vote, at least 20% of the outstanding voting stock of BDOLF;</p> <p>2. There is an interlocking directorship or officership, where the concerned BDOLF director or officer directly or indirectly owns or controls<sup>4</sup> with power to vote, at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>3. There are common stockholders which directly or indirectly own at least 10% of the outstanding voting stock of BDOLF AND at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p><b>Please refer to Exhibit 2.4 for the illustration.</b></p> <p>4. There is an existing management contract* or any arrangement granting power to BDOLF to direct the management and policies of the borrowing entity/counterparty;</p> <p>*A management contract is any contract whereby BDOLF undertakes to manage or operate all or substantially all of the business [affairs] of the borrower/counterparty, whether such contracts are called service contracts, operating agreements or otherwise.</p> <p>5.a There is a permanent proxy or voting trusts in favor of BDOLF constituting at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>5.b There is a permanent proxy or voting trusts in favor of the borrowing entity/counterparty constituting at least 20% of the outstanding voting stock of BDOLF.</p>	Non-individual		Affiliate	
H.1	<p>Is the borrower/counterparty related to BDOLF by any of the following means:</p> <p>a.1 BDOLF directly or indirectly owns or controls<sup>4</sup> with power to vote, 10% to less than 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>a.2 The borrowing entity/counterparty directly or indirectly owns or controls<sup>4</sup> with power to vote, 10% to less than 20% of the outstanding voting stock of BDOLF;</p> <p>b. There is an interlocking directorship or officership, except in cases involving independent directors or directors holding nominal shares in the borrowing entity/counterparty;</p> <p>c. There are common stockholders which directly or indirectly own at least 10% of the outstanding voting stock of BDOLF, AND directly own 10% to less than 20% of the outstanding voting stock of the borrowing entity/counterparty;</p>	Non-individual		Other Related Party (ORP)	



	<p>d.1 There is a permanent proxy or voting trusts in favor of BDOLF constituting 10% to less than 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>d.2. There is a permanent proxy or voting trusts in favor of the borrowing entity/counterparty constituting 10% to less than 20% of the outstanding voting stock of BDOLF.</p>				
H.2	<p>Do the interests of the borrower/counterparty pose actual or potential conflict with the interest of BDOLF?</p> <p>Note: This requires evaluation and approval by the Related Party Transactions Committee (RPTC).</p>	Both individual & non-individual		ORP	
H.3	<p>Is the borrower/counterparty a grandparent / grandchild / brother / sister (biological, legally adopted, or in-law) of a Director or a Senior Officer (select SVP or higher who has the ability to exercise significant influence in the outcome of the transaction) of BDOLF?</p> <p><b><i>Please refer to the List of BDOLF Senior Officers With Significant Influence posted in BDOLF Shared Folder</i></b></p>	Individual		ORP	
H.4	<p>Is the borrower/counterparty a Director, Officer<sup>4</sup>, Stockholder<sup>5</sup> of BDOLF's affiliated* companies?</p> <p>*Affiliated companies shall refer to:  a. juridical/corporate Related Interests (RI)  b. subsidiaries &amp; affiliates of BDOLF  c. any party that BDOLF exerts direct/indirect control over <u>as provided in item H.1.a.1</u>, or that exerts direct/indirect control over BDO <u>as provided in item H.1.a.2</u></p>	Individual		ORP	
H.5	<p>Is the borrower/counterparty a spouse, parent, child, grandparent / grandchild / brother / sister (biological, legally adopted, or in-law) of a Director or an Officer<sup>6</sup> of BDOLF's affiliated companies?</p>	Individual		ORP	
H.6	<p>Is the borrower/counterparty a great grandchild, nephew/niece, aunt/uncle, great grandparent, grand nephew/niece, first cousin, great aunt/uncle, or great great grandparent (biological, legally adopted, or in-law) of a Director or a Senior Officer (select SVP or higher who has the ability to exercise significant influence in the outcome of the transaction) of BDO?</p>	Individual		Extended ORP	

**Note: If the counterparty is determined to be both a Related Interest and a Subsidiary or Affiliate, the prevailing RP classification / tag will be Related Interest.**

<sup>4</sup> "Officer of the affiliated company" shall refer to the President, Chief Executive Officer, Chief Financial Officer, or Treasurer of an affiliated company.

<sup>5</sup> "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity **holding more than 50%** of the subscribed capital of the affiliated company.

<sup>6</sup> "Officer of the affiliated company" shall refer to the President, Chief Executive Officer, Chief Financial Officer, or Treasurer of an affiliated company.

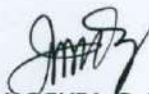
CHECKING AGAINST RP DATABASE	
Date of Checking	
Is identified RP found in the Database?	[    ] YES            [    ] NO
Is the determined classification consistent with the tag in RP Database?	[    ] YES            [    ] NO
	Note: If answer is NO to any of the questions, facilitate tagging in ICBS / AAF/ FMS/ FaMS and inclusion in RP Database & fill-out the ACTION TAKEN portion below.
ACTION TAKEN	
For borrower/counterparty with CIF record:	
- Tagged in ICBS-CIF/ AAF/ FMS/ FaMS; or	Date Tagged:
- Referred to CIF owner for tagging	Date Referred via E-mail:
	CIF Owner:
For counterparty without any transaction captured in ICBS/AAF/FMS/FaMs:	
- Sent e-mail to Compliance Office for inclusion in the RP Database	Date Referred via E-mail:
Accomplished by:	Reviewed/Approved by:
<div></div> <div>Name &amp; Designation</div>	<div></div> <div>Name &amp; Designation</div>

BDO Leasing & Finance, Inc.  
Related Party Transactions Policy

IN WITNESS WHEREOF, we have hereunto set our hands this 26<sup>th</sup> day of October  
2019.



TERESITA T. SY  
Chairperson  
Board of Directors



ANGELITA C. TAD-Y  
Compliance Officer

## **ALTERNATIVE DISPUTE RESOLUTION**

### **COVERAGE**

BDO Leasing and Finance, Inc. (BDOLF) Alternative Dispute Resolution (ADR) System shall cover disputes between the Company and its stockholders, and the Company and third parties, including the regulatory authorities, as herein provided. A dispute shall mean a conflict of claims or rights, or an assertion of claim or demand by a stockholder or a third party, including regulatory authorities, met by contrary claims or assertions on the part of the Company and vice versa (hereinafter, "Dispute"). The ADR System shall not cover mere complaints. A complaint shall mean a statement of some grievance or dissatisfaction by a stockholder or a third party.

### **PROCEDURE**

#### **1. Referral to ADR System**

The Head of the BDOLF Unit (BDOLF Unit Head) involved in the Dispute shall, in consultation with the BDO Unibank's Legal Services Group (LSG) and taking into account all relevant factors, assess and evaluate a Dispute and determine whether the same is proper for ADR process. To aid in this determination, the BDOLF Unit concerned shall submit to the BDOLF Unit Head a memorandum describing the nature of the Dispute and the facts and issues involved.

#### **2. Negotiation**

Upon determination by the concerned BDOLF Unit Head that the Dispute is proper for ADR process, the BDOLF Unit concerned or any other unit or officer assigned (hereinafter, "Assigned Unit/Officer") shall, in consultation with BDO Unibank's Legal Services Group (LSG), promptly commence negotiations with the opposing party for possible settlement. As a matter of policy, the Company shall adopt negotiation as the initial mode of amicably settling a dispute.

During negotiations, the disputing parties shall identify the issues, explore ways of settling those issues, and strive for a mutually acceptable resolution. The Assigned Unit/Officer shall submit to Management a report on the conduct and outcome of the negotiations.

#### **3. Mediation**

In the event that no settlement is reached after negotiations, the BDOLF Unit Head shall, in consultation with BDO Unibank's LSG and taking into account all relevant factors, determine whether the Dispute is proper for mediation. Mediation is "a voluntary process in which a mediator, selected by the disputing parties, facilitates communication and negotiation, and assists the parties in reaching a voluntary agreement regarding a dispute."



” The Assigned Unit/Officer shall submit to Management a report on the conduct and outcome of the mediation.

#### 4. Arbitration

In the event that no settlement is reached after mediation, the concerned BDOLF Unit Head shall, in consultation with BDO Unibank’s LSG and taking into account all relevant factors, determine whether the Dispute is proper for arbitration. In the event the BDOLF Unit Head shall determine that arbitration is proper, the Assigned Unit/Officer shall promptly propose to the opposing party resort to arbitration as a mode of settling the Dispute under applicable law and rules.

### **MONITORING AND REPORTING**

All Disputes referred to the ADR process shall be monitored. Disputes between the Company and stockholders shall be monitored by the Office of the Corporate Secretary; disputes between the Company and third parties not involving regulatory authorities shall be monitored by BDO Unibank’s LSG; and disputes between the Company and regulatory authorities shall be monitored by the Compliance Unit. All Disputes referred to the ADR process shall be reported to the Corporate Governance Committee.

### **SETTLEMENT**

Any settlement during negotiation or mediation shall be submitted by Management to the Corporate Governance Committee which shall in turn endorse it to the Board of Directors for approval or other appropriate action.



# *Certificate of Attendance*

*is presented to*

**ATTY. JOSEPH JASON M. NATIVIDAD**

*for attending and participating in the*

**2021 Annual Corporate Governance Seminar**

*Topics:*

*The World is Changing – and so is Leadership*

*The Impact of Geopolitics on Digital Business*

*Design and Delivery for Customer Facing Digital Products*

*A Board Guide to Artificial Intelligence and Use Cases*

*Digital Leadership: Ride the Waves of Disruption*

*September 1, 2021*

*8:00 am – 12:30 pm*

*via Cisco Webex Live Event*

  
**Atty. Federico P. Tancongco**

Chief Compliance Officer

BDO Unibank, Inc.

## BDO LEASING BOARD - Agenda & Board Materials for August 4, 2021 Meeting .

JJ natividad <jjnatividad@factoranlaw.com>

Thu 7/29/2021 5:38 PM

To: Teresita T. Sy <tsc@bdo.com.ph>; Nestor V. Tan <nvtbdo@bdo.com.ph>; Manuel Jr Z. Locsin <mzl@bdo.com.ph>; Antonio N. Cotoco <cotoco.tony@bdo.com.ph>; Luis S. Reyes <reyes.luis@bdo.com.ph>; Walter C. Wassmer <wassmer.walter@bdo.com.ph>; Ma. Leonora Vasquez de Jesus <lennyv.dejesus@gmail.com>; lvdejesus <lvdejesus@gmail.com>; lvdejesus <lvdejesus@yahoo.com>; Jessie Andres <jhta92@yahoo.com>; Jta <jta@applawoffices.com>; Vince Perez <vince.perez@alternergy.com>; Exequielvillacorta307 <exequielvillacorta307@gmail.com>; Elt <elt@talfirm.com>; Elt2 <elt2@talfirm.com>; Tan Edmundo <tan.edmundo@bdo.com.ph>  
Cc: Ma. Cecilia S. Santos <santos.macecilia@bdo.com.ph>; Angelita C. Tad-y <tad-y.angie@bdo.com.ph>; Marnilyn A. Lazaro <lazaro.marnilyn@bdo.com.ph>; Ma. Gerardine Carlisa S. Millares <millares.gerardine@bdo.com.ph>; Marie Bell V. Gonzales <gonzales.marie@bdo.com.ph>; Geraldine G. Malelang <malelang.gigi@bdo.com.ph>; Carissa Jenna S. Salindong <Salindong.Carissa@bdo.com.ph>; Julia E Talampas <talampas.julia@bdo.com.ph>; Faith <faith@applawoffices.com>; Sandra Nepomuceno <sandra.nepomuceno@alternergy.com>; Cecilia L. Naranjo <naranjo.cecilia@bdo.com.ph>; Elizabeth M. Benemile <benemile.abeth@bdo.com.ph>; Abethbenemile09 <abethbenemile09@gmail.com>; Leilani M. Celemen <Celemen.Leilanie@bdo.com.ph>; Katherine Resari <resari.katherine@bdo.com.ph>; Aileen Erica F. Lopez <lopez.aireenerica@bdo.com.ph>; jjnatividad <jjnatividad@yahoo.com>

Dear BDO Leasing Board Directors and Advisor,

Please find attached agenda and materials for the Regular Board Meeting of  
BDO LEASING AND FINANCE, INC. on August 4, 2021

You may access the attached file using the password to be sent by Ms.  
Elizabeth Benemile in a separate email.

We will likewise furnish you hard copies of the Board pack for your  
additional reference.

Kindly signify your approval, notation, or comments on the Agenda items by  
replying to this email.

Please acknowledge receipt of this email.

Thank you.

Joseph Jason M. Natividad  
Corporate Secretary  
BDO Leasing and Finance, Inc.

(See attached file: BDOLF Board Agenda & Materials\_\_August 4, 2021.zip)

## **Corporate Officers**

The Corporate Officers of the Company led by the President, are responsible for the management of all business activities of the Company, subject to the oversight and supervision of the Board of Directors. The Compliance Officer, on the other hand, is in charge of the Company's regulatory compliance function. Collectively, the Corporate Officers are responsible for the implementation of the policies set by the Board. Since the Company has already ceased its leasing and financing operations since October 19, 2020, the Company has only (5) remaining Corporate Officers: President, Treasurer, Compliance Officer., Corporate Secretary and Assistant Corporate Secretary.

### **JOSEPH JASON M. NATIVIDAD**

Corporate Secretary

49 years old, Filipino

Atty. Natividad was appointed Corporate Secretary of the Company on May 31, 2010. He concurrently holds the position of Corporate Secretary of BDO Network Bank Inc. and Agility Group of Companies in the Philippines. He is also the Assistant Corporate Secretary of BDO Insurance Brokers, Inc. He served as Assistant Corporate Secretary of Equitable PCI Bank from September 2006 to June 2007, prior to its merger with Banco de Oro; BDO Capital & Investment Corporation, BDO Securities Corporation, and BDO Rental, Inc. Atty. Natividad is currently a Partner of the Factoran & Natividad Law Offices. He has been in law practice for 23 years, mainly in the fields of corporate law and environmental law. He has a Bachelor's degree in Management, major in Legal Management, from the Ateneo de Manila University, and obtained his Juris Doctor degree from the Ateneo de Manila University School of Law.

### **MA. CECILIA SALAZAR-SANTOS**

Assistant Corporate Secretary

56 years old, Filipino

Atty. Santos was appointed as Assistant Corporate Secretary of the Company since October 1, 2015. She is concurrently the First Vice President and Alternate Corporate Information Officer of BDO Unibank. She is also the Assistant Corporate Secretary of BDO Private Bank, Inc. and BDO Network Bank, Inc. Further, she is the Corporate Secretary of BDO Finance Corporation, BDO Strategic Holdings, Inc., BDO Rental, Inc., Equimark-NFC Development Corporation, Armstrong Securities, Inc., Avera Holdings Corporation, Nashville Holdings, Inc., and Ivory Homes, Inc. She was formerly the Corporate Secretary of BDO Nomura Securities, Inc., and Director and Corporate Secretary of PCI Insurance Brokers, Inc., PCI Management Consultants, Inc., PCI Travel Corporation, The Executive Banclounge, Inc., and The Sign of the Anvil, Inc. She is currently assigned at the Legal Services and Corporate Secretary Group as Head of the Team providing legal assistance to BDO's Support Groups and Subsidiaries and in managing BDO's Intellectual Property (BDO and BDO-related marks), and as Head of the Team providing corporate secretariat services to BDO Unibank and all its Subsidiaries. In 2017, 2018, 2019, and 2020, she was featured in the World Trademark Review 300 as among the World's Top 300 Leading Trademark Professionals. She holds a Bachelor of Arts degree major in Economics from University of Sto. Tomas and finished law at San Beda College of Law (Dean's Lister).

### **KATHERINE U. RESARI**

Vice President / Compliance and Corporate Governance Officer

47 years old, Filipino

Ms. Resari was appointed as Compliance and Corporate Governance Officer of the company on March 2, 2021. She is concurrently the Risk and Compliance Officer, Data Protection Officer, Information Security Officer and Corporate Governance Officer for both BDO Finance Corp. and



BDO Rental, Inc. Prior to joining BDO Leasing, Ms Resari was a Vice President and Team Head under Credit Policy and Portfolio Review of the Risk Management Group of BDO Unibank for over 5 years. She started her banking career with PCIBank in 1995 under the Officer's Development Program and was later assigned to Specialized Lending, Remedial Management and Asset Management Groups. She joined BDO Unibank in 2006 under Remedial Management for corporate and commercial accounts. Ms. Resari graduated *cum laude* from the University of the Philippines Diliman with a Bachelor of Science Degree in Business Administration and obtained her Master's Degree in Business Administration from De La Salle University.

### ***Board and Senior Management Performance***

An annual self-assessment focusing on the performance of the Board, its members, and Committees, and Senior Management, is spearheaded by the Corporate Governance Committee, using an approved set of questionnaires. The performance evaluation process begins with sending out customized Board Evaluation Questionnaires to each director and adviser. They are required to complete the questionnaire which explains the rationale and objectives of the performance evaluation. Based on the returns from each respondent, the ratings and responses are tabulated and consolidated. The Corporate Governance Officer prepares the overall report and presents this to the Corporate Governance Committee for discussion and endorsement to the Board, including the recommended actions and focus areas to improve effectiveness.

### ***Significant Employee***

There is no person, other than the senior executive officers above, who is expected by the Company to make significant contributions to the Company.

### ***Family Relationships***

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers, or persons nominated or chosen by the Company to become directors or executive officers.

### ***Involvement of Directors and Executive Officers in Certain Legal Proceedings***

To the best of the Company's knowledge, none of the directors or executive officers is named or is involved during the last five (5) years up to January 31, 2022 in any legal proceedings which will have any material effect on the Company, its operations, reputation, or financial condition.

To the best of the Company's knowledge, none of its directors and senior executives have been subject of the following legal proceedings for the past five (5) years:

- i. bankruptcy petition by or against any business of which such director or senior executive was a general partner or executive officer either at the time of bankruptcy or within two years prior to that time;
- ii. a conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;
- iii. to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;
- iv. being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or



# *Certificate of Attendance*

*is presented to*

**KATHERINE U. RESARI**

*for attending and participating in the*

## **2021 Annual Corporate Governance Seminar**

*Topics:*

*The World is Changing – and so is Leadership*  
*The Impact of Geopolitics on Digital Business*  
*Design and Delivery for Customer Facing Digital Products*  
*A Board Guide to Artificial Intelligence and Use Cases*  
*Digital Leadership: Ride the Waves of Disruption*

*September 1, 2021*

*8:00 am – 12:30 pm*

*via Cisco Webex Live Event*

  
**Atty. Federico P. Tancongo**  
Chief Compliance Officer  
BDO Unibank, Inc.

# COVER SHEET

					0	9	7	8	6	9
--	--	--	--	--	---	---	---	---	---	---

SEC Registration Number

B	D	O		L	E	A	S	I	N	G		A	N	D		F	I	N	A	N	C	E	,		I	N	C	.		
---	---	---	--	---	---	---	---	---	---	---	--	---	---	---	--	---	---	---	---	---	---	---	---	--	---	---	---	---	--	--

(Company's Full Name)

[illegible]

B	D	O		C	O	R	P	O	R	A	T	E		C	E	N	T	E	R		O	R	T	I	G	A	S				
---	---	---	--	---	---	---	---	---	---	---	---	---	--	---	---	---	---	---	---	--	---	---	---	---	---	---	---	--	--	--	--

1	2		A	D	B		A	V	E	.	,		O	R	T	I	G	A	S		C	E	N	T	E	R						
---	---	--	---	---	---	--	---	---	---	---	---	--	---	---	---	---	---	---	---	--	---	---	---	---	---	---	--	--	--	--	--	--

M	A	N	D	A	L	U	Y	O	N	G	C	I	T	Y	1	5	5	0								
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	--	--	--	--	--	--	--	--

(Business Address: No. Street City/Town/Province)

**JOSEPH JASON M. NATIVIDAD**

(Contact Person)

**(632) 8688-1288**

(Company Telephone Number)

1 2      3 1

Month      Day

(Fiscal Year)

**Letter to Atty. Rachel Esther J. Gumtang-Remalante Re Directors' Attendance for 2021**

(Form Type)

ANY DATE IN APRIL
-------------------

(Annual Meeting)

N/A
-----

(Secondary License Type, If Applicable)

--

Dept. Requiring this Doc.

\_\_\_\_\_

Amended Articles Number/Section

### Total Amount of Borrowing

\_\_\_\_\_

Domestic

\_\_\_\_\_

Foreign

To be accomplished by SEC Personnel concerned

[illegible]

File Number

---

LCU

LCU

[illegible]

Document ID

Cashier

Cashier

STAMPS

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

January 4, 2022

**ATTY. RACHEL ESTHER J. GUMTANG-REMALANTE**

Officer-In-Charge  
Corporate Governance and Finance Department  
Securities and Exchange Commission  
G/F SEC Building, PICC Complex  
Roxas Boulevard, Pasay City 1397

Dear Atty. Gumtang-Remalante:

We submit herewith a copy of the Secretary's Certificate on the attendance of the Board of Directors of BDO Leasing and Finance, Inc. ("BDOLF") in Board meetings for the Year 2021.

We hope that you would find the foregoing satisfactory.

Thank you.

Very truly yours,



**JOSEPH JASON M. NATIVIDAD**  
Corporate Secretary



REPUBLIC OF THE PHILIPPINES )  
CITY OF MAKATI ) SS.

### SECRETARY'S CERTIFICATE

I, **JOSEPH JASON M. NATIVIDAD**, Filipino, of legal age and with office address at the 21<sup>st</sup> Floor, BDO Towers Valero, 8741 Paseo de Roxas, Salcedo Village, Makati City, under oath, do hereby certify that:

1. I am the duly appointed Corporate Secretary of **BDO LEASING AND FINANCE, INC. ("BDOLF")**, a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with business address at the 39th Floor, BDO Corporate Center Ortigas, No. 12 ADB Avenue, Ortigas Center, Mandaluyong City, and in that capacity, I have custody of the corporate records of BDOLF;

2. Based on records, I hereby certify that the re-elected members of the Board of Directors of **BDOLF** have attended the regular/special meetings of the said Board for the year 2021 as follows:

Name of Director	Position	No. of meetings attended (8 meetings)	Date of election/appointment/resignation	Remarks
Teresita T. Sy	Chairperson	8	re-elected April 12, 2019 (Annual Stockholders' Meeting)	incumbent
Jesse H. T. Andres	Independent Director	8		incumbent
Ma. Leonora V. De Jesus	Lead Independent Director	8		incumbent
Vicente S. Pérez, Jr.	Independent Director	8		incumbent
Luis S. Reyes, Jr.	Director	8		incumbent
Nestor V. Tan	Director	8		incumbent
Exequiel P. Villacorta, Jr.	Director	8		incumbent
Walter C. Wassmer	Director	8	appointed as Director, eff. May 12, 2021	incumbent
Manuel Z. Locsin, Jr.	Director/Officer-in-Charge	3		incumbent
Roberto E. Lapid	Vice Chairman & President	5	resigned as Director, eff. May 12, 2021	
Jeci A. Lapus	Director	5	demised on July 11, 2021	
Antonio N. Cotoco	Director	8	resigned, effective December 31, 2021	

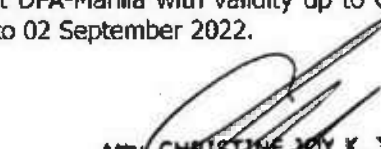
3. I am executing this certificate for whatever legal purpose it may serve.

**IN WITNESS WHEREOF**, I have hereunto affixed my signature this 4<sup>th</sup> day of January 2022 at Makati City, Philippines.

  
**JOSEPH JASON M. NATIVIDAD**  
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this 4 day of JAN 04 2022 at Makati City, affiant exhibiting to me his Passport No. [REDACTED] issued at DFA-Manila with validity up to October 5, 2028, and his Driver's License No. [REDACTED] with validity up to 02 September 2022.

Doc. No. 434  
Page No. 88  
Book No. 1  
Series of 2022.

  
**ATTY. CHRISTINE JOY K. TAN**  
Appointment No. M-336  
Notary Public until June 30, 2022  
21/F BDO Towers Valero, 8741 Paseo de Roxas  
Salcedo Village, Makati City 1226  
Roll No. S7195  
IBP No. 145381, 08 January 2021, Makati City  
PTR No. 8535989, 06 January 2021, Makati City  
MCLE Compliance No. VI-0015458, 20 November 2018

BDO Leasing and Finance, Inc.  
39/F BDO Corporate Center Ortigas  
12 ADB Avenue, Ortigas Center  
Mandaluyong City 1554  
Tel +632 8688-1288 loc. 65819/65175/45303

## BDO LEASING AND FINANCE, INC.

### REGULAR AND ORGANIZATIONAL BOARD MEETINGS - 2021

BDOLF Board Members	Position	March 1	March 19	April 6	April 28	May 12	August 4	October 21	December 22	% (Total # of meetings - 8)
Teresita T. Sy	Chairperson	✓	✓*	✓	✓*	✓*	✓*	✓*	✓*	100%
Roberto E. Lapid	Vice Chairman/ President	✓	✓*	✓	✓*	✓*				100%**
Jesse H. T. Andres	Independent Director	✓	✓*	✓	✓*	✓*	✓*	✓*	✓*	100%
Antonio N. Cotoco	Director	✓	✓*	✓	✓*	✓*	✓*	✓*	✓*	100%
Ma. Leonora V. De Jesus	Independent Director	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	100%
Vicente S. Pérez, Jr.	Independent Director	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	100%
Jeci A. Lapus	Director	✓*	✓*	✓*	✓*	✓*				100%***
Luis S. Reyes, Jr.	Director	✓	✓*	✓	✓*	✓*	✓*	✓*	✓*	100%
Nestor V. Tan	Director	✓	✓*	✓	✓*	✓*	✓*	✓*	✓*	100%
Exequiel P. Villacorta, Jr.	Director	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓*	100%
Walter C. Wassmer	Director	✓	✓*	✓	✓*	✓*	✓*	✓*	✓*	100%
Manuel Z. Locsin, Jr.	Director/OIC						✓*	✓*	✓*	100%****

### BDOLF BOARD AUDIT COMMITTEE – 2021

BDOLF BAC Members	Position	February 23	April 26	May 10	August 4	October 27	December 22	% (Total # of meetings - 6)
Ma. Leonora V. De Jesus	Chairperson	✓*	✓*	✓*	✓*	✓*	✓*	100%
Jesse H. T. Andres	Independent Member	✓*	✓*	✓*	✓*	✓*	✓*	100%
Vicente S. Pérez, Jr.	Independent Member	✓*	✓*	✓*	✓*	✓*	✓*	100%

\* participated via remote communication

\*\* resigned effective May 12, 2021

\*\*\* demised on July 2021

\*\*\*\*appointed as Director effective May 12, 2021

### BDOLF RELATED PARTY TRANSACTIONS COMMITTEE - 2021

Related Party Transactions Committee Members	Position	February 23	December 22	% (Total # of meetings - 2)
Jesse H. T. Andres	Chairman	✓*	✓*	100%
Ma. Leonora V. De Jesus	Independent Member	✓*	✓*	100%
Jeci A. Lapus	Member	✓*		100%**

### BDOLF CORPORATE GOVERNANCE COMMITTEE - 2021

Corporate Governance Members	Position	February 23	April 5	April 26	May 10	December 22	% (Total # of meetings - 5)
Jesse H. T. Andres	Chairman	✓*	✓*	✓*	✓*	✓*	100%
Ma. Leonora V. De Jesus	Independent Member	✓*	✓*	✓*	✓*	✓*	100%
Vicente S. Pérez, Jr.	Independent Member	✓*	✓*	✓*	✓*	✓*	100%

### BDOLF RISK MANAGEMENT COMMITTEE – 2021

Risk Management Committee Members	Position	December 22	% Total # of meeting - 1)
Vicente S. Pérez, Jr.	Chairman	✓*	100%
Jesse H. T. Andres	Independent Member	✓*	100%
Nestor V. Tan	Member	✓*	100%


### BDOLF NOMINATION COMMITTEE – 2021

Nomination Committee Members	Position	December 22	% Total # of meeting - 1)
Jesse H. T. Andres	Chairman	✓*	100%
Antonio N. Cotoco	Member	✓*	100%
Ma. Leonora V. De Jesus	Independent Member	✓*	100%

\* participated via remote communication

\*\*\* demised on July 2021

CERTIFIED BY:

  
 JOSEPH JASON M. NATIVIDAD  
 Corporate Secretary

## **BDO LEASING AND FINANCE, INC.'s POLICY ON RETIREMENT OF DIRECTORS**

The effective governance of the Company is by the individual and collective responsibility of the members of the Board of Directors. To contribute effectively, directors must have the necessary qualifications that best suit the needs and governance requirements of the Company such as skills, expertise, experience, probity, integrity, competencies relevant to the job, and the sufficiency of time to carry out responsibilities fully. The diversity of the Board underpins its effectiveness to provide strategic direction, oversight and compliance with laws and regulations.

The need to have a proper balance to refresh the Board with new talents while continuing to benefit from the wisdom, expertise and experience of the directors shall therefore be the guiding principle on the retirement of directors. The longer life expectancy and the willingness of directors to serve even in their advanced years shall be taken into consideration. As a policy, the continuing service of directors shall be determined on the basis of each director's ability to perform his/her duties effectively and willingness to serve regardless of age with due regard to mental acuity, physical fitness, and the fortitude to actively engage and make a positive contribution in the pursuit of shared goals of the Company for the benefit of its stakeholders. The Company reserves the right to determine the continuing fitness of directors to serve but will accede to the request of a director, if he/she wishes not to do anymore for whatever reason.



BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

1. Definition of Related Party

*Related Party*<sup>1</sup> shall refer to:

**A. DOSRI**

1. Directors of BDOLF, as defined in MORB Subsec. X141.1
2. Officers of BDOLF, as defined in MORB Subsec. X142.1<sup>2</sup>
3. *Stockholder*<sup>3</sup> of BDOLF owning at least 1% of the Company's subscribed capital stock, singly or collectively with: i) spouse and/or relatives within the first degree of consanguinity or affinity, or relative, by legal adoption; ii) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; iii) a corporation, association or firm more than fifty percent (50%) of which is owned by the stockholder and/or his spouse and/or other first degree relatives by consanguinity, affinity or legal adoption.
4. *Related Interest* which shall refer to any of the following:
  - 4.1. Spouse or relative within the first degree of consanguinity or affinity, or relative by Legal adoption, of a director, officer or stockholder of BDOLF;
  - 4.2. Partnership of which a director, officer, or stockholder of BDOLF or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;
  - 4.3. Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;
  - 4.4. Corporation, association or firm of which any or a group of directors, officers, stockholders of the BDOLF and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm;
  - 4.5. Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in items 4.2 and 4.4;
  - 4.6. Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the lending Company or which controls majority interest of BDOLF pursuant to MORB Subsec. X303.1;

- 1 Related Parties (RP) refer to the following : DOSRI, Subsidiaries, Affiliates and Other Related Parties acting for themselves, as representative or agent for others, or as guarantors, sureties, endorsers, mortgagors, pledgers, assignors, or in any capacity in which (i) they become obligated or may become obligated to BDOLF to pay money or its equivalent or by any means whatsoever or (ii) there is a transfer of resources, services or obligations between BDOLF and the RP.
- 2 BDO Officers that are seconded to BDOLF shall be classified as Officer of both BDO and the host subsidiary. Checking with BDO HR shall be required to confirm if an officer of a subsidiary is seconded.
- 3 Stockholder shall refer to any stockholder of record in the books of the Company, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts. Stockholder shall also refer to a juridical person such as corporation, association or firm.



BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

- 4.7. Corporation, association or firm which has an existing management contract or any similar arrangement with the parent corporation of BDOLF; and
  - 4.8. Non-governmental organizations (NGOs)/foundations that are engaged in retail Microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers of the BDOLF or any related Company.
- B. *Subsidiary*<sup>4</sup> shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by BDOLF.
- C. *Affiliates* shall refer to an entity linked directly or indirectly to BDOLF by means of:
1. Ownership, control as defined under MORB Subsec. X146.1, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;
  2. Interlocking directorship or officership, where the concerned director or officer owns; controls, as defined under MORB Subsec. X146.1; or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty;
  3. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of BDOLF and at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty;
  4. Management contract or any arrangement granting power to BDOLF to direct or cause the direction of management and policies of the borrowing entity/counterparty; or
  5. Permanent proxy or voting trusts in favor of BDOLF constituting at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;
- Note: In cases where the borrowing entity/counterparty is linked to BDOLF both as DOSRI & as a Subsidiary or Affiliate, the DOSRI rules shall apply.*
- D. *Other Related Party*<sup>5</sup> which shall refer to any of the following:
1. An entity linked directly or indirectly to BDOLF by means of:
    - a. Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;
    - b. Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal shares in the borrowing corporation/counterparty;
    - c. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of BDOLF, and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty;
    - d. Permanent proxy or voting trusts in favor of BDOLF constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty.

