

UCPB SAVINGS BANK
ENHANCED CORPORATE GOVERNANCE MANUAL
*(Endorsed for approval by the Corporate Governance Committee and
Approved by the USB Board of Directors on April 3, 2018,
With Resolution No. 77-2018)*

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I. POLICY STATEMENT

The Board of Directors and the Management Committee of the UCPB SAVINGS BANK (USB) believe that good corporate governance is an important component of the Bank's sound strategic business management.

The USB Revised Corporate Governance Manual (Manual) shall institutionalize the principles of transparency, accountability and fairness within USB. This Manual is in accordance with the Bangko Sentral ng Pilipinas (BSP) Circular No. 969 - Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions as well as global best practices and standards.

The Governance framework of rules, systems and processes in the corporation 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, suppliers, financiers, government and community in which it operates.

II. USB CORPORATE GOVERNANCE STRUCTURE

The Board of Directors is primarily responsible for the governance of the Bank. It shall establish strategic objectives, policies and procedures that will guide and direct the Bank's activities and the means of attaining them. The Board of Directors shall be also responsible for monitoring and overseeing management action.

The following definitions shall apply for purposes of this Manual:

- A. **Directors** are persons who are: (i) named as such in the Bank's Articles of Incorporation; (ii) appointed by virtue of the charter of UCPB as a government-owned banks; and (iii) elected to fill vacancies in the Board of Directors (Board),
- B. **Independent directors** refer to persons who are/were not a director, officer or employee of the Bank, UCPB, Leasing and Finance Corporation, USB Securities Inc., affiliates or related interests during the past three (3) years counted from the date of his election/appointment.
- C. **Non-executive directors (NED)** are persons who are not part of the day to day management of operations of the Bank and shall include the independent directors; however, not all non-executive directors are considered independent directors.
- D. **Officers** includes the President and Chief Executive Officer (CEO), executive vice presidents, senior vice-presidents, vice presidents and others mentioned as officers of the Bank, or those whose duties as officers are defined in the Bank's By-Laws, or are generally known to be officers of the Bank or any of its branches and offices.
- E. **Related party transactions (RPTs)** are transactions or dealings with related parties of the Bank regardless of whether or not a price is charged. RPTs include transactions with related parties, and outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.
- F. **Risk appetite statement** is the articulation of the aggregate level and types of risk that the Bank is willing to accept or avoid in achieving its business objectives. It includes qualitative and quantitative measures relative to earnings, capital, risk measures, liquidity and other relevant measures. **Risk governance framework** is the structure through which the Board and Management establish the Bank's strategy, articulate and monitor adherence to risk appetite and risk limits, and identify, measure and manage risks.
- G. **Stockholders** refers to stockholders who hold direct interest in the Bank in the form of shares of stock; **Other stakeholders** includes customers/clients, officers and employees, suppliers, regulators e.g., BSP, PDIC, SEC, DOF, BIR.
- H. **USB Group** refers to the USB as Parent Bank, and its subsidiaries -- USB Savings Bank, USB Leasing and Finance Corporation, and USB Securities Corporation.

III. BOARD OF DIRECTORS

- A. **Powers of the Board of Directors.** The corporate powers of USB shall be exercised, its business conducted, and all its resources controlled through the USB Board of Directors (Board). The members of the Board shall hold their office charged with the duty to exercise sound and objective judgment for the best interest of the Bank.
- B. **Composition of the Board.** The Board shall have seven (7) members of which at least one-third should be independent directors. Non-executive directors shall comprise at least majority of the Board to promote the independent oversight of management of the Bank.
Pursuant to the Financial Assistance Agreement (FAA) of the Bank, the Philippine Deposit Insurance Corporation (PDIC) shall have the right to nominate eight (8), and the Department of Finance the right to nominate three (3) out of the fifteen (15) members of the Board until the FAA is amended to provide otherwise, or is terminated, after which all fifteen (15) Directors shall be elected/appointed.
- C. **Qualifications of a Director.** A Director shall have the following minimum qualifications:
1. He must be fit and proper for the position of a Director. Consideration shall be given as to integrity/probity, physical/mental fitness; relevant education/financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.

Furthermore, due consideration shall be given to the Director's market reputation, observed conduct and behavior, and ability to continuously comply with bank policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory or professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

A Director shall possess the foregoing qualifications in addition to those required or prescribed under R.A. No. 8791 - General Banking Law and other applicable laws and regulations.

