

PREAMBLE

A. THE BANK:

Philippine Postal Savings Bank, a thrift bank, is a subsidiary of the Philippine Postal Corporation. It was re-established on July 21, 1994 and subsequently granted authority by the Monetary Board and the Department of Finance as an official depository of the government. At present, it has 25 branches strategically located in 25 major cities and municipalities nationwide.

B. CHARTER STATEMENT

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| Mission | To provide financial services in the countryside in synergy with the Philippine Postal Corporation, specifically in the unbanked/ underserved areas where poverty and employment are the highest resulting in the upliftment of the lives of the poor communities thru bigger income and better services |
| Vision | By Year 2020, PPSB shall be a strong government bank with focus on countryside development |
| Core values | <ol style="list-style-type: none">a. Commitment in providing development to the countryside specifically in the unbanked/ underserved areasb. Friendly and Excellent Servicec. Integrity and Transparencyd. Promoting Organizational Cohesiveness and Unity in purpose |

C. CODE OF CONDUCT:

1. Personal Commitment to the Job

We personally commit to discharge our duties and responsibilities in accordance with the highest standards of professionalism in banking, viz:

- To attend and actively participate in all board activities
- To continuously enhance our knowledge in banking
- To share our wisdom and talents with each other

2. Information Disclosure

We shall strictly adhere to the rules on confidentiality of information in accordance with all relevant laws and regulations.

3. Stockholders/ Stakeholders

We shall deal fairly and transparently with our stockholders, clients, competitors and the general public and commit to:

- Report regularly the real status of Postal Bank
- Preserve its resources and wealth
- Protect the interest of its depositors and stockholders

4. Human Capital

We shall strongly support our human capital and exert extra effort to:

- Formulate policies that will promote the professional growth and economic well-being of the employees
- Provide opportunities for career growth and development

5. Employment Practice for Staff and Managers

We shall always practice fairness with all our employees and ensure to:

- Select / appoint qualified officers and employees
- Instill discipline and compliance with personnel policy regulations.

6. Government Rules and Regulations

We shall strictly adhere to government policies, rules and regulations and internal policies and procedures in accordance with the Bank's Code of Conduct and manual of operations.

7. Business Directions and Risk Management

We shall adopt business policies and directions in accordance with pertinent rules and regulations in order to:

- Pursue the growth of business that is responsive to developments in industry and technology.
- Properly evaluate risk areas and take appropriate measures to prevent and/ or mitigate their occurrence.

8. Community

We commit ourselves to maximize our contribution to the economic development of the community we serve and the well-being of its members, particularly the marginalized sector in the countryside.

D. PRINCIPLES OF GOOD GOVERNANCE

1. Fairness

Provides the assurance that all shareholders, whether majority or minority, foreign or local are treated equitably. The profit motive must be balanced with ensuring that the investments of all shareholders are protected.

Recognizes that corporations have a public character:

- Respect for and protection of shareholder rights
- Importance of promoting long-term shareholder value
- Respect for and protection of all stakeholder rights
- Board of Directors has duty to direct and manage in a manner fair to all shareholders and stakeholders; act with prudence and justice

2. Accountability

Refer to the direct relationship between the shareholders and the directors. The Board of Directors (BOD) is accountable to shareholders who own the company. Likewise, the BOD is responsible for the actions of Management, who implements policies and strategic directions emanating from the Board.

The BOD is accountable in assigning responsibilities and measuring the results while balancing the interest of shareholders and stakeholders.

3. Transparency

Transparency requires that the BOD ensure timely and accurate disclosure on all material matters, such as the financial situation, performance, ownership and governance of the corporation. The BOD should put in place a system of checks and balances and a system of monitoring and reporting based on accepted standards of adequate disclosures.

4. Ethics

Refer to honesty, uprightness, upholding a Code of Ethics that expresses the basic values of the company. Ethic is about avoiding conflicts of interest which is a part of a director's duty of loyalty to the corporation. The BOD must ensure that the company's goals, strategies, policies and practices are moral, proper and legal.

E. OUR COMMITMENT

We hereby commit faithfully to abide by the foregoing Code of Good Governance.

Any breach of the said code of Good Ethical Governance shall be recorded by the Board of Directors.

Any violator thereof shall be subjected to caution, admonition, reprimand or disqualification.

PPSB MANUAL OF CORPORATE GOVERNANCE

Definition of Terms

For the purposes of this Code, the following terms shall have the following meanings:

Affiliate – refers to a corporation fifty percent (50%) or less of the outstanding capital of which is owned or controlled, directly or indirectly, by the GOCC.

Articles of Incorporation – refers to the primary franchise of a Non-chartered GOCC that, once approved and registered with the Securities and Exchange Commission (SEC) by the issuance of the certification of incorporation under its official seal, commences the existence of the GOCC as a separate juridical person with a right of succession and the powers, attributes and properties expressly authorized by law or incident to its existence.

Bank – refers to the Philippine Postal Savings Bank.

By-laws – refers to the basic instrument adopted by a non-chartered GOCC and duly registered with the SEC for its internal government, and to regulate the conduct and prescribe the rights and duties of its stockholders or members towards the GOCC and among themselves in reference to the management of its affairs.

Board of Directors or Board or Governing Board or Board or BOD – refers to the collegial body that exercises the corporate powers, conducts all business and controls or holds all properties of the Bank, whether it be formally referred to as the Board of Directors. **Board Officers** – refers those officers of the Bank whose primary task is to administer the affairs of the Board, provide guidance in the conduct of its meetings and coordinate with Management in gathering the information that the Board requires in making decisions.

Charter – refers to the formal act of Congress creating a Chartered GOCC and defining its franchise.

Charter Statement – refers to a statement of the GOCC's vision, mission and core values.

Chief Executive Officer (CEO) – refers to the highest ranking corporate executive who heads Management and elected annually by the Board of Directors from among its members.

Confidential Information – refers to all non-public information entrusted to or obtained by a member of the Board or Officer by reason of his/her position as such with the GOCC. It includes, but is not limited to, non-public information that might be of use to competitors or harmful to the GOCC or its customers/stakeholders, if disclosed, such as: (1) non-public information about the GOCC's financial condition, prospects or plans, its marketing and sales programs and research and development information, as well as information relating to mergers, acquisitions, divestitures, stock splits and similar transactions; (2) non-public information concerning possible transactions or ventures with other companies, or information about suppliers, joint venture partners, or any information that the GOCC is under obligation to keep confidential; and (3) non-public information about internal discussions, deliberations, and decisions, between and among Directors and Officers

Corporate Governance – refers to a system whereby shareholders, creditors and other stakeholders of a corporation ensure that management enhances the value of the corporation as it competes in an increasingly global market place. It is the framework of rules, systems, and processes in the Bank that governs the performance of the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees,

Director – refers to a member of the Board of Directors.

Executive Director – refers to an individual who sits as a member of the Board and at the same time appointed to head a department/unit within the Bank or perform Management functions

Non-executive Director – refers to a Board member with non-executive functions.

Executive Officer (Officer) – refers to those named in the By-Laws as officers of the Bank, including those officers whose appointment is required to be approved by the Board of Directors.

Extraordinary Diligence – refers to the measure of care and diligence that must be exercised by Directors and Officers in discharging their functions, in conducting business and dealings with the properties and monies of a GOCC and which is deemed met when they use the utmost diligence of a very

cautious person taking into consideration all relevant circumstances and giving due regard to the legitimate interest of all affected Stakeholders.