4 As defined in Section 1 of BSP Circular No. 914, Series of 2016

5 As defined in Section 6 of BSP Circular No. 914, Series of 2016



BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

2. Second degree relatives by consanguinity (grandparents, grandchildren, brothers and sisters) or affinity (grandparents-in-law, brothers-in-law and sisters-in-law), legitimate or common-law<sup>6</sup>, of Directors and select Senior Officers of BDOLF (SVP or higher who has the ability to exercise significant influence on the outcome of the transaction<sup>7</sup>);
  3. Directors, Officers<sup>8</sup> and Stockholders<sup>9</sup> (DOS) of the affiliated<sup>10</sup> companies of BDOLF;
  4. Spouse, and those relatives up to the second degree, by consanguinity (parents, children, grandparents, grandchildren, brothers and sisters) or affinity (parents-in-law, children-in-law, grandparents-in-law, grandchildren-in-law, brothers-in-law and sisters-in-law), legitimate or common-law, of Directors, and Officers<sup>11</sup> in affiliated companies of BDOLF.
  5. Persons/juridical entities that do not qualify as Other Related Party based on above definitions, but which the business unit / delegated approver, with abundance of caution, opted to classify as such, subject to the evaluation and approval of the Related Party Transactions Committee (RPTC).
2. The Company shall maintain a central Related Party Database<sup>12</sup> to be used as reference by business units.
  3. Transactions of the Company with a Related Party shall be allowed. However, business units shall ensure that such transactions are conducted on an arm's length basis, or in the ordinary course of business.
  4. Coverage of the Related Party Transactions (RPT) Policy
    - a. The policy on RPTs shall cover the following:

Credit Transactions	Non-credit Transactions
1. Credit lines / facilities (on- and off-balance sheet)	1. Services <ul style="list-style-type: none"> <li>- consulting, professional, agency &amp; other service arrangements / contracts</li> <li>- construction arrangements / contracts</li> </ul>
2. Write-off of related party transactions	2. Goods & Materials <ul style="list-style-type: none"> <li>- sale, purchase or supply of any goods or materials</li> </ul>
3. Borrowing, commitments, fund transfers (representing advances / loan accommodations) and guarantees and sureties	3. Lease arrangements / contracts (as Lessor or Lessee)
	4. Assets <ul style="list-style-type: none"> <li>- purchases &amp; sales of assets including transfer of technology &amp; intangible items (research &amp; development, trademarks &amp; license agreements)</li> </ul>

6 Relatives arising from a relationship between a man and a woman who live exclusively with each other as husband and wife without the benefit of marriage.

7 Per BOD-approved guidelines dated June 25, 2016

8 Officer of the affiliated company" shall refer to: President, Chief Executive Officer, Chief Financial Officer, or Treasurer.

9 "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity **holding more than 50%** of the subscribed capital of the affiliated company.

10 Affiliated companies shall refer to the following: a. juridical/corporate Related Interests (RI); b. subsidiaries & affiliates of BDOLF; c. Any party that BDOLF exerts direct/indirect control over (as provided in item H1.a.1 of the RP Checklist), or that exerts direct/indirect over BDOLF (as provided in item H.1.a.2 of the RP Checklist).

11 "Officer of the affiliated company" shall refer to: President, Chief Executive Officer, Chief Financial Officer, or Treasurer.

12 Posted in the designated BDOLF Shared Folder. For Officers, the BDO Employee Self-service shall be used as reference.

BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

	<p>5. Investments</p> <ul style="list-style-type: none"> <li>- investments and/or subscriptions for debt/equity issuances <b>not</b> traded in an active market</li> <li>- establishment of joint venture activities</li> </ul> <p>6. Trading &amp; derivative transactions <b>not</b> traded in an active market</p> <p>7. Guarantees, sureties and other grant of security interest issued by a related party for any of the above transactions</p>
--	---

b. Transactions excluded from the materiality threshold & reporting requirements shall include, but not limited, to the following:

1. regular trade transactions involving purchases and sales of financial instruments traded in an active market
2. those granted under BSP-approved fringe benefits program

Business units shall be responsible for identifying other transactions which may be excluded from the RPT approval & reporting requirements, providing justification, coordinating such with Compliance, and securing the necessary approval from RPTC & BOD once clearance from Compliance is obtained.

Note: Please refer to **Annex 1** for the sample memo to RPTC & BOD.

c. Related Party Transactions (RPTs) shall include not only transactions which are entered into with related parties, but also outstanding transactions which were entered into with an unrelated party that subsequently became a related party.

Note: Please refer to item II.9 for the detailed guidelines on handling changes in relationships.

5. The Related Party Transactions Committee or RPTC shall be primarily responsible for the assessment of material RPTs, and the regular reporting to the Board of Directors of the status and aggregate exposures to related parties.
6. Review and Approval of Related Party Transactions (RPTs)
  - a. The following general approval matrix shall be observed to ensure the proper review and approval of transactions between the Company and a Related Party:



BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

Related Party Transactions <sup>13</sup>	Related Party	DISPOSITION		
		Transaction Approval	Approval / Endorsement	Approval
		Delegated Authority <sup>14</sup>	RPTC <sup>15</sup>	BOD <sup>15</sup>
1. All transactions within / above materiality threshold (material RPTs), including <u>select aggregated non-material non-credit RPTs breaching materiality threshold<sup>16</sup></u>	All	✓	✓	✓
2. Transactions below materiality threshold (non-material RPTs) involving:				
- Credit transactions	DOSRI, Subsidiaries & Affiliates	✓		✓
- Write-off	All	✓		✓
3. Non-material RPTs except those cited in item 2 above	All	✓		

Note: Above approval, matrix shall also apply to updating of terms of conditions. Prior approval shall be required for updating of terms & conditions of RPTs previously approved by the RPTC & BOD, and those, which will result in breach of materiality threshold based on company's aggregated exposure to the borrower / counterparty. Please refer to **Annex 2** for the specific approval matrix.

- b. RPTs for review / approval shall be evaluated based on the following factors:
- b.1. whether the terms of the transaction are fair or not more favorable than similar transactions with non-related parties;
  - b.2. whether the outcome of the transaction would pose any potential reputational risk issues;
  - b.3. whether the transaction would present an improper conflict of interest for any director or senior officer of the Company;
  - b.4. the availability of other sources of comparable products or services;

<sup>13</sup> Existing DOSRI rules (such as but not limited to the following: BSP Circular No. 423 re Ceilings on Loans/Credit Accommodations to DOSRI; BSP Circular No. 560 re Ceilings on Loans/Credit Accommodations to Subsidiaries/Affiliates; BSP Circular No. 737 re Real Estate and Chattel Transactions with DOSRI/Employees; BSP Circular No. 749 re Guidelines on Corporate Governance) shall apply. Guarantees, sureties and other grant of security interest issued by a related party for the covered transactions shall likewise be subject to the requirements of the policy.

<sup>14</sup> based on the latest approval matrix

<sup>15</sup> To be coursed thru the Office of the Corporate Secretary; existing procedures on the endorsement of transaction for review & approval/confirmation of the designated reviewing committee / Board of Directors shall continue to be observed.

<sup>16</sup> Applicable to sale of assets, sale/purchase of goods & materials, and leases; prior to RPTC/BOD approval shall be required if aggregated YTD RPT shall reach the Php 10M materiality threshold for credit and Php 1M materiality threshold for non-credit.



BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

- b.5. the material facts of the proposed transaction, including its aggregate value vis-a-vis the Company's aggregate exposure limits
- b.6. any other information (e.g., price discovery mechanism, etc.) deemed relevant to allow determination if terms are comparable to those given to unrelated parties or reasonable under the circumstances
- c. To facilitate the approval and/or confirmation of RPTs, and the subsequent reporting of material RPTs to BSP, the secretariat / designated personnel of the delegated approving authority shall sort the approval media of proposed RPTs, and prepare the corresponding report. (*Exhibit 1-1A*).
- d. Any member of the reviewing committee / Board of Directors who has a potential interest in any proposed RPT shall abstain from the discussion or deliberation.

7. Role of Business Units

To facilitate the proper evaluation of related party transactions (RPT), concerned business units shall perform the following:

- a. Identification of a related party (RP) account, and determination of the appropriate RP classification
- b. Tagging of the appropriate RP code in the respective system or database (i.e., Ambit Asset Finance [AAF], Factors Management System [FaMS], Fund Management System [FMS], and/or ICBS-CIF)

Note: Business units which are non-CIF owners / without access to ICBS shall endorse the account for tagging to the respective CIF owner.<sup>17</sup> Endorsement shall be made via e-mail and shall include the established RP classification of the account.

- c. Obtaining data to show that terms and conditions granted to related borrower / counterparty are not more favorable than similar transactions with non-related parties, or are comparable with similar transactions of other companies/entities
- d. Disclosure of the required data in the applicable transaction document (e.g., Credit Proposal, Request for Booking, Purchase Order, etc.)

Please refer to **Annex 3** for the Duties and Responsibilities of all concerned units on RPT processing & reporting.

8. Guide in Determining a Related Party & Tagging of Accounts

- a. Business units shall make use of the applicable information sheet (e.g., Customer Information Record / equivalent document & Related Party Questionnaire (*Exhibit 3*) for individual<sup>18</sup>, General Information Sheet for non-individual<sup>19</sup>) to determine whether a client / counterparty is a related party.
- b. To determine client's / counterparty's classification<sup>20</sup> with finality, business units shall be required to **accomplish & print** the Related Party Checklist (*Exhibit 2*).

<sup>17</sup> CIF owner shall be determined based on the client's/counterparty's existing relationship with the Company.

<sup>18</sup> includes sole proprietorship, for RPT purposes

<sup>19</sup> or the equivalent document for other type of entities

<sup>20</sup> Includes 'Non-Related Party' please refer to BSD M2016/0145 ( re: Updated RP Code Field in ICBS-CIF) for the updated list of RP classification & respective codes



BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

However, for counterparties initially identified as Director & spouse / relatives up to 1<sup>st</sup> degree of Directors, Officer & spouse/relatives up to 1<sup>st</sup> degree of Officers, Stockholder (owning at least 1%), or Subsidiary based on the accomplished / submitted information sheet, use of RP Checklist shall no longer be required. Confirmation of RP classification shall be done as follows:

Identified RP Classification	Reference
Director, Stockholder (owning at least 1%) or Subsidiary, and spouse/relatives up to 1 <sup>st</sup> degree of Directors & Officers	Related Party (RP) Database <sup>21</sup>
Officer	Employee Self-service (ESS)

Business units shall document verification made by affixing the following details in the corresponding information sheet (i.e., RP Questionnaire for individual & GIS for non-individual):

1. RP classification (i.e., Director, Officer, Stockholder, or Subsidiary, or Related Interest (for spouse/relatives up to 1<sup>st</sup> degree of BDOLF Directors /Officers)
  2. Date of verification
  3. Signature of reviewing & approving personnel
- c. Business units shall ensure that accounts identified and confirmed to be a related party are properly tagged in the respective transaction system/database ( AAF, FaMS, FMS, and/or ICBS-CIF)

To determine if the client / counterparty has already been tagged in ICBS, business units shall refer to the RP Database. Tagging of accounts in ICBS shall be done on the following instances:

- if client's / counterparty's name is found in the database but without a Logical Branch Code
- if client's / counterparty's name is found in the database but RP classification is incorrect / not updated
- if client's / counterparty's name is not found in the database.

Notes:

- To facilitate updating of RP Database, both the newly-identified related parties and non-related parties<sup>22</sup> shall be tagged in AAF, FaMS, FMS, and/or ICBS accordingly.
  - Please refer to BSD M2016/0145 (Updated RP Code Field in ICBS-CIF) for the updated RP Codes
  - For names without indicated CIF owner / Logical Branch Code<sup>23</sup> & names not found in the database, CIF owner shall be identified based on the client's / counterparty's existing relationship with the Company, as disclosed in the Customer Information Sheet (CIS) or equivalent document.
  - In exception cases where identified RPs do not have any transaction captured in AAF, FaMS, FMS and/or ICBS (e.g. Lessors who may not be maintaining an account with the Company), business units shall request inclusion in the RP Database by sending an e-mail to Compliance.<sup>24</sup>
- d. Details of verification against the RP Database, and subsequent tagging in the AAF, FaMS, FMS and/or ICBS-CIF or endorsement to Compliance shall be recorded in the applicable information sheet (e.g., RP Questionnaire, GIS or RP Checklist).

21 posted in the designated BDOLF Shared folder. For Officers, the BDO Employee Self-Service shall be used as reference.

22 to cover those accounts previously identified/tagged as RP but subsequently became a non-RP

23 Identified as RP based on available information with the Office of the Corporate Secretary

24 Specific e-mail address to be announced by Compliance separately



BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

- e. Concerned CIF Owner and Compliance shall send an e-mail confirmation on successful tagging in ICBS, AAF, FaMS, and FMS and inclusion in RP Database, respectively, to the requesting business unit within three (3) banking days upon receipt of request.
- f. Compliance Office shall be responsible for the periodic updating of the RP Database, as follows:

RP Classification	Schedule of Updating
Directors, Stockholders & Subsidiary <sup>25</sup>	Monthly or as necessary
Related Interests <sup>26</sup> , Affiliates <sup>27</sup> & Other Related Party <sup>28</sup>	
Directors, Officers <sup>29</sup> & Stockholders <sup>30</sup> of Select Affiliated <sup>31</sup> Companies	Quarterly or as necessary

\*The List of Select Senior Officers of BDOLF (SVPs & up with significant influence)<sup>32</sup> shall be updated as necessary.

The RP Database shall bear the notation 'Updated as of (date)' for the guidance of the business units.

9. To capture subsequent changes in relationships (i.e., unrelated party becoming a related party & vice versa, and changes in RP classification), business units shall require existing clients / counterparties to accomplish the Related Party Questionnaire<sup>33</sup> (*Exhibit 3*) (for individual) or submit updated General Information Sheet (for non-individual) on the following instances:

- upon renewal of the credit facility / agreement / contract;
- upon re-accreditation of vendor / service provider or renewal of contract, whichever comes first;
- upon updating of terms & conditions;
- upon client's voluntary disclosure of information (for client-initiated updating)

The RPT approval & reporting requirements shall apply based on the client's updated/latest RP classification (i.e. to be determined upon accomplishment of RP Questionnaire / Checklist, or verification of information against the RP Database<sup>34</sup>), and the amount involved in the transaction. Please refer to **Annex 2** for the Approval Matrix.

Note: To ensure that the RP Database is up-to-date, immediate updating of RP code tagging in AAF, FaMS, FMS and/or ICBS-CIF following the account's change in classification shall be done.

25 Identified as RP based on available information with the Office of the Corporate Secretary

26 via extract file from AAF, FaMS, FMS or ICBS-CIF

27 Compliance Office shall consolidate data from the Office of the Corporate Secretary and those extracted from AAF, FaMS, FMS and/or ICBS-CIF, prior to posting in the RP Database. The list is partial or non-exclusive in nature. Business units shall look at the ownership structure of the concerned entity and conduct due diligence to determine if it is an affiliate of BDOLF as defined in item II.1.C.

28 Compliance Office shall consolidate data from the Office of the Corporate Secretary and those extracted from AAF, FaMS, FMS and/or ICBS-CIF, prior to posting in the RP Database.

29 "Officer of the affiliated company" shall refer to: President, Chief Executive Officer, Chief Financial Officer, or Treasurer.

30 "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity **holding more than 50%** of the subscribed capital of the affiliated company.

31 Affiliated companies shall refer to the following: a. juridical/corporate Related Interests (RI); b. subsidiaries & affiliates of BDOLF; c. Any party that the bank exerts direct/indirect control over, or that exerts direct/indirect control over BDOLF

32 one of the references in identifying Other Related Parties

33 The handling Account Officer/frontliner may accomplish the questionnaire based on interview with the client / highly-reliable sources, in exception cases where it is not practicable for the client to accomplish such.

34 Posted in the designated BDOLF Shared Folder; for Officers, reference will be the BDO's Employee Self-service (ESS)



BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

10. Disclosure Requirements for Related Party Transactions

a. Transaction approval documents shall bear the following information:

- a.1. related party classification of client / counterparty, and the basis for such classification
- a.2. comparative terms and conditions (vs. non-RPTs of the company, or other company's similar transaction)

Notes:

- 1. In cases where relevant pricing terms are not available at the time of approval (such as interest rate which shall be determined upon loan booking and not upon initiation of credit proposal), disclosure on the timing and documentation of such shall be done on the appropriate transaction media (e.g., Credit Proposal). To illustrate, the following notation shall be indicated on the Credit Proposal upon credit initiation for BDOLF Marketing Units:

"The actual interest rate to be charged at booking date shall be comparable to similar transactions of non-related parties similarly situated or risk-rated, and will be substantiated/documented in the Request for Booking."

- 2. Transaction documents not bearing the required disclosures shall be returned by the designated personnel / secretariat of the delegated authority to the concerned business unit.

b. To further aid RPTC/BOD in determining whether the transaction is fair or not more favorable than similar transactions with non-related parties, the prescribed benchmarking template (*Exhibit 1-E for credit transaction & Exhibit 1-F for non-credit transactions*) shall be accomplished by business units for all RPTs.

Note: For credit transactions, the interest rate<sup>35</sup> charged at booking date shall be reported to RPTC by re-submitting the corresponding benchmarking template used for the approved credit facility, with the actual interest rate likewise benchmarked against non-RPT accounts. Deviations from the rates approved by the management shall require disclosure.

c. Disclosure of details<sup>36</sup> of material related party transactions shall be made by the Company in its Annual Stockholders' Meeting, and in the Annual Report, as necessary. Likewise, the Company's updated policy regarding related party transactions shall be disclosed in the website & in the Annual Corporate Governance Report.

11. Reporting of Related Party Transactions

In addition to the required reports on transactions with DOSRI, Subsidiaries & Affiliates, the following reports shall be prepared:

<sup>35</sup> Determined following BDOLF's Guidelines on Pricing of Loans reviewed and approved by the RPTC

<sup>36</sup> Nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments.



BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

a. Reports for BSP

Report Name	Purpose	Unit Responsible for Manual Preparation/ Extraction	Unit Responsible for Consolidation / Submission to Designated Recipient	Schedule of Submission
1. Report on Material Related Party Transactions (Annex A)	Compliance to regulatory requirement	<p>- Comptrollership-Subsidiaries Accounting (<i>based on Exhibit 1/1A prepared by the Secretariat of the delegated approving authority</i>)</p> <p>Notes:</p> <p>a. The parent bank's report shall contain <u>all the company's transactions with any related party</u>, (i.e., including all subsidiaries &amp; affiliates, whether BSP-supervised or not).</p> <p>b. In case both the company and the counterparty are supervised by BSP, only the lessor, in case of a lease contract, or the party engaging/requesting the services, in case of other contracts, shall do the reporting of the transaction.</p> <p>c. Please refer to <i>Exhibits 1 &amp; 1A</i> for the report template.</p>	<p>Comptrollership-FRCD</p> <p>Note: The Annex A to be submitted to BSP by Comptrollership - FRCD shall also include the RPTs to be reported by BSP-supervised non-bank financial subsidiaries of BDO.</p>	<p>Submission by the Office of the Corporate Secretary / Comptrollership-Subsidiaries Accounting to Comptrollership - FRCD:</p> <p><u>Within fourteen (14) calendar days after the reference quarter</u></p> <p>Submission by Comptrollership - FRCD to BSP:</p> <p><u>Within twenty (20) calendar days after the reference quarter</u></p>

BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

b. Internal Reports

Report Name	Purpose	Unit Responsible for Preparation/ Extraction (for automated reports)	Unit Responsible for Consolidation / Submission to Designated Recipient	Schedule of Submission
1. Report on Material RPTs (Exhibit 1-1A)	To secure RPTC / BOD's approval	Designated Unit / Concerned Business Unit		Prior to execution of transaction
2. Report on Aggregated Non-material, Non-credit RPTs Breaching the Materiality Threshold (Exhibit 1B)				
3. Monthly Report on Outstanding Exposures to Related Parties (Annex B)	For use by RPTC in monitoring credit exposures (as to status, total exposures per related party group, & aggregate exposures to all related parties)	BDOLF Comptrollership		Within eight (8) banking days after the reference month
4. Annual Report on Non-Material RPTs (Aggregated per RP) Exhibit 1C-1D	To facilitate monitoring of exposure, & for RPTC/BOD's confirmation/notation	Designated Unit / Concerned Business Unit <sup>37</sup>		Within ten (10) calendar days after year-end
5. Quarterly Report on Conglomerate Structure	For use by RPTC in monitoring changes in relationship	Office of the Corporate Governance		Within five (5) banking days prior to the next scheduled RPTC meeting

12. Stress Testing of Exposures

- a. On an annual basis, BDOLF RMU - Risk Management Unit (RMU) shall conduct a stress testing exercise on the company's related party exposures to determine its impact on capital adequacy ratios
- b. The RPTC shall be furnished by RMG-RASCU with the results of the stress testing exercise.

13. Handling of Abusive RPTs<sup>38</sup>

- a. Abusive RPTs shall be handled as follows:

<sup>37</sup> For RPTs not coursed thru / reported by the Secretariat of the delegated approving authority (e.g. credit transactions, leases)

<sup>38</sup> An RPT not conducted at arms's length



BDO Leasing and Finance, Inc.  
Related Party Transaction Policy

Personnel involved in the Complaint	Unit Responsible for Investigation
Employee	Cases Review Committee (CRC)-Secretariat
Director	Corporate Governance Committee <sup>39</sup>

- b. Any member of the investigating committee who is a subject of the complaint shall recuse himself/herself from participating in the handling of the case.
- c. Reporting and investigation of abusive RPTs shall be handled following the Company's existing code of conduct and Whistleblowing Guidelines, while restitution of losses and remedies for abusive RPTs shall be handled following the Company's Cases Review Guidelines (for employees) and applicable guidelines (for Directors)

14. RPT Awareness Training

- a. Compliance shall coordinate with HR- Training for the inclusion and updating of the RPT module in the company's training program for employees.

15. Roles of Internal Audit and Compliance

- a. Internal Audit shall perform a periodic review of the effectiveness of the Company's system, controls and policies governing related party transactions, and shall report findings in the RPTC meeting following the issuance of the final report to concerned business unit.
- b. Compliance shall ensure that the Company's policies are up-to-date. It shall also conduct compliance test review of related party accounts/transactions to check concerned unit's compliance with RPT requirements, and shall report findings in the RPTC meeting following the issuance of the final report to concerned business unit.

<sup>39</sup> Thru the Office of the Corporate Governance

Date : \_\_\_\_\_  
For : Related Party Transactions Committee (RPTC)  
Board of Directors (BOD)  
BDO Leasing and Finance, Inc.  
Thru : The Office of the Corporate Secretary  
From : <Name>  
<Rank> and <Department / Group Name> Head  
Subject : Request for Exclusion from RPT Approval & Reporting Requirements

---

The Management of <Department / Group Name> would like to request the approval of the RPTC & BOD for the exclusion of \_\_\_\_\_ from the existing RPT approval & reporting requirements based on the following justifications:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

(Specify & attach supporting documents, as necessary.)

Please rest assured that the cited transaction will continue to be handled on an arm's length basis.

Thank you.

<Name>  
<Rank>  
<Department> Head

<Name>  
<Rank>  
<Group> Head



# RPT Approval Matrix

Annex 2

## I. Credit Transactions

Transaction <sup>1</sup>	Amount	Related Party	DISPOSITION			
			Transaction Approval	Endorsement	Approval	Confirmation
			Designated Approver <sup>2</sup>	RPTC	BOD	
A. Within / Above Materiality Threshold						
1. Credit Facilities, Investments & Joint Ventures	PhP10M & above per transaction	All	✓	✓	✓	
2. Write-off of Related Party Transactions	PhP1M & above per transaction		✓	✓	✓	
B. Below Materiality Threshold						
1. Credit Facilities, Investments & Joint Ventures	below PhP10M	DOSRI, Subsidiaries or Affiliates	✓		✓	
2. Write-off of Related Party Transactions	below PhP1M		✓		✓	
C. Below Materiality Threshold						
1. Credit Facilities, Investments & Joint Ventures	below PhP10M	Other Related Parties	✓			✓
2. Write-off of Related Party Transactions	below PhP1M		✓		✓	

- 1 Existing DOSRI rules (such as but not limited to the following: BSP Circular No. 423 re Ceilings on Loans/Credit Accommodations to DOSRI; BSP Circular No. 560 re Ceilings on Loans/Credit Accommodations to Subsidiaries/Affiliates; BSP Circular No. 737 re Real Estate and Chattel Transactions with DOSRI/Employees; BSP Circular No. 749 re Guidelines on Corporate Governance) shall apply.
- 2 based on the latest approval matrix

## RPT Approval Matrix

II. Non-credit Transactions						
Transaction <sup>3</sup>	Amount	Related Party	DISPOSITION			
			Transaction Approval	Endorsement	Approval	Confirmation
			Designated Approver <sup>4</sup>	RPTC	BOD	
A. Within / Above Materiality Threshold						
1. Services	PhP1M and above per transaction	All	✓	✓	✓	
2. Goods and Materials	PhP1M and above per transaction		✓	✓	✓	
3. Leases	PhP1M and above per transaction		✓	✓	✓	
4. Assets	PhP1M and above per transaction		✓	✓	✓	
B. Below Materiality Threshold						
1. Services	below PhP1M	All	✓			✓
2. Goods and Materials	below PhP1M		✓			✓
3. Leases	below PhP1M		✓			✓
4. Assets	below PhP1M		✓			✓

- 3 Existing DOSRI rules (such as but not limited to the following: BSP Circular No. 423 re Ceilings on Loans/Credit Accommodations to DOSRI; BSP Circular No. 560 re Ceilings on Loans/Credit Accommodations to Subsidiaries/Affiliates; BSP Circular No. 737 re Real Estate and Chattel Transactions with DOSRI/Employees; BSP Circular No. 749 re Guidelines on Corporate Governance) shall apply.
- 4 based on the latest approval matrix



- a. proposed material RPTs
  - b. proposed additional transaction/s for exclusion from materiality threshold & reporting requirements
2. Report to BOD the Company's aggregate exposure to each related party, and the total amount of exposures to all related parties on a monthly basis.
  3. Review & confirm non-material RPTs
  4. Evaluate and approve classification of counterparties who do not fall in any of the definitions specified in Item II. 1 of the PPC, but whose interests may pose actual or potential conflict with the interest of the company, as determined by the concerned business unit.

#### **F. Board of Directors (BOD)**

1. Review & approve the following:
  - a. proposed material RPTs
  - b. proposed non-material RPTs involving credit accommodations to DOSRI, Subsidiary or Affiliate, & write-off (regardless of related party)
  - c. proposed additional transaction/s for exclusion from materiality threshold & reporting requirements
2. Review & confirm non-material RPTs except those cited in item F.1.b above.

#### **G. Office of the Corporate Secretary**

1. Update / Furnish Compliance Unit with the following data:
  - a. Directors of BDOLF
  - b. Stockholders of BDOLF (owning at least 1% of the Company's total subscribed capital)
  - c. Subsidiaries of BDOLF
  - d. Select Affiliates<sup>5</sup> of BDOLF
  - e. Directors, Officers<sup>6</sup> and Stockholders<sup>7</sup> of select affiliated<sup>8</sup> companies
2. Update the Report on Material RPTs (*Exhibit 1/1A*) by specifying the date of approval of BOD as the "Transaction Date".
3. Consolidate softcopies of Report on Material RPTs (*Exhibit 1/1A*) on a quarterly basis, and transmit the following documents to Comptrollership-FRCD within fourteen (14) calendar days after the reference quarter:
  - a. signed hardcopy of Report/s on Material RPTs (*Exhibit 1/1A*)
  - b. softcopy of consolidated Report on (approved) Material RPTs

#### **H. BDO Comptrollership - Financial and Reporting Control Department (FRCD)**

1. On a quarterly basis, receive and consolidate the Report on Material RPTs of the main bank and its BSP-supervised non-bank financial subsidiaries.
2. Check the consolidated Report on Material RPTs against the corresponding signed hardcopy upon

5 The list is partial and non-exclusive in nature. Business units shall look at the ownership structure of the concerned entity and conduct due diligence to determine if it is an affiliate of BDOLF as defined in item II.1.C. of the PPC

6 "Officer of the affiliated company" shall refer to the President, Chief Executive Officer, Chief Financial Officer, or Treasurer.

7 "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity holding more than 50% of the subscribed capital of the affiliated company.

8 Affiliated companies shall refer to the following: a. juridical/corporate Related Interests (RI); b. subsidiaries & affiliates of BDOLF; c. Any party that the bank exerts direct/indirect control over, or that exerts direct/indirect control over BDOLF.

### A. Business Units

1. Determine related party classification of the borrower / counterparty.
2. Tag/Facilitate tagging of accounts in the respective system or database (e.g., Ambit Asset Finance (AAF) for borrowing clients; applicable system / database for supplies / service providers, lessees, lessors, etc.) and in ICBS/AAF.

For non-CIF owner BUs, request change in tagging and monitor receipt of confirmation on the updated RP tag in ICBS/AAF from the CIF owner.

In exception cases where identified related parties do not have any transaction captured in ICBS/AAF, request inclusion in the RP Database by sending an e-mail to Compliance<sup>1</sup>, and monitor receipt of confirmation.

3. Obtain data to show that terms and conditions granted to related borrower / counterparty are not more favorable than similar transactions with non-related parties, or are comparable with similar transactions of other entities. Please refer to *Exhibit 1E & Exhibit 1F* for the benchmarking template for credit & non-credit RPTs, respectively.
4. Disclose the required data in the applicable transaction document (e.g., Credit Proposal, Request for Booking, Purchase Order, etc.).
5. Submit related party transactions (RPTs) for approval to the delegated authority.
6. Submit non-material RPTs to the RPTC & Board of Directors for confirmation<sup>2</sup>.
7. Provide justification for additional transaction/s to be excluded from materiality threshold & reporting requirements, if any, coordinate such with Compliance, and secure RPTC and BOD's approval once clearance from Compliance is obtained.
8. Secure approval from RPTC on proposed classification of counterparties who do not fail in any of the definitions specified in item II.1 of the PPC, but whose interests may pose actual or potential conflict with the interest of the company.

### B. CIF Owners

1. Tag accounts in ICBS/AAF, and as applicable, send e-mail confirmation on successful tagging to the requesting business unit within three (3) banking days.
2. Following existing DOSRI rules, secure BOD approval for the outstanding credit transactions of accounts with changed classification (i.e., from non-RP to RP, or change to higher RP classification).

### C. Delegated Approving Authority<sup>3</sup>

1. Review and approve transactions following existing approval guidelines.
2. Endorse material and select non-material RPTs to the delegated approving authority.

### D. Secretariat of the Delegated Approving Authority

1. Sort RPTs for endorsement to the delegated authority, as follows:

1 specific e-mail address to be announced by Compliance separately  
 2 For RPTs not coursed thru / reported by the Secretariat of the delegated approving authority (e.g. credit transactions, leases)  
 3 based on the latest approval matrix



Type of RPT	Delegated Authority	Disposition
a. all material RPTs and select aggregated non-material non-credit RPTs breaching materiality threshold <sup>4</sup>	Related Party Transactions Committee (RPTC) and Board of Directors (BOD)	Approval
b. non-material RPTs involving:  b.1. credit accommodations to DOSRI, Subsidiaries or Affiliates;  b.2. write-off (regardless of related party)	BOD	Approval
c. Non-material RPTs except those cited in item 1.b above	BOD	Confirmation

2. Prepare & submit for review the Report on Material RPTs (*Exhibit 1/1A*) to be attached to the approval media of proposed material RPTs.

3. Transmit documents, as follows:

Item for Transmittal	Recipient
<b>a. Material RPTs</b> and select aggregated non-material, non-credit RPTs breaching the materiality threshold  Hardcopy of transaction approval documents and Report on Material RPTs ( <i>Exhibit 1/1A</i> )  Softcopy of the Report on Material RPTs ( <i>Exhibit 1/1A</i> )	RPTC  Office of the Corporate Secretary
<b>b. Non-material RPTs cited in item D.1.b above</b>  Hardcopy of transaction approval documents	BOD
<b>c. Non-material RPTs except those cited in item D.1.b above</b>  Hardcopy of transaction approval documents	Concerned business unit (for subsequent submission to BOD for confirmation)

#### E. Related Party Transactions Committee (RPTC)

1. Evaluate the following and endorse the same to the Board of Directors (BOD) for approval:

<sup>4</sup> applicable to sale of assets, sale/purchase of goods & materials, and leases; prior RPTC/BOD approval shall be required if aggregated YTD RPT shall reach the PHP10M materiality threshold for credit transactions and PHP1M for non-credit transactions

receipt of the documents from the Office of the Corporate Secretary (for the main company's RPTs) and Comptrollership - Subsidiaries Accounting (for the RPTs of BSP-supervised non-bank financial subsidiaries of the company).

