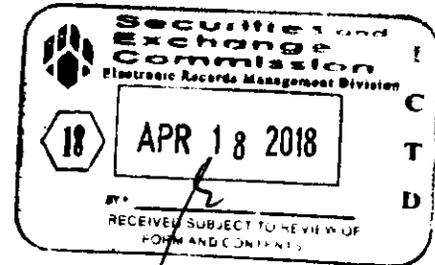


April 17, 2018

**RACHEL ESTHER J. GUMATANG-REMALANTE**  
Director/Officer-In-Charge  
Corporate Governance and Finance Department  
SECURITIES AND EXCHANGE COMMISSION  
Ground Floor, Secretariat Building, PICC Complex,  
Pasay City



Dear Director Gumatang-Remalante,

We submit herewith BDO Leasing and Finance, Inc. (BDOLF)'s Revised Corporate Governance Manual duly signed by BDOLF's Chairperson and Compliance Officer. The Revised Corporate Governance Manual was approved by BDOLF's Board of Directors on April 13, 2018.

We trust that you will find the foregoing satisfactory.

Thank you.

Very truly yours,

Angelita C. Tad-y  
FVP/Chief Risk and Compliance Officer

BDO Leasing and Finance, Inc.  
39/F BDO Corporate Center Ortigas,  
12 ADB Avenue, Ortigas Center,  
Mandaluyong City, 1550  
Tel. 63(2) 688-1288  
Fax +63(2) 635-6453, 635-5811, 635-3898

# COVER SHEET

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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)

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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

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

ANGELITA C. TAD-y

Contact Person

840-7000 local 45475

Company Telephone Number

Month

Day

Fiscal Year

REVISED MANUAL  
CORPORATE  
GOVERNANCE

FORM TYPE

Month

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

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**BDO LEASING AND FINANCE, INC.**  
**CORPORATE GOVERNANCE MANUAL**  
(Revised as of April 13, 2018)

**INTRODUCTION**

As a publicly listed company, BDO Leasing and Finance, Inc. (BDOLF or Company for brevity) 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.

The Company'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 Code of Corporate Governance for Publicly-Listed Companies and the latest Enhanced corporate Governance Guidelines of our regulators

Through this manual, the Board aims to promote adherence, further strengthen the Company'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 BDOLF operates.

The Manual, in conjunction with BDOLF's Articles of Incorporation, By-Laws and charters of the Board Committees, constitute the governance framework of the Company.

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## SECTION 1. THE BOARD'S GOVERNANCE RESPONSIBILITIES

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### 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 BDOLF shall elect the members of the Board during the annual meeting. (Recommendation 1.1.)
- 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 (Article III, BDOLF By-Laws, as amended) complemented and aided by an adviser. (Recommendation 1.2)
- 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, 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 the first time directors shall 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)
- 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 its 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)

- 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 Senior 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 Chief 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 BDOLF, 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 Chairperson 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 Company's 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)

**Compliance Officer.** The Company's Compliance Officer (CO) shall be appointed by the Board of Directors and shall be subject to confirmation by the SES Committee of the BSP. The CO of BDOLF 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 on-boarding of new directors;
- Monitors, reviews, evaluates and ensures the compliance by BDOLF, 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 regulators, 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 regulators. (Recommendation 1.6)

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## **SECTION 2. ESTABLISHING CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD**

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### **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)

**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)

For the roles and responsibilities of the Chairperson in Recommendation 2.3, please refer to page 18.

**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 BDOLF 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)

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 BDOLF 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 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 Bank. It shall also consider the risks that the employee takes on behalf of the Bank. In this regard, it should be sensitive to prospective risks and risk outcomes that have been realized and considers the overall performance of the Bank.

- 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 Bank, 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.

BDOLF'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)

- 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 regulators. Election/appointment of directors shall be subject to the confirmation by the Monetary Board. 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 of Directors.** The minimum qualifications to be a Director of the BDOLF shall be the following:

- a. He/She shall be at least twenty-five (25) years of age at the time of his election or appointment.
- b. He/She shall be at least a college graduate or have at least five (5) years experience in business.
- c. He/She must have attended a special seminar on corporate governance for board directors.

He/she must 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.