Fit and Proper Rule – refers to a set of standards for determining whether a Director or Executive Officer is qualified to hold a position in a GOCC which shall include , but not limited to, standards on integrity, experience, education, training and competence as such standards are set forth under GCG Memorandum Circular No. 2012-05.

Management – refers to the body given the authority to implement the policies determined by the Board in directing the course/business activity/ies of the Bank

Material Information – refers to information which a reasonable investor, stakeholder or Supervising Agency would consider important in determining whether: (i) to buy, sell, hold or otherwise transact with the securities issued by a GOCC, or (ii) to exercise voting rights related to securities held with such GOCC, or information relating to corporate acts, contracts and transactions which would adversely affect the operations of the GOCC.

Per Diems – refers to the compensation granted to the members of the Governing Boards for actual attendance in meetings.

Performance Evaluation System (PES) – refers to the process of appraising the accomplishments of GOCCs in a given fiscal year based on set performance criteria, targets and weights.

Performance Scorecard - refers to a governance and management tool forming part of the performance evaluation system which consists of a set of measures, targets, and initiatives that facilitate the achievement of breakthrough results and performance through the effective and efficient monitoring and coordination of strategic objectives of the GOCC.

Public Officials or Public Officers – refers to elective and appointive officials and employees, whether permanent or temporary, whether in the career or non-career service, whether or not they receive compensation, regardless of amount, who are in the National Government, and all other instrumentalities, agencies, or branches of the Republic of the Philippines, including government-owned-or-controlled corporations, and their subsidiaries.

Stakeholder – refers to any individual or entity for whose benefit the GOCC has been constituted, or whose life, occupation, business or well-being is

directly affected, whether favorably or adversely, by the regular transactions, operations, or pursuit of the business or social enterprise for which the GOCC has been constituted, and which would include a stockholder, member, or other investor in the GOCC, management, employees, suppliers, creditors, and the community in which the GOCC operates.

Strategy Map – refers to an integrated set of strategic choices or objectives drawn by the governing body, the successful execution of which results in the achievement of the GOCC’s vision in relation to its mission or purpose for having been created.

Subsidiary – refers to a corporation where at least a majority of the outstanding capital stock is owned or controlled, directly or indirectly by another corporation.

The Role of a GOCC in National Development

The State recognizes the potential of a GOCC as a significant tool to pursue economic development, and as a means to promote growth by ensuring that their operations are consistent with national development policies and programs.

Under RA 10149, the State acting through the Governance Commission for GOCCs (GCG), is mandated to ensure that the:

- (a) operations of the GOCC are rationalized and properly monitored in order that the government assets and resources are used efficiently and government exposures to all forms of liabilities and subsidies is warranted and incurred through prudent means;
- (b) governance of GOCCs is carried out in a transparent, responsible and accountable manner and with utmost degree of professionalism and effectiveness; and
- (c) Governing Boards are competent to carry out their functions, fully accountable to the State as its fiduciary, and always acting in the best interest of the State.

The Governing Board

- A. Board Directly vested with Corporate Powers – Having been vested directly by law with the legal capacity and authority to exercise all corporate powers, conduct all the business, and to hold all the properties of the Bank, the Governing Board is primarily responsible for the governance of the Bank. Consequently, it is the Board and not Management that is primarily accountable to the State for the operations and performance of the Bank.

- B. Board Duty to Properly Select and Provide Independent Check on Management – concomitant with the power to elect the CEO from among their ranks and to appoint other Officers of the Bank, it is the duty of every Governing Board to ensure that they elect and/or employ only Officers who are fit and proper to hold such offices with due regard to their qualifications, competence, experience and integrity. The Board is therefore obliged to provide an independent check on Management.
- C. Mandate and Responsibility of the Bank's Performance – Although the day-to-day management of the affairs of the Bank may be with Management, the Board is, however, responsible for providing policy directions, monitoring and overseeing Management actions as articulated in its Articles of Incorporation, and other relevant legislation, rules and regulations. These mandated functions and responsibilities include the following:
- (a) provide the corporate leadership of the Bank subject to the rule of law and objectives set by the National Government through the Supervising Agencies and the GCG;
 - (b) establish the Bank's vision and mission, strategic objectives, policies and procedures and define the Bank's values and standards through
 - Charter Statements;
 - Strategy Maps; and
 - Other control mechanism mandated by the best business practices;
 - (c) determine important policies that bear on the character of the Bank to foster its long-term success, ensure its long-term viability and strength, and secure its sustained competitiveness;
 - (d) determine the organizational structure of the Bank, define the duties and responsibilities of its officers and employees and adopt a compensation and benefit scheme that is consistent with the Bank's Compensation and Position Classification System (CPCS) developed by GCG and formally approved by the President of the Philippines;
 - (e) ensure that personnel selection and promotion shall be on the basis of merit and fitness and that all personnel action shall be in accordance with applicable laws, rules and regulations;
 - (f) provide sound written policies and strategic guidelines on the Bank's operation budget and major capital expenditures, and prepare the annual and supplemental budgets of the Bank;

- (g) comply with all reportorial requirements, as required in the Articles of Incorporation and By-laws, as well as applicable laws, rules and regulations;
- (h) formally adopt and conduct annually the mandated Performance Evaluation System (PES) and the Performance Scorecard and timely and accurately report the results to the GCG;and
- (i) ensure the fair and equitable treatment of all Stakeholders and enhance the Bank's relations with its Stakeholders.

The Board Governance

The Board of Directors (Board) is primarily responsible for the governance of the Bank. It needs to be structured so that it provides an independent check on management. It is the Board's responsibility to foster the long-term success of the Bank , and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interest of its Stakeholders. As such, it is vitally important that a number of board members be independent from management.

Composition of the Board

The Board shall be composed of nine (9) members to be appointed by the President of the Philippines from a shortlist prepared by the Governance Commission for GOCCs.

Multiple Board Seats

No Appointive Director in PPSB may hold more than two (2) other Board seats in other GOCCs, Subsidiaries and/or Affiliates. It is a declared policy of the GCG to limit the number of Board seats that an incumbent GOCC Board Member may occupy, from which he/she may receive compensation, to at most three (3) positions, inclusive of their primary position, at any given time.

Term of Office of Appointive Directors

Pursuant to Section 17 of RA 10149, any provision in the Charters, Articles of Incorporation and/or By-Laws of each GOCC to the contrary notwithstanding, the term of office of each Appointive Director shall be for one (1) year, unless sooner removed for cause. Provided, however that each Appointive Director shall continue to hold office until his successor is appointed and qualified.

Board Officers

The Board Officers of the Bank are the Chairman of the Board (who is the highest ranking of the Board Officers), the Vice Chairman, the Corporate Secretary and the Compliance Officer, who must all be Filipino citizens.

The Chairman

The roles of the Chairman and the Chief Executive Officer (“CEO”) shall be separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.

The Chairman shall preside at all meetings of the Board of Directors and stockholders of the corporation. Unless delegated to the CEO, the Chairman Chairman’s responsibilities may include:

- a. schedule meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the company’s operations
- b. approving the meeting’s agenda in consultation with the CEO and the Corporate Secretary;
- c. exercise control over quality, quantity and timeliness of the flow of information between Management and the Board; and
- d. assist in ensuring compliance with the Bank’s guidelines on corporate governance.