3. Prepare *Annex A* cover and secure appropriate approvals.
4. Submit the signed-off *Annex A* to BSP within 20 calendar days after the reference quarter.

#### **I. BDOLF Comptrollership**

1. Prepare / Extract Monthly Report on Outstanding Exposures to Related Parties (Annex B) and submit the same to RPTC thru the Office of the Corporate Secretary (i.e., within 8 banking days after the reference month).

#### **J. Concerned Business Units**

1. On a monthly basis, re-submit to RPTC the benchmarking template of account/s (i.e., material RPTs previously-approved by RPTC) with loan/finance lease availments to present the actual interest charged at booking date.

#### **K. RMU**

1. On an annual basis, conduct a stress testing exercise on the company's related party exposure vis-a-vis the established capital, and furnish RPTC with the results.

#### **L. Compliance Unit**

1. Provide the data on select Senior Officers of the Company (SVPs and up who has the ability to exercise significant influence on the outcome of the RPT).
2. Perform updating of RP Database on a regular basis.
3. Conduct compliance test review of related party accounts/transactions to check concerned unit's compliance with RPT requirements, and report findings in the RPTC meeting following the issuance of the final report to concerned business unit
4. Ensure that the company's policies are up-to-date.
5. Facilitate inclusion (in the RP Database) of identified RPs without any transaction captured in ICBS/AAF, and send an e-mail confirmation on successful inclusion to the requesting business unit within three (3) banking days upon receipt of request.
6. Coordinate with business units requesting exclusion of transactions from the RPT approval & reporting requirements.
7. Coordinate with HR- Training for the inclusion and updating of the RPT module in the company's training program for employees.

#### **M. Internal Audit**

1. Perform a periodic review of the effectiveness of the company's system, controls and policies governing related party transactions, and report findings in the RPTC meeting following the issuance of the final report to concerned business unit

Category:

**Annex A**

Category A-1

Deadline:

20 calendar days  
after the reference  
quarter

Name of Bank		Code
Address		

**Report on Material Related Party Transactions**

As of	(Quarter-End)
-------	---------------

REPUBLIC OF THE PHILIPPINES)  
\_\_\_\_\_ ) S.S.

I solemnly swear that all matters set forth in this report are true and correct, to the best of my knowledge and belief.

\_\_\_\_\_  
Signature of Officer / Alternate

SUBSCRIBED AND SWORN TO BEFORE ME this \_\_\_\_\_ day of  
\_\_\_\_\_, 20\_\_\_\_, affiant exhibiting to me his Community Tax Certificate No. \_\_\_\_ A  
on \_\_\_\_\_, 20\_\_\_\_.

Notary Public  
Until December 31, 20\_\_\_\_  
PTR No. \_\_\_\_\_  
Place \_\_\_\_\_

Doc. No. \_\_\_\_\_  
Page No. \_\_\_\_\_  
Book No. \_\_\_\_\_  
Series of \_\_\_\_\_



Date

Company and Subsidiary / Affiliate	Related Counterparty	Relationship Between the Parties	Transaction Date	Type of Transaction	Amount / Contract Price	Terms	Rationale for Entering into the Transaction
<b>A. BDO Leasing and Finance, Inc.</b>							
1. Subsidiaries & Affiliates							
2. DCSR							
3. Others							
<b>B. Subsidiary 1</b>							
1. Subsidiaries & Affiliates							
2. DCSR							
3. Others							
<b>C. Subsidiary 2</b>							
1. Subsidiaries & Affiliates							
2. DCSR							
3. Others							
<b>D. Affiliate 1</b>							
1. Subsidiaries & Affiliates							
2. DCSR							
3. Others							
<b>E. Affiliate 2</b>							
1. Subsidiaries & Affiliates							
2. DCSR							
3. Others							

Please indicate in the last column (rationale for entering into the transaction) if the counterparty was a non-related party at the time when the transaction was entered into.



BDO Leasing and Finance, Inc.  
Report on Outstanding Exposures to Related Parties  
As of \_\_\_\_\_

\*Allowable Aggregate Ceiling for DOSRI, Subsidiaries & Affiliates, & Other Related Parties is based on the following:

Company's Total Net Worth - \_\_\_\_\_  
15% of Total Loan Portfolio - \_\_\_\_\_

1. BDOL's Transactions

Related Counterparty (Name of Related Counterparty, including co-ventures, borrowers (for credit RPTs), etc.)	Relationship Between the Parties (what makes the parties "Related Parties", e.g., counterparty is a stockholder, etc.)	Transaction Date (the date the transaction was approved by the BOD; to be accomplished by the office of the Corporate Secretary upon	Type of Transaction (covered transactions as specified in the PPC)	Amount / Contract Price (should be within or above the maturity threshold)	Terms (duration of the contract; transaction)	Rationale for Entering into the Transaction (to be accomplished only for renewal / updating of T&C of an existing RPT)	Type of Transaction (Please check)			Is credit accommodation secured? (Y/N)	Is credit accommodation secured? (Y/N)	Type of Security (if secured)	Credit Risk Rating of Borrower	Maximum Tenor of Credit Accommodation	Maximum Loanable Amount	
							New	Renewal w/ increase	Renewal w/o increase							
A. Subchapter S entities (refers to ALL the subchapter S entities of BDO Leasing and Finance, Inc., whether BSP supervised or not)																(e.g., deposit security, real estate security, etc.)
B. DBORN (refers to DBORN of BDO Leasing and Finance, Inc.)																
C. Other Related Parties (related counterparties not covered by A & B above)																

2020 - Pricing of the material RPTs is equal or at least comparable to the pricing given to similar/related transactions with counterparties in other

Note: Pricing of the material RPTs is equal or at least comparable to the pricing given to similarly-situated transactions with non-related parties.

\*As applicable, please indicate in the last column (footnote for Entering into the Transaction) if the counterparty was a non-related party at the time when the transaction was entered into.

Prepared by: \_\_\_\_\_

Reviewed/Approved by: \_\_\_\_\_

I. BOOL's Transactions

Company and Subsidiary / Affiliate	Related Counterparty (Name of Related Counterparty)	Relationship Between the Parties (what makes the parties "Related Parties", e.g., counterparty is a stockholder, etc.)	Transaction Date (the date the transaction was approved by the BOD, to be accomplished by the Office of the Secretary upon BOD approval)	Type of Transaction (covered transactions as specified in the PPC)	Amount / Contract Price (should be within or above the materiality threshold)	Terms (duration of the contract / transaction)	Rationale for Entering into the Transaction (to be accomplished only for renewal / updating of T&C of an existing RPT)
A. Subsidiaries & Affiliates (refers to the subs & affiliates of BCO Leasing and Finance, Inc.)							
A.1. With BGP supervised Subsidiaries as the Counterparty							
A.1.a. With Company as Lessor or Requestor of Service							
A.1.b. With Company as Lessee or Provider of Service							
A.2. With non-BGP supervised Subsidiaries as the Counterparty							
B. BOOL (refers to DOSRI of BCO Leasing and Finance, Inc.)							
C. Other Related Parties (related counterparties not covered by A & B above)							

Note: Pricing of the material RPTs is equal or at least comparable to the pricing given to similarly-rated transactions with non-related parties.

\*As applicable, please indicate in the last column (Rationale for Entering into the Transaction) if the counterparty was a non-related party at the time when the transaction was entered into.

Prepared by:

Reviewed/Approved by:

Exhibit 1-B

Report on Aggregated Non-material, Non-credit RPTs Breaching Materiality Threshold  
 Date: \_\_\_\_\_

Type of Transaction:	Purchase of Goods
Name of Counterparty:	
Relationship of BDOLF to Counterparty:	
Year-to-Date Aggregate Exposure to cited RP:	
Amount / Contract Price of New Transaction:	
Total Exposure to Counterparty	-

Prepared by:

Noted by:



Related Party	No. of RPTs for the Year	Total Amount of RPTs for the Year
<b>A. Subsidiaries &amp; Affiliates (refers to subs &amp; affiliates of BDOLF)</b>		
1. Related Party 1		
2. Related Party 2		
<b>B. DOSRI (refers to DOSRI of BDOLF)</b>		
1. Related Party 1		
2. Related Party 2		
3. Related Party 3		
<b>C. Other Related Parties (related parties not covered by A &amp; B above)</b>		
1. Related Party 1		
2. Related Party 2		

Name of Counterparty (Name of Related Party including co-users/co-borrowers)	No. of RPTs for the Year	Total Amount of Credit Line/Facility
A. Other Related Parties		
1. Related Party 1		
2. Related Party 2		

Noted by:

Report on Non-material Credit RPTs (Previously-approved by BOD) for Notation by RPTC  
Business Unit: \_\_\_\_\_  
Date: \_\_\_\_\_

Name of Counterparty (Name of Related Party including co-users/co-borrowers)	No. of RPTs for the Year	Total Amount of Credit Line / Facility
<b>A. Subsidiaries &amp; Affiliates (refers to subs &amp; affiliates of BDOLF)</b>		
1. Related Party 1		
2. Related Party 2		
<b>B. DOSRI (refers to DOSRI of BDOLF)</b>		
1. Related Party 1		
2. Related Party 2		
3. Related Party 3		

Prepared by: \_\_\_\_\_

Noted by: \_\_\_\_\_

#### RMG Guidelines

1. Following are the five (5) criteria to be used when identifying comparable non-RPT accounts against which the RPT account shall be benchmarked:

- a. Facility - pertains to the type of credit accommodation extended to the RPT. This could be short-term or long-term in nature.
- b. Risk Rating - based on the most recent approved risk rating of the RPT and its comparables
- c. Industry - based on category per Philippine Standard Industrial Classification (PSIC) code
- d. Firm Size - classified as Micro, Small, Medium or Large category
- e. Collateral - collateral(s) securing the credit facility/ies

2. The AO shall perform benchmarking by checking BDOLF Marketing Unit portfolio for similarly-situated non-RPT accounts using all the five (5) criteria, on a best effort basis.

3. The RPT Benchmarking Template shall be prepared and attached to the Credit Proposal of the RPT for approval. The terms and conditions shall likewise be matched on a per facility basis, for comparability. However, only the NON-STANDARD terms and conditions shall be indicated in the matrix.

4. Upon loan avallment, the same benchmarking template shall be updated by indicating the actual interest rates (likewise benchmarked against non-RPT accounts), and re-submitted to the RPTC on a monthly basis.

NOTE: In case the chosen non-RPT account has no avallment at the time of the related party's loan avallment, an alternate non-RPT account matching the identified parameters, may be used.

## RPT Benchmarking Template (CREDIT)

Date: \_\_\_\_\_

Details of Facility	RP Account ( )	Non-RP Account 1 ( )	Non-RP Account 2 ( )
---------------------	-------------------	----------------------	-------------------------

**CRITERIA FOR SELECTION OF COMPARABLE NON-RPT ACCOUNTS:**

Facility			
Risk Rating			
Industry			
Firm / Asset Size			
Collateral			

**COMPARATIVE TERMS AND CONDITIONS**

<b>FACILITY1</b>			
INTEREST RATE			
LOAN VALUE OF COLLATERAL			
TOP UP/PAY DOWN PROVISION			
OTHER NON STANDARD TERMS & CONDITIONS			
Date of Availment			
<b>FACILITY2</b>			
INTEREST RATE			
LOAN VALUE OF COLLATERAL			
TOP UP/PAY DOWN PROVISION			
OTHER NON STANDARD TERMS & CONDITIONS			
Date of Availment			

**REMARKS (as applicable)**

Prepared by: \_\_\_\_\_

Approved by: \_\_\_\_\_



Benchmarking Template for RPT (NON-CREDIT)

Exhibit 1-F

RPT Details	Account Name / Related Party	Non-RPT Account	Non-RPT Account
A. Basis for Selection (of Comparable Non- RPT Accounts)			
B. Comparative Terms & Conditions			
<b>Applicable metrics</b> (e.g., unit cost, approved indicative price, lease rate, service fee, etc.), <b>and other relevant details</b> [e.g., interest rate, repayment period & collateral (for sale of assets), price discovery mechanism employed (as applicable), etc.]			
C. Remarks			

Prepared by:

Approved by:

Related Party Checklist  
Updated as of \_\_\_\_\_

Name of Borrower / Counterparty: \_\_\_\_\_

Date Accomplished: \_\_\_\_\_

	Relationship Disclosed by Borrower / Counterparty	Applicable to: (Type of Borrower / Counterparty)	Yes / No	RP Tag if the answer is YES <sup>1</sup>	Basis for the RP Tag (appli- cable to items D-H; cite spe- cific relation- ship)
A.	Is the borrower/counterparty a director of BDOLF as verified against the Related Party (RP) Database? <sup>2</sup>  Note: Chairman Emeritus is not deemed a director in BDOLF	Individual		Director	
B.	Is the borrower/counterparty an officer of BDOLF as verified against ESS?  Note: BDO officers seconded to BDOLF shall be classified as <u>Officer of both the main bank and the host subsidiary</u> . To confirm if an officer of a subsidiary is seconded, please check with BDO-HR.	Individual		Officer	
C.	Is the borrower/counterparty a stockholder* of BDOLF as verified against the RP Database?  *Owning (personally or through agent/representative/trustee) at least 1% of BDOLF's subscribed capital stock	Both individual & non-individual		Stockholder	
D.	Does the borrower/counterparty own at least 1% of BDOLF's subscribed capital stock collectively with any of the following:  1. spouse and/or other first degree relatives by consanguinity, affinity or legal adoption;  2. partnership where the stockholder and/or his spouse and/or other first degree relatives by consanguinity, affinity or legal adoption, is a General Partner;  3. corporation, association or firm more than 50% of which is owned by the stockholder and / or his spouse and/or other first degree relatives by consanguinity, affinity or legal adoption.	Both individual & non-individual		Stockholder	
E.1 a	Is the borrower/counterparty a spouse of a BDOLF Director, Officer or Stockholder* (DOS)?  *Owning (personally or through agent/representative/trustee) at least 1% of BDOLF's subscribed capital stock (refer to item D above)	Individual		Related Interest	
E.1 b	Is the borrower/counterparty a parent, parent-in-law or legally adoptive parent of a BDOLF DOS?	Individual		Related Interest	

1. **RELATED PARTIES (RP)** refer to the following: DOSRI, Subsidiaries, Affiliates and Other Related Parties acting for them selves, as representative or agent for others, or as guarantors, sureties, endorsers, mortgagors, pledgors, assignors, or in any capacity in which (i) they become obligated or may become obligated to BDO to pay money or its equivalent or by any means whatsoever or (ii) there is a transfer of resources, services or obligations between BDO and the RP.
2. posted in the designated BDOLF Sharefolder. For Officers, the BDO Employee Self-Service shall be used as reference.



E.1.c	Is the borrower/counterparty a child (biological or legally adopted) or child-in-law of a BDOLF DOS?	Individual		Related Interest	
E.2	Is the borrower/counterparty a partnership? If yes, is there a general partner* who is also:  a. a director, officer, or stockholder (DOS) of BDOLF; or  b. a spouse of a BDOLF DOS; or  c. a relative within the first degree of consanguinity or affinity of a BDOLF DOS; or  d. a relative within the first degree of consanguinity or affinity or a relative by legal adoption of a BDOLF DOS?  *A general partner is one whose liability to third persons extends to his separate property.	Non-individual		Related Interest	
E.3	Is the property/interest/right being mortgaged, pledged or assigned to secure the loan or credit accommodation, co-owned by the borrower with:  a. a BDOLF DOS; or  b. a spouse of a BDOLF DOS; or  c. a relative within the first degree of consanguinity or affinity of a BDOLF DOS; or  d. a relative by legal adoption of a BDOLF DOS?  Note: This will not apply if the mortgage, pledge or assignment covers only the borrower's undivided interest.	Both individual & non-individual		Related Interest	
E.4	Does any or a group of BDOLF Directors, Officers, Stockholders* or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption directly hold or own at least twenty percent (20%) of the subscribed capital or equity of the borrower/counterparty?  *Refer only to natural persons.  Note: Item E.4 refers to direct ownership of the stockholdings. Thus, beneficial or indirect ownership of the stocks in the borrower corporation is not included in the computation.  <i>Please refer to Exhibit 2.1 for the illustration.</i>	Non-individual		Related Interest	
E.5	Is the borrowing entity/counterparty wholly or majority-owned (i.e., more than 50%) or controlled <sup>3</sup> by a Related Interest identi-	Non-individual		Related Interest	

3 Control of an enterprise exists when there is:

- Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
- Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
- Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
- Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
- Any other arrangement similar to any of the above.

Control is presumed to exist if there is ownership or holding, whether direct or indirect, of 20 percent or more of a class of voting shares of a company. Should BDOLF choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, BDOLF shall submit a written commitment that: (1) shares owned or held are exclusively for investment purposes; (2) BDOLF's representative will not serve on the board of directors and will not nominate

	<p>fied in Items E.2 and E.4?</p> <p>Note: Item E.5 also refers to direct ownership in the borrower corporation. Thus, beneficial or indirect ownership of the stocks in the borrower corporation is not included in the computation.</p>				
E.6	<p>Does the borrowing entity/counterparty own or control<sup>3</sup> directly or indirectly, whether singly or as part of a group of related interest, at least twenty percent (20%) of the subscribed capital of a substantial stockholder* of BDOLF, or that which controls<sup>3</sup> majority interest of BDOLF?</p> <p>*Substantial Stockholder refers to a person or a group of persons, natural or juridical, whose ownership in a company allows it to elect at least one (1) member of the board of directors; or with stockholdings of at least 10% of any class of equity securities of the company</p>	Non-individual		Related Interest	
E.7	<p>Is the borrower/counterparty a corporation, association or firm which has an existing management contract or any similar arrangement with BDOLF's parent corporation?</p> <p>*A management contract is any contract whereby</p> <ol style="list-style-type: none"> <li>1. the borrower/counterparty undertakes to manage or operate all or substantially all of the business [affairs] of BDOLF's parent corporation, whether such contracts are called service contracts, operating agreements or otherwise; or</li> <li>2. BDOLF's parent corporation undertakes to manage or operate all or substantially all of the business [affairs] of the borrower/counterparty, whether such contracts are called service contracts, operating agreements or otherwise.</li> </ol> <p>Note: This requires Business Unit / Account Officer to check if the borrower has an existing management contract with BDOLF's parent corporation.</p>	Non-individual		Related Interest	
E.8	<p>Is the borrowing entity/counterparty a non-governmental organization engaged in retail financing, incorporated by any of the DOS of BDOLF or any related company?</p>	Non-individual		Related Interest	
F.	<p>Does BDOLF directly or indirectly own, control<sup>3</sup> and hold with power to vote, more than 50% of the outstanding voting stock of the borrowing entity/counterparty?</p> <p><b>For the list of BDOLF Subsidiaries, please refer to the Related Party Database posted in BDOLF Shared Folder.</b></p>	Non-individual		Subsidiary	
G.	<p>Is the borrower/counterparty related to BDOLF by any of the following means:</p> <ol style="list-style-type: none"> <li>1.a BDOLF directly or indirectly owns or controls<sup>3</sup> with power to vote, at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</li> <li>1.b The borrowing entity/counterparty directly or indirectly owns or controls<sup>3</sup> with power to vote, at least 20% of the outstanding voting stock of BDOLF;</li> </ol>	Non-individual		Affiliate	

any candidate to serve on the board or otherwise seek board representation; (3) BDOLF will have only limited contacts with the enterprise/other party that are customary for interested shareholders; (4) BDOLF will engage only in normal and customary transactions with the other party/enterprise; and (5) BDOLF will not pledge the shares acquired to secure a loan with any bank.



	<p><i>For the list of existing BDOLF Affiliates, please refer to the Related Party Database posted in BDOLF Shared Folder.<sup>4</sup></i></p> <p>2. There is an interlocking directorship or officership, where the concerned BDOLF director or officer directly or indirectly owns or controls<sup>3</sup> with power to vote, at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>3. There are common stockholders which directly or indirectly own at least 10% of the outstanding voting stock of BDOLF AND at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>4. There is an existing management contract* or any arrangement granting power to BDOLF to direct the management and policies of the borrowing entity/counterparty;</p> <p>*A management contract is any contract whereby BDOLF undertakes to manage or operate all or substantially all of the business [affairs] of the borrower/counterparty, whether such contracts are called service contracts, operating agreements or otherwise.</p> <p>5.a There is a permanent proxy or voting trusts in favor of BDOLF constituting at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>5.b There is a permanent proxy or voting trusts in favor of the borrowing entity/counterparty constituting at least 20% of the outstanding voting stock of BDOLF.</p>			
H.1	<p>Is the borrower/counterparty related to BDOLF by any of the following means:</p> <p>a.1 BDOLF directly or indirectly owns or controls<sup>3</sup> with power to vote, 10% to less than 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>a.2 The borrowing entity/counterparty directly or indirectly owns or controls<sup>3</sup> with power to vote, 10% to less than 20% of the outstanding voting stock of BDOLF;</p> <p>b. There is an interlocking directorship or officership, except in cases involving independent directors or directors holding nominal shares in the borrowing entity/counterparty;</p> <p>c. There are common stockholders which own at least 10% of the outstanding voting stock of BDOLF directly or indirectly, AND directly own 10% to less than 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>d.1 There is a permanent proxy or voting trusts in favor of BDOLF constituting 10% to less than 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>d.2. There is a permanent proxy or voting trusts in favor of the borrowing entity/counterparty constituting 10% to less</p>	Non-individual	Other Related Party	

<sup>4</sup> The list of Affiliates is **partial and non-exclusive** in nature. Business units shall look at the ownership structure of the concerned entity and conduct due diligence to determine if it is an affiliate of BDOLF as defined in item G.

	than 20% of the outstanding voting stock of BDOLF.				
H.2	Is the borrowing entity / counterparty a corporation owned more than 50% by the second-degree relatives, by consanguinity (grandparents, grandchildren, brothers and sisters) or affinity (grandparents-in-law, grandchildren-in-law, brothers-in-law and sisters-in-law), legitimate or common-law <sup>5</sup> , of the Directors of BDOLF?	Non-individual		Other Related Party	
H.3	Do the interests of the borrower/counterparty pose actual or potential conflict with the interest of BDOLF?  Note: This requires evaluation and approval by the Related Party Transactions Committee (RPTC).	Both individual & non-individual		Other Related Party	
H.4	Is the borrower/counterparty a grandparent / grandchild / brother / sister (biological, legally adopted, or in-law) of a Director or a Senior Officer (select SVP or higher who has the ability to exercise significant influence in the outcome of the transaction) of BDOLF?  <i>Please refer to the List of BDOLF Senior Officers With Significant Influence posted in BDOLF Shared Folder (Compliance portal).</i>	Individual		Other Related Party	
H.5	Is the borrower/counterparty a Director, Officer <sup>6</sup> , Stockholder <sup>7</sup> of BDOLF's affiliated* companies?  *Affiliated companies shall refer to: a. juridical/corporate Related Interests (RI) b. subsidiaries & affiliates of BDOLF c. any party that BDOLF exerts direct/indirect control over as provided in item H.1.a.1, or that exerts direct/indirect control over BDOLF as provided in item H.1.a.2	Individual		Other Related Party	
H.6	Is the borrower/counterparty a spouse, parent, child, grandparent / grandchild / brother / sister (biological, legally adopted, or in-law) of a Director or an Officer <sup>8</sup> of BDOLF's affiliated companies?	Individual		Other Related Party	

**Note: If the counterparty is determined to be both a Related Interest and a Subsidiary or Affiliate, the prevailing RP classification / tag will be Related Interest.**

5 relatives arising from a relationship between a man and a woman who live exclusively with each other as husband and wife without the benefit of marriage

6 "Officer of the affiliated company" shall refer to the Officer of the BDO Unibank, Inc. with the rank of Senior Vice President and up and officers of the affiliated companies specifically their President, Chief Executive Officer, Chief Financial Officer, or Treasurer.

7 "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity **holding more than 50%** of the subscribed capital of the affiliated company.

8 "Officer of the affiliated company" shall refer to the Officer of the BDO Unibank, Inc. with the rank of Senior Vice President and up and officers of the affiliated companies specifically their President, Chief Executive Officer, Chief Financial Officer, or Treasurer.



**CHECKING AGAINST RP DATABASE**

Date of Checking

Is identified RP found in the Database?

[   ] YES                      [   ] NO

Is the determined classification consistent with the tag in RP Database?

[   ] YES                      [   ] NO

Note: If answer is NO to any of the questions, facilitate tagging in ICBS or AAF / inclusion in RP Database & fill-out the ACTION TAKEN portion below.

**ACTION TAKEN****For borrower/counterparty with CIF record:**

- Tagged in ICBS-CIF/AAF; or

Date Tagged:

- Referred to CIF owner for tagging

Date Referred via E-mail:

CIF Owner:

**For counterparty without any transaction captured in ICBS/AAF:**

- Sent e-mail to Compliance Unit for inclusion in the RP Database

Date Referred via E-mail:

Accomplished by:

Reviewed/Approved by:

\_\_\_\_\_  
Name & Designation\_\_\_\_\_  
Name & Designation

## RELATED PARTY QUESTIONNAIRE (Individual)

Name of the Client / Counterparty

Date Accomplished

1. Are you a director, officer or stockholder of BDOLF and/or affiliated companies?

[ ] Yes [ ] No

If YES, please specify the following:

Company Name: \_\_\_\_\_ [ ] Director [ ] Officer [ ] Stockholder

Company Name: \_\_\_\_\_ [ ] Director [ ] Officer [ ] Stockholder

Company Name: \_\_\_\_\_ [ ] Director [ ] Officer [ ] Stockholder

For stockholders: Do you own shares of stocks of BDOLF and/or affiliated companies, collectively with your spouse and/or relatives within the first degree of consanguinity or affinity, or relative by legal adoption? [ ] Yes [ ] No

If YES, please specify the following:

Name of Co-owner: \_\_\_\_\_ Relationship: \_\_\_\_\_

2. Are you a spouse or a first degree relative, i.e., parent or child (biological, legally adopted, or in-law) of a Director, Officer, Stockholder of BDOLF and/or affiliated companies?

[ ] Yes [ ] No

If YES, please specify the following: (Please attach additional sheets as necessary.)

Name of Relative

Company Name

Last Name First Name Middle Name

Last Name First Name Middle Name

Last Name First Name Middle Name

3. Are you a second degree relative, i.e., grandparent, brother, sister, (biological, legally adopted, or in-law) of a Director, Officer, Stockholder of BDOLF and/or affiliated companies?

[ ] Yes [ ] No

If YES, please specify the following: (Please attach additional sheets as necessary.)

Name of Relative

Company Name

Last Name First Name Middle Name

Last Name First Name Middle Name

Last Name First Name Middle Name

Accomplished by:

Signature Over Printed Name



For BDOLF Use Only	
Borrower's/Counterparty's RP Classification / Date of Verification against RP Database / ESS <sup>1</sup>	Reviewed/Approved By
<b>ACTION TAKEN</b>	
<b>For borrower/counterparty with CIF record:</b>	
- Tagged in ICBS/AAF-CIF; or	Date Tagged:
- Referred to CIF owner for tagging	Date Referred via E-mail:
	CIF Owner:
<b>For counterparty without any transaction captured in ICBS:</b>	
- Sent e-mail to Compliance Unit for inclusion in the RP Database	Date Referred via E-mail:
Accomplished by:	Reviewed/Approved by:
_____	_____
Name & Designation	Name & Designation

1 For identified BDOLF Director, Officer or Stockholder (owning at least 1% only)

# GUIDE IN DETERMINING RELATED PARTY CLASSIFICATION & ACCOUNT TAGGING

RELATIONSHIP	RELATED PARTY TAG
1. Director of BDOLF	Director
2. Officer* of BDOLF  *Officer refers to Junior Assistant Managers and up	Officer
3. Stockholder* of BDOLF  *Owning (personally or through agent/representative/trustee) <u>at least 1% of the bank's subscribed capital stock</u>	Stockholder
4. Spouse or first degree relative, i.e., parent and children (biological, legally adopted, or in-law) of a BDOLF Director, Officer or Stockholder (DOS)	Related Interest
5. Second degree relative, i.e., grandparent, brother, sister, (biological, legally adopted, or in-law) of a BDOLF Director or Senior Officer (i.e., select SVP or higher who has the ability to exercise significant influence in the outcome of the transaction)	Other Related Party (ORP)
6. Director of Affiliated* Companies  *Affiliated companies shall refer to: a. juridical/corporate Related Interests (RI) b. subsidiaries & affiliates of BDOLF c. Any party that the company exerts direct/indirect control over, or that exerts direct/indirect control over BDOLF	Other Related Party
7. Officer* of Affiliated Companies  *Officer of the affiliated company shall refer to the President, Chief Executive Officer, Chief Financial Officer, or Treasurer of an affiliated company.	Other Related Party
8. Stockholder* of Affiliated Companies  *Stockholder of an affiliated company shall refer to an <u>individual stockholder</u> of an affiliated company and/or his relatives within the first degree of affinity or consanguinity <b>holding more than 50%</b> of the subscribed capital of the affiliated company.	Other Related Party
9. Spouse, parent, child, grandparent / grandchild / brother / sister (biological, legally adopted, or in-law) of a Director or an Officer* of BDOLF's affiliated companies  *Officer of the affiliated company shall refer to the Officer of the BDO Unibank, Inc. with the rank of Senior Vice President and up and officers of the affiliated companies specifically their President, Chief Executive Officer, Chief Financial Officer, or Treasurer.	Other Related Party

**Note:** Identified non-related party shall likewise be tagged in ICBS/AAF accordingly (i.e., as Non-RP).

## BDO LEASING & FINANCE, INC.

### Handling of SEC-defined Material Related Party Transactions (Supplement to BDOLF Related Party Transaction Policy)

#### I. Overview

This Supplemental Policy establishes the guidelines to be observed in handling material related party transactions as defined in the Securities & Exchange Commission (SEC) Memorandum Circular No. 10, Series of 2019.

All other guidelines specified in BDOLF Related Party Transaction Policy shall remain to be in force.

#### II. Definition of Terms

- A. **Related Party** - refers to the related parties defined in BDOLF Related Party Transaction Policy (i.e., Director, Officer, Stockholder, Related Interest, Subsidiary, Affiliate, Other Related Party (ORP)) **and** Extended ORP.
- B. **Extended ORP** - 3<sup>rd</sup> to 4<sup>th</sup> degree relatives, by consanguinity or affinity, legitimate or common-law<sup>1</sup>, of Directors and select Senior Officers of BDOLF (i.e., SVP or higher who has the ability to control or to exercise significant influence on the outcome of the transaction).
- C. **Related Party Transaction (RPT)** - a transfer of resources, services or obligations between BDO and a related party, regardless of whether a price is charged. *(For the list of covered transactions, please refer to 4.a of BDOLF Related Party Transaction Policy).*
- D. **SEC Materiality Threshold** - ten percent (10%) of BDOLF's total assets based on the latest audited financial statement.
- E. **Material RPT** - any RPT, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of BDO's total assets.

#### III. General Guidelines

##### A. Determination of SEC-defined Material RPTs

1. Borrowers/counterparties with the following transactions shall be subjected to the Expanded Related Party Checklist (*Exhibit 1*):
  - a. single transaction breaching the SEC materiality threshold<sup>2</sup>
  - b. aggregated credit availments for the past 12 months that breached the internal materiality threshold<sup>3</sup>

If the borrower/counterparty is determined as an Extended ORP, the concerned business unit shall advise the Compliance Office to include such related party in the Related Party Database.

1 relatives arising from a relationship between a man and a woman who live exclusively with each other as husband and without the benefit of marriage  
2 Currently set at PHP4.1 B; subsequent threshold shall be advised by Comptrollership based on the latest year-end audited financial statements  
3 Equivalent of 90% of the SEC materiality threshold



## **BDO LEASING & FINANCE, INC.**

### **Handling of SEC-defined Material Related Party Transactions (Supplement to BDOLF Related Party Transaction Policy)**

2. Transaction of borrowers/counterparties confirmed to be a related party shall be handled by the concerned Account Officer (AO)/Processor, as follows:

Transaction	Disposition
Single transaction breaching the SEC materiality threshold	For referral to external independent party <sup>4</sup> and approval of designated authorities (per Section B)
Aggregated credit availments for the past 12 months that breached the internal materiality threshold	For notification to the designated unit <sup>5</sup>
Aggregated transactions (credit and non-credit) for the past 12 months that breached the SEC materiality threshold	For referral to external independent party <sup>6</sup> and approval of designated authorities (per Section B)

3. Aggregated credit availments that breached the internal materiality threshold shall be handled as follows:
- Upon receipt of notification from AO, designated unit shall issue an advisory to the concerned business units to trigger reporting of covered transactions of the concerned related party.
  - Concerned business units shall report the following to the designated unit for consolidation:
    - transactions for the past 12 months reckoned from the date of notification
    - subsequent transactions
  - The designated unit shall disseminate/post the list of related parties and corresponding covered transactions as a guide for concerned units in handling subsequent transactions.
  - The concerned business unit with the latest transaction that will breach the internal materiality threshold shall automatically request evaluation of an external independent party.