- d. He/She must be fit and proper for the position, and in this regard, the following shall be considered: integrity/probity, physical/mental fitness, competence, relevant education/financial literacy training, possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind.
- e. 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 Bank's 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.
- f. He/She must have a practical understanding of the business of BDOLF.
- g. He/She must be a member of good standing in the relevant industry, business or professional organizations.

#### **Disqualifications of Directors**

##### **A. Permanent Disqualification**

The following are permanently disqualified to become a Director of BDOLF:

- a. Any person who has 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.
- b. Any person who has been convicted by final judgment by a court for violation of banking laws.
- c. Any person who has been judicially declared insolvent, spendthrift or incapacitated to contract.
- d. A Director, Officer, or employee of a closed Company who was responsible for such Company's closure as determined by the Monetary Board.
- e. 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, commodity trading advisor, or floor broker, or [c] arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house, Company or as an affiliate person or any of them.
- f. 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;

- g. 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.
- h. Any person earlier elected as independent director who becomes an officer, employee, or consultant of the Company;
- i. 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.
- j. Any person convicted by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election.
- k. Other grounds as the SEC may provide.

#### **B. Temporary Disqualification**

The following are temporarily disqualified from holding a director position in the Company:

- a. Any person who refuses to fully disclose the extent of his business interest to the appropriate supervising and examination department of the BSP when required pursuant to a provision of law or of a BSP regulatory issuance. The disqualification shall be in effect as long as the refusal persists.
- b. Any person who refuses to comply with the disclosure requirements of the SRC and its implementing rules and regulations. The disqualification shall be in effect as long as the refusal persists.
- c. Any Director who has been absent or have not participated in more than fifty percent (50%) of all regular and special meetings of the Board of Directors during his incumbency or any twelve (12) month period during said incumbency, and any director who failed to physically attend at least twenty-five percent (25%) of all board meetings in any year. This disqualification shall apply for purposes of the succeeding election.
- d. Any person who is delinquent in the payment of his financial obligations and those of his related interests. The disqualification shall be in effect as long as the deficiency persists.

- e. Any person convicted for offenses involving dishonesty or breach of trust or violation of banking laws but whose conviction has not yet become final and executory.
- f. Any director and officer of closed banks pending their clearance by the Monetary Board.
- g. Any Director disqualified for failure to observe/discharge his duties and responsibilities prescribed under existing regulations. The disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board.
- h. Any person dismissed/terminated from employment for cause. The disqualification shall be in effect until the person concerned has cleared himself of involvement in the alleged irregularity.
- i. Any person under preventive suspension.
- j. Any person with derogatory records with law enforcement agencies. The disqualification shall be in effect until the person concerned has cleared himself of involvement in the alleged irregularity.
- k. If the beneficial equity ownership of an independent director in the Company or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with. The temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate actions to remedy or correct the disqualification.
- l. Any director who failed to attend special seminar for Board of Directors required under item “c” of Subsection X141.2 of the Manual of Regulations of Banks.
- m. Any director found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court.
- n. Any director found by the Monetary Board to be unfit for the position of directors or officers because he/she was found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency is pending appeal before the appellate court, unless execution or enforcement thereof is a restrained by the court.
- o. Any director found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed, regardless whether the finding of the Monetary Board is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court. (Recommendation 2.6)

### **Qualifications of Company 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 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.

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.

#### **Disqualifications of Company Officers**

- a. Except as may be authorized by the Monetary Board or the Governor, spouse or relative within the second degree of consanguinity or affinity of any person holding the position of Chairman, President, Executive Vice President or any position of equivalent rank, General Manager, Treasurer, Chief Cashier or Chief Accountant is disqualified from holding or being elected or appointed to any of said positions in the same bank/quasi-bank/leasing and financing companies; and the spouse or relative within the second degree of consanguinity or affinity of any person holding the position of Manager, Cashier, or Accountant of a branch or office of a bank/quasi-bank/trust entity/leasing and financing companies is disqualified from holding or being appointed to any of said positions in the same branch or office.
- b. Except as may otherwise be allowed under C.A. No. 108, otherwise known as “The Anti-Dummy Law”, as amended, foreigners cannot be officers or employees of the Company.