The Chief Executive Officer (CEO)

The CEO or the highest ranking Executive Officer provided for in the Charter or By-Laws, shall be elected annually by the members of the Board from among its ranks. The CEO shall be subject to the disciplinary powers of the Board and may be removed by the Board for a cause. In addition to the duties imposed on him by the Board, the CEO shall:

- (a) exercise general supervision and authority over the regular course of business, affairs and property of the GOCC, and over its employees and officers;
- (b) see to it that all orders and resolutions of the Board are carried into effect;
- (c) submit to the Board as soon as possible after the close of each fiscal year, and to the shareholders at the annual meeting, if applicable, a complete report of the operations of the Bank for the preceding year, and the state of its affairs;
- (d) report to the Board from time to time all matters which the interest of the GOCC may require to be brought to its notice; and

- (e) perform such other duties and responsibilities as the Board may impose upon him.

The Corporate Secretary

The Corporate Secretary need not be a member of the Board. Ideally, the Corporate Secretary must possess organizational and interpersonal skills, and the legal skills of a Chief Legal Officer and basic understanding of accounting principles. The Corporate Secretary shall have the following functions:

- a. Certify to all corporate actions approved by the Board of Directors and the stockholders;
- b. Serve as an adviser to the Board Members on their responsibilities and obligations;
- c. Keep the minutes of meetings of the Board of Directors and the stockholders;
- d. Keep in safe custody the seal of the Bank;
- e. Have charge of the stock certificate book;
- f. Attend to giving and serving notices of Board, stockholders meetings;
- g. Take the lead in the scheduling of the activities of the Board and holding of the Board Committees and stockholders meetings;
- h. Receive instructions from the Chairman or CEO;
- i. Oversee the adequate flow of the information to the Board;
- j. Ensure fulfilment of disclosure requirements to regulatory bodies except disclosures required to be made by the other officers of the corporation.

The Corporate Secretary shall have such other responsibilities as the Board may impose upon him. The Board shall have separate and independent access to the Corporate Secretary.

The Compliance Officer

The Board shall appoint a Compliance Officer who shall report directly to the Chairman. The Compliance Officer shall perform the following:

- a. Monitor compliance by the Bank of the requirements under this Act, this Code, the rules and regulations of the appropriate Government Agencies, and if violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation;
- b. Appear before the GCG when summoned in relation to the compliance with this Code or other compliance issues; and

- c. Issue a certification every 30 May of the year on the extent of the Bank's compliance with government corporate standards governing GOCCs for the period beginning 1 July of the immediately preceding calendar year and, if there are any deviations, explain the reason for such deviation.

The appointment of the Compliance Officer shall not relieve the Governing Board of its primary responsibility vis-à-vis the State, acting through the GCG, to ensure that the Bank has complied with all its reportorial, monitoring and compliance obligations.

MANAGEMENT

The role of Management stands at the center of decision making in managing the day-to-day affairs of the Bank. It determines the Bank's activities by putting the targets set by the Board in concrete terms and by implementing basic strategies for achieving those targets.

Management is responsible to the Board for implementing the infrastructure for the Bank's success through the following mechanisms in its organization as set by the Board: organizational structures that work effectively and efficiently in attaining the goals of the Bank; useful planning, control, risk management systems that assess risk on an integrated cross-functional approach; information systems that are defined and aligned with an informational technology strategy and the business goals of the Bank; and a plan of succession that formalizes the process of identifying, training and selection of successors in key positions in the Bank.

The Chief Executive Officer (CEO)

The CEO or the highest ranking Executive Officer provided for in the Charter or By-Laws, shall be elected annually by the members of the Board from among its ranks. The CEO shall be subject to the disciplinary powers of the Board and may be removed by the Board for a cause. In addition to the duties imposed on him by the Board, the CEO shall:

- (a) exercise general supervision and authority over the regular course of business, affairs and property of the GOCC, and over its employees and officers;
- (b) see to it that all orders and resolutions of the Board are carried into effect;
- (c) submit to the Board as soon as possible after the close of each fiscal year, and to the shareholders at the annual meeting, if applicable, a complete report of the operations of the Bank for the preceding year, and the state of its affairs;
- (d) report to the Board from time to time all matters which the interest of the GOCC may require to be brought to its notice; and

- (e) perform such other duties and responsibilities as the Board may impose upon him.

Corporate Treasurer

The Corporate Treasurer shall have charge of the funds, securities, receipts and disbursements of the Bank. Unless otherwise provided in the Charter or the By-Laws, the Treasurer shall also have the following functions:

- (a) Deposit or cause to be deposited all monies and other valuable effects in the name and to the credit of the Bank in compliance with applicable laws, rules and regulations;
- (b) Regularly and at least quarterly render to the CEO or to the Board an account of the fund or condition of the funds of the Bank and all of the transactions as such;
- (c) Ensure fund availability on a timely basis and at the most economical means;
- (d) Optimize yields in temporary excess funds, but at the same time ensure the implementation of appropriate risk management measures over its resources;
- (e) Provide relevant and timely financial market information; and
- (f) Perform such other responsibilities as the Board may impose.

Chief Financial Officer (CFO)

The CFO, who may also be the Treasurer, shall be responsible for the following:

- (a) Providing management with accurate, relevant and timely operating and financial reports and analysis necessary for the financial planning and strategy formulation, and monitoring actual implementation of budgets, plans and programs towards the achievement of corporate goals;
- (b) Maintaining the integrity of accounting records as the basis of the financial statements and reports provided to Management for decision making and to government regulatory bodies in compliance with statutory requirements;
- (c) Promoting investor and public confidence in the Bank by addressing the various information requirements of the investing public and ensuring that all other legal reportorial obligations to the concerned agencies are complied with;
- (d) Strengthening internal controls by monitoring compliance with policies and recommending to Management appropriate actions and changes in systems and procedures in the exigencies of the service; and
- (e) Performing such other responsibilities as the Board may impose.

Qualifications of Directors

Every director shall own at least one (1) share of the capital stock of the Bank of which he is a director, which share shall stand in his name in the books of the Bank.

The Board may provide for additional qualifications of a director such as, but not limited to, the following:

1. Educational attainment
2. Adequate competency and understanding of business
3. Age requirement
4. Integrity/probity
5. Assiduousness

All members of the Board, including the CEO and other Officers, shall be qualified by the Fit and Proper Rule issued by the Governance Commission for GOCCs (GCG) approved by the President of the Philippines, including any future amendments and revisions thereof, and shall include by reference the qualifications expressly provided for in the PPSB's By-Laws.

Independent directors-

In selecting independent directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time effectively carry-out his duties and responsibilities: *Provided*, That the rules and regulation of Securities and Exchange Commission (SEC) governing public and listed companies on the maximum number of companies of the conglomerate in which an individual can serve as an independent direction shall apply to directors of all types of banks

Disqualification of Directors

Without prejudice to specific provisions of law, rules and regulations of Supervising Agencies prescribing disqualifications for Appointive Directors, the following are the disqualification rules for Appointive Director:

- a. Permanent Disqualification – the following individuals are permanently disqualified from appointment or re-appointment, or to continue holding the position of Appointive Director or CEO in any GOCC, as the case may be, thus:
 - i. any person who has been finally convicted by a competent judicial or administrative body of the following: (i) any crime involving the purchase or sale of securities, e.g., proprietary or non-proprietary membership certificate, commodity futures contract, or interest in a common trust fund, pre-need plan, pension plan or life plan; (ii) any crime arising out of the

person's conduct as an underwriter, broker, dealer, investment company, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, floor broker; and (iii) any crime arising out of his relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them.