#### **B. Review and Approval of Material RPTs**

- Identified material RPTs shall be evaluated by an external independent party appointed by the Board of Directors (BOD).
- As a general rule, terms and conditions of material RPTs subjected to external evaluation shall be applied to subsequent transactions. Otherwise, the latter shall require another round of evaluation.
- Material RPTs shall be approved as follows:

<sup>4</sup> May include, but not limited to, auditing/accounting firms and 3rd party consultants who will handle evaluation of the material RPTs

<sup>5</sup> Unit to consolidate data submitted by business units

<sup>6</sup> May include, but not limited to, auditing/accounting firms and 3rd party consultants who will handle evaluation of the material RPTs



**BDO LEASING & FINANCE, INC.****Handling of SEC-defined Material Related Party Transactions  
(Supplement to BDOLF Related Party Transaction Policy)**

Transaction	Related Party	DISPOSITION		
		Transaction Approval	Approval / Endorsement	Approval
		Delegated Authority	RPTC	BOD
Single material RPT	DOSRI, Subs, Affiliates, Other Related Party (ORP), & Extended ORP	✓	✓	✓
Aggregated credit availments for the past 12 months that breached the SEC materiality threshold				

Note: SEC-defined material RPTs shall be approved by at least 2/3 vote of the BOD, with at least a majority of the independent directors voting to approve the proposed transaction. In case a majority of the independent directors' vote is not secured, the material RPT may be ratified by the vote of the stockholders representing at least 2/3 of the outstanding capital stock.

**C. Disclosure and Reporting Requirements**

1. Approved material RPTs shall be reported to the Securities and Exchange Commission (SEC) via the Advisement Report on Material RPT (*Annex A*).

The cited report shall be signed by the Corporate Secretary (or designated alternate) together with the concerned related party (or authorized representative); and submitted by the designated unit to the SEC within three (3) calendar days after execution date of the transaction.

2. A summary of approved material RPTs during the reporting year shall likewise be disclosed in the Bank's Integrated Annual Corporate Governance Report (I-ACGR) submitted every May 30.

# Expanded Related Party Checklist

Updated as of \_\_\_\_\_

Name of Borrower / Counterparty: \_\_\_\_\_

Date Accomplished: \_\_\_\_\_

	Relationship Disclosed by Borrower / Counterparty	Applicable to: (Type of Borrower / Counterparty)	Yes / No	RP Tag if the answer is YES <sup>1</sup>	Basis for the RP Tag (appli- cable to items D-H; cite spe- cific relation- ship)
A.	Is the borrower/counterparty a director of BDOLF as verified against the Related Party (RP) Database <sup>2</sup> ?	Individual		Director	
B.	Is the borrower/counterparty an officer of BDOLF as verified against ESS?  Note: BDO officers seconded to subsidiaries shall be classified as <u>Officer of both the main bank and the host subsidiary</u> . To confirm if an officer of a subsidiary is seconded, please check with BDO-HR.	Individual		Officer	
C.	Is the borrower/counterparty a stockholder* of BDOLF as verified against the RP Database?  *Owning (personally or through agent/representative/trustee) at least 1% of BDO's subscribed capital stock	Both individual & non-individual		Stockholder	
D.	Does the borrower/counterparty own at least 1% of BDOLF's subscribed capital stock collectively with any of the following:  1. spouse and/or other first degree relatives by consanguinity, affinity or legal adoption;  2. partnership where the stockholder and/or his spouse and/or other first degree relatives by consanguinity, affinity or legal adoption, is a General Partner;  3. corporation, association or firm more than 50% of which is owned by the stockholder and / or his spouse and/or other first degree relatives by consanguinity, affinity or legal adoption.	Both individual & non-individual		Stockholder	
E.1.a	Is the borrower/counterparty a spouse of a BDOLF Director, Officer or Stockholder* (DOS)?  *Owning (personally or through agent/representative/trustee) at least 1% of BDOLF's subscribed capital stock (refer to item D above)	Individual		Related Interest	
E.1.b	Is the borrower/counterparty a parent, parent-in-law or legally adoptive parent of a BDOLF DOS?	Individual		Related Interest	
E.1.c	Is the borrower/counterparty a child (biological or legally adopted) or child-in-law of a BDOLF DOS?	Individual		Related Interest	
E.2	Is the borrower/counterparty a partnership? If yes, is there a general partner* who is also:  a. a director, officer, or stockholder (DOS) of BDOLF; or  b. a spouse of a BDOLF DOS; or  c. a relative within the first degree of consanguinity or affinity or a relative by legal adoption of a BDO DOS?	Non-individual		Related Interest	

<sup>1</sup> RELATED PARTIES (RP) refer to the following: DOSRI, Subsidiaries, Affiliates and Other Related Parties acting for them selves, as representative or agent for others, or as guarantors, sureties, endorsers, mortgagors, pledgors, assignors, or in any capacity in which (i) they become obligated or may become obligated to BDOLF to pay money or its equivalent or by any means whatsoever or (ii) there is a transfer of resources, services or obligations between BDOLF and the RP.

<sup>2</sup> posted in the designated BDOLF Share Folder. For Officers, the BDO Employee Self-Service shall be used as reference.



	*A general partner is one whose liability to third persons extends to his separate property.			
E.3	Is the property/interest/right being mortgaged, pledged or assigned to secure the loan or credit accommodation, co-owned by the borrower with:  a. a BDOLF DOS; or  b. a spouse of a BDOLF DOS; or  c. a relative within the first degree of consanguinity or affinity or a relative by legal adoption of a BDOLF DOS?  Note: This will not apply if the mortgage, pledge or assignment covers only the borrower's undivided interest.	Both individual & non-individual	Related Interest	
E.4	Does any or a group of BDOLF Directors, Officers, Stockholders* or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption directly hold or own at least twenty percent (20%) of the subscribed capital or equity of the borrower/counterparty?  *Refer only to natural persons  Note: Item E.4 refers to direct ownership of the stockholdings. Thus, beneficial or indirect ownership of the stocks in the borrower corporation is not included in the computation.	Non-individual	Related Interest	
E.5	Is the borrowing entity/counterparty wholly or majority-owned (i.e., more than 50%) or controlled <sup>3</sup> by a Related Interest identified in Items E.2 and E.4?  Item E.5 also refers to direct ownership in the borrower corporation. Thus, beneficial or indirect ownership of the stocks in the borrower corporation is not included in the computation.	Non-individual	Related Interest	
E.6	Does the borrowing entity/counterparty own or control <sup>4</sup> directly or indirectly, whether singly or as part of a group of related interest, at least twenty percent (20%) of the subscribed capital of a substantial stockholder* of BDOLF, or which controls <sup>4</sup> majority interest of BDOLF?  *Substantial Stockholder refers to a person or a group of persons, natural or juridical, whose ownership in a company allows it to elect at least one (1) member of the board of directors; or with stockholdings of at least 10% of any class of equity securities of the company.	Non-individual	Related Interest	
E.7	Is the borrower/counterparty a corporation, association or firm which has an existing management contract or any similar arrangement with BDOLF's parent corporation?  *A management contract is any contract whereby  1. the borrower/counterparty undertakes to manage or operate all or substantially all of the business [affairs] of BDOLF's parent corporation, whether such contracts are called service contracts, operating agreements or otherwise; or	Non-individual	Related Interest	

<sup>3</sup> Control of an enterprise exists when there is:

- Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
- Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
- Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
- Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
- Any other arrangement similar to any of the above.

CHECKING AGAINST RP DATABASE	
Date of Checking	
Is identified RP found in the Database?	[    ] YES                      [    ] NO
Is the determined classification consistent with the tag in RP Database?	[    ] YES                      [    ] NO
Note: If answer is NO to any of the questions, facilitate tagging in ICBS / AAF/ FMS/ FaMS and inclusion in RP Database & fill-out the ACTION TAKEN portion below.	
ACTION TAKEN	
<b>For borrower/counterparty with CIF record:</b>	
- Tagged in ICBS-CIF/ AAF/ FMS/ FaMS; or	Date Tagged:
- Referred to CIF owner for tagging	Date Referred via E-mail:
	CIF Owner:
<b>For counterparty without any transaction captured in ICBS/AAF/FMS/FaMs:</b>	
- Sent e-mail to Compliance Office for inclusion in the RP Database	Date Referred via E-mail:
Accomplished by:	Reviewed/Approved by:
_____	_____
Name & Designation	Name & Designation



	<p>2. BDOLF's parent corporation undertakes to manage or operate all or substantially all of the business [affairs] of the borrower/counterparty, whether such contracts are called service contracts, operating agreements or otherwise.</p> <p>Note: This requires Business Unit / Account Officer to check if the borrower has an existing management contract with BDOLF's parent corporation.</p>			
E.8	Is the borrowing entity/counterparty a non-governmental organization engaged in retail financing, incorporated by any of the DOS of BDOLF or any related bank?	Non-individual		Related Interest
F.	Does BDOLF directly or indirectly own, control <sup>4</sup> and hold with power to vote, more than 50% of the outstanding voting stock of the borrowing entity/counterparty?	Non-individual		Subsidiary
G.	<p>Is the borrower/counterparty related to BDOLF by any of the following means:</p> <p>1.a BDOLF directly or indirectly owns or controls<sup>4</sup> with power to vote, at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>1.b The borrowing entity/counterparty directly or indirectly owns or controls<sup>4</sup> with power to vote, at least 20% of the outstanding voting stock of BDOLF;</p> <p>2. There is an interlocking directorship or officership, where the concerned BDOLF director or officer directly or indirectly owns or controls<sup>4</sup> with power to vote, at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>3. There are common stockholders which directly or indirectly own at least 10% of the outstanding voting stock of BDOLF AND at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p><b>Please refer to Exhibit 2.4 for the illustration.</b></p> <p>4. There is an existing management contract* or any arrangement granting power to BDOLF to direct the management and policies of the borrowing entity/counterparty;</p> <p>*A management contract is any contract whereby BDOLF undertakes to manage or operate all or substantially all of the business [affairs] of the borrower/counterparty, whether such contracts are called service contracts, operating agreements or otherwise.</p> <p>5.a There is a permanent proxy or voting trusts in favor of BDOLF constituting at least 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>5.b There is a permanent proxy or voting trusts in favor of the borrowing entity/counterparty constituting at least 20% of the outstanding voting stock of BDOLF.</p>	Non-individual		Affiliate
H.1	<p>Is the borrower/counterparty related to BDOLF by any of the following means:</p> <p>a.1 BDOLF directly or indirectly owns or controls<sup>4</sup> with power to vote, 10% to less than 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>a.2 The borrowing entity/counterparty directly or indirectly owns or controls<sup>4</sup> with power to vote, 10% to less than 20% of the outstanding voting stock of BDOLF;</p> <p>b. There is an interlocking directorship or officership, except in cases involving independent directors or directors holding nominal shares in the borrowing entity/counterparty;</p> <p>c. There are common stockholders which directly or indirectly own at least 10% of the outstanding voting stock of BDOLF, AND directly own 10% to less than 20% of the outstanding voting stock of the borrowing entity/counterparty;</p>	Non-individual		Other Related Party (ORP)

	<p>d.1 There is a permanent proxy or voting trusts in favor of BDOLF constituting 10% to less than 20% of the outstanding voting stock of the borrowing entity/counterparty;</p> <p>d.2. There is a permanent proxy or voting trusts in favor of the borrowing entity/counterparty constituting 10% to less than 20% of the outstanding voting stock of BDOLF.</p>				
H.2	<p>Do the interests of the borrower/counterparty pose actual or potential conflict with the interest of BDOLF?</p> <p>Note: This requires evaluation and approval by the Related Party Transactions Committee (RPTC).</p>	Both individual & non-individual		ORP	
H.3	<p>Is the borrower/counterparty a grandparent / grandchild / brother / sister (biological, legally adopted, or in-law) of a Director or a Senior Officer (select SVP or higher who has the ability to exercise significant influence in the outcome of the transaction) of BDOLF?</p> <p><i>Please refer to the List of BDOLF Senior Officers With Significant Influence posted in BDOLF Shared Folder</i></p>	Individual		ORP	
H.4	<p>Is the borrower/counterparty a Director, Officer<sup>4</sup>, Stockholder<sup>5</sup> of BDOLF's affiliated* companies?</p> <p>*Affiliated companies shall refer to:  a. juridical/corporate Related Interests (RI)  b. subsidiaries &amp; affiliates of BDOLF  c. any party that BDOLF exerts direct/indirect control over <u>as provided in item H.1.a.1</u>, or that exerts direct/indirect control over BDO <u>as provided in item H.1.a.2</u></p>	Individual		ORP	
H.5	<p>Is the borrower/counterparty a spouse, parent, child, grandparent / grandchild / brother / sister (biological, legally adopted, or in-law) of a Director or an Officer<sup>6</sup> of BDOLF's affiliated companies?</p>	Individual		ORP	
H.6	<p>Is the borrower/counterparty a great grandchild, nephew/niece, aunt/uncle, great grandparent, grand nephew/niece, first cousin, great aunt/uncle, or great great grandparent (biological, legally adopted, or in-law) of a Director or a Senior Officer (select SVP or higher who has the ability to exercise significant influence in the outcome of the transaction) of BDO?</p>	Individual		Extended ORP	

**Note: If the counterparty is determined to be both a Related Interest and a Subsidiary or Affiliate, the prevailing RP classification / tag will be Related Interest.**

<sup>4</sup> "Officer of the affiliated company" shall refer to the President, Chief Executive Officer, Chief Financial Officer, or Treasurer of an affiliated company.

<sup>5</sup> "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity **holding more than 50%** of the subscribed capital of the affiliated company.

<sup>6</sup> "Officer of the affiliated company" shall refer to the President, Chief Executive Officer, Chief Financial Officer, or Treasurer of an affiliated company.





ADVISEMENT REPORT ON  
MATERIAL RELATED PARTY TRANSACTIONS

Reporting PLC: \_\_\_\_\_ SEC Identification Number: \_\_\_\_\_  
Name of Related Party: \_\_\_\_\_ Execution Date of Transaction: \_\_\_\_\_  
Relationship between the Parties including financial/non-financial interest: \_\_\_\_\_

Type/Nature of Transaction and Description of Assets Involved	Terms and Conditions	Rationale for Entering into the Transaction	Total Assets <sup>1</sup> of Reporting PLC	Amount/ Contract Price	Percentage of the Contract Price to the Total Assets of the Reporting PLC	Carrying Amount of Collateral, if any	Approving Authority <sup>2</sup>

<sup>1</sup> Total assets shall pertain to consolidated assets if the reporting PLC is a parent company.

<sup>2</sup> The information shall include the names of directors present, names of directors who approved the Material Related Party Transaction and the corresponding voting percentage obtained.

SIGNATURES

Pursuant to the requirements of the Commission, the company has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

(Name of Reporting PLC)

(Name of Related Party)

.....

Name, Signature of the Corporate Secretary/  
Authorized Representative<sup>3</sup>

.....

Name, Signature of the Related Party/Authorized Representative<sup>3</sup>

<sup>3</sup> Proof of authority must be attached to the Advisement Report.

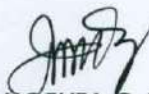


BDO Leasing & Finance, Inc.  
Related Party Transactions Policy

IN WITNESS WHEREOF, we have hereunto set our hands this 26<sup>th</sup> day of October  
2019.



TERESITA T. SY  
Chairperson  
Board of Directors



ANGELITA C. TAD-Y  
Compliance Officer

**INTERNAL AUDIT POLICY STATEMENT  
INTERNAL AUDIT FOR BDO LEASING AND FINANCE, INC.**

**Mission**

The mission of Internal Audit for BDO Leasing and Finance, Inc. and its Subsidiary, BDO Rental, Inc. (Internal Audit) is to enhance and protect the organizational value by providing risk-based and objective assurance, advice, and insight.

**I. Purpose, Stature, Authority and Responsibilities of the Internal Audit Function**

The purpose of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve BDOLF and its Subsidiary's operations. The Internal Audit helps: 1) BDOLF and its Subsidiary accomplish the set objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes, and 2) the Management and Board of Directors in protecting the Company and its Subsidiary and their reputation. An effective and efficient internal audit function constitutes the third line of defense in the system of internal control. The internal audit function shall both assess and complement operational management, risk management, compliance and other control functions.

The Internal Audit is under the direct supervision of the BDOLF Board Audit Committee (BAC) and assists the BDOLF Board of Directors and the Management in performing their legal obligations for ensuring proper and reasonable operations of the Company and its Subsidiary. The Internal Audit is a permanent function with scope that is commensurate with the size, nature of operations and complexity of BDOLF and its Subsidiary.

The BDO Chief Internal Auditor will report functionally to the Board Audit Committee and administratively to the President. In addition, the BDO Chief Internal Auditor will have unrestricted access to, and will communicate and interact directly with the Board of Directors, Board Audit Committee and other Committees, including in meetings without the Management. The Internal Audit shall have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

**II. Independence, Objectivity, Professional Competence, Due Professional Care, and Professional Ethics**

The Internal Audit shall be independent of the activities audited and from the day-to-day internal control process and is free to report audit results, findings, opinions, appraisals and other information through clear reporting line to the BDOLF BAC. The BDO Chief Internal Auditor will ensure that Internal Audit remains free from all conditions that threatens the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the BDO Chief Internal Auditor determines

that independence or objectivity is impaired either in fact or appearance, the details of impairment will be disclosed to appropriate parties.

The Internal Auditors shall have impartial and unbiased attitude in performing audits and shall avoid conflicts of interest.

The internal auditing function shall be comprised of professional and competent internal auditors who collectively have the knowledge and experience necessary in the conduct of an effective internal audit on all areas of the Company and its Subsidiary's operations. The skills set of the internal auditors shall be complemented with appropriate audit methodologies and tools, as well as sufficient knowledge of auditing techniques in the conduct of audit activities.

All Internal Audit personnel shall act with integrity in carrying out their duties and responsibilities. They shall respect the confidentiality of information acquired in the course of the performance of their duties and shall not use it for personal gain or malicious actions.

### **III. Outsourcing Internal Audit Activities to External Experts**

The Internal Audit shall not outsource any of its internal audit activities. However, in case Internal Audit will need to outsource either to have access to certain areas of expertise that are not available to the internal audit function or to address resource constraints, it shall be subject to specific BAC review and approval.

### **IV. Consulting or Advisory Services that may be Provided by the Internal Audit Function**

The Internal Audit may provide consulting or advisory services to Management on matters related to risks and internal controls provided that it will not be involved in the development or implementation of policies and procedures, preparation of reports or execution of activities that fall within its scope of review. Said consulting or advisory services shall be conducted in accordance with the internal auditing standards.

### **V. Responsibilities and Accountabilities of the BDO Chief Internal Auditor**

1. To demonstrate appropriate leadership and have the necessary skills to fulfill responsibilities for maintaining the Internal Audit's independence and objectivity;
2. To be accountable to the Board of Directors or BAC on all matters related to the performance of its mandate as provided in this Policy Statement. The BDO Chief Internal Auditor shall submit a report to the BDOLF BAC on the status of accomplishments of Internal Audit, including the findings noted during the conduct of the audit, as well as the status of compliance/ resolution of concerned departments/ units/ teams;
3. To ensure that the internal audit function complies with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and other supplemental standards issued by regulatory authorities/ government agencies, as well as with relevant code of ethics;

4. To develop an audit plan based on robust risk assessment, including inputs from the Board of Directors, BAC and senior management and ensure that such plan is comprehensive and adequately covers regulatory matters. The BDO Chief Internal Auditor shall also ensure that the audit plan, including any revisions thereto, shall be approved by the BAC. The said plan shall also consider the objectives of the Company and its Subsidiary;
5. To ensure that the internal audit function has adequate human resources with sufficient qualifications and skills necessary to accomplish its mandate. In this regard, the BDO Chief Internal Auditor shall periodically assess and monitor the skills set of the internal audit function and ensure that there is an adequate development program for the internal auditors that shall enable them to meet the growing technical complexity of the company and its subsidiary's operations.
6. To issue an audit report for each audit conducted summarizing significant findings, recommendations and the responses or planned corrective actions with target dates of audited units. Results of audit shall be presented to the BAC in a timely manner. Internal Audit has the authority to release the final audit report if no replies were received from the Unit audited, provided that the findings had been duly discussed with said Unit.
7. To submit to the BAC an annual report on the Internal Audit activities, responsibilities, and performance relative to the audit plan and strategies, as approved by the BAC, including its overall and specific assessments of the control, risk management and governance processes, and significant risk exposures and control issues, if any. The said report will likewise include confirmation of organizational independence of Internal Audit, as well as compliance with the Code of Ethics and the Standards. A summary report for all units audited for the current year with comparative performance rating versus the previous year shall also be submitted.

#### **VI. Scope of Responsibilities**

1. Evaluation of the adequacy, efficiency and effectiveness of internal control, risk management and governance systems in the context of current and potential future risks.
2. Review of the reliability, effectiveness and integrity of management and financial information systems, including the electronic information system.
3. Review of the systems and procedures of safeguarding the company's physical and information assets, as well as verification of the existence of such assets, where appropriate.
4. Review of the compliance system and the implementation of established policies and procedures. Likewise, Internal Audit shall identify opportunities to improve operational efficiency and make appropriate recommendations.



5. Review of compliance with relevant laws, rules and regulations, contractual obligations and commitments, which have significant impact including but not limited to the assessment of the adequacy of capital and provisions, liquidity level, regulatory and internal reporting.
6. Investigation of operational lapses, fraud, waste and abuse, referred to Internal Audit for investigation by the BAC, BDO Cases Review Committee or the Management.
7. Conduct of other reviews or evaluations that are related to Internal Audit's role, as directed by the BAC, by the Chairperson, or by Top Management.

## **VII. Auditing Standards and Code of Ethics**

In carrying out its role, Internal Audit shall adhere to the International Standards for the Professional Practice of Internal Auditing prescribed under the Bangko Sentral ng Pilipinas Circular No. 871 (Series of 2015). Likewise, it shall be governed by the IIA's Core Principles, Code of Ethics and Definition of Internal Auditing.

## **VIII. Coordination with the External Auditor and Supervisory Authority**

Internal Audit shall coordinate with external auditors to avoid duplication of efforts. The approved audit plan and scope, as well as other information and documents relevant to an audit/ examination by the external auditors or supervisory authority shall be provided upon request.

This Internal Audit Policy Statement shall be reviewed periodically to keep it updated, appropriate, and prudent in consideration of the changes in circumstances and business in general.

**APPROVED BY THE BOARD AUDIT COMMITTEE, BDO LEASING & FINANCE, INC.:**

(Date: \_\_\_\_\_, 2019)

  
**MA. LEONORA V. DE JESUS**  
Chairperson

  
**ATTY. JESSE H.T. ANDRES**  
Member

  
**MR. VICENTE S. PEREZ, JR.**  
Member

## **BDOLF CODE OF CONDUCT AND BUSINESS ETHICS**

### **(Revised as of 25 Nov 2014)**

As a financial institution, BDO Leasing & Finance Inc. (BDOLF) believes that practicing right conduct and ethical behavior inspires and strengthens the confidence of all our stakeholders. Being a subsidiary of BDO Unibank, it adopts/subscribes the BDOUB Code of Conduct and Business Ethics (the Code) as indicated below as the ethical standards of the Company's officers and employees in all their activities.

### **INTRODUCTION**

The BDOUB Code of Conduct and Business Ethics (the Code) outlines the principles and policies that govern the activities of the institution and 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 stakeholders. These reflect the core values the institution subscribes to and promotes.

### **APPLICABILITY OF THE CODE**

This Code applies at all times to all members of the Board of Directors and BDO Unibank Group (the Bank and its subsidiaries and affiliates) employees in their dealings with clients, suppliers, business partners and service providers.

### **COMMITMENT TO THE CODE**

All directors and employees are required to acknowledge that they have read and understood the Code stipulating their compliance with the standards and policies set forth herein.

### **RESPONSIBILITIES FOR THE WORK PLACE**

#### **a. Employment Practices**

BDO is committed to fair employment practices without undue prejudice to race, gender, ethnic origin, religion, age, or sexual orientation. Employees are treated fairly and accorded with respect and dignity.

It ensures that employment practices and policies are in compliance with labor laws, regulations and standards in the countries where it operates. Employees are selected, engaged, compensated and promoted, as the case may be, based on the merits of qualification and performance.

#### **b. Employees' 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. It 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 parties.

## **CONDUCT RELATING TO CUSTOMERS AND EXTERNAL CONSTITUENCIES**

Customers, suppliers, service providers, business competitors or other external parties with business dealings with BDO must be treated fairly and professionally.

The institution strictly prohibits the solicitation and acceptance, directly or indirectly, of any gift (including entertainment services or activities), gratuity, commission or any form of payment from clients, business partners, suppliers and third party service providers in connection to a service that may, in any way, influence the Director's, Officer's or employee's decision-making in exchange for any unnecessary favorable treatment.

Likewise, the institution commits to comply with anti-corruption and bribery laws in all jurisdictions it operates.

BDO will not make political donations that may be interpreted as an attempt to encourage favorable treatment of BDO and/or its directors and employees.

Participation in publications, speaking engagements, media interviews and advertisements need appropriate internal clearance.

Due respect to privacy and confidentiality of dealings with customers shall be strictly observed.

Certain transactions or information shall not be made available to groups or individuals within BDO where there may exist potential conflict of interest, more particularly between credit and investment operations.

All complaints from customers shall be handled with expediency in accordance with internal rules and regulatory requirements on consumer protection.

## **CONDUCT RELATING TO INVESTMENT AND OUTSIDE ACTIVITIES**

Trading in the securities of BDO Unibank and/or any member of the BDO Group, whether listed or not while in possession of material non-public, price sensitive information is not permitted and is considered illegal. All directors and employees of the Bank must adhere to the Personal Trading Policy in their trading activities to prevent violations of security laws and regulations and to preserve the good reputation of BDO in the market place.

Real and potential conflict of interest shall be avoided when investing in outside business activities or accepting directorships in other institutions.

Queries or complaints from stockholders shall be immediately referred to the designated office or officials and resolved speedily in accordance with their rights.

## **OBSERVANCE OF STANDARDS OF CONDUCT FOR INDIVIDUALS**

Employees have the primary duty to comply with the following basic standards of conduct in addition to office policies and work regulations.

### **1. Attendance**

Attendance and punctuality are expected from all concerned in order to make effective use of time and as a professional courtesy to others.

### **2. Integrity**

Integrity, honesty and professional behavior are expected to be observed in all dealings with customers, regulators, co-employees, and the public in general. Engaging in fraud (directly or indirectly), or connivance and facilitation in committing fraud are totally prohibited.

### **3. Office Decorum**

Decorum must be observed to promote harmony and respect within the organization and in dealing with external constituencies. Compliance to the prescribed uniform wear or corporate attire, as applicable, shall be followed for clear identification and to promote BDO's image and values.

### **4. Responsible Behavior**

Responsible behavior and courtesy both within the organization and in public must be observed at all times. The way we deal with customers and our demeanor in public significantly contribute to the public perception of BDO as a reputable and professional institution.

### **5. Disclosure of Information**

Building and maintaining trust is a basic part of our relationship with customers and shareholders. Unauthorized disclosure, use and passing on of sensitive/confidential information are strictly prohibited. This applies to verbal, inferred or written disclosures.

All sensitive/confidential information obtained in the course of employment, directorship, engagement of services or other work or business-related relationship with BDO must not be divulged unless authorized in accordance with internal and regulatory requirements and must not be used for any personal or financial gain. Compliance with the applicable Information Security Risk policies of BDO and Data Privacy & Protection Laws is enjoined.



The Law on Secrecy of Bank Deposits under R.A. 1405, as amended, which generally prohibits the disclosure of any information pertaining to deposits of whatever nature with banks and banking institutions in the Philippines, including investments in bonds issued by the Philippine government, the confidentiality provisions under the General Banking Law of 2000, and other related laws, rules and regulations, must be strictly observed.

Customer relationships with BDO should be handled in strict confidence and propriety. This likewise applies to bank manuals, reports and memoranda.

All business deals and transactions shall adhere to regulatory requirements and all applicable laws in the countries, cities, and in the communities in which BDO, its branches, subsidiaries and representative offices operate.

## **6. Acceptance/Solicitation of Gifts, Bribery and Corruption**

Employees, suppliers, partners and other 3rd parties must avoid giving or receiving gifts or entertainment if these might improperly influence the recipient's decision making or might be perceived to do so. They must not also offer or take any form of illegal or improper payment.

## **7. Conflict of Interest**

Directors and employees should act in a manner that will serve the best interest of BDO and its shareholders. This requires that all business decisions and actions must be aligned to the principles and values of BDO, and should not be driven by personal motivations or influenced by personal relationships which may interfere in the exercise of objective and independent judgment.

Any financial and personal interest or benefit in any transaction involving BDO must be disclosed. When presented with a situation involving a potential conflict of interest, it is necessary to disclose the possible conflict in writing to the Supervising Officer, in case of officer or employee, or to the Board of Directors, in case of Director.

Disclosures against possible or perceived conflict of interest, may include, but need not be limited to the following:

### **A. Interest in businesses**

Any financial interest or management participation of an immediate family member in the business of a supplier, competitor, or customers, whether publicly- listed or privately held, should be disclosed.

#### B. Employment or engagement of services

Engagement by a supplier, contractor, or customer's business as a director, adviser, officer, employee or consultant needs to be disclosed and requires approval of BDO. Similar engagement of an immediate family member (parent, brother, sister, spouse, child) shall likewise need to be disclosed.

#### C. Employment in another entity or in political office

This includes disclosure on engagement in another occupation or holding concurrent position in a government, or political office or agency.

#### D. Political Activity

Active involvement in any political party or participating/engaging in a political campaign should be disclosed and requires permission from BDO.

#### E. Relatives/Next of Kin

Disclosure should be made when a director or employee has a relative employed in BDO. Management discretion shall be exercised to ensure that there will be no superior-subordinate relationship between employed relatives or in a control function exercised over the business unit of a relative.

Next-of-kin relationship should also be disclosed when it begins to exist with another employee where one exercises superior-subordinate relationship or control relationship with the employee.

Directors and employees are responsible for identifying, assessing and managing conflicts of interest whether actual or potential that arises in their day to day work. Full disclosure of any conflict of interest should be made on an annual basis or as necessary, through the annual submission of the Conflict of Interest Disclosure Form (Annex A) to BDO Unibank- Human Resources Group. Any disclosed potential conflict of interest shall be forwarded by BDO Unibank- Human Resources Group to BDO Unibank Compliance Office for evaluation. In case of doubt about the propriety of any course of action or find that their own interests are or may be in conflict with those of the institution, they must disclose and seek advice from the BDO Unibank- Human Resources Group.

### **8. Outside Employment or Directorship**

Full time employees should not take up any outside employment or directorship. Written approval of the Group Head and the Human Resources Group is required

prior to acceptance of outside employment or directorship. The following scenarios are covered:

Part-time jobs:

- Teaching or tutoring
- Consultancy
- Private practice of a profession
- Other similar activities that affect the availability of employees

Approval, which must be in writing, may be given to take up part-time directorship, employment and other similar engagements only in circumstances where the interests of BDO will not be prejudiced.

Directors or officers who intend to run for government office are required to tender resignation from BDO or the Board of Directors, as the case may be, prior to formalizing or filing of candidacy. As soon as it comes to the knowledge of BDO that they ran for public office, they shall be deemed resigned from BDO or the Board of Directors, as the case may be.

## **9. Reporting Internal Fraud, Breach of the Code, or Other Unethical/Illegal Activities**

BDO believes that the key to long-term sustainability and success largely depends on having a good name and solid reputation in the industry. Any director or employee who becomes aware of any violations of law, regulations or policies should report the same to appropriate authorities, with protection from reprisal and discrimination. Reporting of violations should be done in good faith and without malice. This is embodied in the BDO Policy on Disclosure of Sensitive/Confidential Matters to Management that governs the policies and procedures in handling of whistle blower cases.

This helps to promote and maintain a culture of strong ethics, integrity, honesty, accountability and transparency.

## **10. Media Contact**

Only authorized individuals or parties shall be allowed to contact or talk to any representative of the media (print, broadcast, wires, and online) on BDO matters. All inquiries or contacts made by the media should be referred to BDO Marketing Communications Group.