#### **4. Related Party Transactions**

BDOLF 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. The Related Party Transactions applies to BDOLF, its subsidiary and affiliates, 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 BDOLF and its Related Parties; and proper review, approval, ratification and disclosure of transactions between BDOLF 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 A for the Revised Related Party Transactions Policy. (Recommendations 2.7, 5.6 and 8.5)

## **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 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)

## **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)

## **7. Board Charter**

The Charter of the Board of Directors ("Board Charter") of 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 approved by its Board of Directors on May 31, 2017 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.

BDOLF's 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)

## **DUTIES & RESPONSIBILITIES OF THE BOARD OF DIRECTORS**

**As a financial non-bank subsidiary of BDO Unibank, Inc., a BSP-regulated financial institution, BDOLF shall observe the herein listed 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 Bank 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
    - (iii) 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 Bank). 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.

#### 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 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.

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### **SECTION 3. ESTABLISHING BOARD COMMITTEES**

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#### **BOARD COMMITTEES**

The Board shall establish committees which it can delegate 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 charters 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)

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 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 lease and loan proposals, investments, and disposal of acquired assets. The Executive Committee shall be composed of (5) five directors to include the President/CEO, 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) members of the Board of Directors who are all Independent Directors including the Chairman. 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)

- 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, its subsidiary and affiliate. 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) members of the Board of Directors, all of whom shall be independent directors including the Chairman. (Recommendation 3.3)
- 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 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 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, at least two (2) 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, at least one (1) of whom is an independent director 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)
- 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 majority of whom are independent directors and an Adviser. The Chairman of the Committee is one of the independent directors. (Recommendation 3.5)

### **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 Bank's website. (Recommendation 3.6)

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## **SECTION 4. FOSTERING COMMITMENT**

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### **BOARD OPERATIONS**

- 1. Board Meetings - Frequency.** The Board will meet monthly (every Wednesday after the Parent Bank's meeting which falls on 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.
- 2. 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. They 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)

3. **Board Meetings – Agenda and Materials.** 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.
4. **Directors’ access to Senior Officers and Advisers.** Department 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.
5. **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, its parent and listed affiliate. 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)
6. **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.

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## **SECTION 5. REINFORCING BOARD INDEPENDENCE**

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### **Independent Directors**

The Company shall have at least three (3) 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)

**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 BDOLF’s By-Laws. The independent directors will be clearly identified together with the date of their first election to the Board of Directors. An independent director shall have the following qualifications as prescribed in SEC Memorandum Circular No. 16 Series of 2002.

1. He shall have at least one (1) share of stock of the corporation;
2. He shall be at least a college graduate or he shall have been engaged or exposed to the business of the corporation for at least 5 years;
3. He shall possess integrity/probity; and

4. He shall be assiduous.

**By definition, an independent director shall be any person who:**

- a. is not or was not a director, an officer or employee of the Company, its subsidiary or affiliate or related interests during the past three (3) years counted from the date of his/her 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 Bank, 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)

**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)

## **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 BDOLF 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 By-laws 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)

### **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 Company'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 BDOLF to customers, regulators, shareholders, financial industry and the general public; and
9. Receives instructions from the Board and ensures full compliance. (Recommendation 5.4)

### **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)

#### **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)

For Recommendation 5.6, please see Page 9 Item 4 Related Party Transactions

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## **SECTION 6. ASSESSING BOARD PERFORMANCE**

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### **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. (Recommendation 6.2)

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## **SECTION 7. STRENGTHENING BOARD ETHICS**

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### **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)

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 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)

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## **SECTION 8. ENHANCING COMPANY DISCLOSURE POLICIES AND PROCEDURES**

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### **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)
2. Information on Groupwide 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)
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.
5. All such information shall be disclosed through the appropriate disclosure mechanisms of the Philippine Stock Exchange and submissions to the Securities and Exchange Commission for the interest of its stockholders and other stakeholders.