The BSP shall also consider its own records in determining the qualifications of a director.

2. He must have attended a seminar on corporate governance for board of directors. He shall submit to the BSP a certification of compliance with the BSP-prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance.

The following persons are exempted from complying with the aforementioned requirement:

- a) Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance;
- b) Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board (MB) members; or
- c) Former Chief Justices and Associate Justices of the Philippine Supreme Court.

This exemption shall not apply to the annual training requirements for the members of the Board.

A Director shall submit to the appropriate department of the BSP Supervision and Examination Sector (SES) the required certifications and other documentary proof of such qualifications using as guideline Appendix 98 of BSP Manual of Regulations for Banks (MORB) within twenty (20) banking days from the date of election/appointment. Submission of a bio-data of directors and officers who are subject to confirmation under BSP regulation shall be in accordance with BSP MORB X148.1 - Confirming authority for the election o/appointment of directors/officers.

D. Disqualifications of a Director. The following persons are disqualified by the MB from holding a Director/Officer position:

1. Permanent Disqualification

- A. Persons who have been convicted by final judgment of a court for offenses involving dishonesty or breach of trust such as but not limited to estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22 (bouncing checks), violation of Anti-Graft and Corrupt Practices Act, and prohibited acts and transactions under Section 7 of R.A. No. 6713 - Code of Conduct and Ethical Standards for Public Officials and Employees;
- B. Persons who have been convicted by final judgment of a court sentencing them to serve a maximum term of imprisonment of more than six (6) years;
- C. Persons who have been convicted by final judgment of a court for violation of banking laws, rules and regulations;
- D. Any person judicially declared as insolvent, spendthrift, or incapacitated to contract;

- E. Directors, officers or employees of closed banks who were found to be culpable for a financial institution's closure as determined by the MB;
- F. Directors, and officers of banks found by the MB to be administratively liable by another government agency for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the MB has become final and executor;
- G. Directors, and officers of banks or any person found by the MB to be unfit for the position of Directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any other offense/violation involving dishonesty or breach of trust and which finding of said government agency has become final and executory.

2. Temporary Disqualification

- a) Persons who refuse to fully disclose the extent of their business interest or any material information to the BSP and SEC when required pursuant to a provision of law or a circular, memorandum or rule or regulation of BSP and SEC. This disqualification shall be in effect as long as the refusal persists.
- b) Directors who have been absent or who have not participated for whatever reasons in more than fifty percent (50%) of all meetings of the Board, both regular and special, during their incumbency and Directors who failed to physically attend for whatever reasons in at least twenty-five percent (25%) of all Board meetings in any year. This disqualification applies only for purpose of the immediately succeeding election.
- c) Persons who are delinquent in the payment of their obligations, for as long as the delinquency persists as defined hereunder:
 - i. Delinquency in the payment of obligations means that an obligation of a person with a bank/quasi bank/trust entity where he/she is a Director or officer, or at least two obligations with other banks/financial institution, under different credit lines or loan contracts are past due.

Obligations shall include all borrowings from a bank/quasi bank obtained by: (a) a director or officer for his 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; (b) spouse or child under the parental authority of the Director or officer; (c) any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director or officer; (d) a partnership of 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 (e) 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. This disqualification shall be in effect as long as the delinquency persists.

- d) Persons who have been convicted by a court for offenses involving dishonesty or, breach of trust such as but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22 (Bouncing Checks), violation of anti-graft and corrupt practices act and prohibited acts and transactions under Section 7 of R.A. No. 6713 - Code of Conduct and Ethical Standards for Public Officials and Employees, violation of banking laws, rules and regulations or those sentenced to serve a maximum term of imprisonment of more than six (6) years but whose conviction has not yet become final and executory;
- e) Directors and officers of closed banks/quasi-banks/trust entities pending their clearance by the MB;
- f) Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or upon approval by the MB of such Directors' election/re-election;
- g) Directors who fail to attend the special seminar for board of directors required under BSP MOR X142.3/4141Q.2. This disqualification applies until the director concerned had attended such seminar;
- h) Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity or upon clearance, on their request, from the MB after showing good and justifiable reasons, or after the lapse of five years from the time they were officially advised by the appropriate department of the SES of their disqualification;
- i) Those under preventive suspension;
- j) Persons with derogatory records as certified by, or on the official files of, the Judiciary, NBI, PNP, quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities of foreign countries for irregularities or violations of any laws, rules and regulations that would adversely affect the integrity of the Director/officer or the ability to effectively discharge his duties. This disqualification applies until they have cleared themselves of the alleged irregularities/violations or

after a lapse of five years from the time the complaint, which was the basis of the derogatory record, was initiated;