Similarly, the unauthorized creation of unofficial social media account bearing the BDO brand or corporate name is not allowed.

## **11. Treatment of BDO's Assets**

BDO's assets (physical, financial or intellectual) may be used only for authorized purposes. Directors and employees are also responsible for safeguarding BDO's assets to prevent loss, theft, destruction or unauthorized use.

Any unauthorized use, or unnecessary access, or destruction of BDO's assets such as funds, property, confidential data, information, equipment and/or systems, for personal gain or for purposes of maligning or harming BDO, its directors, employees, shareholders and/or its customers, or for any ill motive, including attempts thereto, shall be considered as a violation of this Code and shall be dealt with accordingly.

The Bank is the owner of all information assets which include any bank data, information processes, computer and communications equipment, application and system software, and tools and utilities that store, process and transmit information. Any personal information or data stored by the employee in any of the Bank's information resources shall be considered as Bank's assets which may be inspected, reviewed, or used as legal evidence when necessary.

Integral to information security and data protection, the Bank has the inherent right to inspect and review information in the possession of directors or employees in instances where there is doubt on unauthorized access, use, disclosure, disruption, modification, inspection, recording or destruction of the Bank's information assets.

The bank shall ensure that proper custodianship of information assets shall include compliance to all applicable laws and regulations in providing access, storage and disposal of bank information.

## **12. Personal Finance Standards**

As a financial institution, public confidence in BDO's ability to manage the financial affairs of others is key. While personal finances are private, employees are expected to handle their financial affairs prudently. Specifically, the following are prohibited and are grounds for disciplinary action:

- mismanaged checking accounts, credit cards, loan and other forms of indebtedness which includes failure to pay just debts or being habitually delinquent in the payment of debts;
- borrowing money or obtaining loans/favors in any form from customers and/or suppliers; and
- borrowing/lending money from/to co-employees.



### **13. Gambling, Drinking Alcoholic Beverages, Use of Prohibited Drugs**

Gambling, drinking alcoholic beverages, use or sale of prohibited drugs, and other similar vices, done during working hours and within BDO premises are strictly prohibited.

The Drug Free Workplace Policy of BDO shall apply.

### **14. Compliance with Laws, Regulations and Internal Standards, Policies and Procedures**

Directors and employees are expected to comply fully with appropriate laws and regulations, as well as with the internal standards or policies and procedures of BDO. They are individually responsible for complying with the spirit, not just the letter, of the laws, regulations, and internal policies and procedures.

### **15. Fair Treatment of Customers**

BDO's business is its customers. Therefore, directors and employees are responsible in ensuring that customers are treated fairly in all dealings with them.

The minimum standards to ensure that customers are treated fairly are the following:

- Communications are fair and not misleading.
- Ensure that customers are given clear and concise information, including the risks involved, before they enter into financial products and services.
- Employees should only market and sell products and services, which have been approved for sale.
- Products and services are suitable and appropriate, taking into account the needs of the customers, their financial and risk profile and objectives.
- Complaints should be handled in a prompt, friendly, fair and effective manner.

### **16. Relationship with Colleagues**

Directors and employees are expected to treat others with dignity and with utmost professional

respect and courtesy regardless of differences, positions, ranks, ages, or other types of distinctions.

## **17. Respect for Community and Environment**

Directors and employees should promote actively the Bank's corporate social responsibility and care for the environment through the initiatives and partnerships with civil society, governments and other stakeholders.

They also have to recognize their role to be involved in community-related issues and activities as a way of giving back to the communities in which they operate.

## **RELATED PARTY TRANSACTIONS**

BDO, in compliance with legal and regulatory requirements, maintains transparency of related party transactions between and among BDO and its subsidiaries, affiliated companies, directors, officers, stockholders, related interests (DOSRI), and joint ventures. These should be conducted at arm's length and in the normal commercial terms granted to either individuals or businesses of comparable risks.

## **SPECIFIC REQUIREMENTS OF THE LAW**

From time to time, specific laws or regulations are implemented which require the special attention and strict observance by all concerned. All concerned, who shall be advised of such requirements, shall ensure their individual responsibilities are complied with. These laws include the Bank Secrecy Act, Anti-Money Laundering Act, Customers Protection Act and the Data Protection Act.

## **SANCTIONS AND PENALTIES**

Failure to comply with the requirements of the Code may lead to disciplinary measures commensurate to the violations.

The Bank will use principles of fair accountability and due process in investigating and making decisions on all matters pertaining to failure to abide by the Code.

BDO reserves the right to impose corresponding sanctions and/or penalties for violation of the Code, which includes dismissal from service or from the Board of Directors, as the case may be, without prejudice to further legal, administrative or criminal charges depending on the offense.

## **RESPONSIBILITY FOR IMPLEMENTATION**

The Office of the Human Resources shall be responsible for overseeing the implementation of this Code across the BDO Unibank Group. It shall receive reports of violation and ensure that a confidential investigation is undertaken. As necessary, it may endorse the handling of the investigation to the Cases Review Secretariat for the

necessary action and appropriate recommendation. The Audit Committee, at its discretion, may periodically report the Code of Ethics cases to the Board of Directors.

The Compliance Office will address lapses in compliance with regulatory requirements arising from the administrative cases due to the violation of this Code.

## **APPROVAL AND DISCLOSURE**

The Board of Directors has the authority to approve the Code of Conduct and Business Ethics. The Office of the Human Resources and the Office of the Corporate Governance shall be responsible to disseminate the Code to all directors, officers and staff for their information and proper guidance. It should be posted in the Bank's website and intranet to be accessible to all covered individuals and shall form part of the HR and Compliance policies of the Bank.

## **PERSONAL TRADING POLICY**

### **I. Introduction**

The purpose of this policy is to promote compliance with applicable securities laws and regulations by BDO Unibank, Inc. and its subsidiaries in order to promote fairness and preserve its good reputation in the marketplace.

### **II. Applicability**

This policy is applicable to all directors, officers and employees of BDO Unibank, Inc. and its subsidiaries who in the discharge of their duties, may gain access to material non-public, price-sensitive information about BDO and non-BDO publicly-traded securities. It does not include BDO shares granted/acquired through the Employee Stock Option Program.

### **III. Scope of the Policy**

#### **A. Trading of BDO/BDOLF shares**

Covered individuals shall not trade any BDO/BDO Leasing and Finance, Inc. (BDOLF) shares and non-BDO shares while in possession of, or with direct or indirect access to, material price-sensitive information that would have significant effect in making a decision to buy, sell or hold a security including any other action to take advantage of, or pass on to others, that information.

#### **B. Trading of Non-BDO shares**

Officers and staff of Institutional Banking Group, Investor Relations and Corporate Planning Group, Risk Management Group and their counterparts in BDO subsidiaries who have access to privileged client information shall not trade on shares of their managed accounts.

Likewise, officers and staff of Trust and Investments Group and/or BDO subsidiaries who have access to internal or client trading objectives and strategies shall not trade on shares of investee companies included in their investment portfolios.

These officers and staff are required to obtain pre-clearance and approval from the Compliance Officer when trading share of issuers other than their managed account or investee companies not included in their respective investment portfolios including the selling of purchased shares before the lapse of the 6-month holding period.



All other employees are allowed to trade in non-BDO shares without need for Compliance Office approval and not subject to any holding period provided these trades do not involve material, non-public, price-sensitive information they have gathered from their work.

#### **IV. Trading Restrictions**

Trading of securities by Bank employees shall be coursed through BDO Securities Corporation except during quarterly black-out period of not less than five (5) trading days from the date of public disclosure. These trades will be monitored and analyzed to detect any unusual activity.

BDO/BDOLF shares and non-BDO shares are subject to holding period of 6 months for buy transactions and 90-day no repurchase period for sale transactions.

#### **V. Disclosure Requirements**

BDO Securities Corporation will submit a report to the Compliance Office of all trades by BDO employees the next day after transaction date.

Within three (3) trading days from booking date, officers with the rank of Senior Vice President and up are required by regulation to report any changes in beneficial ownership of BDO securities to the Securities and Exchange Commission and Philippine Stock Exchange.



**TERMS OF REFERENCE  
BOARD AUDIT COMMITTEE  
BDO LEASING AND FINANCE, INC.  
(as of December 2021)**

**I. Constitution**

The Board Audit Committee (BAC) shall be established by the Board of Directors (BOD) of BDO Leasing and Finance, Inc. (BDOLF). It follows the rationale for the establishment of an audit committee as required and directed by the, BSP Circulars No. 749 Series of 2012, No. 871 Series of 2015 and SEC Memorandum Circular No. 19 Series of 2016. As such, the BAC of BDOLF is an extension of the BDOLF Board.

The BAC shall have the authority to investigate any matter within its terms of reference, full access to management and full discretion to invite any director, executive officer(s) and staff to attend its meetings. It shall be extended full cooperation by management and be provided with adequate resources to enable it to effectively discharge its functions.

It shall also oversee the Company's compliance requisites as mandated by the appropriate regulatory bodies.

**II. Objectives**

- A.** To provide oversight on the BDOLF financial reporting process, system of internal control, audit process and monitoring of compliance with applicable rules and regulation.
- B.** To ensure that a review of the effectiveness of the Company's internal controls, including financial, operational and compliance controls and risk management is conducted annually.
- C.** To provide oversight functions over the Company's internal and external audit functions.

**III. Duties and Responsibilities over the following:**

**1. Internal Audit Division**

- a.** It shall be responsible for organizing the Internal Audit Division as well as appointing or removing the head of Internal Audit and key internal auditors.
- b.** It shall perform oversight function over the Internal Audit Division.
- c.** It shall recommend the approval of the Internal Audit Charter (IA Charter), which formally defines the role of Internal Audit and oversee its implementation.

- d. It shall review the annual internal audit plan to ensure its conformity with the objectives of the Company. The plan shall include audit scope, resources and budget necessary and timetable for its implementation.
- e. It shall ensure that Internal Audit Division examines, evaluates and recommends improvements to the effectiveness of risk management, internal control and governance processes of the organization.
- f. It shall review the internal audit reports, report major issues to the Board and ensure that management is taking corrective actions in a timely manner to address weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.
- g. It shall conduct discussions with management on the effectiveness of the internal control system.
- h. It shall ensure that the internal audit function maintains an open communication with senior management, the Audit Committee, external auditors and supervisory authority.
- i. It shall report to the Board of Directors the annual performance appraisal of the head of Internal Audit and key audit officers.
- j. It shall recommend for approval of the Board of Directors the remuneration of the head of Internal Audit as well as the key audit officers.

## **2. External Audit**

- a. It shall recommend to the BOD the appointment, re-appointment and/or change of external auditor.
- b. It shall review the Engagement Letter and discuss with the external auditor the nature, scope and expenses of the audit prior to the commencement of the audit work.
- c. It shall review the Management Letter submitted by the external auditor, as well as management's response to the external auditor's findings and recommendations before endorsing the same to the BOD for its approval.
- d. It shall evaluate non-audit work if any is done by the external auditors and disallow it if it will conflict with their duties as external auditors.
- e. It shall review the Management Representation Letter stating management's responsibility over the financial statements and financial reporting process.

## **3. Operational, Financial, and Anti-Money Laundering Compliance**

- a. It shall review and approve the annual plans of the Compliance Office and Anti-Money Laundering Units including their annual budget.

- b. It shall review and approve the performance and compensation of the Chief Compliance Officer.
- c. It shall review and recommend the approval of the Compliance Charter that defines the compliance function's standing, authority and independence.
- d. It shall review the quarterly, half-year and annual financial statements before their submission to the BOD.
- e. It shall review the reports of BSP and other regulatory bodies as well as notices on financial or administrative penalties incurred due to delayed / non-submission / erroneous submission of required regulatory reports.

#### **4. Reporting Hierarchy**

- a. The BAC shall report to the BOD minutes of its meeting. The minutes shall be noted by the Corporate Secretary and shall include recording of names of those present.

### **IV. Authority**

- 1. The BAC shall ensure that the internal and external auditors act independently from each other and that both are given unrestricted access to all properties and personnel to enable them to perform their respective audit functions.
- 2. The BAC shall review the Company's processes that allow the employees to raise concerns, in confidence, about possible issues in financial reporting and/or other matters.

### **V. Membership**

- 1. The Audit Committee shall be composed of at least three (3) appropriately qualified non-executive directors, the majority of whom, including the Chairman, should be independent.
- 2. BAC members shall preferably be with accounting, auditing, or related financial management experience.
- 3. The Chief Executive Officer, Chief Financial Officer and/or Treasurer, or officers holding equivalent positions, shall not be appointed as members of the Audit Committee.

### **VI. Meetings**

- 1. Frequency of Meetings – at least four times per year, or as often as necessary, at the discretion of the Committee Chair. The Minutes of the meetings shall be circulated promptly to all members of the Committee.



## **VII. Other Matters**

1. At least once a year, review its own performance, constitution and terms of reference to ensure that these are operating at maximum effectiveness and to recommend any changes it considers necessary to the BOD for approval. It shall assess its performance with regard to its oversight on the company's financial reporting process and system of internal control as well as its oversight over the Internal Audit, External Audit and Compliance functions.
2. Evaluate the performance of Internal Audit, Compliance and Anti-Money Laundering Unit and External Audit annually to ensure their effectiveness and achievement of objectives.

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	1 of 25

## REGULATORY COMPLIANCE MANAGEMENT MANUAL

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	Doc. Ref. No.	:	RF-CCO-002
		Effective Date	:	November 2019
		Revision No.	:	2
		Page	:	2 of 25

## Table of Contents

I. INTRODUCTION.....	3
II. STATEMENT OF POLICY .....	4
III. REGULATORY ENVIRONMENT.....	5
IV. REGULATORY COMPLIANCE MANAGEMENT MANUAL .....	7
V. MITIGATION OF COMPLIANCE RISKS .....	8
A. Risk Identification.....	8
B. Assessing Compliance Risk .....	9
C. Managing and Controlling Compliance Risks .....	10
VI. RESPONSIBILITIES FOR COMPLIANCE.....	11
A. Board of Directors .....	11
B. Senior Management.....	11
C. Compliance Officer.....	11
D. Business Line Managers.....	12
E. Support and Delivery Units .....	12
F. Unit Compliance Coordinators .....	12
VII. COMPLIANCE FUNCTION IN THE COMPANY .....	13
A. Objectives .....	13
B. Compliance Function Structure .....	13
1. Compliance Office .....	13
2. Unit Compliance Coordinators .....	15
3. Relationship of Compliance Office with Other Control Functions .....	16
4. The Compliance Office Organization .....	16
C. Compliance Program .....	17
1. Analysis of the Regulatory and Corporate Environment .....	17
2. Guidance of Stakeholders on Relevant Laws, Rules, and Regulations .....	17
3. Assessment of Compliance Office .....	19
4. Reporting and Remediation.....	19
5. Monitoring and Assessment of the Compliance Function .....	20
6. Program Review and Updates .....	20
VIII. REGULATORY EXPECTATIONS .....	22
IX. HANDLING OF “ON-SITE” REGULATORY EXAMINATIONS .....	23
X. Consumer Protection .....	24
XI. Consumer Protection Compliance Program .....	25

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	3 of 25

## I. INTRODUCTION

The Compliance System forms the processes, people, policies and other components that, as an integral unit, ultimately drives the company's initiatives to conform to industry standards and regulations. In this regard, the Regulatory Compliance Management Manual (RCMM) functions as the guiding principle for the implementation of the Compliance System in BDO Leasing and Finance, Inc (the "Company").

The RCMM of BDO Leasing and Finance, Inc shall be applicable and adapted by its own subsidiaries and affiliates to the extent applicable to the business.

In line with the company's initiatives is its commitment to ensure that activities of the company and its personnel are conducted in accordance with all applicable rules and regulations and industry standards, and this commitment to compliance serves to protect the company, its employees, and its customers.



	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	4 of 25

## II. STATEMENT OF POLICY

BDO Leasing and Finance, Inc., Inc. recognizes that compliance is a function of the Company that is critical for safety and soundness. In this regard, the company states as a policy that:

1. To protect itself, its clients, and the financial system in general, the management shall ensure that BDO Leasing and Finance, Inc.. operates at the highest standard of conduct and meets all regulatory and legal requirements relating to the conduct of its business.
2. Compliance shall be a line-driven function, and, as such, shall be the direct responsibility of each line manager.
3. Each employee shall be personally responsible for familiarizing him/herself with all the laws and regulations applicable or related to his/her work assignment in the Company.

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	Doc. Ref. No.	:	RF-CCO-002
		Effective Date	:	November 2019
		Revision No.	:	2
		Page	:	5 of 25

### III. REGULATORY ENVIRONMENT

Over the years, the Securities and Exchange Commission (SEC) has issued numerous directives in the form of regulations. These are the “laws-of-the-land” and companies in the financing and leasing sector need to comply with the issued regulations under the pain of sanctions for compliance failure.

To actively promote corporate governance reforms aimed to raise investor confidence, develop capital market and help achieve high sustained growth for the corporate sector and the economy, SEC issued Memorandum Circular No.2 (Code of Corporate Governance), series of 2002 dated April 4, 2002. On the said circular, the Board Committee may constitute a compliance unit who will be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations.

In 2009, SEC issued Memorandum Circular No. 6 (Revised Code of Corporate Governance), series of 2009 dated June 22, 2009 which implemented good corporate governance regime. It has required the appointment of a Compliance Officer who shall supervise the Company's implementation of its Compliance System.

On the other hand, the **Bangko Sentral ng Pilipinas (BSP)** has issued directives in the form of regulations **that regulated entities** need to comply with the issued regulations under the pain of sanctions for compliance failure.

To establish a robust regulatory compliance regime, the BSP issued **Circular No. 145** to regulated entities in October 1997 to implement a “**Compliance System**” and required the appointment/designation of a “**Compliance Officer**” to oversee the implementation of the company's Compliance System.

In May 2004, the BSP issued **Circular No. 429** that defined “**Compliance Risk**” and the responsibilities of the board of directors and senior management on compliance, among others.

In February 2012, BSP issued **Circular No. 747** which was further enhanced thru Circular No. 972 (issued on 22 August 2017), that revises the compliance framework for regulated entities. These circulars require BSP-Supervised Financial Institutions (BSFIs) to establish a compliance risk management system designed to specifically identify and mitigate risks that may erode the franchise value of the BSFI and the appointment of a full time Compliance Officer to oversee the identification and management of the BSFI's compliance risk.

Franchise value may decrease due to risks of regulatory sanctions, material financial loss, loss to reputation as a result of the BSFIs failure to comply with laws, regulatory rules and standards, codes of conduct applicable to its activities and failure to manage conflict of interest.

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	6 of 25

Therefore, to reasonably prevent failures to a business line and avoid associated sanctions, the company's management and personnel need to understand, interpret and internalize the relevant regulations and apply them in their daily business processes. The company's workforce should be educated on NBFIs regulations to help them perform their roles and responsibilities in the company's Compliance System.

In May 28, 2013, BSP issued Memorandum No. M-2013-023 that provides the framework for BSP Compliance Rating System (CRS). The CRS will be used by the BSP in assessing the quality of compliance system in their examinations and provide appropriate supervisory actions for noted weaknesses and violations of rules and regulations. BSP's rating based on the CRS will form part of their assessment of the supervised institution's Corporate Governance which in turn shall be factored in the institution's "Management" component of its CAMELS rating.

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	Doc. Ref. No.	:	RF-CCO-002
		Effective Date	:	November 2019
		Revision No.	:	2
		Page	:	7 of 25

#### IV. REGULATORY COMPLIANCE MANAGEMENT MANUAL

To further strengthen the Compliance System of BSP Supervised Financial Institution (BSFI), BSP issued Circular No. 972, Series of 2017, that emphasizes the need for a robust, dynamic and responsive Compliance Risk Management System as an integral part of the culture and risk governance framework of the BSFI.

This regulatory compliance management manual is **HOW** the company:

- Learns about its compliance responsibilities;
- Ensures that company personnel understand their responsibilities;
- Ensures that regulatory requirements are incorporated into the business processes;
- Reviews operations to ensure responsibilities are carried out and requirements are met; and
- Takes corrective action and updates materials, as necessary.

To ensure a successful implementation, the company's Regulatory Compliance Management Manual is anchored on the following major strategies:

- Getting the right information to the right person at the right time.
- Making business line managers the "OWNERS" of business risks in their respective areas and accountable for the consequences when business fails.
- Embedding compliance controls in day-to-day activities procedures as the "best defense" to mitigate business compliance risks.
- Responding to emerging regulations quickly (nimbleness).
- Reviewing existing compliance procedures and effecting policy and procedural enhancements to incorporate changes in regulation or whenever new business lines or activities are added or existing activities, products or services are altered.
- Educating personnel on company's compliance culture, general compliance-risk issues and high-level compliance policies and procedures.
- Maintaining a constructive working relationship with the regulators, company's senior management, and company's business line managers.

When all above strategies are strong and working together, there is reasonable assurance that the company will succeed in managing its compliance responsibilities and risks presently and in the future.

The successful implementation of the company's Regulatory Compliance System hinges on the active interplay of the three essential elements, namely: **PEOPLE, PROCESS** and **TECHNOLOGY**. People "run" the Process; Process "guide" the People; and Technology "supports" the Process.



	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	8 of 25

## V. MITIGATION OF COMPLIANCE RISKS

According to BSP Circular No. 747 which is further enhanced by Circular No. 972, the compliance risk management shall be designed to specifically identify and mitigate risks that may erode the franchise value of the BSFI, such as, among others:

- a. Risks of legal or regulatory sanctions from the actions of a company that are contrary to existing laws, regulations and identified best practices and reflect weaknesses in the implementation of codes of conduct and standards of good practice;
- b. Risks to reputation that arise from internal decisions and practices that ultimately impinge on the public's trust of a company such as failure to manage conflict of interest, treat customers fairly or effectively manage risks arising from money laundering and terrorist financing ;
- c. Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect a company's business model.

Preventing exposure to compliance risks is the key element of the company's management of compliance risks. This can be accomplished through a holistic approach that includes the three (3) general steps, to wit:

- Step 1 -* Identify sources of compliance risks.
- Step 2 -* Assess the likelihood (probability of the risk event happening) and the potential damage (impact or severity) if the risk event materializes.
- Step 3 -* Manage compliance risks.

### A. Risk Identification

Compliance risk may arise from (a) people risk; (b) process risk; (c) system/technology support risk; and (d) regulatory changes risk, individually or a combination thereof:

#### a. People Risk:

- ⌘ Inadequate knowledge of regulations and its requirements, and risk management
- ⌘ Failure to perform prescribed control processes
- ⌘ Neglecting historical information on identified risk areas, products, or services

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	9 of 25

**b. Process Risk:**

- ⌘ Failure to consider one of more of the basic factors that constitute an efficient process (materials, equipment, method, environment, people)
- ⌘ Non-inclusion of fulfillment of regulatory requirements in documented processes
- ⌘ Lack of regular review of documented processes
- ⌘ Lack of formal process for reviewing and approving new or unique or sophisticated products and services at inception
- ⌘ Lack of formal process for monitoring compliance with existing/applicable rules and regulations for existing products and services

**c. System and/or technology Risk:**

- ⌘ Failure to address identified regulatory compliance gaps, e.g. policy and procedures circulars, automated systems, etc.
- ⌘ Failure to conduct the necessary testing of functionality and security controls
- ⌘ Failure to plan for capacity, maintenance, and upgrades

**d. Regulatory Changes Risk:**

- ⌘ Failure to track regulatory changes in products and services (e.g. obsolete or superseded provisions still being implemented)
- ⌘ Failure to assess business risks when new business lines or activities are added or when existing activities and process are altered
- ⌘ Failure to disseminate regulation information quickly

**B. Assessing Compliance Risk**

After having identified the major sources of compliance risk, the next step is to answer the questions “How critical are the risks?” and “How vulnerable is the company to the risk sources?”

There is no doubt that each major source of risk represents a critical factor to be reckoned with to prevent compliance risks. Needless to say, a failure in one factor may jeopardize and weaken the entire compliance risk management framework and put the company in a penalty situation.

All major risk sources are assessed as “HIGH RISK” areas requiring a sustained monitoring effort to ensure that the infrastructure supports are in place and operating as intended.

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	10 of 25

### **C. Managing and Controlling Compliance Risks**

To reasonably manage and control compliance risks:

- Regulatory information should be disseminated quickly to users via the available information channels, e.g. email, bulletins, portal;
- Board and senior management must also be advised on significant and sensitive relevant laws, rules and standards and keep them informed on developments in the area;
- Stakeholders should actively participate;
- Existing policies and procedures should be reviewed and revised promptly to incorporate the effects of new or amended regulatory provisions, new products/services to be introduced, alterations to existing products/services;
- The adequacy and effectiveness of the business systems and technology supports should be evaluated regularly;
- Company personnel should be given a formal education on regulatory compliance matters (compliance training);
- There should be a constant review and monitoring of compliance with regulations at the process, product, company service or business lines levels (off-site or on-site) and prompt communication of compliance breaches to the appropriate points in the organization for action; and
- Sensitive compliance issues should be immediately elevated to senior management for decision and disposition.

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	11 of 25

## VI. RESPONSIBILITIES FOR COMPLIANCE

### A. Board of Directors

The Board of Directors oversees the implementation of the Compliance System and ensures that compliance issues are resolved expeditiously (*Ref. BSP Cir. Nos. 747 and 972*). These include approving the company's Compliance Program for managing the company's compliance risks; ensuring that BSFI personnel and affiliated parties adhere to pre-defined compliance standards.

#### **BOARD AUDIT COMMITTEE**

BSP Circular Nos. 747 and 972 further emphasizes the need for the Board of Directors to ensure that a Compliance Program is defined for the company and that compliance issues are resolved expeditiously. The company's Board Audit Committee (BAC), a board level committee, is tasked to oversee the Compliance Program. Changes to the Compliance Program must be approved by the BAC.

### B. Senior Management

Senior Management, the collective body of business owners responsible for achieving compliance, ensures that personnel and affiliated parties adhere to the Compliance Program of the company. It reports to the Compliance Officer matters that affect the implementation of the Compliance Program, and ultimately, the design of the Compliance System.

### C. Compliance Officer

The Compliance Officer (CO) is the lead senior officer for purposes of administering the Compliance Program and interacting with the BSP on compliance related issues. The principal function of the CO is to oversee the design of an appropriate Compliance System, promote its effective implementation and address breaches that may arise. Any material breaches of the system shall be reported to the BAC and promptly addressed within the mechanisms defined by the Compliance System. The CO shall also be responsible for ensuring the integrity and accuracy of all documentary submissions to the BSP. (*Ref. BSP Cir. No. 747 and 972*)



	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	12 of 25

#### **D. Business Line Managers**

The business line managers continue to “own” the compliance risk in their respective areas of responsibility. They are responsible for achieving compliance with applicable regulatory requirements within their business lines and to answer for the consequences in the event of compliance failures.

This level of officers has the responsibility of implementing the risk management processes, policies and procedures and monitoring the effectiveness of the risk management activities in their own business areas. They can recommend changes or improvements to the compliance risk management framework as warranted by circumstances.

#### **E. Support and Delivery Units**

The role of support and delivery units is to provide the tools and services that complement the business units in implementing the Compliance System. They shall be responsible for issuance of guidelines and procedures, implementation and management of applications to support manual processes, provide guidelines on risk management, and implement controls to comply with various applicable regulations including anti-money laundering.

#### **F. Unit Compliance Coordinators**

They are the officers or staff within the business lines that exercise compliance responsibilities to help keep the business line organization (to which they belong to) focused on managing business risks. They are tasked with implementing the approved policies and procedures in their respective work assignments, e.g. performing prescribed control procedures. Please refer to the succeeding section for their specific responsibilities (*Ref. VII.B.2*)

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	13 of 25

## VII. COMPLIANCE FUNCTION IN THE COMPANY

### A. Objectives

1. To identify the relevant laws and their implementing rules and regulations directly affecting the company's operations;
2. To identify, analyze, classify and prioritize the corresponding risks for non-compliance with relevant laws and regulations affecting the company's operations;
3. To set in place a monitoring system on the company's compliance with applicable laws, rules and regulations, which will include a system of periodic compliance monitoring and regular reporting on the compliance findings to higher management;
4. To ensure that company officers and staff are made aware of the compliance function and their respective compliance responsibilities; and
5. To set up a central compilation point of all relevant and applicable laws, rules and regulations to the company's operation.

### B. Compliance Function Structure

#### 1. Compliance Office

The institutional role of the Compliance Office is to assist senior management in managing effectively the compliance risks faced by the Company.

#### **Authorities and Duties of the Compliance Office**

The company's Compliance Office, in the exercise of its authorities, shall have the following duties, which may be expanded and supplemented from time to time upon the approval of the Board of Directors taking into account the needs and objectives to be served and/or may be mandated by the government regulatory bodies:

- i. Oversee and coordinate the proper and efficient implementation of the company's Compliance Program;
- ii. Assist in identifying, monitoring and controlling compliance risks as defined by the Securities and Exchange Commission (SEC), Bangko Sentral ng Pilipinas (BSP) or other government regulatory bodies;
- iii. Provide appropriate guidance and direction to the company's management on the development, implementation and maintenance of the company's Compliance Program;
- iv. Conduct periodic compliance testing with applicable legal and regulatory requirements in accordance with the company's Independent Compliance Testing Framework (Annex B) and report to the Board Audit Committee the findings and results of these periodic testings;

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	14 of 25

- v. Cause the investigation of the breaches and any possible breaches in any aspect of the company's Compliance Program, pertinent laws, rules, regulations, codes of conduct and standards of good practice;
- vi. Report to the Board Audit Committee any matters relevant to the company's Compliance Program and its implementation, as well as material breaches in the pertinent laws, rules, regulations, codes of conduct and standards of good practice;
- vii. Establish an open communication process with the company's personnel and/or conduct trainings, seminars and workshops as may be deemed necessary and proper to educate and update the company's personnel on compliance matters, pertinent laws, rules, regulations, codes of conduct and standards of good practice;
- viii. Consult government regulatory bodies, agencies to clarify ambiguous provisions of enacted laws or issued rules and regulations which would affect the company's Compliance Program;
- ix. Exercise oversight responsibility over compliance-related activities which have been outsourced and ensure compliance consistent with the company's Compliance Program; and
- x. Timely submit compliance and other related reports as may be required by the laws, rules, regulations, circulars or directives issued by the government regulatory bodies.

### **Independence of the Compliance Office**

BSP Circular Nos. 747 and 972 provides that the compliance function should be independent from the business activities of the institution. It should be able to carry out its responsibilities on its own initiative in all units or departments where compliance risk exists and must be provided with sufficient resources to carry out its responsibilities effectively. It must be free to report to senior management and the board or a committee of the board any irregularities or breaches of laws, rules and standards discovered. The compliance function should have access to all operational areas as well as any records or files necessary to enable it to carry out its duties and responsibilities.

In this regard, the Compliance Office shall be under the direct supervision of the Board Audit Committee. All concerns, matters, and needs of the Compliance Office to enable it fulfill its responsibilities shall be expeditiously attended to and addressed.

On its own initiative, with or without directive from the Board Audit Committee or senior management of the company, the Compliance Office may carry out its functions by conducting investigations or audit, with or without the aid of other supporting units of the company, to ensure the proper and efficient implementation of the Compliance Program.

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	15 of 25

Furthermore, reports and recommendations made by the office to the Board Audit Committee shall remain strictly confidential to ensure it is freed from retaliation and disfavor from affected parties in the performance of its responsibilities and function.

### **Oversight of BDO Unibank, Inc.**

The Compliance Office of BDO Unibank, Inc. (BDO) as parent bank, oversees the compliance function of the Company through alignment of compliance policies, standards and methodologies. Significant compliance issues and matters in the Company are reported likewise to BDO Unibank's Board Audit Committee, when necessary.

For effective oversight, Compliance Office has separate units that oversee the subsidiaries, foreign branches and representative offices. These are the following:

- (1) Global Offices and Non-Banking Financial Institutions (NBFI) - oversees the regulatory compliance of global and domestic non-bank subsidiaries and foreign representative offices of BDO.
- (2) Anti-Money Laundering Unit (AMLU) - oversees the AML compliance of all subsidiaries and foreign branches of BDO

### **2. Unit Compliance Coordinators**

Each of the company's operating and service units shall have its own compliance coordinator. However, the responsibility for compliance still rests on the Head of the unit.

The designated Unit Compliance Coordinator shall be responsible for the following:

- ⬆ Ensuring that the unit has a complete and updated compilation of all laws and issuance by the government regulatory bodies affecting the operations of the unit
- ⬆ Ensuring that the officers and staff of the unit have been familiarized and fully knowledgeable of the laws, policies, regulations and ethical standards applicable or related to their respective work assignments in the unit
- ⬆ Monitoring the unit's compliance with laws, policies, regulations and ethical standards affecting the unit's operations

BDOLF has compliance officer that performs the same function that work under the supervision of and in coordination with the BDO Compliance Office.