6. BDOLF 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)

### **Personal Trading Policy**

The purpose of this policy is to promote compliance with applicable securities laws and regulations by Group, including 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 the Company, its parent bank and subsidiaries who in the discharge of their duties, may gain access to material non-public, price-sensitive information about BDO and its subsidiaries and non-BDO publicly-traded securities. It does not include BDOLF 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 and BDOLF securities to the Securities and Exchange Commission and Philippine Stock Exchange. (Recommendation 8.2)

### **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 as 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 Chief 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)

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)

For Recommendation 8.5, please see Page 9 Item 4 Related Party Transaction

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## **SECTION 9. STRENGTHENING THE EXTERNAL AUDITOR'S INDEPENDENCE AND IMPROVING AUDIT QUALITY**

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### **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)

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. The Committee is also responsible to review and monitor the External Auditor's suitability and effectiveness on an annual basis. (Recommendation 9.2)

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)

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## **SECTION 10. INCREASING FOCUS ON NON-FINANCIAL AND SUSTAINABILITY REPORT REPORTING**

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BDOLF, being part of BDO Unibank Group, is part of the Sustainable Business Framework of the SM Investments Inc.(SMIC) in reporting of economic, environmental, social and governance issues of its business. SMIC's ESG Report is compliant with the globally recognized standard in reporting sustainability and non-financial issues.

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## **SECTION 11. PROMOTING A COMPREHENSIVE AND COST-EFFICIENT ACCESS TO RELEVANT INFORMATION**

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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. As part of the BDO Group, the BDO Unibank, Inc.'s Investor Relation 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, BDO Unibank, Inc.'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 BDOLF'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.

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## **SECTION 12. STRENGTHENING THE INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK**

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To ensure safe and sound operations, BDOLF 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)

### **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 Company 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)

### **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, its subsidiary and affiliate;
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)

### **Independent Risk Management Function**

The Company 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)

### **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 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 Risk

Management Committee and administratively to the President but the Board shall confirm the performance rating given by the President.

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)

#### **Role of Corporate Governance Officer (CGO)**

**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. Ensures that the meetings of the Corporate Governance Committee are held in accordance with the Terms of Reference;
3. Oversees the preparation of the agenda of the CG Committee meeting in coordination with the Office of the Corporate Secretary; and with Senior Corporate Corporate Governance Officer of the Parent Bank;
4. Keeps the Corporate Governance Committee fully informed of any new regulatory developments and best practices in corporate governance; and
5. Recommends in consultation with Senior Corporate Governance Officer of Parent Bank, the training programs and seminars for the continuing education of the Board of Directors.

The CGO shall ensure that the Company's corporate governance policies and practices are in always in consonance with its parent bank, and compliant to its regulators.

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### **SECTION 13. PROMOTING SHAREHOLDER RIGHTS**

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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.

## **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's Dividend Policy approved by the Board of Directors on December 10, 2014, as the same may be amended.
- b. BDOLF 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 regulators 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)

### **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.

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)

- 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)
- 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, BDOLF has put in place an Alternate Dispute Resolution mechanism to resolve intra-corporate dispute in an amicable and effective manner. Please refer to Annex B for the policy. (Recommendation 13.4)
- 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.

The 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.

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## **SECTION 14. RESPECTING RIGHTS OF STAKEHOLDERS AND EFFECTIVE REDRESS FOR VIOLATION OF STAKEHOLDER'S RIGHTS**

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### **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)

### **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**

BDOLF 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**

BDOLF adopts a pro-active relationship with its stockholders through BDO Unibank, Inc.'s Investor Relations' comprehensive engagement program. BDO Unibank, Inc.'s Investor Relations Unit actively cultivates relationships with current and potential investors by joining conferences and roadshows in the key global financial markets. BDO Unibank, Inc.'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 Program to identify, measure, monitor, and control consumer protection risks inherent in its operations. Through the "We Find Ways" service program of the BDO Unibank 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**

BDOLF 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, the Company 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 Unibank Group employees in their dealings with clients, suppliers, business partners and service providers. It covers the BDO Group'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**

BDOLF 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.

## **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: Investor Relations and Corporate Planning (IR and Corplan) for institutional investors, analysts, credit rating agencies, and other external stakeholders; the Corporate Secretary's office (CorSec) for retail investors and other shareholders; and both IR and CorSec for the Board members and Senior Management. Also, communications requiring media involvement are done in conjunction with the BDO Unibank, Inc.'s Marketing Communications Group (MCG). (Recommendation 14.3)

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## **SECTION 15. ENCOURAGING EMPLOYEES' PARTICIPATION**

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BDOLF 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 subsidiary 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 BDO Unibank Group allocates every year a training budget for these developmental programs. (Recommendation 15.1)

### **Anti-Corruption Policy**

BDOLF 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)

### **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)

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## **SECTION 16. ENCOURAGING SUSTAINABILITY AND SOCIAL RESPONSIBILITY**

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

Recognizing its social development role, the Company has instituted socio-civic programs thru the BDO Foundation, Inc. geared towards empowerment of marginalized communities and promoting environmental protection as a way of giving back particularly to the communities in which we operate and to the society in general through the active involvement and participation of its employees.