- k) Directors and officers of banks found by the MB 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 MB is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court;
- l) Directors and officers of banks or any person found by the MB to be unfit for the position of directors or officers because they were 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 restrained by the court;
- m) Directors and officers of banks found by the MB 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 MB is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court. The disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid;
- n) A temporary disqualified director shall within sixty (60) business days from such disqualification take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.
- o) It shall be the responsibility of the Corporate Governance Committee to determine a Director's qualification/disqualification based on the foregoing criteria and to report its findings to the full Board for final disposition.

3. Independent and Non-Executive Directors

The following shall be considered to ensure that a Director will be able to devote sufficient time to effectively carry out his duties and responsibilities:

- a) A non-executive director may concurrently serve as director in a maximum of five (5) publicly listed companies. In case of concurrent directorship in within the USB Group, each entity where the non-executive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement; and
- b) An independent director of the Bank may only serve as such for a maximum cumulative term of nine (9) years, after which the independent director shall be perpetually barred from serving as independent director in the same Bank, but may continue to serve as regular director.

c) **Exclusions**

Members of the Board shall not be appointed as Corporate Secretary or Chief Compliance Officer.

E. **Chairperson of the Board of Directors**

1. **Roles of the Chairperson of the Board.** The Chairperson shall provide leadership in the Board. He shall ensure effective functioning of the Board, including maintaining a relationship of trust among members of the Board. The Chairperson shall:
 - a) ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
 - b) ensure a sound decision making process;
 - c) encourage and promote critical discussion;
 - d) ensure that dissenting views can be expressed and discussed within the decision-making process;
 - e) ensure that members of the Board receive accurate, timely, and relevant information;
 - f) ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
 - g) ensure conduct of performance evaluation of the Board at least once a year.

2. **Qualifications of the Chairperson of the Board.** To promote checks and balances, the Chairperson shall be a non-executive director or an independent director, and must not have served as CEO of the Bank within the past three (3) years.

The positions of Chairperson and CEO shall not be held by one person. In exceptional cases where the position of Chairperson and CEO is allowed to be held by one person as approved by the MB, a lead independent director shall be appointed whose responsibilities shall be documented in the Corporate Governance Manual.

- F. **Board of Directors Meetings.** Meetings of the Board shall be held only within the Philippines.

1. **Full meeting of the Board.** The meetings of the Board may be conducted through modern technologies, such as teleconferencing and video conferencing, as long as the director who is taking part in said meetings can actively participate in the deliberations on matters taken up therein.

Every member of the Board shall participate in at least fifty percent (50%) and shall physically attend at least twenty-five percent (25%) of all meetings of the Board every year. The absence of a Director in more than fifty percent (50%) of all regular and special meetings of the Board during his/her incumbency is a ground for disqualification in the succeeding election/appointment.

2. **Board-level committee meetings.** Board-level committees shall meet as prescribed in their respective charters. Participation of committee members may likewise be in person or through modern technologies, provided that the attendance and participation of members in committee meetings shall be considered in the assessment of continuing fitness and propriety of each director as member of board-level committees and the Board.

IV. DUTIES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND DIRECTORS

A. Specific Duties and Responsibilities of the Board of Directors. The Board is primarily responsible for defining the Bank's vision and mission. The Board has fiduciary responsibility to the Bank and all shareholders. It shall approve and oversee the implementation of strategies to achieve corporate objectives, risk governance framework, and the systems of checks and balances. It shall establish a sound corporate governance framework, and shall approve the selection of the CEO and key members of senior management and control functions, and oversee their performance.

1. The Board shall define the Bank's corporate culture and values. It shall establish a code of conduct and ethical standards in the Bank and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the Board shall:
 - a) Approve the USB Code of Conduct, which shall articulate acceptable and unacceptable activities, transactions and behaviors that could or potentially result in conflict of interest, personal gain at the expense of the Bank, and the corresponding disciplinary actions and sanctions. The Code 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 Bank policies.
 - b) Consistently conduct the affairs of the Bank with a high degree of integrity and play a lead role in establishing the Bank's corporate culture and values. The Board shall establish, actively promote and communicate a culture of strong governance in the Bank through adopted policies and displayed practices. The Board 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.
 - c) Oversee the integrity, independence, and effectiveness of Bank'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 or to any independent unit. Policies shall be set on how such concerns shall be investigated and addressed by a designated committee or by the Board itself. It shall prevent the use of the facilities of the Bank in the furtherance of criminal and other improper or illegal activities, such as financial misreporting, money laundering, fraud, bribery or corruption.