Please refer to Annex A for the Corporate Compliance structure.



	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	16 of 25

### 3. Relationship of Compliance Office with Other Control Functions

As prescribed in the Company's Information Sharing Framework (Annex C), close coordination among independent control functions - Compliance Office, Internal Audit and Risk Management Unit through sharing of information that each unit obtains in the performance of its delineated functions, aims to strengthen BDOLF's risk management. Internal Audit and Risk Management Unit shall render support and establish working relationship with the Compliance Office consistent with the proper and efficient implementation of the company's Compliance Program and Information Sharing Framework:

- ☐ **Internal Audit** – May conduct further probing on information on possible violation of the company's Compliance Program, pertinent laws, rules, regulations, codes of conduct and standards of good practice. Reports, data and analysis previously obtained by the Internal Audit may be used and relied upon by the Compliance Office.
- ☐ **Risk Management Unit** – Shall support Compliance Office in ensuring that regulatory requirements related to Credit Risk, Market Risk and Operational Risk are identified, measured, monitored and managed. Reports, data and analysis made by Risk Management Unit may be used and relied upon by the Compliance Office.

The following units shall also render support to Compliance Office as follows:

- ☐ **Legal Services** – Shall render the appropriate support and advice on all legal-related compliance matters, such as but not limited to the interpretation of the provisions as well as the applicability of the company's Compliance Program, pertinent laws, rules, regulations, codes of conduct and standards of good practice.
- ☐ **Information Technology** – Shall provide the system – related support in the performance of the Compliance Office's responsibilities to the company and to the government regulatory bodies.

The foregoing, however, shall not be taken to limit the Office of the Compliance Office to seek the assistance of other units of the Company. The Office of the Compliance Office may at any time seek the assistance of any unit of the company as may be needed for the proper and efficient implementation of the company's Compliance Program, which assistance shall be expediently given.

### 4. The Compliance Office Organization

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	17 of 25

Please refer to Annex A for the Organization Table of the BDO Leasing and Finance Inc.'s Compliance Office.

The Compliance Office is manned by Compliance Officers.

Functionally the Compliance Office reports to the Board Audit Committee, but administratively it reports to the Office of the President and to the Chief Compliance Officer of BDO Unibank Inc.

### **C. Compliance Program**

The Compliance Program serves as the strategic guide that describes the processes and tools that enable the Compliance Office to efficiently manage the company's Compliance System.

#### **1. Analysis of the Regulatory and Corporate Environment**

One of the major drivers of change in business is regulations. New laws often change how business is conducted. In this regard, it is important that the implementation of change should consider corporate practices of the company, complexity of operations, and business strategy – determining applicable regulations, identifying areas where business risks may occur, and assessing the impact of such change shall ensure swift transition.

##### **a. Identification of Relevant Laws, Rules, and Regulations**

The Compliance Office shall identify and compile all laws, implementing rules and regulations, circulars and similar issuance from the various regulatory bodies that the company, as a whole, and each of its business and operating units are required to observe.

##### **b. Gap Analysis**

For major laws and regulations which have significant impact on the present state of the company, the Compliance Office, in coordination with the business and support units, shall assess the impact of new regulations on how business is conducted. The effect of non-compliance to rules shall be identified in order to guide business and support units on how to proceed with the change.

#### **2. Guidance of Stakeholders on Relevant Laws, Rules, and Regulations**

A critical success factor for regulatory compliance is keeping company personnel well educated on regulatory matters. This will help them understand and appreciate their compliance responsibilities and their roles in the company's business risk management system.

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	18 of 25

#### **a. Communication**

To achieve this end, the Compliance Office undertakes to immediately disseminate/broadcast to all users concerned the copies of all regulatory issuance received by it, or download from the regulatory websites, through the traditional and electronic communication channels available, (e.g. mail), through the issuance of Compliance Bulletins and posting in the company's electronic portal. Correspondences to and from BDO Leasing and Finance Inc's Compliance Office may also be coursed through the Compliance Officer's email address.

Sensitive compliance – related matters/issues shall be elevated to the proper level of senior management, or to the Board, if necessary, for disposition.

The Compliance Office will seek clarification from the regulators concerned for any rules, or provisions thereof, which appear ambiguous. The clarification will then be broadcast through existing communication channels.

The communication flow of the compliance information shall be (a) downwards when disseminating compliance information; (b) upwards when elevating compliance issues to higher management; and (c) lateral when circulating the compliance materials between and among the co-employees in the same unit.

At the level of the business units, the unit heads are expected to brief their respective unit officers and staff on the new or amended regulatory issuance during their regular staff meetings.

#### **b. Reference Portal**

The Compliance Office shall maintain and update a central repository of laws, rules and regulations received and downloaded from the regulators' websites in hardcopy and electronic formats. These materials will be made available upon request (for hardcopy reproduction) or can be viewed on demand in the company's electronic documents portal (for the electronic copies).

#### **c. Training**

Knowledge and awareness by all employees of the laws, rules and regulations pertaining to their respective job description are essential to the success of the Compliance Program. To ensure sufficient awareness, training on regulatory compliance shall be conducted regularly for company personnel. New hires shall be made aware of the compliance function during their employment briefing or orientation.

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	19 of 25

In support of this initiative, the Compliance Office may develop (and update) the training syllabus on regulatory compliance in coordination with the BDO Unibank's Training unit and other concerned units and occasionally participate in or conduct the training sessions.

In addition, the Compliance Office may also avail of external trainings and cascade learnings to BDOLF personnel.

All the above efforts are aimed at mitigating the risk of "information starvation" by providing the company personnel with reasonably adequate information and knowledge to guide them in the performance of their daily responsibilities.

### **3. Assessment of Compliance Office**

The Compliance Office shall do a periodic assessment of the respective business and support units to determine their compliance to relevant laws, rules and regulations affecting the company's operation, in accordance with the Company's Independent Compliance Testing Framework (Annex B).

Consistent with the Independent Compliance Testing Framework, Compliance shall rely on the independent tests done by other assessment units of the Company which are not implementing the regulations, either as inputs to the compliance test by Compliance Office or sufficient representative compliance testing, to determine the unit's compliance to the relevant regulatory requirements. Compliance Office shall focus its independent compliance tests on areas where independent testings/checkings are not performed by other assessment units, on prioritization basis, using the following criteria and references:

- 1) high risk or significant areas which may expose the company to sanctions and/or penalties;
- 2) new regulations which are of group-wide/company-wide application;
- 3) industry issues;
- 4) major issues from BSP examination, internal and external audits;
- 5) results of company cases reviews.

### **4. Reporting and Remediation**

Upon assessment of the compliance of business or support units to regulations, gaps between regulatory requirements and current business practices are identified, reported to concerned stakeholders – including regulatory agencies, and then addressed and monitored until completion.

#### **a. Recommending Controls, Policies, and Guidelines**



	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	Doc. Ref. No.	:	RF-CCO-002
		Effective Date	:	November 2019
		Revision No.	:	2
		Page	:	20 of 25

The Compliance Office, upon assessment of compliance, will recommend to the concerned business or support unit, the development and implementation of controls – including issuance of corresponding policy guidelines for immediate dissemination, if none are existing, or the revision of existing policies and control processes to conform to the amended regulations. This is in furtherance of the overall efforts to keep the company's controls current, and policies as relevant sources of information and guidance. Importantly, this will mitigate the risk of obsolete or superseded materials used as guidelines in the operation of the company.

When the situation warrants, the Compliance Office can draft the policy guidelines to respond to new or amended regulations. The draft will then be submitted to the business or support unit concerned for further evaluation, approval and eventual issuance as an institutional policy following the established approval process for institutional policies and procedures.

#### **b. Constructive Working Relationship with Regulatory Agencies**

The company, through its Compliance Officer, may consult regulatory agencies for additional information on specific provisions of laws and regulations and/or discuss compliance findings with the regulatory authorities. A dialogue may also be initiated with respect to borderline issues.

The Compliance Office is expected to foster and maintain a warm and friendly working relationship with all the regulators that have jurisdiction over the company in order to facilitate the prompt processing of the company's requirements, e.g. requests for approval to engage in certain activities or offer financial products, among others. On the other hand, the company is also expected to act swiftly on the regulators' requirements for information and/or desired action.

### **5. Monitoring and Assessment of the Compliance Function**

As part of its function, the Internal Audit is tasked with monitoring and assessing the effectiveness of the compliance function of the company. In particular, the Internal Audit shall review the periodic compliance testing performed by the Compliance Office and determine if the business or support units concerned have properly resolved outstanding compliance issues discovered or raised. The Internal Audit can also recommend enhancements in the implementation of the compliance function in general.

### **6. Program Review and Updates**

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	21 of 25

The Compliance Office reviews and updates the company's Compliance Program, as needed, to incorporate changing responses to evolving internal and external conditions. (*Ref. BSP Cir. No. 747 and 972*)

The updated or amended Compliance Program shall be submitted by the Compliance Office to the Board Audit Committee for approval and confirmation by the Board of Directors.

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	22 of 25

## VIII. REGULATORY EXPECTATIONS

*“What do the examiners look for when they examine BSFIs for compliance?”* Examiners no longer focus solely at the level of compliance with specific laws and regulations but on the adequacy of the business risk management program of the company and the company's ability to manage the business risk it faces.

As with all areas of risk management, the scope of examination in this area put emphasis on:

- Whether the board and senior management are actively involved in “setting the tone at the top”, i.e. the board takes the lead by requiring top-to-bottom compliance culture that is incorporated in the company's day-to-day operations and well communicated so that all company staff members understand their compliance responsibilities and their roles.
- Soundness of business risk policies, procedures and internal controls in the company, i.e. policies clearly delineate accountability and lines of authority across the company; process for ensuring that identified compliance breaches are elevated to the appropriate level in the organization; policies and procedures are kept current;
- Whether the company's Compliance Program is designed to monitor and report compliance issues, i.e. ensure that information on compliance is communicated to the appropriate levels within the company.
- Whether the company's training programs ensure that compliance policies, procedures and controls are well understood and appropriately communicated throughout the company.

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	23 of 25

## IX. HANDLING OF “ON-SITE” REGULATORY EXAMINATIONS

The Compliance Office will coordinate activities related to “on-site” examination of regulators to include:

- ✓ Arranging meetings between the examination team and company officials and designated unit point persons, e.g. pre-audit, during the engagement and post-audit conferences.
- ✓ Coordinating with the proper units of the company for the provision of logistical and technological support needed by the examination team during their audit engagement, e.g. workplace, computers, printers, telephones, etc.
- ✓ Disseminating examination advance findings to the proper units of the company for response.
- ✓ Collecting and collating responses to advance examination findings preparatory to preparing the consolidated report for internal review.
- ✓ Preparing the consolidated report on the company responses to the examination findings preparatory to the presentation to the Board for approval.
- ✓ Transmitting to the regulatory agency the approved consolidated report on the company responses to the examination findings.
- ✓ Monitoring and reporting the status of committed actions to rectify the examination finding until all the action items shall have been finally closed.
- ✓ Acting as liaison between the examination team and the company for other requirements of the examination team during their visit to the company.



	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	Doc. Ref. No.	:	RF-CCO-002
		Effective Date	:	November 2019
		Revision No.	:	2
		Page	:	24 of 25

## **X. Consumer Protection**

With the issuance of the circular on Financial Consumer Protection Framework (BSP Circular No. 857, dated 21 November 2014), the BSP has outlined its expectations from supervised financial institutions in the conduct of its business while continually protecting the welfare of financial consumers.

In order to reduce BDOLF's exposure to regulatory risk, and to ensure compliance with the provisions of Circular No. 857, the Compliance Office shall apply the Compliance Program in Annex D with emphasis on the Five Consumer Protection Standards:

- 1) Disclosure & Transparency
- 2) Fair Treatment
- 3) Privacy of Information
- 4) Financial Education and Awareness
- 5) Effective Recourse

### **Responding to Customer Complaints**

Consistent with the company's policy, complaints addressed to or referred to the Compliance Office will be fully and promptly investigated, resolved and responded to within a reasonable period of time.

Business-specific complaints will be referred to the company unit concerned for investigation and resolution. Complaints indicative of possible irregularities, misconduct by staff or weaknesses in internal controls will be referred to the Cases Review Committee for investigation. Legal services will be sought for issues requiring legal consultation, advice or opinion to protect the interest of the company and its stakeholders. Complaints involving sensitive matters will be escalated to senior management for decision on disposition. Responding to complaints remains the responsibility of the Head of the unit to whom the complaint was referred to for action.

A complaint received by any reasonable means, e.g. letter, telephone, facsimile (FAX), email or in person will be handled fairly, consistently and promptly. Even if a complaint is anonymous, any problem alleged by the complainant and substantiated by an investigation should be rectified as soon as practicable.

	<b>REGULATORY COMPLIANCE MANAGEMENT MANUAL</b>	<b>Doc. Ref. No.</b>	:	RF-CCO-002
		<b>Effective Date</b>	:	November 2019
		<b>Revision No.</b>	:	2
		<b>Page</b>	:	25 of 25

## **XI. Consumer Protection Compliance Program**

With the issuance of the circular on Financial Consumer Protection Framework (BSP Circular No. 857, dated 21 November 2014), the BSP has outlined its expectations from supervised financial institutions in the conduct of its business while continually protecting the welfare of financial consumers.

## BDOLF DIVIDEND POLICY STATEMENT

BDOLF recognizes the importance of providing a stable and sustainable dividend stream consistent with its commitment to shareholders. In March 2018, the Company paid cash dividend of PHP0.10 per share and will endeavor to do so while maintaining financial flexibility.

The Board of Directors may, at its discretion and depending on the business results for the year and capital needs of the business, declare and approve the distribution of additional special dividends to all shareholders normally announced at the Annual Stockholders' Meeting.

## **Policy on Disclosure of Sensitive/Confidential matters to Management**

### **Introduction**

BDO Leasing and Finance, Inc. (BDOLF) believes that the key to long-term sustainability and success largely depends on having a good name and solid reputation in the market place. To achieve this, BDOLF is committed to the highest standards of ethical values, integrity, honesty, accountability and transparency in the conduct of its business.

Under BSP Circular 749, BDOLF employees should be given the opportunity to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices or otherwise known as “whistle blowing”.

### **Scope of the Policy**

The policy covers the tipping off of any incident, situation, circumstance or problem involving fraud and/or violation of policies for further investigation which may result to or resulted in monetary loss and/or negative impact to the image of BDOLF including legitimate concerns about illegal, unethical or questionable Related Party Transactions (RPTs).

### **Obligation to Report**

Any person who has knowledge of, or has observed a reportable concern, is required to file a report of such act or event to the designated/appropriate authority.

### **Reporting Process**

Reporting may be done thru any available means such as but not limited to SMS text (e.g. BDO Watch), letter, email or phone call directly to the Office of the BDOLF President or the appropriate Head of the Unit concerned. For concerns directly involving the President and the other Executive Directors, the report should be addressed to the Board of Directors thru the Office of the Chairperson. For RPT-related concerns, the report should be addressed to the Chairman, Related Party Transaction Committee.

### **Handling of Reported Cases**

To facilitate the investigation process and urgent administrative action if necessary, the report must contain the nature of the concern, relevant details of transactions (type, amount/s and date/s), person/s involved and supporting documents, if any including an explanation on why it is a reportable concern. A signed confidential report is encouraged as opposed to an anonymous report because of the need to clarify the contents of the disclosure or request for additional information that may be required before or during the investigation. Pro forma report forms will be available on the BDO Unibank's intranet site used in submitting a report.

Although proving the truth of the report beyond reasonable doubt is not expected, the person who makes the report should at least demonstrate that he/she has reasonable grounds for concern based on verifiable information, is doing it in good faith, and is ready to substantiate his/her views when requested. In making a report, a person must exercise due care to ensure the accuracy of information.



All reports shall be evaluated initially by the Office of the BDOLF President or appropriate Head for disposition and if needed, endorse to concerned Unit for further investigation based on existing guidelines for disposition at Committee level.

### **Protecting the Whistle Blower**

#### **Confidentiality**

All reports will be treated with utmost care and confidentiality. BDOLF will make every effort to protect the identity of the whistle blower from disclosure to any third party, unless compelled by law, during the conduct of legal proceedings. BDOLF expects the same level of confidentiality from the whistle blower.

#### **Retaliation and Harassment**

BDOLF commits to protect those who report in good faith from retaliation, harassment and even informal pressures. It will take the necessary and appropriate action to do so in enforcing this policy.

If the report is done in good faith but it is not confirmed by subsequent investigation, no action will be taken against the whistle blower. However, if the report is found done maliciously and intentionally, for personal gain or bias, or is knowingly based on false or misleading information, the whistle blower loses his protection and BDOLF may decide to impose a disciplinary action against the whistle blower.

#### **Policy Oversight and Ownership**

The Compliance Unit of BDOLF is responsible for overseeing the implementation of this policy. The Head of the Cases Review Committee Secretariat will submit a monthly report to the Compliance Officer, Cases Review Committee and the Audit Committee covering the number of reports received, actions taken and its latest status. The Audit Committee, at its discretion, may periodically report the whistle blower cases to the Board of Directors.

#### **Approval and Disclosure**

The Board of Directors has the authority to approve this policy. It should be disseminated to all Directors, officers and staff for their information and proper guidance. It should be posted in the Company's website and intranet to be accessible to all employees. It should form part of the HR and compliance policies of the Company.



**SEC Memorandum Circular No.15****Series of 2001****To : All Concerned****Subject : Board Meeting Through Teleconferencing or Videoconferencing (Tele/Video Conferencing)**

In relation to Section 16 of the Electronic Commerce Act (R.A. 8792) and Section 25 of the Corporation Code of the Philippines (BP68) the following are the guidelines for the conduct of teleconferencing and videoconferencing (i.e. conferences or meetings through electronic medium or telecommunications where the participants who are not physically present are located at different local or international places) of the Board of Directors for the information and guidance of all concerned:

1. The Secretary of the meeting shall assume the following responsibilities:
  - a. to safeguard the integrity of the meeting via tele/videoconferencing
  - b. to find good tele/videoconference equipment/facilities
  - c. to record the proceedings and prepare the minutes of the meeting
  - d. to store for safekeeping and mark the tape recording/s and/or other electronic recording mechanism as part of the records of the corporation
2. The Secretary shall send out the notices of the meeting to all directors in accordance with the manner of giving notice as stated in the corporate by-laws.
3. The notice shall include the following:
  - a. Inquiry on whether the director will attend physically or through tele/videoconferencing;
  - b. Contact number/s of the Secretary and office staff whom the director may call to notify and state whether he shall be physically present or attend through tele/videoconferencing;
  - c. Agenda of the meeting;
  - d. All documents to be discussed in the meeting, including attachments, shall be numbered and duly marked by the Secretary in such a way that all the directors, physically or electronically present, can easily follow, refer to the documents and participate in the meeting.
4. If the director chooses tele/videoconferencing, he shall give notice of at least five days prior to the scheduled meeting to the Secretary. The latter shall be informed of his contact number/s. In the same way, the Secretary shall inform the director concerned of the contact number/s he will call to join the meeting. The Secretary shall keep the records of the details, and on the date of the scheduled meeting, confirm and note such details as part of the minutes of the meeting.
5. In the absence of an arrangement, it is presumed that the director will physically attend the Board meeting.
6. At the start of the scheduled meeting, a roll call shall be made by the Secretary. Every director and participant shall state, for the record, the following:
  - a. Full Name
  - b. Location
  - c. For those attending through tele/videoconferencing, he shall confirm that:
    - i. he can completely and clearly hear the others who can clearly hear him at the end of the line

- ii. state whether he has received the agenda and all the materials for the meeting
- iii. specify type of device used

Thereafter, the Secretary shall confirm and note the contact numbers being used by the directors and participants not physically present. After the roll call, the Secretary may certify the existence of a quorum.

7. All participants shall identify themselves for the record, before speaking and must clearly hear and/or see each other in the course of the meeting. If a person fails to identify himself, the Secretary shall quickly state the identity of the last speaker. If the person speaking is not physically present and the Secretary is not certain of the identity of the speaker, the Secretary must inquire to elicit a confirmation or correction.

If a motion is objected to and there is a need to vote and divide the Board, the Secretary should call the roll and note the vote of each director who should identify himself.

If a statement of a director/participant in the meeting via tele/videoconferencing is interrupted or garbled, the Secretary shall request for a repeat or reiteration, and if need be, the Secretary shall repeat what he heard the director/participant was saying for confirmation or correction.

8. The Secretary shall require all the directors who attended the meeting, whether personally or through tele/videoconferencing, to sign the minutes of the meeting to dispel all doubts on matters taken up during the meeting.

These guidelines shall take effect fifteen (15) days after publication in two (2) newspapers of general circulation.

Mandaluyong City, Philippines.

November 20, 2001.

**LILIA R. BAUTISTA**  
Chairperson





**SEC MEMORANDUM CIRCULAR NO. 6**  
**Series of 2020**

**TO : ALL CONCERNED**

**SUBJECT : GUIDELINES ON THE ATTENDANCE AND PARTICIPATION OF DIRECTORS, TRUSTEES, STOCKHOLDERS, MEMBERS, AND OTHER PERSONS OF CORPORATIONS IN REGULAR AND SPECIAL MEETINGS THROUGH TELECONFERENCING, VIDEO CONFERENCING AND OTHER REMOTE OR ELECTRONIC MEANS OF COMMUNICATION**

---

**WHEREAS**, Section 52 of Republic Act No. 11232, or the Revised Corporation Code of the Philippines authorizes directors or trustees who cannot physically attend or vote at board meetings to participate and vote through remote communication;

**WHEREAS**, Section 49 of the Revised Corporation Code provides that written notice of regular meetings may be sent to all stockholders or members of record through electronic mail or such other manner as the Commission shall allow under its guidelines;

**WHEREAS**, Section 49 of the Revised Corporation Code, provides that the right to vote of stockholders or members may be exercised in person, through a proxy, or when so authorized in the bylaws, through remote communication or *in absentia*;

**WHEREAS**, Section 50 of the Revised Corporation Code provides that when attendance, participation, and voting are allowed by remote communication or *in absentia*, the requirements and procedures to be followed when a stockholder or member elects either option shall accompany each notice of meeting; and

**WHEREAS**, the Commission is mandated to continuously enhance the regulatory frameworks to improve the country's competitiveness and ease of doing business consistent with the SEC SuperVision 2025;

**WHEREFORE**, in view of the foregoing, the Commission hereby adopts the following guidelines:

## OBJECTIVES, COVERAGE AND DEFINITION

**Section 1. Objectives.** These guidelines provide corporations guidance in formulating their internal procedures and bylaws which will allow their directors, trustees, stockholders, members and other persons to participate and vote in meetings *in absentia* or through remote modes of communication as defined in these guidelines, pursuant to the Revised Corporation Code.

These guidelines also operationalize the objectives of Republic Act No. 8792, otherwise known as the Electronic Commerce Act, to facilitate domestic and international dealings, transactions, arrangements, agreements through the utilization of electronic, optical and similar medium, mode, instrumentality and technology and to promote the universal use of electronic transaction.

**Section 2. Application.** These guidelines shall apply to all corporations registered with the Commission.

**Section 3. Definition of Terms.** Except as otherwise defined herein, all terms used shall have the same meaning as those terms that are defined in the Revised Corporation Code and other related laws, as well as in issuances by the Commission.

- a. **Remote Communication** means the transfer of data between two or more devices not located at the same site.<sup>1</sup>
- b. **Teleconferencing** is the holding of a conference among people remote from one another by means of telecommunication devices such as telephone or computer terminals.<sup>2</sup>

It refers to an interactive group communication (three or more people in two or more locations) through an electronic medium. In general terms, teleconferencing can bring people together under one roof even though they are separated by hundred miles.<sup>3</sup>

---

<sup>1</sup> <https://www.computerhope.com/jargon/r/remocomm.htm>

<sup>2</sup> SEC INTERNAL GUIDELINES ON THE ATTENDANCE AND PARTICIPATION OF COMMISSIONERS, DIRECTORS, HEADS OF SPECIAL OFFICES, AND OTHER RESOURCE PERSONS, IN COMMISSION AND EXECUTIVE SESSION MEETINGS THROUGH TELECONFERENCING, WEB CONFERENCING, VIDEOCONFERENCING AND OTHER REMOTE OR ELECTRONIC MEANS, February 17, 2016, citing <http://beta.merriam-webster.com/dictionary/teleconferencing>

<sup>3</sup> *Expertravel & Tours vs. Court of Appeals*, G.R. No. 152392, 26 May 2005, citing *J. Carroll, Teleconferencing*, *CIX Duns Business Month*, 1 (1982), pp. 130-34.

- c. **Videoconferencing** is the holding of a conference among people in remote locations by means of transmitted audio and video signals.<sup>4</sup>
- d. **Computer Conferencing** is teleconferencing supported by one or more computers.<sup>5</sup>
- e. **Audio Conferencing** is a conference in which people at different locations speak to each other via telephone or Internet connections.<sup>6</sup>

## **BOARD MEETINGS OF DIRECTORS OR TRUSTEES**

**Section 4. Participation in Board Meetings Through Remote Communication; Internal Procedures.** Directors or trustees who cannot physically attend or vote at board meetings can participate and vote through remote communication such as videoconferencing, teleconferencing, or other alternative modes of communication that allow them reasonable opportunities to participate. However, directors or trustees cannot attend or vote by proxy at board meetings. [RCC-52, par. 5]

If a director or trustee intends to participate in a meeting through remote communication, he/she shall notify in advance the Presiding Officer and the Corporate Secretary of his/her intention. The Corporate Secretary shall note such fact in the Minutes of the meeting.

Corporations may issue their own **internal procedures** for the conduct of board meetings through remote communication or other alternative modes of communication to address administrative, technical and logistical issues.

**Section 5. Quorum.** Unless the Revised Corporation Code or the articles of incorporation or bylaws of a corporation provide for a greater majority, a majority of the directors or trustees as stated in the articles of incorporation shall constitute a quorum. [RCC-52]

A director or trustee who participates through remote communication, shall be deemed present for the purpose of attaining quorum.

---

<sup>4</sup> <http://beta.merriam-webster.com/dictionary/videoconferencing>

<sup>5</sup> What is Computer Conferencing. Retrieved March 11, 2020, from <https://www.igi-global.com/dictionary/efficacy-continuing-education-technology-public/5031>.

<sup>6</sup> Audioconference. Retrieved March 11, 2020, from <https://www.merriam-webster.com/dictionary/audioconference>.

**Section 6. Notice of the Meeting.** The Corporate Secretary shall send the notice of the meeting to all directors or trustees in accordance with the manner of giving notice as provided in the bylaws or by board resolution.

Notice of meetings may be sent to all directors or trustees through electronic mail, messaging service or such other manner as may be provided in the bylaws or by board resolution.

Notice of regular or special meetings stating the date, time and place of the meeting must be sent to every director or trustee at least two (2) days prior to the scheduled meeting, unless a longer time is provided in the bylaws. A director or trustee may waive this requirement, either expressly or impliedly. *[RCC-52, par. 4]*

The notice of meetings shall include the following information:

- a. The date, time and place of the meeting;
- b. The agenda of the meeting;
- c. All pertinent materials for discussion which shall be numbered and marked in such manner that the director or trustee can easily follow and participate in the meeting;
- d. That a Director or trustee may participate via remote communication;
- e. Contact information of the Corporate Secretary or office staff whom the director or trustee may communicate;
- f. When the meeting is for the election of directors or trustees or officers, the requirements and procedure for nomination and election;
- g. The fact that there will be a visual and/or audio recording of the meeting; and
- h. Other instructions to facilitate participation in the meeting through remote communications.

**Section 7. Roll Call.** At the start of the meeting, the Presiding Officer shall instruct the Corporate Secretary to make a roll call. Every attendee shall state for the record the following:

1. Full name and position;
2. Location;
3. Confirmation that he/she can clearly hear and/or see the other attendees;
4. Confirmation that he/she received the Notice of the Meeting including the agenda and materials; and



5. Specify the device being used (ie., smartphone, tablet, laptop, desktop, television, etc.)

Thereafter, the Corporate Secretary shall confirm and note the participants and certify the existence of quorum.

**Section 8. Voting.** In case of a need to vote in any item or matter in the agenda, the Presiding Officer shall direct the Corporate Secretary to note the vote of each director or trustee.

The director or trustee participating in the meeting via remote communication may cast his vote through electronic mail, messaging service or such other manner as may be provided in the internal procedures. The vote shall be sent to the Presiding Officer and the Corporate Secretary for notation.

**Section 9. Other Duties of the Corporate Secretary.** The Corporate Secretary shall also assume the following responsibilities:

1. Ensure that suitable equipment and facilities are available for the conduct of meeting by remote communication (i.e. reliable internet connection, high bandwidth availability capable of supporting numerous simultaneous connections, etc.);
2. Ensure that the attendees are able to hear and see the other participants clearly during the course of the meeting and that attendees should be able to communicate and understood by the other party;
3. Ensure that the visual and audio recordings of the meeting are secured;
4. Ensure that the visual and audio recordings of the election/meeting are current and on-going and that there is no stoppage or interruption. Should an interruption or stoppage occur, the recording shall restart from the point where it was stopped or interrupted with proper statement of points in time;
5. Ensure to safe-keep and perpetuate in updated data storage equipment or facility the visual and audio recordings; and

6. Require those who attended the meeting through remote communication, to sign the minutes of the meeting whenever the act of signing is practicable, on a reasonable time after the meeting.

## **MEETINGS OF STOCKHOLDERS OR MEMBERS**

**Section 10. Participation in Stockholders' or Members' Meetings Through Remote Communication.** When so provided in the bylaws or by majority of the board of directors, stockholders or members who cannot physically attend at stockholders' or members' meetings may participate in such meetings through remote communications or other alternative modes of communication.

If a stockholder or member intends to participate in a meeting through remote communication, he/she shall notify in advance the Presiding Officer and the Corporate Secretary of his/her intention. The Corporate Secretary shall note such fact in the Minutes of the meeting.

**Section 11. Quorum in Meetings.** Unless otherwise provided in the Revised Corporation Code or in the bylaws, a quorum shall consist of the stockholders representing a majority of the outstanding capital stock or a majority of the members in the case of nonstock corporations. [RCC-51]

A stockholder or member who participates through remote communication or *in absentia* shall be deemed present for purposes of quorum. [RCC-23 & 57]

**Section 12. Voting in the Election of Directors, Trustees and Officer Through Remote Communication.** The right to vote of stockholders or members may be exercised in person, through a proxy, or when so authorized in the bylaws, through remote communication or *in absentia*. [RCC-49, last par.]

The right to vote of stockholders or members may be exercised also through remote communication or *in absentia* when authorized by a resolution of the majority of the board of directors; *Provided*, That the resolution shall only be applicable for a particular meeting. [RCC-23, 49, 57]

In the election of directors, trustees and officers of corporations vested with public interest, stockholders and members may vote through remote communication or *in absentia*, notwithstanding the absence of a provision in the bylaws of such corporations. [RCC-23]

**Section 13. Internal Procedures.** For the convenience of their stockholders and members, corporations shall issue their own **internal procedures** embodying the mechanisms for participation in meetings and voting through remote communication or *in absentia*.

The internal procedures may take into account the corporation's number of stockholders or and members, location of stockholders or members, importance of the matters to be discussed and voted upon in the meeting, promotion of minority rights and other factors consistent with the protection and promotion of stockholders' or member's rights.

The internal procedures may provide for the following:

- a. Mechanism to verify the identity of the stockholders or members and who among them have the right to vote during the meeting;
- b. Measures to ensure that all stockholders or members have the opportunity to participate in the meeting including an opportunity to read or hear the discussion substantially;
- c. Mechanism to enable stockholders or members to vote during the meeting including ensuring that the integrity and secrecy of the votes are protected;
- d. Procedures for documenting the meeting and any process/motion which may be done afterwards; and
- e. Mechanism in making the record of the meeting, either video or audio recording, available to the stockholders or members.<sup>7</sup>
- f. Other matters to address administrative, technical and logistical issues.

**Section 14. Notices.** The Secretary shall send out the notices of the election/meeting to all stockholders or members in accordance with the manner of giving notice as stated in the bylaws.

Written notice of regular meetings may be sent to all stockholders or members through electronic mail or such other similar manner as may be stated in the bylaws.

Notice of regular meetings which should state the date, time and place of the meeting must be sent to every stockholders or members at least twenty one (21) days prior to the scheduled meeting, unless a longer time is provided in the bylaws. [RCC- 49]

---

<sup>7</sup> Fairfax, Lisa M. "Virtual Shareholder Meetings Reconsidered." *Seton Hall L. Rev.* 40 (2010): 1367

Notice of special meetings which should state the date, time and place of the meeting must be sent to every stockholders or members at least one (1) week prior to the scheduled meeting, unless a longer time is provided in the bylaws.