- ii. any person who, by reason of any misconduct, after hearing or trial, is permanently or temporarily enjoined by order, judgment or decree of the Securities and Exchange Commission (SEC) or any court or other administrative body of competent jurisdiction from: (i) acting as an underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or a floor broker; (ii) acting as a director or officer of a bank, quasi-bank, trust company, investment house, investment company or an affiliated person of any of them; (iii) engaging in or continuing any conduct or practice in connection with any such activity or willfully violating laws governing securities, and banking activities. Such disqualification shall also apply when such person is currently subject to an effective order of the SEC or any court or other administrative body refusing, revoking or suspending any registration, license or permit issued under the Corporation Code, Securities Regulation Code, or any other law administered by the SEC or Bangko Sentral ng Pilipinas, or under any rule or regulation promulgated by the SEC or Bangko Sentral ng Pilipinas, or otherwise restrained to engage in any activity involving securities and banking. Such person is also disqualified when he is currently subject to an effective order of a self-regulatory organization suspending or expelling him from membership or participation or from associating with a member or participant of the organization.
- iii. any person finally convicted judicially or administratively of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false oath, perjury or other fraudulent act or transgressions.
- iv. any person finally found by the SEC or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or Bangko Sentral ng Pilipinas, or any rule, regulation or order of the SEC or Bangko Sentral ng Pilipinas, or who has filed a materially false or misleading application, report or registration statement required by the SEC, or any of its rules, regulations or order,
- v. any person judicially declared to be insolvent, spendthrift or incapacitated to contract;.

- vi. any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in paragraphs (a) to (e) hereof.
- vii. any affiliated person who is ineligible, by reason of paragraphs (a) to (e) hereof to serve or act in the capacities listed in those paragraphs.

Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment.

- viii. Directors, CEO and Officers of GOCCs who have been:
 - a. found by a competent administrative body as administratively liable for violation of laws, rules and regulations, particularly applicable to the sector of the GOCC concerned, as well as those covered by related sectors, and where a penalty of removal from office is imposed, which finding of the administrative body has become final and executory;
 - b. determined by the Commission on Audit (COA) pursuant to a Notice of Disallowance which has become final and executory, to have by virtue of their office, acquired or received a benefit or profit, of whatever kind or nature including, but not limited to, the acquisition of shares in corporations where the GOCC has an interest, using the rights, options or properties of the GOCC for their own benefit, receiving commission on contracts from the GOCC's assets or taking advantage of corporate opportunities of the GOCC, or
 - c. found to be culpable for a GOCC's insolvency, closure, or ceasure of operations, as determined by the GCG in consultation with the appropriate Government Agency.
- ix. Directors and Officers of private corporations, or any person found by the GCG in consultation with the appropriate Government Agency to be unfit for the position of Appointive Director because they were found administratively liable by such Government Agency for:
 - i. a violation of laws, rules and regulations relevant to the sector of the GOCC concerned, as well as in related sectors; or
 - ii. any offense/violation involving dishonesty or breach of trust;

and which finding of such Government Agency has become final and executory.

The Board may also provide for the temporary disqualification of an Appointive Director or CEO for the following reasons:

- a. Refusal to fully disclose or failed to fully disclose the extent of his business interest as required by Bangko Sentral Ng Pilipinas or the SEC under the

law and its Implementing Rules and Regulations or any material information required to be disclosed to the GCG, the appropriate Governing Agency or the GOCC concerned. This disqualification shall be in effect as long as his refusal persists.

- b. Appointive Directors who have been absent or who have not participated for whatever reason in more than fifty (50%) of all meetings of the Board, both regular and special during the immediately preceding semester, or who failed to attend for whatever reason at least twenty five (25%) of all board meetings in any year; Provided however, that such temporary disqualification applies only for purposes of the immediately succeeding appointment for a new term of office.
- c. Persons who are delinquent in the payment of their obligations as defined hereunder:

c-1 Delinquency in the payment of obligations means the failure to pay according to the terms of the contracted obligation with the GOCC, subsidiary or affiliate or with a private corporation, within at least sixty (60) days from formal demand.

c-2 Obligations shall include all borrowings obtained by:

- (i) A Director or Officer for his/her own account or as the representative or agent of others or where he/she acts as a guarantor, endorser or surety for loans from such institutions;
- (ii) The spouse or child under the parental authority of the Director or Officer;
- (iii) Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a Director or Officer;
- (iv) A partnership in which a Director or Officer, or his/her spouse, is the managing partner or a general partner owning a controlling interest in the partnership; and
- (v) A corporation, association or firm wholly-owned or majority of the capital of which is owned, by any or a group of persons mentioned in the foregoing items (i), (ii) and (iv).

c-3 Such temporary disqualification shall be in effect as long as delinquency persists.

- d. Being under preventive suspension by the Bank.
- e. If the independent director becomes an officer or employee of the Bank, he shall automatically cease to qualify as an independent director.

- f. If the beneficial security ownership of an independent director in the company or in its related companies shall exceed the 10% limit.
- g. Conviction that has not yet become final referred to in the grounds for the disqualification of directors.

Duties and Obligations of Directors and Officers

- A. Fiduciaries of the State – Directors and Officers are fiduciaries of the State in that:
 - (a) They have legal obligation and duty to always act in the best interest of the Bank, with utmost good faith in all dealings with the properties, interest and monies of the Bank; and
 - (b) They are constituted as trustees in relation to the properties, interests and monies of the Bank.
- B. Directors and Officers as Public Officials – Directors and officers are also Public Officials as defined by, and are therefore covered by the provisions of the Code of Conduct and Ethical Standards for Public Officials and Employees, with its declared policies;
 - (a) To promote a high standard of ethics in public service, and
 - (b) Public Officials and employees shall at all times be accountable to the people and shall discharge their duties with utmost responsibility, modest lives and uphold public interest over personal interest.
- C. Respect for and Obedience to the Constitution and the Law – as Public Officials, a Director or Officer shall respect and obey the Constitution, and shall comply and cause the Bank to faithfully and timely comply, with all legal provisions, rules and regulations, and corporate governance standards, applicable to them and to the Bank in which they serve and to act within the bounds of their Charter, Articles of Incorporation.
- D. Duty of Diligence – the fiduciary duty of diligence of Directors and Officers to always act in the best interest of the Bank, with utmost good faith in all its dealings with the property and monies of the Bank, includes the obligation to:
 - (a) Exercise extraordinary diligence, skill and utmost good faith in the conduct of the business and in dealing with the properties of the Bank, using the utmost diligence of a very cautious person with due regard to all the relevant circumstances;
 - (b) Apply sound business principles to ensure the financial soundness of the Bank; and
 - (c) Elect and/or employ only Officers who are fit and proper to hold such office with due regard to the qualifications, competence, experience and integrity.

Every Director or Officer, by the act of accepting such position in the Bank, affirms and agrees:

- (1) To have working knowledge of the statutory and regulatory requirements affecting the Bank, including the contents of its Articles of Incorporation and By-Laws, the requirements of the GCG, and where applicable, the requirements of other Supervising Agencies; and
- (2) To always keep himself informed of industry developments and business trends in order to safeguard the Bank's interests and preserve its competitiveness.