2. The Board shall be responsible for approving Bank's objectives and strategies and in overseeing management's implementation thereof. In this regard, the Board shall:
 - a) Ensure that the Bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.
 - b) Approve the Bank's strategic objectives and business plans. These shall take into account the Bank's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the Board shall establish a system for measuring performance against plans.
 - c) Actively engage in the affairs of the Bank and keep up with material changes in the Bank's business and regulatory environment as well as act in a timely manner to protect the long term interests of the Bank.
 - d) Approve and oversee the implementation of policies governing major areas of the Bank's operations. The Board 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.

3. The Board 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 shall:
 - a) 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 Bank's business shall be the key considerations in the selection process. The members of senior management shall uphold the general operating philosophy, vision and core values of the Bank.
 - b) Approve and oversee the implementation of performance standards as well as remuneration and other incentives policy, which should be consistent with the long-term strategic objectives and financial soundness of the Bank and should promote good performance, convey acceptable risk-taking behavior, and reinforce the Bank's operating and risk culture.
 - c) Oversee the performance of senior management and heads of control functions:

- (1) The Board shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.
 - (2) The Board shall hold members of senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the Board's performance expectations. These expectations shall include adherence to the Bank's values, risk appetite and risk culture under all circumstances.
 - (3) The Board shall regularly meet with senior management to engage in discussions, question and critically review the reports and information provided by the latter.
 - (4) 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.
- d) Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the Board shall establish an effective succession planning program, which should include a system for identifying and developing potential successors for the CEO and other critical positions.
 - e) Ensure that Officers and Associates' expertise and knowledge remain relevant. The Board 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.
 - f) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the Bank at all times, and that all transactions involving the pension fund are conducted at arm's length terms.
4. The Board shall be responsible for approving and overseeing implementation of the Bank's corporate governance framework. In this regard, the Board shall:
 - a) Define appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed:
 - (1) The Board 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 shall meet regularly

to properly discharge its functions, and likewise have discussions on values, conduct, and behaviors.

- (2) The Board 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 Board, the Bank's complexity of operations, as well as the Boards' long-term strategies and risk tolerance.
- (3) The Board shall regularly review the structure, size and composition of the Board and board-level committees with the end in view of having a balanced membership. For this, a system and procedure for evaluation of the structure, size and composition of the Board and board-level committees shall be adopted which shall include among others, benchmark and peer group analysis. The results of assessment shall form part of the ongoing improvement efforts of the Board.
- (4) The Board shall adopt policies aimed at ensuring that the Directors are able to commit to effectively discharge their responsibilities, which shall include 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 Bank's operations.
- (5) The Board shall ensure that individual members of the Board are accurately and timely informed of a comprehensive and understandable assessment of the Bank's performance, financial condition, and risk exposures. All members of the Board shall have reasonable access to any information about the Bank at all times. The Board shall also ensure that adequate and appropriate information flows internally and to the public.
- (6) The Board 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 shall be facilitated by the Corporate Governance Committee. This exercise shall cover the assessment of the ongoing suitability of each Board member taking into account his/her performance in the Board and board-level committees.
- (7) The Board shall maintain appropriate records (e.g., minutes of meetings or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The Board shall also ensure that independent views in meetings of the Board shall be given full consideration and all such meetings shall be duly minuted.

- b) Develop remuneration and other incentives policy for Directors. The Board shall ensure that the policy is 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.
- c) Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.
- d) Conduct and maintain the affairs of the Bank 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.
- e) Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out the Bank's organization, rights, responsibilities and key activities. The Board shall ensure that the Bank's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability.
- f) Oversee the development, approve, and monitor implementation of corporate governance policies. The Board shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.
- g) 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:
 - (1) The Board shall delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the Board. This shall, however, exclude DOSRI transactions, which are required to be approved by the Board. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.
 - (2) The Board 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 overarching policy and the system shall be made available to the BSP and audit functions for review. Any changes in the policies and procedures shall be approved by the Board.