In case of postponement of stockholders' or members' regular meetings, written notice shall be sent to all stockholders or members of record at least two (2) weeks prior to the date of the meeting. [RCC-49]

The notice shall further be accompanied by other relevant matters such as the following:

- a. The agenda of the meeting;
- b. When attendance, participation, and voting by remote communication or *in absentia*, are authorized, the requirements and procedures to be followed when a stockholder or member elects either option;
- c. Manner of casting of votes and the period during which vote by remote communication or *in absentia* will be accepted;
- d. Contact information of the Secretary or office staff whom the stockholder or member may notify about his or her option;
- e. When the meeting is for the election of directors or trustees, the requirements and procedure for nomination and election; and
- f. The fact that there will be visual and audio recording of the meetings (for future reference).

In case the election or meeting was conducted through teleconferencing or any other similar means, a visual and audio recording of the election or meeting should be secured. The Secretary is duty-bound to safe-keep and perpetuate in updated data storage equipment or facility the visual and audio recordings.

All pertinent materials for discussion shall be numbered and marked by the Secretary in such manner that the stockholder or member participating through remote communication can easily follow and participate.

**Section 15. Place of Meetings of Stockholders or Members.** The presiding officer shall call and preside the stockholders' or members' meetings, whether regular or special, at the principal office of the corporation as provided in the articles of incorporation, or, if not practicable, in the city or municipality where the principal office of the corporation is located. [RCC-50]



## FINAL PROVISIONS

**Section 16. Transitory Provision.** – In order to immediately operationalize these guidelines, corporations, upon approval of this circular, may already conduct their board meetings and stockholders' and members' meetings through remote communication or other alternative modes of communication for the limited purpose of approving the provisions in their bylaws or internal procedures which will govern participation in board meetings and stockholders' and members' meetings by means of remote communication or other alternative modes of communication.

**Section 17. Repealing Clause.** - All other circulars, rules and regulations or parts thereof which are inconsistent with the provisions of this Memorandum Circular are hereby repealed, amended or modified accordingly.

**Section 18. Effectivity.** This Memorandum Circular shall take effect upon its approval.

Issued on 12 March 2020, Pasay City.

For the Commission:

  
**EMILIO B. AQUINO**  
Chairperson



## BANGKO SENTRAL NG PILIPINAS

### OFFICE OF THE GOVERNOR

#### **CIRCULAR NO. 969**

Series of 2017

#### **Subject: Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions**

The Monetary Board, in its Resolution No. 1326 dated 3 August 2017, approved the revisions to guidelines in strengthening corporate governance in BSP Supervised Financial Institutions amending relevant provisions of the Manual of Regulations for Banks (MORB) as follows:

**Section 1.** Chapter H of Part One of the MORB on Directors, Officers and Employees is hereby retitled as “Corporate Governance Guidelines”.

**Section 2.** Section X141 and Subsections X141.1 are hereby amended, and Subsections X141.2 to X141.5 and Subsections X141.9 to X141.10 are deleted, to read as follows:

**Sec. X141 Policy Statement.** It is the thrust of the Bangko Sentral to continuously strengthen corporate governance in its supervised financial institutions cognizant that this is central in sustaining the resiliency and stability of the financial system. In this light, the Bangko Sentral is aligning its existing regulations with the Code of Corporate Governance for Publicly-Listed Companies issued by the Securities and Exchange Commission as well as with best practices and standards issued by globally recognized standard setting bodies.

**Subsec. X141.1 Definition of terms.** For purposes of these regulations, the following definitions shall apply:

- a. *Affiliate* shall refer to an entity linked directly or indirectly to a Bangko Sentral-Supervised Financial Institutions (BSFI) by means of:
  - (1) Ownership, control as defined under Item “d” of this Subsection, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa;
  - (2) Interlocking directorship or officership, where the director or officer concerned owns, controls, as defined under Item “d” of this Subsection, or has the power to vote, at least twenty percent (20%) of the outstanding voting stock of the entity;
  - (3) Common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the BSFI and at least twenty percent (20%) of the outstanding voting stock of the entity;

- (4) Management contract or any arrangement granting power to the BSFI to direct or cause the direction of management and policies of the entity; or
  - (5) Permanent proxy or voting trusts in favor of the BSFI constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice versa.
- b. *Close family members* shall refer to persons related to the BSFI's directors, officers and stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son-/daughter-in-law, brother/sister-in-law, grandparent-in-law, and grandchild-in-law of the BSFI's DOS.
- c. *Complex banks* shall refer to universal/commercial banks (UBs/KBs). Nonetheless, a UB/KB may apply with the Bangko Sentral for a reclassification as simple or non-complex bank in order to avail of the reduced minimum requirement on the constitution of board committees. The Bangko Sentral may likewise declare thrift banks (TBs), rural banks (RBs) or cooperative banks (Coop Banks) as complex. Any TB, RB or Coop Bank having at least three (3) of the following characteristics shall be deemed a complex bank:
- (1) Total assets of at least P6 billion;
  - (2) Extensive branch network;
  - (3) Non-traditional financial products and services by virtue of special authorities (e.g., trust, quasi-banking derivatives licenses), as well as distinctive products like credit cards, remittance, trade-related services, contract-to-sell (CTS) financing, among other financial services;
  - (4) Use of non-conventional business model, such as those using non-traditional delivery platform such as electronic platforms; and
  - (5) Business strategy characterized by risk appetite that is aggressive and risk exposures which are increasing such as those with robust branch expansion programs or acquisition plans as determined by the Bangko Sentral.
- d. *Control* of an enterprise exists when there is:
- (1) Power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or
  - (2) Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
  - (3) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
  - (4) Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
  - (5) Any other arrangement similar to any of the above.

Control is presumed to exist if there is ownership or holding, whether direct or indirect, of twenty percent (20%) or more of a class of voting shares of a company.

Should the BSFI choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, the BSFI shall submit a written commitment that: (a) shares owned or held are exclusively for

investment purposes; (b) the BSFI-stockholder will not serve on the board of directors and will not nominate any candidate to serve on the board of directors or otherwise seek board representation; (c) the BSFI-stockholder will have only limited contacts with BSFI management that are customary for interested shareholders; (d) the BSFI-stockholder will engage only in normal and customary transactions with the enterprise; and (e) the BSFI will not pledge the shares acquired to secure a loan with any institution.

- e. *Corresponding persons in affiliated companies* shall refer to the DOS of the affiliated companies and their close family members.
- f. *Directors.* Directors shall include:
  - (1) directors who are named as such in the articles of incorporation;
  - (2) directors duly elected in subsequent meetings of the stockholders or those appointed by virtue of the charter of government-owned BSFIs; and
  - (3) those elected to fill vacancies in the board of directors.
- g. *Independent directors.* An independent director shall refer to a person who –
  - (1) is not or was not a director, officer or employee of the BSFI, its subsidiaries, affiliates or related interests during the past three (3) years counted from the date of his election/appointment;
  - (2) is not or was not a director, officer, or employee of the BSFI's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;
  - (3) is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;
  - (4) is not a close family member of any director, officer or stockholder holding shares of stock sufficient to elect one (1) seat in the board of directors of the BSFI or any of its related companies or of any of its substantial stockholders;
  - (5) is not acting as a nominee or representative of any director or substantial shareholder of the BSFI, any of its related companies or any of its substantial shareholders;
  - (6) is not or was not retained as professional adviser, consultant, agent or counsel of the BSFI, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election;
  - (7) is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the BSFI or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment;



- (8) was not appointed in the BSFI, its subsidiaries, affiliates or related interests as Chairman "Emeritus", "Ex-Officio", Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;
  - (9) is not affiliated with any non-profit organization that receives significant funding from the BSFI or any of its related companies or substantial shareholders; and
  - (10) is not employed as an executive officer of another company where any of the BSFI's executives serve as directors.
- h. *Majority stockholder or majority shareholder* shall refer to a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a BSFI.
  - i. *Non-executive directors* shall refer to those who are not part of the day to day management of operations and shall include the independent directors. However, not all non-executive directors are considered independent directors.
  - j. *Officers* shall include the Chief Executive Officer (CEO)<sup>1/</sup>, executive vice president, senior vice-president, vice president, general manager, treasurer, secretary, trust officer and others mentioned as officers of the BSFI, or those whose duties as such are defined in the by-laws, or are generally known to be the officers of the BSFI (or any of its branches and offices other than the head office) either through announcement, representation, publication or any kind of communication made by the BSFI: *Provided*, That a person holding the position of chairman or vice-chairman of the board of directors or another position in the board of directors shall not be considered as an officer unless the duties of his position in the board of directors include functions of management such as those ordinarily performed by regular officers: *Provided, further*, That members of a group or committee, including sub-groups or sub-committees, whose duties include functions of management such as those ordinarily performed by regular officers, and are not purely recommendatory or advisory, shall likewise be considered as officers.
- <sup>1/</sup> Shall also refer to the President or any other title referring to the top management post in the BSFI
- k. *Parent* shall refer to a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries;
  - l. *Related company* shall refer to another company which is:
    - (1) Its parent or holding company;
    - (2) Its subsidiary or affiliate; or
    - (3) A corporation where a BSFI or its majority stockholder own such number of shares that will allow/enable such person or group to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner.

m. *Related interest* shall refer to any of the following:

- (1) Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a director, officer or stockholder of the BSFI;
- (2) Partnership of which a director, officer, or stockholder of a BSFI or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;
- (3) Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;
- (4) Corporation, association or firm of which any or a group of directors, officers, stockholders of the BSFI and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm;
- (5) Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in Items "m(2)" and "m(4)" of this Subsection;
- (6) Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the BSFI or which controls majority interest of the BSFI pursuant to Subsec. X303.1g;
- (7) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the BSFI; and
- (8) Non-governmental organizations (NGOs)/ foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers or related BSFIs.

The general principles and standards that will govern the business relationships between BSFIs and their related NGOs/foundations engaged in retail microfinance are found in *Appendix 27*.

n. *Related parties* shall cover the BSFI's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the BSFI exerts direct/indirect control over or that exerts direct/indirect control over the BSFI; the BSFI's directors, officers, stockholders, and their related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the BSFI, hence, is identified as a related party.

The above definition shall also include direct or indirect linkages to a BSFI identified as follows:

- (1) Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa;

- (2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
  - (3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the BSFI and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity; or
  - (4) Permanent proxy or voting trusts in favor of the BSFI constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.
- o. *Related party transactions (RPTs)* shall refer to transactions or dealings with related parties of the BSFI, including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:
- (1) On- and off-balance sheet credit exposures and claims and write-offs;
  - (2) Investments and/or subscriptions for debt/equity issuances;
  - (3) Consulting, professional, agency and other service arrangements/contracts;
  - (4) Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
  - (5) Construction arrangements/contracts;
  - (6) Lease arrangements/contracts;
  - (7) Trading and derivative transactions;
  - (8) Borrowings, commitments, fund transfers and guarantees;
  - (9) Sale, purchase or supply of any goods or materials; and
  - (10) Establishment of joint venture entities.

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

- p. *Risk appetite statement* shall refer to the articulation in written form of the aggregate level and types of risk that a BSFI is willing to accept, or to avoid, in order to achieve its business objectives. It includes qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate.
- q. *Risk governance framework* shall refer to the framework through which the board of directors and management establish the BSFI's strategy; articulate and monitor adherence to risk appetite and risk limits; and identify, measure, and manage risks.
- r. *Risk limits* shall refer to the allocation of the BSFI's risk appetite statement to: specific risk categories (e.g., credit, market, liquidity, operational); the business unit or platform level (e.g., retail, capital markets); lines of business or product level [e.g., concentration, value-at-risk (VaR), or other limits]; and other levels, as appropriate.
- s. *Stockholder* shall refer to any stockholder of record in the books of the BSFI, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other

similar contracts, whose stockholdings in the BSFI, individual and/or collectively with the stockholdings of: (1) his spouse and/or relative within the first degree by consanguinity or affinity or legal adoption; (2) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and (3) corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association or firm, amount to one percent (1%) or more of the total subscribed capital stock of the BSFI.

- t. *Substantial stockholder* shall refer to a person, or group of persons whether natural or juridical, owning such number of shares that will allow such person or group to elect at least one (1) member of the board of directors of a BSFI or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.
- u. *Subsidiary* shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by its parent corporation.

**Section 3.** Section X142 and its Subsections shall now read as follows:

**Sec. X142 Board of Directors.**

**Subsec. X142.1 Powers/Corporate powers of the board of directors.** The corporate powers of an institution shall be exercised, its business conducted, and all its resources controlled through its board of directors. The powers of the board of directors as conferred by law are original and cannot be revoked by the stockholders. The directors shall hold their office charged with the duty to exercise sound and objective judgment for the best interest of the institution.

**Subsec. X142.2 Composition of the board of directors.**

- a. Pursuant to Sections 15 and 17 of R.A. No. 8791, there shall be at least five (5), and a maximum of fifteen (15) members of the board of directors of a BSFI: *Provided*, That in case of a bank/QB/trust entity merger or consolidation, the number of directors may be increased up to the total number of the members of board of directors of the merging or consolidating bank/QB/trust entity as provided for in their respective articles of incorporation, but in no case to exceed twenty-one (21). The board of directors shall determine the appropriate number of its members to ensure that the number thereof is commensurate to the size and complexity of the BSFI's operations.
- b. To the extent practicable, the members of the board of directors shall be selected from a broad pool of qualified candidates. Non-executive directors, who shall include independent directors, shall comprise at least majority of the board of directors to promote the independent oversight of management by the board of directors.

- c. At least one-third (1/3) but not less than two (2) members of the board of directors shall be independent directors: *Provided*, That any fractional result from applying the required minimum proportion, i.e., one-third (1/3), shall be rounded up to the nearest whole number: *Provided, further*, That in the case of RBs, at least one (1) independent director shall be elected to the board of directors: *Provided, furthermore*, That RBs whose business model, is deemed complex by the Bangko Sentral, or as directed by the appropriate supervising department of the Bangko Sentral, shall have at least one-third (1/3) but not less than two (2) members of the board of directors as independent directors: *Provided, finally*, That any fractional result from applying the required minimum proportion, i.e., one-third (1/3) shall be rounded-up to the nearest whole number.
- d. Non-Filipino citizens may become members of the board of directors of a BSFI to the extent of the foreign participation in the equity of said BSFI: *Provided*, That pursuant to Section 23 of the Corporation Code of the Philippines (BP Blg. 68), a majority of the directors must be residents of the Philippines.

**Subsec. X142.3 Qualifications of a director.**

- a. A director shall have the following minimum qualifications:
  - (1) He must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness; relevant education/financial literacy/ training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.

In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Subsection X150.1. A director shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using the *Appendix 98* as guide within twenty (20) banking days from the date of election. Non-submission of complete documentary requirements or their equivalent within the prescribed period shall be construed as his failure to establish his qualifications for the position and results in his removal from the board of directors.

The Bangko Sentral shall also consider its own records in determining the qualifications of a director.



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

(2) He must have attended a seminar on corporate governance for board of directors. A director shall submit to the Bangko Sentral a certification of compliance with the Bangko Sentral-prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance: *Provided*, That the following persons are exempted from complying with the aforementioned requirement:

- (a) Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance;
- (b) Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board members; or
- (c) Former Chief Justices and Associate Justices of the Philippine Supreme Court:

*Provided, further*, That this exemption shall not apply to the annual training requirements for the members of the board of directors.

b. *Independent and non-executive directors*

In selecting independent and non-executive directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry out his duties and responsibilities. In this regard, the following shall apply:

- (1) A non-executive director may concurrently serve as director in a maximum of five (5) publicly listed companies. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the non-executive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement; and
- (2) An independent director of a BSFI may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the same BSFI, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.

c. Members of the board of directors shall not be appointed as Corporate Secretary or Chief Compliance Officer.

**Subsec. X142.4 Chairperson of the board of directors.**

a. *Roles of the Chairperson of the board of directors.* The Chairperson of the board of directors shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. He shall: (1) ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns; (2) ensure a sound decision making process;

(3) encourage and promote critical discussion; (4) ensure that dissenting views can be expressed and discussed within the decision-making process; (5) ensure that members of the board of directors receives accurate, timely, and relevant information; (6) ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and (7) ensure conduct of performance evaluation of the board of directors at least once a year.

- b. *Qualifications of the Chairperson of the board of directors.* To promote checks and balances, the Chairperson of the board of directors shall be a non-executive director or an independent director, and must not have served as CEO of the BSFI within the past three (3) years. The positions of Chairperson and CEO shall not be held by one person. In exceptional cases where the position of Chairperson of the board of directors and CEO is allowed to be held by one (1) person as approved by the Monetary Board, a lead independent director shall be appointed.

For this purpose, the board of directors shall define the responsibilities of the lead independent director, which shall be documented in the corporate governance manual. The board of directors shall ensure that the lead independent director functions in an environment that allows him to effectively challenge the CEO as circumstances may warrant. The lead independent director shall perform a more enhanced function over the other independent directors and shall: (1) lead the independent directors at board of directors meetings in raising queries and pursuing matters; and (2) lead meetings of independent directors, without the presence of the executive directors.

**Subsec. X142.5 Board of directors meetings.** BSFIs shall include in their by-laws a provision that meetings of their board of directors shall be held only within the Philippines, except in the case of BSFIs with head office located outside the Philippines, which may be held in their respective places of business.

- a. *Full board of directors meetings*

The meetings of the board of directors may be conducted through modern technologies such as, but not limited to, teleconferencing and video conferencing as long as the director who is taking part in said meetings can actively participate in the deliberations on matters taken up therein: *Provided*, That every member of the board of directors shall participate in at least fifty percent (50%) and shall physically attend at least twenty-five percent (25%) of all meetings of the board of directors every year: *Provided, further*, That the absence of a director in more than fifty percent (50%) of all regular and special meetings of the board of directors during his/her incumbency is a ground for disqualification in the succeeding election.

- b. *Board-level committee meetings*

Board-level committees shall meet as prescribed in their respective charters. Participation of committee members may likewise be in person or through modern technologies: *Provided*, That the attendance and participation of members in committee meetings shall be considered in the assessment of continuing fitness

and propriety of each director as member of board-level committees and the board of directors.

**Section 4.** Section X143 and Subsec. X143.1 are amended, and the provisions of Item "d" of Subsec. X141.3 are hereby transferred to Subsec. X143.2, as follows:

**Sec. X143 Duties and Responsibilities of the Board of Directors/Directors.**

**Subsec. X143.1 *Specific duties and responsibilities of the board of directors.*** The board of directors is primarily responsible for defining the BSFI's vision and mission. The board of directors has the fiduciary responsibility to the BSFI and all its shareholders including minority shareholders. It shall approve and oversee the implementation of strategies to achieve corporate objectives. It shall also approve and oversee the implementation of the risk governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework. The board of directors shall approve the selection of the CEO and key members of senior management and control functions and oversee their performance.

- a. *The board of directors shall define the BSFI's corporate culture and values.* It shall establish a code of conduct and ethical standards in the BSFI and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the board of directors shall:
- (1) Approve a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the BSFI as well as the corresponding disciplinary actions and sanctions. The code of conduct shall explicitly provide that directors, officers, and all personnel are expected to conduct themselves ethically and perform their job with skill, due care, and diligence in addition to complying with laws, regulations, and company policies.
  - (2) Consistently conduct the affairs of the BSFI with a high degree of integrity and play a lead role in establishing the BSFI's corporate culture and values. The board of directors shall establish, actively promote, and communicate a culture of strong governance in the BSFI, through adopted policies and displayed practices. The board of directors shall ensure that the CEO and executive team champion the desired values and conduct, and that they face material consequences if there are persistent or high profile conduct and value breaches.
  - (3) Oversee the integrity, independence, and effectiveness of BSFI's policies and procedures for whistleblowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or the board of directors itself. It shall prevent the use of the facilities of the BSFI in the furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.

- b. *The board of directors shall be responsible for approving BSFI's objectives and strategies and in overseeing management's implementation thereof. In this regard, the board of directors shall:*
- (1) Ensure that the BSFI has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.
  - (2) Approve the BSFI's strategic objectives and business plans. These shall take into account the BSFI's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the board of directors shall establish a system for measuring performance against plans.
  - (3) Actively engage in the affairs of the BSFI and keep up with material changes in the BSFI's business and regulatory environment as well as act in a timely manner to protect the long term interests of the BSFI.
  - (4) Approve and oversee the implementation of policies governing major areas of the BSFI's operations. The board of directors shall regularly review these policies, as well as evaluate control functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues.
- c. *The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel. In this regard, the board of directors shall:*
- (1) Oversee selection of the CEO and other key personnel, including members of senior management and heads of control functions based on the application of fit and proper standards. Integrity, technical expertise, and experience in the BSFI's business, either current or planned, shall be the key considerations in the selection process. Moreover, since mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the BSFI.
  - (2) Approve and oversee the implementation of performance standards as well as remuneration and other incentives policy. The policy should be consistent with the long-term strategic objectives and financial soundness of the BSFI and should promote good performance, convey acceptable risk-taking behavior, and reinforce the BSFI's operating and risk culture.
  - (3) Oversee the performance of senior management and heads of control functions:
    - (a) The board of directors shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.
    - (b) The board of directors shall hold members of senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the board of directors' performance expectations. These expectations shall include adherence to the BSFI's values, risk appetite and risk culture, under all circumstances.

- (c) The board of directors shall regularly meet with senior management to engage in discussions, question, and critically review the reports and information provided by the latter.
    - (d) Non-executive board members shall meet regularly, other than in meetings of the audit, risk oversight, corporate governance, and related party transactions committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.
  - (4) Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the board of directors shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions.
  - (5) Ensure that personnel's expertise and knowledge remain relevant. The board of directors shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibility.
  - (6) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the BSFI at all times, and that all transactions involving the pension fund are conducted at arm's length terms.
- d. *The board of directors shall be responsible for approving and overseeing implementation of the BSFI's corporate governance framework.* In this regard, the board of directors shall:
- (1) Define appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed:
    - (a) The board of directors shall structure itself in a way, including in terms of size and frequency of meetings, so as to promote efficiency, critical discussion of issues, and thorough review of matters. The board of directors shall meet regularly to properly discharge its functions, and likewise have discussions on values, conduct, and behaviors.
    - (b) The board of directors shall create committees to increase efficiency and allow deeper focus in specific areas. The number and nature of board-level committees would depend on the size of the BSFI and the board of directors, the BSFI's complexity of operations, as well as the board of directors' long-term strategies and risk tolerance.
    - (c) The board of directors shall regularly review the structure, size and composition of the board of directors and board-level committees with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation of the structure, size and composition of the board of directors and board-level committees shall be adopted which shall include, but not limited to, benchmark and peer group analysis. The results of assessment shall form part of the ongoing improvement efforts of the board of directors.
    - (d) The board of directors shall adopt policies aimed at ensuring that the members of the board of directors are able to commit to effectively discharge their responsibilities, which shall include policy on the number



of directorship positions and/or other internal/external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the BSFI's operations.

- (e) The board of directors shall ensure that individual members of the board of directors and the shareholders are accurately and timely informed of a comprehensive and understandable assessment of the BSFI's performance, financial condition, and risk exposures. All members of the board of directors shall have reasonable access to any information about the BSFI at all times. The board of directors shall also ensure that adequate and appropriate information flows internally and to the public.
  - (f) The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the CEO, the individual directors, and the BSFI itself, which may be facilitated by the corporate governance committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each board member taking into account his or her performance in the board of directors and board-level committees.
  - (g) The board of directors shall maintain appropriate records (e.g., meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The board of directors shall also ensure that independent views in meetings of the board of directors shall be given full consideration and all such meetings shall be duly minuted.
- (2) Develop a remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The board of directors shall ensure that the policy is consistent with the long-term interest of the BSFI, does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities.
  - (3) Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.
  - (4) Conduct and maintain the affairs of the BSFI within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound practice.
  - (5) Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities. The board of directors shall ensure that the BSFI's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability.
  - (6) Oversee the development, approve, and monitor implementation of corporate governance policies. The board of directors shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.
  - (7) Approve an overarching policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times,

that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged. In this regard:

- (a) The board of directors shall approve all material RPTs, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the board of directors. All final decisions of the board of directors on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders meetings and duly reflected in the minutes of board of directors and stockholders' meetings.
- (b) The board of directors shall delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the board of directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.
- (c) The board of directors shall establish an effective system to:
  - (i) Determine, identify and monitor related parties and RPTs;
  - (ii) Continuously review and evaluate existing relationships between and among businesses and counterparties; and
  - (iii) Identify, measure, monitor and control risks arising from RPTs. The system should be able to define related parties' extent of relationship with the BSFI; assess situations in which a nonrelated party (with whom a BSFI has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulators/supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the Bangko Sentral and audit functions for review. Any changes in the policies and procedures shall be approved by the board of directors.
- (d) The board of directors shall maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the BSFI is well-insulated from any going concern issue of related parties.
- (e) The board of directors shall oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The board of directors should ensure that senior management addresses legitimate issues on RPT that are raised. The board of directors should

take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals.

- (8) Define an appropriate corporate governance framework for group structures, which shall facilitate effective oversight over entities in the group. The board of directors of the parent company shall ensure consistent adoption of corporate governance policies and systems across the group. In this regard:
- (a) The board of directors shall define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account nature and complexity of operations, size and the types of risks to which the BSFI and its subsidiaries are exposed. The board of directors shall also establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements.
  - (b) The board of directors shall define the risk appetite for the group, which shall be linked to the process of determining the adequacy of capital of the group.
  - (c) The board of directors shall ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems.
  - (d) The board of directors shall define and approve policies and clear strategies for the establishment of new structures.
  - (e) The board of directors shall understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group's capital, risk profile and funding under normal and contingent circumstances. The board of directors shall ensure that the group's corporate governance framework includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions.
  - (f) The board of directors shall develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.
  - (g) The board of directors shall require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board of directors approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board of directors.

In cases where the BSFI is a subsidiary/affiliate of a non-Bangko Sentral regulated parent company:

- (a) The board of directors shall define and approve policies and clear strategies for the establishment of new structures (e.g., subsidiaries/affiliate of the BSFI). The board of directors shall also report to the Bangko Sentral any plan to create additional group

structures.

- (b) The board of directors shall understand the roles, relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the BSFI's capital, risk profile and funding under normal and contingent circumstances.
- e. *The board of directors shall be responsible for approving BSFI's risk governance framework and overseeing management's implementation thereof.* In this regard, the board of directors shall:
  - (1) Define the BSFI's risk appetite. In setting the risk appetite, the board of directors shall take into account the business environment, regulatory landscape, and the BSFI's long term interests and ability to manage risk.
  - (2) Approve and oversee adherence to the risk appetite statement (RAS), risk policy, and risk limits.
  - (3) Oversee the development of, approve, and oversee the implementation of policies and procedures relating to the management of risks throughout the BSFI.
  - (4) Define organizational responsibilities following the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions for the second line of defense, and the internal audit function for the third line of defense. In this regard:
    - (a) The board of directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.
    - (b) The board of directors shall ensure that non-executive board members meet regularly, with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees, in the absence of senior management.

**Subsec. X143.2 *Specific duties and responsibilities of a director.*** The position of a director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the BSFI itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The members of the board of directors should exercise their "duty of care" and "duty of loyalty" to the institution.

- a. *To remain fit and proper for the position for the duration of his term. x x x*
- b. *To conduct fair business transactions with the BSFI and to ensure that personal interest does not bias board decisions. x x x*
- c. *To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and*

- other stakeholders such as its depositors, investors, borrowers, other clients and the general public. x x x*
- d. To devote time and attention necessary to properly discharge their duties and responsibilities. x x x*
  - e. To act judiciously. x x x*
  - f. To contribute significantly to the decision-making process of the board. x x x*
  - g. To exercise independent judgment. x x x*
  - h. To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation and by-laws, the requirements of the Bangko Sentral and where applicable, the requirements of other regulatory agencies. x x x*
  - i. To observe confidentiality. x x x*

BSFIs shall furnish all of their first-time directors within a BSFI with a copy of the specific duties and responsibilities of the board of directors and as an individual director prescribed under Subsections X143.1 and X143.2, upon election. The BSFI must keep on file certification under oath of the directors concerned that they have received copies of such specific duties and responsibilities and that they fully understand and accept the same.

**Section 5.** Section X144 and its Subsections shall now read as follows:

**Sec. X144 Board-level committees.** The board of directors may delegate some of its functions, but not its responsibilities, to board-level committees. In this regard, the board of directors shall:

- a. Approve, review, and update, at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures. Said documents shall articulate how the committee will report to the full board of directors, what is expected of the committee members, and tenure limits for serving on the committee. The board of directors shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.
- b. Appoint members of the committees taking into account the optimal mix of skills and experience to allow the board of directors, through the committees, to fully understand and objectively evaluate the relevant issues. In order to promote objectivity, the board of directors shall appoint independent directors and non-executive members of the board of directors to the greatest extent possible. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight and Corporate Governance, Related Party Transactions committees, without prior approval of the Monetary Board.



- c. Ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.
- d. Constitute, at a minimum, the following committees: (1) Audit Committee; (2) Risk Oversight Committee, and (3) Corporate Governance Committee: *Provided*, That the board of directors of simple or non-complex banks may, at a minimum, constitute only the Audit Committee unless directed by the Bangko Sentral to create other board-level committees: *Provided, further*, That the board of directors shall discuss risk management and corporate governance matters in the meetings of the board of directors, with the views of the independent directors duly considered and minuted.

UBs/KBs that are part of a conglomerate shall also constitute a RPT Committee. The Bangko Sentral may likewise direct the board of directors of other BSFIs to constitute an RPT committee as a part of their corporate governance reforms.

**Subsec. X144.1 Audit committee.**

- a. *Composition and Chairperson.* The audit committee shall be composed of at least three (3) members of the board of directors, who shall all be non-executive directors, majority of whom shall be independent directors, including the Chairperson: *Provided*, That in the case of simple or non-complex RBs, the audit committee shall be composed of at least three (3) members of the board of directors who shall all be non-executive directors, including the Chairperson who shall be an independent director: *Provided, further*, That the Chairperson of the audit committee shall not be the Chairperson of the board of directors or of any other board-level committees.

The audit committee shall have accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the BSFI. It shall have access to independent experts to assist them in carrying out its responsibilities.

- b. *Duties and responsibilities of the audit committee.* The audit committee shall:
  - (1) *Oversee the financial reporting framework.* The committee shall oversee the financial reporting process, practices, and controls. It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.
  - (2) *Monitor and evaluate the adequacy and effectiveness of the internal control system.* The committee shall oversee the implementation of internal control policies and activities. It shall also ensure that periodic assessment of the internal control system is conducted to identify the weaknesses and evaluate its robustness considering the BSFI's risk profile and strategic direction.
  - (3) *Oversee the internal audit function.* The committee shall be responsible for the appointment/selection, remuneration, and dismissal of internal auditor. It shall review and approve the audit scope and frequency. The committee

shall ensure that the scope covers the review of the effectiveness of the BSFI's internal controls, including financial, operational and compliance controls, and risk management system. The committee shall functionally meet with the head of internal audit and such meetings shall be duly minuted and adequately documented. In this regard, the audit committee shall review and approve the performance and compensation of the head of internal audit, and budget of the internal audit function.

- (4) *Oversee the external audit function.* The committee shall be responsible for the appointment, fees, and replacement of external auditor. It shall review and approve the engagement contract and ensure that the scope of audit likewise cover areas specifically prescribed by the Bangko Sentral and other regulators.
- (5) *Oversee implementation of corrective actions.* The committee shall receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws, and regulations and other issues identified by auditors and other control functions.
- (6) *Investigate significant issues/concerns raised.* The committee shall have explicit authority to investigate any matter within its terms of reference, have full access to and cooperation by management, and have full discretion to invite any director or executive officer to attend its meetings.
- (7) *Establish whistleblowing mechanism.* The committee shall establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

#### **Subsec. X144.2 Risk oversight committee (ROC)**

- a. *Composition and chairperson.* The committee shall be composed of at least three (3) members of the board of directors, majority of whom shall be independent directors, including the chairperson. The ROC's chairperson shall not be the chairperson of the board of directors, or any other board-level committee. The risk oversight committee shall possess a range of expertise and adequate knowledge on risk management issues and practices. It shall have access to independent experts to assist it in discharging its responsibilities.
- b. *Duties and responsibilities of the ROC.* The ROC shall advise the board of directors on the BSFI's overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement, and report on the state of risk culture of the BSFI. The ROC shall:
  - (1) *Oversee the risk management framework.* The committee shall oversee the enterprise risk management framework and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.