E. Duty of Loyalty – the fiduciary duty of loyalty of Directors and Officers to always act in the best interest of the Bank, with utmost good faith in all its dealings with the properties and monies of the Bank, includes the obligation to:

- (a) Act with utmost and undivided loyalty to the Bank;
- (b) Avoid conflicts of interest and declare any interest they may have in any particular matter before the Board; and
- (c) Avoid (1) taking for themselves opportunities related to the Bank's business, (2) using the Bank's property, information or position for personal gain; or (3) competing with the Bank's business opportunities.
- (d) Avoid conflict of interest – Directors and Officers shall at all times avoid any actual or potential conflict of interest with the Bank. Each shall avoid any conduct, or situation, which could reasonably be construed as creating an appearance of a conflict of interest.
Any question about a Director's or Officer's actual or potential conflict of interest with the Bank, shall be brought promptly to the attention of the Chairman of the Board, who will review the question and determine an appropriate course of action.
- (e) Trustee relation to the Bank's Properties, Interest and Monies – Except for the per diem received for actual attendance in board meetings and the reimbursement for actual and reasonable expenses and incentives as authorized by the GCG, any and all realized and unrealized profits and/or benefits including, but not limited to, the share in the profits, incentives of Directors or Officers in excess of what is authorized by the GCG, stock options, dividends and other similar offers or grants from corporations where the Bank is a stockholder or investor, and any benefit from the performance of Directors or Officers acting for and in behalf of the Bank in dealing with its properties, investments in other corporations, management of Subsidiaries and other interest, are to be held in trust by such Director or Officer for the exclusive benefit of the Bank represented.
- (f) Taking of corporate opportunities – where a Director or Officer or an Officer, by reason of his being a member of the Board or an Officer of the Bank, acquires or receives for himself/herself a benefit or profit of

whatever kind or nature, including but not limited to the acquisition of shares in corporation where the Bank has an interest, the use of the properties of the Bank for his/her own benefit, the receipt of commission(s) on contract(s) with the Bank or its assets, or the taking advantage of corporate opportunities of the Bank, all such profits and benefits shall be subject to restitution pursuant to Section 24 of RA 10149 without prejudice for any administrative, civil or criminal action against such Director or Officer. The remedy of restitution shall apply notwithstanding the fact that such Director or Officer risked his/her own funds in the venture.

- (g) Restitution – Pursuant to Section 24 of RA 10149, upon the determination and report of the Commission of Audit (COA) pursuant to a Notice of Disallowance which has become final and executory, that properties or monies belonging to the Bank without authority, or that profits are earned by the Director or Officer in violation of his/her fiduciary duty, or the aggregate per diems, allowances and (SOMETHING IS MISSING HERE) provided under RA 10149, the Director or Officer receiving such properties or monies shall immediately return the same to the Bank.

Failure by a Director or Officer to make the restitution within thirty (30) days after written demand has been served, shall, after trial and final judgment, subject such Director or Officer to the punishment of imprisonment for one (1) year and a fine equivalent to twice the amount to be restituted and, in the discretion of the court of competent jurisdiction, disqualification to hold public office.

- F. Limits to Compensation, Per Diems, Allowances and Incentives – Pursuant to Section 23 of RA 10149.
- (a) The Charters or By-Laws of the Bank, to the contrary notwithstanding, the compensation, per diems, allowances and incentives of the Appointive Directors shall be determined by the GCG, using as reference, among others Executive Order No. 24 dated 10 February 2011; and
 - (b) Directors shall not be entitled to retirement benefits acting as such directors.
- G. No gift policy – A Director or Officer shall not solicit, nor accept, directly or indirectly, any gift, gratuity, favour, entertainment, loan or anything of monetary value (“Gift”) from any person where such Gift:
- (a) Would be illegal or in violation of law;
 - (b) Is part of an attempt or agreement to do anything in return;
 - (c) Has a value beyond what is normal and customary in the Bank’s business;

- (d) Is being made to influence the member of the Board's, or Officer's actions as such; or
 - (e) Could create the appearance of a conflict of interest.
- H. Duty of Confidentiality – Pursuant to their duties of diligence and loyalty, a member of the Board or an Officer shall not use or divulge confidential or classified information officially made known to them by reason of their office and not made available to the public, either: (1) to further their private interests, or give undue advantage to anyone; or (2) which may prejudice the public interest.

Roles and Responsibilities

Having been vested directly by law with the legal capacity and authority to exercise all corporate powers, conduct all business, and to hold all the properties of the Bank, the Board is primarily responsible for the governance of the Bank. Consequently, it is the Board and not management, that is primarily accountable to the State for the operations and performance of the Bank.

The Board of Directors shall come up with a list of fines and consequences for violations of a director's duties and responsibilities, taking into account the frequency of the violations committed, the existence of extenuating, aggravating or mitigating circumstances and the practice of other corporations regarded as role models in good governance. General Responsibility

A director's office is one of trust and confidence. He should act in the best interest of the corporation in a manner characterized by transparency, accountability and fairness. He should exercise leadership, prudence and integrity in directing the corporation towards sustained progress over the long term. A director assumes certain responsibilities to different constituencies or stakeholders, who have the right to expect that the institution is being run in a prudent and sound manner.

To ensure good governance of the corporation, the Board should establish the corporation's vision and mission, strategic objectives, policies and procedures that may guide and direct the activities of the company and the means to attain the same as well as the mechanism for monitoring management's performance. While the management of the day-to-day affairs of the institution is the responsibility of the management team, the Board is, however, responsible for monitoring and overseeing management action.

a. Duties and Functions

To insure a high standard of best practice for the Bank and its stakeholders, the Board should conduct itself with utmost honesty and

integrity in the discharge of its duties, functions and responsibilities which include, among others, the following:

- a. Provide the corporate leadership of the Bank subject to the rule of law, and the objective set by the National Government through the supervising agencies and the GCG;
- b. Establish the Bank's vision and mission, strategic objectives, policies and procedures as well as defining the Bank's values and standards through:
 - o Charter Statements;
 - o Strategy Maps; and
 - o Other control mechanisms mandated by the best business practices;
- c. Determine the corporation's purpose and value as well as strategies and general policies to ensure that it survives and thrives despite financial crises and its assets and reputation are adequately protected;
- d. Provide sound written policies and strategic guidelines that will help the Bank decide on major capital expenditures;
- e. Determine important policies that bear on the character of the Bank with a view towards ensuring its long-term viability and strength and periodically evaluate and monitor implementation of such strategies and policies, business plans and operating budgets as well as management's over-all performance to ensure optimum results.
- f. Determine the organization structure of the Bank, defining the duties and responsibilities of its Officers and employees and adopting a compensation and benefit scheme that is consistent with the GOCC Compensation and Position Classification System (CPCS) developed by the GCG and formally approved by the President of the Philippines;
- g. Ensure that personnel selection and promotion shall be on the basis of merit and fitness and that all personnel action shall be in pursuit of applicable rules, laws and regulations;

- h. Provide sound written policies and strategic guidelines on the Bank's operating budget and major capital expenditures, and prepare the annual and supplemental budgets of the Bank;
- i. Comply with all reportorial requirements, as required in the Charter of Incorporation and By-laws, as well as applicable laws, rules and regulations;
- j. Formally adopt and conduct annually the mandated Performance Evaluation System (PES) and the Performance Scorecard and timely and accurately report the results to the GCG;
- k. Ensure that the Bank complies with all relevant laws, regulations and codes of best business practices.
- l. Identify the Bank's major and other stakeholders and formulate a clear policy on communicating or relating with them accurately, effectively and sufficiently;
- m. Adopt a system of internal checks and balances, which may be applied in the first instance to the Board. A regular review of the effectiveness of such system must be conducted so that the decision-making capability and the integrity of corporate operations and reporting systems are maintained at a high level at all times;
- n. Endeavor to provide appropriate technology and systems rating to account for available resources to ensure a position of a strong and meaningful competitor. Identify key risk areas and key performance indicators and monitor these factors with due diligence;
- o. Constitute an Audit Committee and such other specialized committees as may be necessary, or required by applicable regulations, to assist the Board in discharging its functions;
- p. Properly discharge Board functions by meeting regularly. Independent views during Board meetings should be given due consideration and all such meetings should be duly minuted.
- q. Keep Board authority within the powers of the institution as prescribed in the articles of incorporation, by-laws and in existing laws, rules and regulation. Conduct and maintain the affairs of the institution within the scope of

its authority as prescribed in its charter and in existing laws, rules and regulations; and