- (3) The Board 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 Bank is well-insulated from any going concern issue of related parties.
 - (4) The Board shall oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The Board should ensure that senior management addresses legitimate issues on RPT that are raised. The Board should take responsibility for ensuring that staff that raise concerns are protected from detrimental treatment or reprisals.
- h) Define an appropriate corporate governance framework for the USB Group, which shall facilitate effective oversight over entities in the group. The Board shall ensure consistent adoption of corporate governance policies and systems across the USB Group, as follows:
- (1) The Board shall define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire USB Group, taking into account the nature and complexity of operations, size and the types of risks to which the Bank Group is exposed. The Board shall establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the USB Group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements.
 - (2) The Board shall define the risk appetite for the USB Group, which shall be linked to the process of determining the adequacy of capital of the USB Group.
 - (3) The Board shall ensure that adequate resources are available for all the entities in the USB Group to effectively implement and meet the governance policies, practices and systems.
 - (4) The Board shall understand the roles, relationships or interactions of each entity in the USB Group with one another and with the Parent Bank, and 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.

- (5) The Board shall ensure that the USB Group's corporate governance framework includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions.
 - (6) The Board shall develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the USB Group.
 - (7) The Board shall require the Risk Management Division, Bank Compliance Division, and Internal Audit Division to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the Board approved policies, practices and strategies, and to require said groups to report the results of their assessment directly to the Board.
5. The Board shall be responsible for approving Bank's risk governance framework and overseeing management's implementation thereof. In this regard, the Board shall:
- a) Define the Bank's risk appetite. In setting the risk appetite, the Board shall take into account the business environment, regulatory landscape, and the Bank's long term interests and ability to manage risk.
 - b) Approve and oversee adherence to the risk appetite statement, risk policy, and risk limits.
 - c) Oversee the development of, approve, and oversee the implementation of policies and procedures relating to the management of risks throughout the Bank.
 - d) 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:
 - (1) The Board 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.

- (2) The Board shall ensure that non-executive board members meet regularly, with the external auditor and heads of the internal audit, bank compliance, and risk management functions other than in meetings of the audit and risk oversight committees, in the absence of senior management.

B. 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 Bank itself, its stockholders, its depositors and other creditors, its management and associates, 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 should exercise their "duty of care" and "duty of loyalty" to the Bank per MORB X143.2. To this end, a Director shall"

1. Remain fit and proper for the position for the duration of his/her term.
2. Conduct fair business transactions with the Bank and ensure that personal interest does not bias board decisions.
3. Act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders and other stakeholders such as its depositors, investors, borrowers, other clients and the general public.
4. Devote time and attention necessary to properly discharge his/her duties and responsibilities.
5. Act judiciously.
6. Contribute significantly to the decision-making process of the Board.
7. Exercise independent judgment.
8. Have a working knowledge of the statutory and regulatory requirements affecting the Bank, its Articles of Incorporation and By-Laws, the requirements of the BSP and where applicable, the requirements of other regulatory agencies.
9. Observe confidentiality.

The Bank shall furnish all first-time directors of the Bank with a copy of the specific duties and responsibilities of the Board and as an individual director prescribed under BSP MORB X143.1 and X143.2 upon his/her election/appointment. The Bank 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.

V. **BOARD COMMITTEES**

A. **Constitution of Board Committees.** The Board may delegate some its functions, but not its responsibilities, to board-level committees. In this regard, the Board shall:

1. 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, what is expected of the committee members, and tenure limits for serving on the committee. The Board shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.

2. Appoint members of the committees taking into account the optimal mix of skills and experience to allow the Board, through the committees, to fully understand and objectively evaluate the relevant issues. In order to promote objectivity, the Board shall appoint independent directors and non-executive members of the Board 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, Corporate Governance and Related Party Transactions committees, without prior approval of the MB.

3. 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.

In the interest of transparency and accountability, each Board committee shall have a written charter which shall, at a minimum, contain the following:

- i. purpose of the committee
- ii. scope of authority
- iii. composition/membership
- iv. duties and responsibilities
- v. meetings and quorum requirement
- vi. regular review of the charter

B. Mandated Board Committees

1. Executive Committee

The Executive Committee shall assist the Board in the general supervision, administration and management of the Bank. It shall review, consider and approve credit proposals within its approving authority; formulate recommendations to the Board relating to strategies, credit and debt restructuring, borrowings and expenditures, acquisition and disposal of key assets, issuance and investment of securities, technology and operations issues, changes to organization and key management, changes to policies and manuals, and other matters requiring Board approval that are not within the purviews of other board committees.