- (2) *Oversee adherence to risk appetite.* The committee shall ensure that the current and emerging risk exposures are consistent with the BSFI's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.
- (3) *Oversee the risk management function.* The committee shall be responsible for the appointment/selection, remuneration, and dismissal of the Chief Risk Officer (CRO). It shall also ensure that the risk management function has adequate resources and effectively oversees the risk taking activities of the BSFI.

**Subsec. X144.3 Corporate governance committee.**

- a. *Composition.* The committee shall be composed of at least three (3) members of the board of directors who shall all be non-executive directors, majority of whom shall be independent directors, including the chairperson.
- b. *Duties and responsibilities of the Corporate Governance Committee.* The Corporate Governance Committee shall assist the board of directors in fulfilling its corporate governance responsibilities. In this regard, the Corporate Governance Committee shall:
  - (1) *Oversee the nomination process for members of the board of directors and for positions appointed by the board of directors.* The committee shall review and evaluate the qualifications of all persons nominated to the board of directors as well as those nominated to other positions requiring appointment by the board of directors. The committee shall recommend to the board of directors matters pertaining to the assignment to board committees, as well as succession plan for the members of the board of directors and senior management.
  - (2) *Oversee the continuing education program for the board of directors.* The committee shall ensure allocation of sufficient time, budget and other resources for the continuing education of directors, and draw on external expertise as needed. The committee shall establish and ensure effective implementation of policy for on-boarding/orientation program for first time directors and annual continuing education for all directors.  
  
For this purpose, the orientation program for first time directors shall be for at least eight hours, while the annual continuing training shall be at least for four hours. The training programs should cover topics relevant in carrying out their duties and responsibilities as directors.
  - (3) *Oversee the performance evaluation process.* The committee shall oversee the periodic evaluation of contribution and performance (e.g., competence, candor, attendance, preparedness and participation) of the board of directors, board-level committees, and senior management. Internal guidelines shall be adopted that address the competing time commitments of directors serving on multiple boards.

- (4) *Oversee the design and operation of the remuneration and other incentives policy.* The committee shall ensure that the remuneration and other incentives policy is aligned with operating and risk culture as well as with the strategic and financial interest of BSFI, promotes good performance and conveys acceptable risk-taking behavior defined under its Code of Ethics, and complies with legal and regulatory requirements. It shall work closely with the BSFI's risk oversight committee in evaluating the incentives created by the remuneration system. In particular, the risk oversight committee shall examine whether incentives provided by the remuneration system take into consideration risk, capital, and the likelihood and timing of earnings. Moreover, it shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes to ensure that it operates and achieves the objectives as intended.

**Subsec. X144.4 *Related party transactions committee.***

- a. *Composition and chairperson.* The Committee shall be composed of at least three (3) members of the board of directors, two (2) of whom shall be independent directors, including the chairperson. The Committee shall at all times be entirely composed of independent directors and non-executive directors, with independent directors comprising majority of the members. In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction. The Compliance Officer or Internal Auditor may sit as resource persons in said Committee.
- b. *Duties and responsibilities of the Related Party Transactions Committee.*
- (1) *Evaluate on an ongoing basis existing relations between and among businesses and counterparties* to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the board of directors and regulators/supervisors.
- (2) *Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms* (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with nonrelated parties under similar circumstances and that no corporate or business resources of the BSFI are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee shall take into account, among others, the following:
- (a) The related party's relationship to the BSFI and interest in the transaction;
  - (b) The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  - (c) The benefits to the BSFI of the proposed RPT;
  - (d) The availability of other sources of comparable products or services; and
  - (e) An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The BSFI shall have in place an effective price discovery system and have exercised due diligence in

determining a fair price for RPTs.

All RPTs that are considered material based on BSFI's internal policies shall be endorsed by the RPT Committee to the board of directors for approval.

- (3) *Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the BSFI's RPT exposures, and policies on conflicts of interest or potential conflicts of interest.* The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the BSFI's affiliation or transactions with other related parties.
- (4) *Report to the board of directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.*
- (5) *Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.*
- (6) *Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.*

**Section 6.** Section X145 and Subsec. X145.1 are hereby amended; the provisions of Subsec. X142.3 are transferred to Subsec. X145.2; and a new Subsection X145.3 is hereby added, as follows:

**Sec. X145 Officers.**

**Subsec. X145.1 *Qualifications of an officer.*** An officer must be fit and proper for the position he is being appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered: integrity/probity, education/training, and possession of competencies relevant to the function such as knowledge and experience, skills and diligence.

In assessing an officer's integrity/probity, consideration shall be given to the officer's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An appointed officer has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Subsection X150.2. An officer shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using *Appendix 98* as guide within twenty (20) banking days from the date of meeting of the board of directors in which the officer is appointed/promoted. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position and results to his/her removal therefrom.



The Bangko Sentral shall also consider its own records in determining the qualifications of an officer.

The foregoing qualifications for officers shall be in addition to those required or prescribed under R.A. No. 8791 and other applicable laws and regulations.

**Subsec. X145.2 Duties and responsibilities of officers:**

- a. *To set the tone of good governance from the top. x x x*
- b. *To oversee the day-to-day management of the BSFI. x x x*
- c. *To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency. x x x*
- d. *To promote and strengthen check and balances system in the BSFI. x x x*

**Subsec. X145.3 Chief Executive Officer (CEO).** The CEO shall be the overall-in-charge for the management of the business and affairs of the BSFI governed by the strategic direction and risk appetite approved by the board of directors. He shall be primarily accountable to the board of directors in championing the desired conduct and behavior, implementing strategies, and in promoting the long-term interest of the BSFI.

**Section 7.** Section X146 and Subsection X146.2 are amended, the entire provisions of Subsections X147.1 and X147.2 are transferred to Subsections X146.1 and X146.3, respectively, and provisions of Subsections 1338.2 and X338.3 are transferred as Items “a” and “b” of Subsection X146.2, respectively.

**Sec. X146 Remuneration and Other Incentives.** The board of directors shall approve a remuneration and other incentives policy that is appropriate and consistent with the BSFI’s operating and risk culture, long-term business and risk appetite, performance, and control environment. Said policy shall cover all employees and should be designed to encourage good performance that supports the interest of the BSFI and its stakeholders. It shall be aligned with prudent risk taking and explicitly discourage excessive risk taking as defined by internal policies. The board of directors or a board-level committee (e.g., Corporate Governance Committee) shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes, at least annually, to ensure that it operates and achieves the objectives as intended.

BSFIs shall consider the following in the design of the remuneration and other incentives policy:

- a. The remuneration and incentives package shall take into account the employee’s position, role, responsibilities and activities in the BSFI. It shall also consider the risks that the employee takes on behalf of the BSFI. In this regard, it should be sensitive to prospective risks and risk outcomes that have been realized and considers the overall performance of the BSFI.
- b. Remuneration and incentive pay-out schedule should be sensitive to the time-horizon of risk. The policy may include provisions that defer payment until risk outcomes are better known or provisions under which remuneration and incentives may be reduced or reversed if new facts emerge showing that the

remuneration and incentives paid was based on erroneous assumptions, such as misreporting, or if it is discovered that the employee has failed to comply with internal policies or legal requirements.

- c. Remuneration of employees in risk control functions (i.e., Internal Audit, Compliance, and Risk Management Functions) shall be based on the achievement of their objectives and shall be independent of the business lines which they oversee.

**Subsec. X146.1 Profit sharing programs.** Profit sharing programs adopted in favor of directors, officers, and employees shall be reflected in the by-laws of the BSFI, subject to the following guidelines: x x x

**Subsec. X146.2 Loans, advances, and other credit accommodations to officers.** BSFIs may grant loans, advances, or any other forms of credit accommodations to their officers as part of a board-approved remuneration and incentive program. The board of directors shall ensure that these credit accommodations are granted for legitimate purposes, such as among others, financing the housing, transportation, and personal needs of the officers. In this regard, the board of directors shall identify specific purposes eligible for said credit accommodations to officers to promote good performance and acceptable risk-taking behavior consistent with the BSFI's operating and risk culture, long-term business and risk appetite, performance, and control environment. BSFIs shall submit the board-approved purposes for the grant of loans, advances, or any other forms of credit accommodations to officers for approval of the Bangko Sentral. The guidelines and contractual provisions implementing said defined purposes, and any subsequent changes thereto, shall on the other hand, be approved by the board of directors or a board-level committee.

*Transitory provision.* Existing financing programs for officers that have been approved by the Bangko Sentral need not be resubmitted: *Provided,* That BSFIs that shall change any of the provisions of the earlier approved program shall submit for approval of the Bangko Sentral the board-approved purposes for the grant of loans, advances, or any other forms of credit accommodations to officers.

- a. Funding by foreign banks. x x x
- b. Other conditions/limitations. x x x

**Subsec. X146.3 Compensation and other benefits of directors and officers.** To protect the funds of depositors and creditors, the Monetary Board may regulate/restrict the payment by the BSFI of compensation, allowances, fees, bonuses, stock options, profit sharing, and fringe benefits to its directors and officers in exceptional cases and when the circumstances warrant, such as, but not limited to the following:

X X X

**Section 8.** Section X146.2 shall be renumbered to Subsection X147.1 and amended as follows:

**Subsec. X147.1 *RPT policies/roles of senior management and self-assessment functions***

- a. The RPT policies shall include, but not be limited to the following:
- (1) *Definition of related parties.* The policy shall clearly define “*related parties*”. It shall identify persons and companies that are considered the BSFI’s related parties. The policy shall require Management to periodically review and update the inventory of related parties to capture organizational and structural changes in the BSFI and its related parties.
  - (2) *Coverage of RPT policy.* The coverage of the RPT policy shall capture a broader spectrum of transactions, covering not only those that give rise to credit and/or counterparty risks but also those that could pose material/special risk or potential abuse to the BSFI and its stakeholders.

Transactions that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the RPT to the requirements of the policy. The prospective treatment should, however, be without prejudice to supervisory actions that may be enforced for transactions noted to have not been conducted on an arm’s length basis.

- (3) *Guidelines in ensuring arm’s length terms.* The policy shall have clear guidelines in ensuring that RPTs are conducted in the regular course of business and not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances. This shall include guidance for an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the BSFI and its stakeholders. The price discovery mechanism may include, but not limited to, acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.
- (4) *Conflicts of interest.* The policy shall cover the identification and prevention or management of potential or actual conflicts of interest which may arise. The members of the board of directors, stockholders, and management shall disclose to the board of directors whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the BSFI. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the BSFI.
- (5) *Materiality thresholds and excluded transactions.* The policy shall include materiality thresholds for RPTs, which shall be set at a level where omission or

misstatement of the transaction could pose significant risk to the BSFI and could influence the economic decisions of its board of directors.

Materiality threshold may be set for each type of transaction and for each related party group, depending on the nature of the transaction and risks involved. The RPT policy may also identify transactions excluded from the materiality threshold requirement, such as transactions concerning deposit operations, regular trade transactions involving purchases and sales of debt securities traded in an active market, and those granted under Bangko Sentral approved fringe benefit programs. Materiality threshold levels will vary from one BSFI to another depending on the nature, scope, frequency, value of, and risks associated with the RPT. The BSFI shall document the justifications for the materiality thresholds and exclusions set.

The Bangko Sentral may direct a BSFI to reduce its materiality threshold or amend excluded transactions if the Bangko Sentral deems that the threshold or exclusion is inappropriate considering the BSFI's size, risk profile, and risk management systems.

- (6) *Internal limits for individual and aggregate exposures.* To ensure that RPTs are within prudent levels, the policy shall, in addition to existing prudential limits which shall be complied at all times, include internal limits or sub-limits for individual and aggregate exposures to a related party and for aggregate exposures to all related parties that are consistent with the BSFI's risk appetite, risk profile, and capital strength.

The internally set limits shall be tied in with the BSFI's internal definition of capital. Breaches in limits shall be reported to the board of directors with the decision of the board of directors to accept the exposure or to take steps to address the breaches, as may be necessary, duly documented in the minutes of meetings.

- (7) *Whistleblowing mechanisms.* The policy shall include effective whistleblowing mechanisms consistent with the corporate values and codes of conduct set by the board of directors. The policy shall encourage employees to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable RPTs. It shall include guidance on how and by whom legitimate material concerns should be reported, investigated and addressed by an objective independent internal or external body, senior management and/or the board of directors itself.

- (8) *Restitution of losses and other remedies for abusive RPTs.* The policy shall include measures that would cut losses and allow recovery of losses or opportunity costs incurred by the BSFI arising from RPTs that are not engaged on arm's length terms. The policy shall also include the manner of handling personnel, officers or directors, who have been remiss in their duties in handling RPTs.

The overarching policy will consolidate all existing policies that address the above requirements or may make reference to already existing policies.

- b. *Roles of senior management and self-assessment functions.* Senior management shall implement appropriate controls to effectively manage and monitor RPTs on a per transaction and aggregate basis. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with the BSFI's policy and Bangko Sentral's regulations.

The internal audit function shall conduct a periodic formal review of the effectiveness of the BSFI's system and internal controls governing RPTs to assess consistency with the board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the Audit Committee.

The compliance function shall ensure that the BSFI complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. It shall aid in the review of the BSFI's transactions and identify any potential RPT that would require review by the Board or RPT Committee. It shall ensure that the RPT policy is kept updated and is properly implemented throughout the BSFI.

**Section 9.** Sections/Subsections X141.4, X144, X145, X145.1 and X150 are amended and transferred to Section 148 and Subsections X148.1 to X148.4 as follows:

**Sec. X148 Confirmation of the Election/Appointment of Directors/Officers; Bio-data of Directors and Officers; Interlocking Directorships and/or Officerships; Rules of Procedures on Administrative Cases Involving Directors and Officers of BSFIs.**

**Subsec. X148.1 Confirmation of election/appointment of directors/officers.**

- a. *Confirming authority.* The election/appointment of directors/officers shall be subject to confirmation by the following:

Confirming Authority	Position level
a. Monetary Board	Directors and CEO of UBs and KBs, including their subsidiary banks, QBs, trust corporations <sup>1/</sup> and non-bank financial institutions (NBFIs) with trust authority; of stand-alone Islamic Banks, TBs, RBs, Coop Banks, QBs and NBFIs with trust authority with total assets of at least P10.0 billion; and of trust corporations with assets under management of at least P10.0 billion
b. SES Committee	Directors and CEO of stand-alone Islamic Banks, TBs, RBs, Coop Banks, QBs, and NBFIs with trust authority with total assets of less than P10.0 billion; and of trust corporations <sup>1/</sup> with assets under management of less than P10.0 billion Treasurer and heads of internal audit, risk management and compliance functions, and other officers with rank of senior vice president and above (or equivalent ranks) of UBs and KBs and their subsidiary banks, quasi-banks, trust corporations, and NBFIs with trust authority; of stand-alone



Confirming Authority	Position level
	Islamic Banks, TBs, RBs, Coop Banks, QBs and NBFIs with trust authority; and of trust corporations
	Trust Officer regardless of rank of banks/QBs/NBFIs as provided in Subsec. X406.10

<sup>1/</sup>As defined under Subsec. 4102T.1 of MORNBFI-T

*Provided*, That BSFIs shall report to the appropriate department of the SES, any succeeding resignation, retirement, or replacement of directors/officers as mentioned within twenty (20) banking days after such resignation/retirement/replacement.

The election/appointment of abovementioned directors/officers shall be deemed to have been confirmed by the Bangko Sentral, if after sixty (60) banking days from receipt of the complete required reports, the appropriate supervising department of the SES does not advise the BSFI concerned against said election/appointment.

However, the confirmation by the Monetary Board/SES Committee of the election/appointment to above-mentioned position levels shall not be required in the following cases:

- (1) Re-election of a director (as a director) in the same BSFI or election of the same director in another bank, QB, trust corporation, and NBFi with trust authority within a banking group;
- (2) Re-election of an independent director (as an independent director or not) in the same BSFI or election of the same director (as an independent director or not) in another bank, QB, trust corporation, and NBFi with trust authority within a banking group; and
- (3) Promotion of an officer, other than to that which requires (a) prior Monetary Board approval, or (b) a different set of minimum qualifications, or (c) a different level of confirming authority as provided in the first paragraph hereof, in the same bank or appointment/transfer to another bank, QB, trust corporation, and NBFi with trust authority within a banking group:

*Provided*, That the director/officer concerned has been previously confirmed by the Monetary Board, or if previously confirmed by the SES Committee, his/her re-election/ promotion/transfer requires the same level of confirming authority as provided in the first paragraph hereof: *Provided, further*, That said director/officer has had continuous service within the same BSFI or banking group. This exemption shall apply to directors/officers confirmed by the Monetary Board/SES Committee starting 01 January 2011.

The appointment of officers below the rank of Senior Vice President (SVP) other than the Treasurer, trust officer, and heads of internal audit, risk management, and compliance functions regardless of rank shall be subject neither to Monetary Board approval nor Bangko Sentral confirmation.

For purposes of this Subsection, the term *banking group* shall refer to the parent bank and its subsidiary banks, QBs, trust entities, and other NBFIs other than stand-alone and trust corporations as well as other banks, QBs, trust entities, and other NBFIs other than stand-alone and trust corporations over which the parent bank has the power to exercise “control” as defined in Subsec. X141.1.

The required certifications and other documentary proof of qualifications for the confirmation of the election/appointment of directors/officers, and approval of the appointment of compliance officers of banks/QBs/NBFI with trust authority/trust corporations are shown in *Appendix 98*. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position.

A director/officer whose election/appointment was not confirmed for failure to submit the complete documentary requirements shall be deemed removed from office after due notice to the board of directors of the BSFI, even if he has assumed the position to which he was elected/appointed, pursuant to Section 16 of R.A. No. 8791.

**Subsec. X148.2 *Bio-data of directors and officers.***

- a. BSFI shall submit to the appropriate department of the SES a bio-data with ID picture of their (1) directors and officers who are subject to confirmation under Subsection X148.1, or (2) officers below the rank of SVP requiring a different set of minimum qualifications, upon every election/re-election/appointment/promotion in a prescribed form and for first time directors/officers within a particular bank/banking group whose election/appointment requires Monetary Board/SES Committee confirmation, the duly notarized authorization form per *Appendix 76*, within twenty (20) banking days from the date of election/re-election of the directors/meeting of the board of directors in which the officers are appointed/promoted, in accordance with *Appendix 6*.

The bio-data shall be updated and submitted in cases of change of name due to change in civil status and change of residential address, within twenty (20) banking days from the date the change occurred, and in cases of requests for prior Monetary Board approval of interlocks.

For other officers below the rank of SVP other than the Treasurer, trust officer, and heads of internal audit, risk management, and compliance functions regardless of rank, the BSFI shall not be required to submit their bio-data to the Bangko Sentral.

- b. x x x
- c. x x x
- d. x x x

In the case of the independent directors, the bio-data shall be accompanied by a certification under oath from the director concerned that he is an independent director as defined under Subsec. X141.1g.

**Subsec. X148.3 Interlocking directorships and/or officerships.**

In order to safeguard against the excessive concentration of economic power x x x

c. *Interlocking officerships*

A concurrent officership in different FIs x x x

As a general rule, there shall be no concurrent officerships between banks or, between a bank and a QB or a NBF<sup>1</sup>.

In the case of non-governmental organizations (NGOs)/foundations that are engaged in retail microfinance operations, as defined under Subsec. X326.1.e(8), BSFI officers are prohibited from holding officership position or other positions that may cause them to be involved in the daily microfinance operations of related NGOs/ foundations.

However, subject to prior approval of the Monetary Board, concurrent officerships, may be allowed in the following cases: x x x

<sup>1</sup>BSFI officers, who concurrently held officership position or other positions that caused them to be involved in the daily microfinance operations of related NGOs/ foundations, were given up to 30 September 2011 to relinquish such officer position.

d. *Secondment*

A BSFI may second or transfer its employee to another entity for temporary assignment: *Provided*, That it has a board-approved policy on secondment and that the transfer of the employee is approved by the appropriate authority of the BSFI: *Provided*, further, That the secondee or the transferred employee shall relinquish all his duties, responsibilities, and authorities in the BSFI, and shall receive remuneration and other incentives from the host entity. BSFIs shall submit a notice within ten (10) banking days from the approval of secondments of employees to the appropriate supervising department of the SES.

e. *Representatives of government*

The provisions of this Section shall apply to persons appointed to such x x x .

**Subsec. X148.4 Rules of Procedures on administrative cases involving directors and officers of BSFIs.** The rules of procedure on administrative cases involving directors and officers of BSFIs are shown in *Appendix 64*.

**Section 10.** Section X186 of the MORB on internal audit function is hereby amended to read as follows:

**Sec. X186 Internal audit function.** An effective and efficient internal audit function constitutes the third line of defense in the system of internal control.

Internal audit is an independent, objective assurance and consulting function x x x

**Section 11.** Subsection X406.10 of the MORB on confirmation of the appointment/designation of trust officer and independent professional of Chapter A of Part Four of the Trust, Other Fiduciary Business and Investment Activities is hereby amended as follows:

**PART FOUR - TRUST, OTHER FIDUCIARY BUSINESS AND INVESTMENT MANAGEMENT ACTIVITIES**

**A. TRUST AND OTHER FIDUCIARY BUSINESS**

**Sec. X406 Organization and Management.**

**Subsec. X406.10 Confirmation of the appointment/designation of trust officer and independent professional.**

x x x

The appointment or designation of independent professional and trust officer shall be subject to confirmation by the SES Committee. x x x

**Section 12.** The Sections/Subsections of the MORB are renumbered/deleted as follows:

Old Section/ Subsection	Title/Description	New/Deleted Section/Subsection
X141.9	Certifications required	Deleted. Covered by X148.2
X141.10	Sanctions	Deleted. Covered by the Supervisory Enforcement framework under Sec. X009
X143	Disqualification and Watchlisting of Directors and Officers	Renumbered to X150
X143.1	Persons disqualified to become directors	Renumbered to X150.1
X143.2	Persons disqualified to become officers	Renumbered to X150.2
X143.3	Effect of non-possession of qualifications or possession of disqualifications	Renumbered to X150.3
X143.4	Disqualification procedures	Renumbered to X150.4
X143.5	Watchlisting	Renumbered to X150.5
X146	Related Party Transactions; Policy Statement	Renumbered to X147
X146.1	Definition of terms	Deleted
X146.3	Disclosure and regulatory reporting	Renumbered to X147.2
X146.4	Applicability to branches of foreign banks	Renumbered to X147.3
X146.5	Supervisory enforcement actions	Renumbered to X147.4
Sec. 3147	Bonding/Training of Directors, Officers and Employees	Deleted
X148	Real Estate and Chattel Transactions with DOSRI and Employees	Deleted. Covered by the RPT policies

Old Section/ Subsection	Title/Description	New/Deleted Section/Subsection
X148.1	Certification on real estate/chattel transaction with DOSRI and employee(s)	Deleted.
X148.9	Sanctions	Deleted. Covered by the Supervisory Enforcement framework under Sec. X009
X149.9	Sanctions	Deleted. Covered by the Supervisory Enforcement framework under Sec. X009
X338	Financial Assistance to Officers and Employees	Deleted. Covered by X146.2
X338.1	Mechanics	Deleted. Covered by X146.2
X1338.2	Funding by foreign banks	Renumbered to X146.2a
X338.3	Other conditions/limitations	Renumbered to X146.2b

**Section 13.** Considering the renumbering of the provisions in the above Sections/Subsections, references to the renumbered provisions are correspondingly amended/deleted as shown below.

Section/ Subsection	With cross- reference to:	On the:	New Section/ Subsection
X192.12 X326.1	X146.1	Definition of control	X141.1d
X146.3	X146	Profit Sharing program	X146.1
X150.3	X141.4	Confirming authority for the election/appointment of directors/officers	X148.1
X150.2	X143.1	Disqualifications for directors shall likewise apply to officers except those stated in items b(2) and b(7)	X150.1
X150.3 X150.4b X150.4k	X143.1	Persons disqualified to become directors	X150.1
X306.1	X143.1b(3)	Definition of delinquency in the payment of obligation	X150.1b(3)
X150.3 X150.4	X143.2	Persons disqualified to become Officers	X150.2
X150.3 X180.4	X142.2	Qualifications of an officer	X145.1
X150.3	X141.2	Qualifications of a director	X142.3
X147.2 X173 App. 6	X141.3c(9)	Reportorial requirement on group transactions	X143.1d(8)
X150.3 X150.5	X143.4	Disqualification procedures	X150.4
X172.1	X141.3	A financial product provider must have been disclosed and reported as part of the group structure	X143.1d(8)




<b>Section/ Subsection</b>	<b>With cross- reference to:</b>	<b>On the:</b>	<b>New Section/ Subsection</b>
X179.2 X180.5 X185.1 X406.4 X602.1 Appendix 27	X141.3	Duties and responsibilities of the board of directors	X143.1
X185.1	X142.3	Duties and responsibilities of Officers	X145.2
X326.1	X141.1	Definition of Directors	X141.1f
X406.2	X141.1(by footnote)	Definition of non-executive director	X141.1i
X406.2	X141.2(by footnote)	Definition of Independent Director	X141.1g
X326.1 X406.2	X142.1	Definition of Officers	X141.1j
X173	X141 X142	Applicability to branches of foreign banks	X142, X143, X145
X181.3	X142	Definition, Qualification, Duties and responsibilities of Officers	X145
X181.3 Appendix 37 Appendix 38	X143	Disqualification and Watchlisting of Officers	X150
Appendix 6	X146.3	Conglomerate Structures; report on material RPT	X147.2
Appendix 6	X141.9	Submission of certification on the receipt of duties and responsibilities	X143.2
Appendix 6	- X144 - X141.2 - X144	- Bio data of directors/officers - Certification under oath of the Independent Director - Notarized list of members of the Board	- X148.2a - X141.1g - X148.2c
Appendix 6	X143.3	Verified statement of director/officer that he/she has all the qualifications and none of the disqualifications	X150.3
Appendix 6	X143.4	Report on Disqualification of Directors/Officers	X150.4
Appendix 16	X143	Qualification of the investor/stockholder, based on "fit and proper" rule, on Countryside Financial Institutions Enhancement Program	X150
Appendix 37	X141.1	Number and nationality of the members of the Board	X142.2
Appendix 37 Appendix 38	X141 X142	Qualifications and Other requirements of proposed directors/officers	X143 X145

Section/ Subsection	With cross- reference to:	On the:	New Section/ Subsection
Appendix 38	X141.2	Disqualification of directors who failed to attend the required special seminar	X142.3
Appendix 74a	X146.1 (footnote)	Definition of Related Parties	X141.1
Appendix 75a	X141.3	Duties of the Audit Committee	X144.1
Appendix 76	X143.5	Authorization Form for Querying the Bangko Sentral Watchlist Files for Screening Applicants and Confirming Appointments of Directors and Officials	X150.5
Appendix 98	X141.4	Documentary Requirements to be Submitted to Bangko Sentral for the Election/Appointment of Directors/Officers of Banks	X148.1
Appendix 98B	X144	Template list of members of the Board and Officers	X148.2c
Appendix 99	X148.1	Certification on Real Estate/Chattel Transactions	Deleted

**Section 14. Effectivity.** This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:

  
**NESTOR A. ESPENILLA, JR.**  
Governor

**22** August 2017

**Required Certifications and Examples of Supporting Documents for the Confirmation of Election/Appointment  
of Directors/Officers of Bangko Sentral ng Pilipinas Supervised Financial Institutions (BSFIs)<sup>1</sup>  
(Appendix to Subsecs. X148.1, X180.3 and X406.10)**

<b>Requiring Bangko Sentral Confirmation<sup>2</sup></b>		<b>Not Requiring Bangko Sentral Confirmation</b>
<b>Directors</b>	<b>Chief Executive Officer and Other Officers enumerated in Subsec. X148.1<sup>3</sup></b>	<b>Officers below the rank of Senior Vice President requiring a different set of minimum qualifications<sup>4</sup></b>
<ul style="list-style-type: none"> <li>• Letter-request for Bangko Sentral confirmation signed by authorized officer<sup>5</sup> with an affirmative statement that the institution has conducted a fit and proper test on the director/s concerned</li> <li>• Secretary's Certificate attesting to the resolution of the stockholders or board of directors approving the election</li> <li>• Bio-data with a photograph (2" x 2") taken within the last six (6) months</li> <li>• Certification under oath of the director concerned that he/she possesses all the</li> </ul>	<ul style="list-style-type: none"> <li>• Letter-request for Bangko Sentral confirmation signed by authorized officer with an affirmative statement that the institution has conducted a fit and proper test on the officer/s concerned</li> <li>• Secretary's Certificate attesting to the resolution of the board of directors approving the appointment<sup>6</sup></li> <li>• Bio-data with a photograph (2" x 2") taken within the last six (6) months</li> <li>• Certification under oath of the officer concerned that he/she possesses all the qualifications and</li> </ul>	<ul style="list-style-type: none"> <li>• Bio-data with a photograph (2" x 2") taken within the last six (6) months</li> </ul>

<sup>1</sup> To be submitted within twenty (20) business days from date of election/re-election/appointment/promotion to the appropriate supervising department of the SES. For interlocks requiring Monetary Board approval, the following shall be submitted: (a) Letter-request for Monetary Board approval with justification; and (b) Bio-data.

<sup>2</sup> Including those exempted from the required Bangko Sentral confirmation as provided in Subsecs. X148.1 and X406.10.

<sup>3</sup> E.g., Treasurer, trust officer, heads of internal audit, risk management, and compliance functions, and other officers with rank of Senior Vice President and above

<sup>4</sup> E.g., Security Officer, Head/In-Charge of E/FCDU Operations, and Head/In-Charge of Import and Export Financing Operations (for TBs)

<sup>5</sup> Authorized signatory is the Chief Executive Officer (CEO) of the institution, except for appointment of CEO, in which case the authorized signatory shall be the Chairman of the Corporate Governance Committee or of the Board of Directors, as may be applicable. For those exempted from the required Bangko Sentral confirmation as provided in Subsec. 148.1, submit statement that the institution has conducted a fit and proper test on the director/officer concerned.

<sup>6</sup> In case of foreign bank branches, consularized letter of appointment of the officer concerned from the Head Office and/or Regional Office

**Required Certifications and Examples of Supporting Documents for the Confirmation of Election/Appointment  
of Directors/Officers of Bangko Sentral ng Pilipinas Supervised Financial Institutions (BSFIs)<sup>1</sup>  
(Appendix to Subsecs. X148.1, X180.3 and X406.10)**

<b>Requiring Bangko Sentral Confirmation<sup>2</sup></b>		<b>Not Requiring Bangko Sentral Confirmation</b>
<b>Directors</b>	<b>Chief Executive Officer and Other Officers enumerated in Subsec. X148.1<sup>3</sup></b>	<b>Officers below the rank of Senior Vice President requiring a different set of minimum qualifications<sup>4</sup></b>
qualifications and none of the disqualifications to become a director	none of the disqualifications to become an officer	
<ul style="list-style-type: none"> <li>• For first-time directors in a particular bank/banking group as defined in Subsec. X148.1</li> </ul>	<ul style="list-style-type: none"> <li>• For first-time officers to be subject to Bangko Sentral confirmation in a particular bank with trust authority/trust corporation/banking group as defined in Subsec. X148.1</li> </ul>	
<ul style="list-style-type: none"> <li>a. Certification under oath of compliance with the Bangko Sentral-prescribed syllabus on on-boarding/orientation program</li> <li>b. Certification under oath that the director has received copies of the general responsibility and specific duties and responsibilities of the board of directors and of a director and that he/she fully understands and accepts the same</li> <li>c. Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the director concerned</li> </ul>	<ul style="list-style-type: none"> <li>a. Duly accomplished and notarized authorization form for querying the Bangko Sentral watchlist file from the officer concerned</li> </ul>	

**Required Certifications and Examples of Supporting Documents for the Confirmation of Election/Appointment  
of Directors/Officers of Bangko Sentral ng Pilipinas Supervised Financial Institutions (BSFIs)<sup>1</sup>  
(Appendix to Subsecs. X148.1, X180.3 and X406.10)**

<b>Requiring Bangko Sentral Confirmation<sup>2</sup></b>		<b>Not Requiring Bangko Sentral Confirmation</b>
<b>Directors</b>	<b>Chief Executive Officer and Other Officers enumerated in Subsec. X148.1<sup>3</sup></b>	<b>Officers below the rank of Senior Vice President requiring a different set of minimum qualifications<sup>4</sup></b>
<ul style="list-style-type: none"> <li>• For independent directors, certification under oath that he/she is an independent director as defined in BSP regulations</li> <li>• For re-elected directors, Secretary's Certificate on the attendance by the director concerned to the board meetings held for the last twelve (12) months covering the term of service, indicating percentage of attendance to board meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Brief description of his/her duties and responsibilities</li> <li>• Alien Employment Permit issued by the Department of Labor and Employment for foreigners appointed as officers</li> </ul>	<ul style="list-style-type: none"> <li>• Brief description of his/her duties and responsibilities</li> </ul>