- r. Ensure fair and equitable treatment of all Stakeholders and enhancing the Bank's relations with its Stakeholders.

b. Specific Duties and Responsibilities of a Director

1. **To approve and monitor the implementation of strategic objectives.** Consistent with the Bank's strategic objective, business plans shall be established for the Bank and initiatives to carry out the plans shall be implemented with clearly defined responsibilities and accountabilities. These shall take into account the Bank's long-term financial interest, its level of risk tolerance and its ability to manage risks effectively. The Board shall establish a system for measuring performance against plans through regular monitoring and reviews, with corrective action taken as needed.

The Board shall likewise ensure that the Bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.

2. **To conduct fair business transactions with the Bank and to ensure that personal interest does not bias Board decisions.** The basic principle to be observed is that a director should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest should arise on the part of directors or senior executives, it should be fully disclosed and the concerned director should not participate in the decision making. A director who has a continuing conflict of interest of a material nature should consider resigning.
3. **To devote time and attention necessary to properly discharge his duties and responsibilities.** A director should devote sufficient time to familiarize himself with the Bank's business. He should be constantly aware of the Bank's condition and be knowledgeable enough to contribute meaningfully to the Board's work. He should attend and actively participate in Board

and committee meetings, request and review meeting materials, ask questions, and request explanations.

4. **To act judiciously.** Before deciding on any matter brought before the Board of Directors, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.
5. **To exercise independent judgment.** A director should view each problem/situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollary, he should support plans and ideas that he thinks are beneficial to the Bank.
6. **To have a working knowledge of the statutory and regulatory requirements affecting the Bank, including the contents of its articles of incorporation and by-laws, the requirements of the SEC, and where applicable, the requirements of other regulatory agencies.** A director should also keep himself informed of industry developments and business trends in order to safeguard the Bank's competitiveness.
7. **To observe confidentiality.** A director should observe the confidentiality of non-public information acquired by reason of his position as director. He should not disclose any information to any other person without the authority of the Board.
8. **To ensure the continuing soundness, effectiveness and adequacy of the Bank's control environment.**
9. **To constitute committees to increase efficiency and allow deeper focus in specific areas.** The Board of Directors shall create committees, the number and nature of which would depend on the size of the Bank and the board, the complexity of operations, long-term strategies and risk tolerance level of the Bank.
 - a) Board Committees – the creation of Board Committees and other such oversight bodies enables the members of the Governing Board to efficiently manage their time and ensure the proper understanding and resolution of all issues affecting the Bank and the proper handling of

concerns and allows the Board to effectively utilize the expertise of its Directors.

- b) The Board of Directors shall approve, review and update at least annually or whenever these are significant changes therein, the respective charters of each committee or other document that set out mandate, scope and working procedures
- c) The Board of Directors shall appoint members of the committees taking into account the optimal mix of mix of skills and experience to allow the members to fully understand, be critical and objectively evaluate the issues. In order to promote objectivity, the Board of Directors, shall appoint independent directors and non-executive members of the board to the greatest extent possible while ensuring that such mix will not impair the collective skills, experience, and effectiveness of the committees. Toward this end, an independent director/s who is a/are members of any committee that exercises executive or management function that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control function such as the Audit, Risk Oversight and Corporate Governance committees, without prior approval of the Monetary Board.
- d) The Board of Directors shall ensure that each committee shall maintain appropriate records (e.g minutes of meeting or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such record shall document the committee's fulfilment of its responsibilities and facilitate the assessment of the effective performance of its function.
- e) The Board shall be supported by the following specialized committees:
 - i. Executive Committee – depending on the size of the Governing Board, it may constitute an Executive Committee composed of not less than three (3)

members of the Board, with the Chairman of the Board being the committee chairman.

The Executive Committee, in accordance with the authority granted by the Board, or during the absence of the Board, shall act by a vote of at least 2/3 of its members on such specific matters within the competence of the Board as may from time to time be delegated to the Executive Committee in accordance with the Bank's Charter or By-laws, except with respect to:

- a. Approval of any action for which shareholders' approval is also required;
 - b. Filling of vacancies on the Board or in the Executive Committee;
 - c. Amendment or repeal of By-Laws or the adoption of new By-Laws;
 - d. Amendment or repeal of any resolution of the Board which by its express terms cannot be amended or subject to repeal;
 - e. Distribution of cash dividends;
 - f. Exercise of powers delegated by the Board exclusively to other committees.
- ii. Audit Committee – The Audit Committee shall consist of at least three (3) Directors, whose Chairman should have audit, accounting and finance background. The Committee shall be responsible for the following:
- a. Overseeing, monitoring and evaluating the adequacy and effectiveness of the Bank's internal control system, engage and provide oversight of the Bank's internal and external auditors, and coordinate with the SEC on Audit (COA);
 - b. Reviewing and approving audit scope and frequency, the annual internal audit plan, quarterly, semi-annual and annual financial statements before submission to the Board, focusing on changes in

accounting policies and practices, major judgemental areas, significant adjustments resulting from the audit, going concern assumptions, compliance with accounting standards, and compliance with tax, legal, regulatory and COA requirements;

c. Receiving and reviewing reports of internal and external auditors and regulatory agencies and ensuring that Management is taking appropriate corrective actions, in a timely manner in addressing control and compliance functions with regulatory agencies;

d. Ensuring that internal auditors have free and full access to all Bank records, properties and personnel relevant to and required by its functions and that the internal audit activity shall be free from interference in determining its scope, performing its work and communicating its results; and

e. Developing a transparent financial management system that will ensure the integrity of internal control activities throughout the Bank through a procedures and policies handbook that will be used by the entire Bank.

iii. Governance Committee –The Governance Committee shall assist the Board of Directors in fulfilling its corporate governance responsibilities. The Committee shall be composed of three (3) members of Board, and Chaired by the Chairman. The Committee shall be responsible for the following:

a. Overseeing the periodic performance evaluation of the Board and its committees and management; and also conducting an annual self-evaluation of their performance;

- b. Deciding whether or not a Director is able to and has been adequately carrying out his/her duties as director bearing in mind the director's contribution and performance (e.g. competence, candor, attendance, preparedness and participation). Internal guidelines shall be adopted that address the competing time commitments that are faced when directors serve on multiple boards;
 - c. Recommending to the Board regarding the continuing education of Directors, assignment to Board Committees, succession plan for the Executive Officers, and their remuneration commensurate with corporate and individual performance; and
 - d. Recommending the manner by which the Board's performance may be evaluated and proposing an objective performance criteria to be approved by the Board. Such performance indicators shall address how the Board will enhance long term shareholder value.
- iv. Nominations and Remunerations Committee – The Nominations and Remunerations Committee shall consist of at least three (3) members of the Board. The Committee shall be responsible for the following:
- a. Installing and maintaining a process to ensure that officers to be nominated or appointed shall have the qualifications and none of the disqualifications mandated under the law, rules and regulations;
 - b. Reviewing and evaluating the qualifications of all persons nominated to positions in the Bank which require appointment of the Board;
 - c. Recommending to the GCG nominees for the shortlist in line with the Bank's