#### **1. Disaster Response Advocacy**

The main focus is relief, rehabilitation and reconstruction in disaster hit areas.

#### **2. Environmental Initiatives**

Among its environmental initiatives, BDOLF has in place a 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.

Please refer to the Corporate Social Responsibility Section of the Company's Annual Report for more details on the BDO Unibank Group's socio-civic programs and initiatives published in our corporate website at ([www.bdo.com.ph/leasing/home](http://www.bdo.com.ph/leasing/home)). (Recommendation 16.1)

## **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 BDOLF, including subsidiary and affiliate to ensure their awareness of the corporate governance policies and practices of BDOLF 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.

Signed:



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**Teresita T. Sy**  
Chairperson



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**Angelita C. Tad-y**  
Chief Risk and Compliance Officer

**REVISED RELATED PARTY TRANSACTIONS POLICY v. 09.30.16****A. OBJECTIVES**

In compliance with BSP Circular 895 as amended by BSP Circular 914, the Related Party Transactions policy applies to BDO Leasing and Finance, Inc. (the Company) its subsidiaries and affiliates, 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 Bank and its Related Parties; and
- ensure 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.

**B. RELATED PARTIES**

For purposes of this policy, a Related Party means-

**1. DOSRI**

- α. Directors* shall refer to the bank directors as defined in Subsec. X141.1.<sup>1</sup>
- β. Officers* shall refer to bank officers as defined in Subsec. X142.1.<sup>2</sup>
- χ. Stockholder* shall refer to any stockholder of record in the books of the bank, 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 lending bank, individual and/or collectively with the stockholdings of: (i) his spouse and/or relative within the first degree by consanguinity or affinity or legal adoption; (ii) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and (iii) 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

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<sup>1</sup> *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; and (3) those elected to fill vacancies in the Board of Directors.

<sup>2</sup> *Officers* shall include the President, Executive Vice President, Senior Vice President, General Manager, Treasurer, Secretary, Trust Officer and others mentioned as officers of the Bank, or those whose duties as such are defined in the By-Laws, or are generally known to be the officers of the bank (or any of its branches and offices other than the head office) either through announcement, representation, or publication or any kind of communication made by the bank: Provided, That a person holding the position of Chairman or Vice Chairman of the Board or another position in the board shall not be considered as an officer unless the duties of his position in the board 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. (*As amended by Circular No. 562 dated 13 March 2007*)

corporation, association or firm, amount to one percent (1%) or more of the total subscribed capital stock of the bank. *(As amended under Circular 464 dated 1/4/05)*

δ. *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 Company;
- (2) Partnership of which a director, officer, or stockholder of a Company 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 lending bank 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 d(2), d(4) and d(5) of this Section;
- (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 bank or which controls majority interest of the bank pursuant to Subsec. X303.1;
- (7) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the lending bank; 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 banks.

## **2. SUBSIDIARIES AND AFFILIATES**

A 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.

An Affiliate shall refer to an entity linked directly or indirectly to a Company by means of:

- a. Ownership, control as defined under Subsec. X146.1, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa;

- b. Interlocking directorship or officership, where the concerned director or officer owns; controls, as defined under 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;
- c. Common shareholders owning at least ten percent (10%) of the outstanding voting stock of the Company and at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty;
- d. Management contract or any arrangement granting power to the Company to direct or cause the direction of management and policies of the borrowing entity/counterparty; or
- e. Permanent proxy or voting trusts in favor of the bank constitution at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

In cases where the borrowing entity is linked to the lending bank both as DOSRI and as a subsidiary or affiliate, the DOSRI rules shall apply.

### **3. OTHER RELATED PARTIES**

- a. Any party (including their subsidiaries, affiliates and special purpose entities) that the Company exerts direct/indirect control over;
- b. Any party that exerts direct/indirect control over the Company;
- c. 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, of Directors, Senior Officers with a rank of SVP or higher of the Company who has the ability to control or to exercise significant influence in the outcome over the defined Related Party Transactions such as Senior Officers with discretion and can influence decisions solely;
- d. Directors, Officers and Stockholders of the affiliated companies and
- e. 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, of Directors, Senior Officers in affiliated companies.