2. Audit Committee

Audit Committee shall assist the Board in ensuring that auditing, accounting, financial management principles and practices generally conforms to BSP Circular 981 - Amendments to Internal Control and Internal Audit Function.

The committee shall oversee the financial reporting framework, monitor and evaluate the adequacy and effectiveness of the internal control system, operation of the internal and external audit functions, and implementation of corrective actions. It shall investigate issues/concerns as necessary.

3. Risk Oversight Committee

The Risk Oversight Committee shall assist the Board in developing risk policies and management program of the USB Group, and appropriate strategies in identifying, quantifying, managing and controlling risk exposures, including preventing and minimizing the impact of losses as they occur. The committee shall oversee the implementation and review of the Bank's risk management system on an integrated enterprise-wide basis and ensure it remains effective, authority limits are observed and immediate corrective actions are taken whenever limits are breached or risk events occur.

The ROC shall advise the Board on the Bank's overall current and future risk appetite and report on the state of risk culture and adherence.

4. Corporate Governance Committee

Corporate Governance Committee shall assist the Board in promoting the principles of good corporate governance - transparency, accountability and fairness - in the conduct of the Bank's business engagements and customer relationships and those of the USB Group. The committee shall recommend to the Board policies and improvements that are consistent with the regulations and directives of the BSP, SEC, PSE and other pertinent regulatory bodies as well as internationally recognized industry practices.

The committee shall recommend the composition and chairmanship of various board committees and enhancement of the respective charters; and oversee the conduct of periodic performance evaluation of the Board, its members and various committees. The committee shall also oversee the continuing education program for the Board members.

a) Act as Related Party Transactions Committee

Related Party Transaction Committee shall assist the Board in its oversight responsibility in ensuring that the Bank's direct and indirect non-credit transactions with Related Parties are handled in a sound and prudent manner, on arm's-length basis, with transparency and integrity and in compliance with applicable laws and regulations.

The RPT Committee shall ensure that related transactions are identified, monitored and evaluated, and that appropriate disclosure is made to the Board and regulating and supervising authorities relating to the Bank's RPT exposures. The RPT Committee shall also ensure confirmation of the stockholders during its annual meeting of all board-approved RPTs.

b) Act as Compensation and Remuneration Committee

The Compensation and Remuneration Committee shall assist the Board in the exercise of its responsibilities in the development of criteria and goals for the compensation and benefits policy of USB

VI. MANAGEMENT COMMITTEES

- A. For effective and efficient management of the Bank, management committees shall be constituted to provide assistance to the President and CEO and Senior Management in addressing key risks issues and ensuring that risks are identified, measured and mitigated. In this regard, each management committee shall:
1. Develop, review, and update, at least annually or whenever there are significant changes therein, the respective committee charters and/or other documents that set out its mandate, scope and working procedures.
 2. In the interest of transparency and accountability, each management committee shall have a written charter which shall, at a minimum, contain the following:
 - a) purpose of the committee
 - b) scope of authority
 - c) composition/membership
 - d) duties and responsibilities
 - e) meetings and quorum requirement
 - f) regular review of the charter
- B. Management committees are, but not limited to, the following:
1. Bank Anti-money Laundering Committee (BAMLC) -mandated
 2. Management Committee (MANCOM)
 3. Credit and Collection Committee CRECOLCOM
 4. Committee on Employee Discipline (CED)
 5. Promotions Committee for Officers & Non-officers (PROMOCOM)
 6. Technology Committee (TECHCOM)
 7. Bids and Awards Committee (BAC)
 8. Operations Committee (OPSCOM)
 9. HO, Branch and Lending Offices Site Selection Committee (HO & BLOSSCOM)
 10. Assets and Lending Committee (ALCO)

VII. OFFICERS

A. Qualifications of an Officer

An Officer must be fit and proper for the position he is being appointed to. In determining whether a person is fit and proper for a particular position, the following must be considered: integrity/probity, education/training, and possession of competencies relevant to the function such as knowledge and experience, skills and diligence.

In assessing an Officer's integrity/probity, consideration shall be given to the officer's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An appointed officer shall prove that he/she possesses all the foregoing minimum qualifications and none of the cases mentioned under BSP MORB Subsection 150.2, and shall submit to the BSP the required certifications and other documentary proof of such qualifications using Appendix 98 within twenty (20) banking days from the date of meeting of the Board 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 shall result to his/her removal therefrom. The foregoing qualifications for officers shall be in addition to those required or prescribed under R.A. No. 8791 and other applicable laws and regulations.

The BSP shall also consider its own records in determining the qualifications of an Officer.