- and its subsidiaries' Board composition and succession plan; and
- d. Developing recommendations to the GCG for updating the CPCS and ensuring that the same continues to be consistent with the Bank's culture, strategy, control environment, as well as, the pertinent laws, rules and regulations.
 - v. Risk Management Committee – The Risk Management Committee shall consist of at least three (3) members, with at least one member having a background in finance and investments. The Risk Management Committee shall be responsible for the following:
 - a. Performing oversight risk management functions specifically in the areas of managing credit, market, liquidity, operational, legal, reputational, legal, and other risks of the Bank and crisis management which include receiving from Senior Management periodic information on risk exposures and risk management activities;
 - b. Developing the Risk Management Policy of the Bank, ensuring compliance with the same and ensure that the risk management process and compliance are embedded throughout the operations of the Bank, especially at the Board and Management level, and
 - c. Providing quarterly reporting and updating the Board on risk management issues as well as ad hoc reporting and evaluation on investment proposals.

The functions of the Nominations and Remunerations Committee and Risk Management Committee may be assigned to other standing committee/s if the Board of Directors finds it desirable to reduce the number of Board

Committees to the minimum acceptable to the Bangko Sentral Ng Pilipinas and to the GCG.

c. Internal Control Responsibilities of the Board

The control environment is composed of: (a) the Board which ensures that the Bank is appropriately and effectively managed and controlled, (b) a management that actively manages and operates the Bank in a sound and prudent manner, (c) the organizational and procedural controls supported by an effective management information system and risk management reporting system, and (d) the independent audit mechanisms to monitor the adequacy and effectiveness of the organization's governance, operations, information systems, to include reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations, and contracts.

- i. The minimum internal control mechanisms for the Board's oversight responsibility may include:
 - Defining the duties and responsibilities of the CEO;
 - Selecting or approving an individual with appropriate ability, integrity, experience to fill the CEO role;
 - Reviewing proposed senior management appointments;
 - Ensuring the selection, appointment and retention of qualified and competent management;
 - Reviewing the company's personnel and human resource policies and sufficiency, conflict of interest situations, changes to the compensation plan for employees and officers and management succession plan.
- ii. The minimum internal control mechanisms for management's operational responsibility would center on the CEO, being ultimately accountable for the Bank's organizational and procedural objectives
- iii. The scope and particulars of a system of effective organizational and procedural controls may differ among companies depending on factors such as: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.

- iv. The Bank will have in place an independent audit function, through which the company's Board, senior management, and stockholders may be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with. The Board may appoint a chief audit executive to carry out the audit function, and may require the chief audit executive to report to a level within the organization that allows the internal audit activity to fulfil its responsibilities.

Board Meetings and Quorum Requirement

Members of the Board should attend regular and special meetings of the Board in person. In view of modern technology, however, attendance at Board meetings through teleconference may be allowed.

An independent director should 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. Justifiable causes may only include grave illness or death of immediate family and serious accidents.

To monitor compliance with the above requirement, corporations may, at the end of every fiscal year, provide the SEC with a sworn certification that the foregoing requirement has been complied with. The said certification may be submitted with the company's current report (SEC Form 17-1) or on a separate filing.

Remuneration of the Members of the Board and Officers

The remuneration, compensation, per diems, allowances and incentives of the members of the Board of the PPSB shall be;

- (a) Determined by the GCG, using as reference among others Executive Order No. 24, dated 10 February 2011;
- (b) Directors shall not be entitled to retirement benefits as such directors; and

The total yearly per diems and incentives which the directors may receive shall be determined by the President upon the recommendation of the GCG based on the achievement by such GOCC of its performance targets.

Obligations of PPSB to Directors and Officers

- A. Providing for Staff Support to Directors – the Bank shall provide members of its Governing Board with reasonable support staff and office facilities to allow them to properly discharge their duties and responsibilities.
- B. Obtaining of Directors and Officer Liability Insurance (DOLI) – having imposed the highest level of responsibility and accountability on the members of the Board and Officers, ie, that of extraordinary diligence, it is equitable that when the Bank itself and/or members of the Board and Management are sued before tribunals on matters that are within the official functions and capacity and on matters where business judgement has been exercised in good faith, that there be proper recovery of the costs of litigation and the judgement liability imposed. It is prudent measure therefore for the Bank to obtain “Directors and Officers Liability Insurance (DOLI) coverage for itself and the members of the Governing Board and Officers against contingent claims and liabilities that may arise from, as well as, the expenses that may be incurred in prosecuting the actions that may be filed against the Bank arising from and actions of the Governing Board and/or Management that may cause loss or damage to third parties.

Corporate Social Responsibility (CSR) and Relations with Stakeholders

Duty to be Responsive to Stakeholders – Every Director and Officer accepts the position fully aware that he assumes certain responsibilities not only to the Bank and its stockholders, but also with different constituencies or Stakeholders, who have to the right to expect that the Bank is being run in a prudent manner and with due regard to the interests of all Stakeholders. Consequently, members of the Board and Officers shall deal fairly with the Bank’s employees, customers, supplier and other Stakeholders. No member of the Board or Officer may take unfair advantage of the Bank’s employees, customers, suppliers and other stakeholders through the manipulation, concealment, abuse or confidential or privileged information, misrepresentation of material facts or any other unfair-dealing practice.

CSR Principles – as an integral part of the National Government, the Bank is inherently mandated to be socially responsible, to act and operate as good corporate citizens. The Governing Board shall recognize and perform the obligations of the Bank has towards the National Government, its majority stockholder, as well as the minority stockholders when existing, together with the employees, suppliers, customers, and other Stakeholders, and the communities in which it operates.

The Directors, Officers and all its employees are required to abide by ethical policies as mandated by GCG. The protection of the reputation and goodwill of the Bank is of fundamental importance and Directors, Officers and employees should be aware of the disciplinary implications of breaches of policy.

Every member of the Bank is encourage to promptly report any potentially illegal, improper and/or unethical conduct that they become aware of at their workplace or in connection with their work. The Bank should have an environment that enables its people to raise genuine and legitimate concerns internally. However, in the event that the people of the Bank, and/or the stockholders believe their reporting to management may result in harassment, or undue distress, they may contact the GCG support to report such matters. The GCG provides for an opportunity for concerns to be investigated and ensures appropriate action is taken to resolve the matter effectively.

Formal Recognition of the Stakeholders

The Bank's Board shall, as an integral part of its Charter Statement and embodied in its Manual of Corporate Governance, identify and formally recognize the Bank's major and other Stakeholders, identify the nature of their interests, provide hierarchy system of their conflicting interest in the Bank, and providing a clear policy on communicating or relating with Stakeholders accurately, effectively and sufficiently, together with a system of properly rendering an accounting on how the Bank has served their legitimate interests.

Employees

Every employee in the Bank is encouraged to –

- (a) Remember that the biggest stakeholders is the Government
- (b) Share the vision of the Bank;
- (c) Be accountable to the public;
- (d) Listen and learn from his/her co-employees;
- (e) Think and act as a team;
- (f) Focus on the customers and strive for customer satisfaction;
- (g) Respect others;
- (h) Communicate with stockholders and customers;
- (i) Deliver results and celebrate success; and
- (j) Protect the reputation of the Bank

There should be employee development discussions and structured training programs for continuing personal and professional development for employees.