The persons and entities in each Related Party Group shall be determined in advance and a central inventory of all related parties of the Company shall be set up, maintained and updated from time to time to reflect subsequent changes in relationships such as a non-related party becoming a related party, promotions, resignations or retirements of company officers.

### **C. RELATED PARTY TRANSACTIONS**

#### **1. Types of transactions to be covered:**

##### **a. Credit Transactions**

- (1) On-and-off balance sheet loan availments and claims and write-offs; and
- (2) Borrowings

##### **b. Services**

- (1) Consulting, professional, agency and other service arrangements/contracts; and
- (2) Construction arrangements/contracts;

##### **c. Goods and Materials**

- (1) Purchases, sales or supply of any goods or materials

##### **d. Leases**

- (1) Lease arrangements/contracts

**e. Assets**

- (1) Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements)

**f. Investments**

- (1) Investments and/or subscriptions for debt/equity issuances not traded in the active market; and  
 (2) Establishment of joint venture entities

**D. MATERIALITY THRESHOLDS AND EXPOSURE LIMITS**

The following amounts are considered material exposures **for each type of related party transaction; for each related party group, and for all related party groups:**

Type of RPT	Total Credit Facility/ Transaction Amount	Per Related Party Group			Maximum Aggregate Exposure for All Related Parties
		DOSRI	Subsidiaries/ Affiliates	Other Related Party	
<b>Loan availments, Investments &amp; Joint Ventures</b>	<b>Php10M</b>	Maximum of 15% of BDOLF's Qualifying Capital	Maximum of 15% of BDOLF's Qualifying Capital	Maximum of 4x BDOLF's Qualifying Capital less the set limit for DOSRI and Subsidiaries /Affiliates	Maximum of 4x of the Qualifying capital
<b>Write-off of Related Party Transaction</b>	<b>Php1M</b>				
<b>Borrowings</b>					
<b>Services</b>	<b>1M</b>	<b>20M</b>	<b>20M</b>	<b>20M</b>	<b>60M</b>
<b>Goods and Materials</b>	<b>1M</b>	<b>20M</b>	<b>20M</b>	<b>20M</b>	<b>60M</b>
<b>Leases</b>	<b>1M</b>	<b>20M</b>	<b>20M</b>	<b>20M</b>	<b>60M</b>
<b>Assets</b>	<b>1M</b>	<b>20M</b>	<b>20M</b>	<b>20M</b>	<b>60M</b>
<b>Investments</b>	<b>1M</b>	<b>20M</b>	<b>20M</b>	<b>20M</b>	<b>60M</b>

## **E. TERMS OF RELATED PARTY TRANSACTIONS**

To ensure that related party transactions are conducted at arm's length basis and in the ordinary course of business, the terms and conditions of the transaction should not be more favorable than similar transactions with non-related parties. The terms and conditions shall include those relating to term, interest rates, fees, collaterals, contract/selling price and other relevant information that will allow a clear determination that no preferential treatment was given to a related party. The price discovery mechanisms used and the results obtained should also be disclosed in the proposal.

## **F. REVIEW OF RELATED PARTY TRANSACTIONS**

The Related Party Transactions Committee is vested with the authority to review any credit and non-credit transaction with a related party that is within the specified materiality threshold prior to the approval of the Board. To fulfill its mandate, the Committee shall conduct a comprehensive review of the transactions focusing on the terms and conditions, the business purpose, the justifications in entering into these transactions and compliance with the rules and regulations on Related Party Transactions. In determining whether to ratify or not a Related Party Transaction, the Committee shall consider the following factors, among others, to the extent relevant to the proposed Related Party Transaction:

- Whether the terms of the Related Party Transaction are fair and on arm's length basis to the Company;
- Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- Whether the Related Party Transactions would present an improper conflict of interest for any director or senior officers of the Company, taking into account the size of the transaction and the significant influence of the senior officer in the outcome of the transaction;
- The availability of other sources of comparable products or services;
- The material facts of the proposed RPT, including the proposed aggregate value of such transaction; and
- Any other information (e.g., price discovery system, etc.) the Committee deems relevant to allow determination if terms are comparable to those given to unrelated parties or reasonable under the circumstances.