B. Duties and Responsibilities of Officers

1. To set the tone of good governance from the top.
2. To oversee the day-to-day management of the Bank.
3. To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency.
4. To promote and strengthen check and balances system in the Bank.

C. resident and Chief Executive Officer

The President and Chief Executive Officer (CEO) shall be the overall-in-charge for the management of the business and affairs of the Bank that are governed by the strategic direction and risk appetite approved by the Board. He shall be primarily accountable to the Board in championing the desired conduct and behavior, implementing strategies, and in promoting the long-term interest of the Bank.

D. Corporate Secretary

Corporate Secretary shall discharge the duties and responsibilities as prescribed in the USB By-laws. He shall effectively coordinate with all the constituencies of the Bank, the Board, management, stockholders and other stakeholders. At the end of each fiscal year, the Office of the Corporate Secretary shall submit to the SEC on or before January 30 of the following year an annual sworn certification as to the attendance of the Directors in Board Meetings.

E. Chief Compliance Officer

The CCO shall assist the Board and Management in administering Bank compliance to banking laws, rules and regulations and directives. He shall develop an appropriate compliance system, promote its consistent implementation and address breaches that may arise. He shall closely coordinate with the Group Chief Compliance Officer of UBPB who oversees the compliance programs of the USB Group through their respective Compliance Officers and shall coordinate compliance activities within the group to ensure uniformity of implementation, optimization of resources and information sharing.

The Board shall appoint a CCO as lead senior officer functionally with direct reporting responsibilities to the Board; administratively to the President and CEO; and oversight from the Corporate Governance Committee.

F. Chief Risk Officer

The CRO shall assist the Board and Management in identifying the key risk exposures, and assessing the extent of risks to the Bank and its trust operations. The CRO shall also be responsible for determining and monitoring the Bank's capital requirement in accordance with the Basel capital adequacy framework and Bank's internal policy.

The Board shall appoint a CRO who shall report functionally to the Board; administratively to the President and CEO; and oversight from the Risk Oversight Committee.

G. Chief Audit Executive

CAE shall assist the Board and Management in ensuring that the internal audit function complies with sound internal auditing and other supplemental standards issued by regulatory authorities. The CAE shall develop an internal audit program based on robust risk assessment and directives from the Board, the Audit Committee, and Senior Management; and ensure that audit plan is comprehensive and adequately covers regulatory matters.

The Board shall appoint the CAE who shall report to the Board through the Audit Committee.

VIII. INTERLOCKING DIRECTORSHIPS AND/OR OFFICERSHIPS

A. Interlocking Directorships or Officerships

In order to safeguard against the excessive concentration of economic power, and to safeguard against the risks that could result from indiscriminate concurrent directorships or officerships, USB shall adopt the policy of UCPB as provided under BSP MORB X148.3 which shall govern in the appointments to interlocking directorships and officerships within the UCPB Group.

B. Secondments

The Bank may second or transfer its employee to another entity for temporary assignment in accordance with the board-approved policy and approval on Secondment. The seconded or the transferred employee shall relinquish all his duties, responsibilities, and authorities in the Bank, and shall receive remuneration and other incentives from the host entity.

The Bank shall submit a notice within ten banking days from the approval of secondments of employees to the appropriate supervising department of the SES.

IX. CONFLICT OF INTEREST

Directors and officers must be loyal to the Bank at all times. As such, they shall not directly or indirectly derive any personal and/or business profit or advantage by reason of their position in the Bank. The interest of the Bank must be promoted in all instances and the personal and business interests of directors and officers should never prevail over it. They must also promote the common interest of all shareholders and the Bank without any regard for their own personal interest.

A conflict of interest exists when a director or an officer of the Bank:

- A. Supplies or is attempting to supply goods or services to the Bank;
- B. Supplies or is attempting to supply goods or services or information to an entity in competition with the Bank;
- C. By virtue of his office, acquires or is attempting to acquire for himself a business opportunity which should belong to the Bank;
- D. Is offered or receives consideration for delivering the Bank's business to a third party;
- E. Is engaged or is attempting to engage in a business or activity which competes with or works contrary to the best interest of the Bank.

If an actual or potential conflict of interest should arise on the part of directors, it should be fully disclosed and the concerned director should not participate in decision making. A director who has continuing conflict of interest of a material nature should either resign or, if the Board deems appropriate, be removed from the Board.