Health and Safety

The Bank aims to ensure a safe and healthy working environment for all its employees, outside contractors and visitors. The Bank shall comply with all relevant local legislation or regulations, and best practice guidelines recommended by national health and safety authorities. The staff should be informed regarding policies and practices of the Bank in order to maintain a healthy, safe and enjoyable environment.

Environment

The Bank shall consider that there are inevitable environmental impacts associated with daily operations. It shall be the goal of the Bank to minimize harmful effects and consider the development and implementation of environmental standards to achieve this to be of great importance. As such, the Bank shall strongly encourage 3 Rs: “Reduce”, Re-use”, and “Recycle”. In the course of the operations of the Bank, it shall identify opportunities to reduce consumptions of energy, water, and other of natural resources. The Bank shall also strive to re-use and recycle where possible and dispose of non-recyclable items responsibly, thereby minimizing our impact on the environment.

In doing so, by adopting simple, environmentally friendly initiatives, the Bank shall raise awareness among the members of the communities it affects.

Supply Information

In order to fulfil their responsibilities, Board members, should be provided with complete, adequate and timely information prior to Board meetings on an on-going basis.

Management should have an obligation to supply the Board with complete, adequate information in a timely manner. Reliance purely on what is volunteered by Management is unlikely to be enough in all circumstances and further inquiries may be required if the particular director is to fulfil his or her duties properly. Hence, the Board may have separate and independent access to the company’s senior management.

The information may include the background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and monthly internal financial statements. With respect to the budget, any variance between the projections and actual results should also be disclosed and explained.

Directors should also have a separate and independent access to the Corporate Secretary. The role of the Corporate Secretary should be clearly defined and should include responsibility for ensuring that Board procedures are being followed and that applicable rules and regulations are complied with. The Corporate Secretary should attend all Board meetings.

The Board should have a procedure for Directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at the Bank's expense.

Accountability and Audit

The Board is primarily accountable to the stockholders and shareholders and Management is primarily accountable to the Board. The Board should provide the stockholders and stakeholders with a balanced and understandable assessment of the Bank's performance, position and prospects on a quarterly basis.

The Management should provide all members of the Board with a balanced and understandable account of the corporation's performance, position and prospects on a monthly basis.

This responsibility should extend to interim and other price sensitive public reports and reports to regulators (if required). It should be primarily responsible in making financial reporting and internal control in accordance with the following guidelines:

- a. Present a balanced and understandable assessment of the company's position and prospects. The Board's responsibility to present a balanced and understandable assessment should extend to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements;
- b. Explain their responsibility for preparing the accounts, for which there should be a statement by the auditors about their reporting responsibilities;
- c. Report that the business is a going concern, with supporting assumptions or qualifications, if necessary;

- d. Maintain a sound system of internal control to safeguard stakeholders' investment and the company's assets;
- e. Based on the approved audit plans, scope and frequency of audits, ensure that internal audit examinations cover, at least, the evaluation of adequacy and effectiveness of controls encompassing the organization's governance, operations, information systems, to include reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations, and contracts.
- f. Require the chief audit executive to render to the Audit Committee and senior management an annual report on the internal audit department's activity, purpose, authority, responsibility and performance relative to the audit plans and strategies approved by the Audit Committee of the Board. Such annual report should include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the Board and senior management. The chief audit executive's annual report shall likewise be made available to the stockholders of the company. Internal auditors shall report that their activities are "conducted in accordance with the Standards for the Professional Practice of Internal Auditing". Otherwise, the chief audit executive shall disclose to the Board and senior management that it has not yet achieved full compliance with the standards for the professional practice of internal auditing.

Stockholders' Rights and Protection of Minority Stockholders' Interests

The Board shall be committed to respect the following rights of the stockholders:

1. Power of Inspection

The Corporation Code mandates corporations to allow stockholders to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and to provide them an annual report, including financial statements, without cost or restrictions.

2. Right to Information

The Stockholders and Stakeholders shall be provided, upon request, with periodic reports which disclose personal and professional information about

the directors and officers and certain other matters such as their holdings of the company's shares, dealings with the company, relationships among directors and key officers, and the aggregate compensation of directors and officers. The Information Statement/Proxy Statement where these are found must be distributed to the shareholders before annual general meetings and in the Registration Statement and Prospectus in case of registration of shares for public offering with the SEC .

The minority stockholders should be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.

The stockholders and stakeholders should have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management should include such information and, if not included, then the minority shareholders can propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".

3. Right to Dividends

Dividends shall be declared by the Board of Directors to the stockholders of the Bank taking into account the need to meet the capital adequacy standards set by BSP for thrift banks and the declared national government policy on declaration of dividends by GOCCs as provided in R.A. No. 7656.

4. In case of merger or consolidation.

It is the duty of the directors to promote stockholders rights, remove impediments to the exercise of stockholders rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of stockholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The directors shall pave the way for the electronic filing and distribution of stockholders' information necessary to make informed decisions subject to legal constraints.

Annual Performance Evaluation of the Board

A systematic evaluation process of the Board shall be developed as a necessary tool in enhancing its professionalism and as a useful incentive for the Board Members to devote sufficient time and effort to their duties. The evaluation should also be instrumental in developing effective and appropriate training programs for new and existing members of the Board.

PPSB shall adopt and adhere to the requirements guidelines of GCG's Memorandum Circular 2014-03.

Disclosure and Transparency

A dominant theme in all issues related to corporate governance is the vital importance of disclosure. The more transparent the internal workings of the company and cash flows, the more difficult it will be for management and controlling stockholders to misappropriate company assets or mismanage the company.

The most basic and all-encompassing disclosure requirement is that all material information, i.e., anything that could potentially affect share price, should be publicly disclosed. Such information would include earnings results, acquisition or disposal of assets, board changes, related party transactions, shareholdings of directors and changes to ownership. Other information that should always be disclosed includes the following:

- (a) remuneration (including stock options) of all directors and officers;
- (b) management corporate strategy;
- (c) off balance sheet transactions;
- (d) Detailed responsibilities of the members of the Board which shall be available to all stakeholders and to the public;
- (e) Formal Charter of Expectations that each Director shall sign and be committed to;
- (f) List of Disclosures to be made by the Directors;
- (g) Statement by the Directors confirming the truth and fairness of the Bank's financial statements similar to a Statement of Management Responsibility; and
- (h) List of fines and other consequences when Directors violate, or omit to carry out their duties, under applicable law.

The Board shall therefore, commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information for the interest of the stockholders and stakeholders.

Board Resolution No. 2014-183

“That the Manual of Corporate Governance of Philippine Postal Savings Bank, Inc. as revised to incorporate the revisions recommended by the Government Commission for GOCCs, is hereby **APPROVED.**”

Done this 12th day of August 2014 at PPSB Board Room, Postbank Center, Liwasang Bonifacio, 1000 Manila.


MA. JOSEFINA M. DELA CRUZ
Chairperson


CESAR N. SARINO
Vice Chairman


BITUIN V. SALCEDO
Member


FIDEL A. BUGAYONG
Member


MARIO C. LORENZO
Member


VICTOR N. ALIMURUNG
Member


JAY B.T. LACSAMANA
Member


MARIANO O. AUREUS JR.
Member

JOSELITO H. SIBAYAN
Member