After considering all these factors, the Committee shall decide if the transaction is in the ordinary course of business and meets the arm's length requirements. It shall then endorse this transaction to the Board for approval.

Any member of the Committee who has a potential interest in any Related Party Transaction shall abstain from the discussion and endorsement of the Related Party Transaction.

## **G. APPROVAL OF RELATED PARTY TRANSACTIONS**

The Board of Directors is the final approving authority for all Related Party Transactions. The following requires prior approval of the Board:

1. all material credit and non-credit related party transactions endorsed by the Related Party Transactions Committee;
2. any renewal or material changes in the terms and conditions of related party transactions;
3. all DOSRI transactions regardless of amount as required under existing rules;
4. all related party transactions approved by the Excom and other authorized management committees that are below the material threshold;
5. all write-offs of material exposures to related parties;

6. breaches in internal limits for individual and aggregate exposures to related parties; and
7. governing policy on related party transactions and all subsequent changes thereto.

All related party transactions that fall below the materiality threshold shall only require confirmation by the Board.

Any member of the Board who has an interest in the transaction must abstain from the deliberation and approval of any related party transaction.

**H. INDEPENDENT OVERSIGHT**

To ensure compliance with internal policy and regulatory requirements, Internal Audit and the Compliance Office must perform an independent review on the effectiveness of the systems and controls, and compliance with relevant rules and regulations governing related party transactions . They should directly report their findings to the Board Audit Committee.

**I. REPORTING OF RELATED PARTY TRANSACTIONS**

A monthly report shall be submitted to the Board through the Related Party Transactions Committee for the individual and aggregate exposures to each related party including the status thereof.

In addition to the required reports on DOSRI and transactions with subsidiaries & affiliates under existing regulations, BDOLF shall submit the following reports to the Parent Bank:

<b>Report Name</b>	<b>Schedule of Reporting</b>
Report on Material Related Party Transactions (Annex B)	20 calendar days after the reference quarter

**J. WHISTLE BLOWING MECHANISMS, RESTITUTION OF LOSSES AND REMEDIES FOR ABUSIVE RPTs**

Reporting & investigation of abusive RPTs shall be handled following the Bank's existing code of conduct and Whistleblowing Guidelines, while restitution of losses and remedies for abusive RPTs shall be handled following the Bank’s Cases Review Guidelines.

**K. DISCLOSURE OF RELATED PARTY TRANSACTIONS**

The salient points of the policy will be published in the Company’s website at <http://www.bdo.com.ph/leasing/home>.

The material related party transactions including write-off of material exposures to related parties shall be submitted for confirmation by majority vote of the stockholders in the Annual Stockholders’ Meeting. This information will also be published in the Company's Annual Report.

**L. POLICY REVIEW AND IMPLEMENTATION**

This policy shall be reviewed by the Compliance Office as and when any changes are to be incorporated in the policy due to changes in regulation and/or amendments to existing laws. It shall ensure also the proper implementation of the policy across the Company's subsidiaries and affiliates.

**M. EFFECTIVITY OF THE POLICY**

The policy shall supersede the Revised Related Party Transactions Policy approved by the Board of Directors on June 30, 2016 as amended, shall take effect immediately.

*(The Company's ADR was approved by the Corporate Governance Committee on April 19, 2011 and the Board of Directors on May 4, 2011)*

## ANNEX B

### ALTERNATIVE DISPUTE RESOLUTION

#### COVERAGE

The BDOLF Alternative Dispute Resolution (ADR) System shall cover disputes between the BDOLF and its stockholders, and the BDOLF 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 BDOLF 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 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 Legal Services Group (LSG), promptly commence negotiations with the opposing party for possible settlement. As a matter of policy, the Bank 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 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 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 setting the Dispute under applicable law and rules.

**MONITORING AND REPORTING**

All Disputes referred to the ADR process shall be monitored.

Disputes between the BDOLF and stockholders shall be monitored by the Office of the Corporate Secretary; disputes between the BDOLF and third parties not involving regulatory authorities shall be monitored by LSG; and disputes between the Bank and regulatory authorities shall be monitored by the Compliance Office.

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.