A contract of the Bank with one or more of its directors or officers is considered voidable, at the option of the Bank, unless the following conditions are present:

- A. The presence of such director in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting;
- B. The vote of such director was not necessary for the approval of the contract;
- C. The contract is fair and reasonable under the circumstances; and
- D. In case of an officer, the contract has been previously approved by the Board of Directors.

When a director, by virtue of his office, acquires for himself a business opportunity that should belong to the Bank, thereby obtaining profits to the prejudice of the Bank, the director must account to the latter for all such profits by refunding the same. This provision shall be applicable notwithstanding the fact that the director risked his own funds in the venture. The Board, at its option, may remove said directors.

The foregoing is without prejudice to the Bank's existing rules or code of conduct and ethics for its officers, employees and staff.

X. CONFIRMATION OF THE ELECTION/APPOINTMENT OF DIRECTORS/OFFICERS

The rules and procedures and approving authority on the following directives shall be in accordance with BSP MORB X148:

- A. Confirmation of the Election/Appointment of Directors and Officers
- B. Bio-data of Directors and Officers
- C. Interlocking Directorships and/or Officerships
- D. Rules of Procedures on Administrative Cases Involving Directors and Officers

XI. SHAREHOLDERS' RIGHTS, BENEFITS AND PROTECTION

The Board of Directors shall be committed to respect the following rights of the shareholders. It shall be responsible to promote and remove impediments to the exercise of these rights and provide effective redress for violation.

A. Voting Right

Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.

B. Pre-emptive Right

Shareholders shall enjoy pre-emptive right to all issues or disposition of shares of any class, in proportion to their respective shareholdings, unless such right is denied by the Articles of Incorporation or an amendment thereto so long as is not in conflict with the Corporation Code.

C. Power of Inspection

All shareholders shall be allowed to inspect the Bank's books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.

D. Right to Information

Upon request and for a legitimate purpose, shareholders shall be provided 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 Bank, relationships among directors and key officers, and the aggregate compensation of directors and officers.

The minority shareholders shall 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 minority shareholders shall 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 shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".

E. Right to Dividends

Shareholders shall have the right to receive dividends subject to the discretion of the Board of Directors. However, the Bank shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board; or b) when the Bank is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Bank, such as when there is a need for special reserve for probable contingencies.

F. Appraisal Right

In accordance with the Corporation Code, shareholders may exercise appraisal rights under any of the following circumstances:

1. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
2. In case of sale, 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; and
3. In case of merger or consolidation.

It shall be the duty of the directors to promote shareholders' rights, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' 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 shareholder information necessary to make informed decisions subject to legal constraints.

XII. MONITORING AND ASSESSMENT

- A. Each board committee shall report regularly to the Board of Directors.
- B. The Compliance Officer shall continuously monitor the Board's and Management's compliance with this Manual.
- C. Each of the individual directors shall be required to conduct an annual self-rating/assessment using the Bank's Corporate Governance Scorecard. The results of said self-assessment shall be submitted to the Corporate Governance Committee not later than the 1st quarter of the following year. The Committee shall review and finalize said results and submit a report to the Board of Directors for notation and/or appropriate action(s).

XIII. CONDUCT OF GOVERNANCE SELF-RATING

A. The Corporate Governance Scorecards seek to achieve the objectives of the bank through the following areas:

1. Raise corporate governance standards and practices of UCPB Savings Bank, Inc.
2. Showcase and enhance the effectiveness of the performance of the Board, the Chairman, Members of the Board, Board Committees and Senior Management in disposing of their functions
3. Encourage and cite areas for improvement or better assess the bank's weak points to ensure a more competitive bank

B. FORMS

1. Scorecard on Bank's Performance
 - a) Assessment shall be based on documentary evidence;
 - b) To be provided by the Bank Compliance Division;
 - c) To be evaluated by the Corporate Governance Committee subject to discussion and approval of the Board
2. Self-Assessment Scorecard for Individual Director
 - a) To be accomplished by each Director
- b) Self-Assessment Scorecard for the President
 - a. To be accomplished by each President

C. Future Refinement of the Scorecard and Methodology

The Scorecard and methodology will be reviewed periodically, or as necessary, and changes will be made to reflect new developments in corporate governance.

XIV. REVIEW OF CORPORATE GOVERNANCE MANUAL

The USB Corporate Governance Manual shall be subject to review at least annually, or as necessary, to assess its continuing adequacy and effectiveness in meeting the Bank's strategies and objectives, and consistency with legal and regulatory mandates to the extent possible.