



30 January 2026

**THE PHILIPPINE STOCK EXCHANGE, INC.**

6/F PSE Tower  
5<sup>th</sup> Ave corner 28<sup>th</sup> Street  
Bonifacio Global City, Taguig City

**Attention** **ATTY. JOHANNE DANIEL M. NEGRE**  
Officer in Charge, Disclosure Department

**PHILIPPINE DEALING & EXCHANGE CORP.**

29f BDO Equitable Tower  
8751 Paseo de Roxas  
Makati City

**Attention:** **ATTY. SUZY CLAIRE R. SELLEZA**  
Head, Issuer Compliance and Disclosure Department

Gentlemen/ Mesdames:

We are pleased to submit the revised Manual of Corporate Governance of Security Bank Corporation with the following material amendments:

1. Updated the Section on “Disqualification, Suspension, Removal of a Director” to incorporate the additional ground for disqualification under BSP Circular No. 1216 “Amendments to the Regulations on Disqualification of Directors and Officers” issued last 16 July 2025;
2. Updated the Section on Board Committees to align with the current list of committees and responsibilities;
3. Updated the following sections to align with the respective policy documents issued:
  - a. Duties to Stakeholders - Governance Policy on Financial Crime, Fraud, and Bribery and Corruption; and
  - b. Policy on Sustainability.

Other changes pertain only to housekeeping corrections or a re-arrangement of previously existing sections, without material changes to the text.

Attached are copies of the Assistant Corporate Secretary's Certification, Summary and Reference to the Amendments and the revised Manual of Corporate Governance.

**SECURITY BANK CORPORATION**

Security Bank Centre, 6776 Ayala Avenue, Makati City, Philippines 0719  
Tel.: (+632) 888-78 · MCPO 2026 · [www.securitybank.com](http://www.securitybank.com)



Very truly yours

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

**ATTY. JOSEPH ANTHONY P. LOPEZ**

Assistant Corporate Secretary

**SECURITY BANK CORPORATION**

Security Bank Centre, 6776 Ayala Avenue, Makati City, Philippines 0719

Tel.: (+632) 888-78 · MCPO 2026 · [www.securitybank.com](http://www.securitybank.com)



**ASSISTANT CORPORATE SECRETARY'S CERTIFICATE**

I, **ATTY. JOSEPH ANTHONY P. LOPEZ**, a citizen of the Philippines, of legal age, with postal address at the 6<sup>th</sup> Floor, Security Bank Centre, 6776 Ayala Avenue, Makati City, Philippines, having been duly sworn in accordance with law do hereby certify as follows that:

1) I am the incumbent Assistant Corporate Secretary of Security Bank Corporation (the "Corporation"), that as such I have in my control and custody the minute books and other records of the Corporation.

2) At the regular meeting of the Board of Directors of the Corporation held on 09 December 2025, where a quorum was present, the Board of Directors confirmed the approval of the Corporate Governance Committee dated 04 December 2025 on the following amendments to the Manual of Corporate Governance as detailed in the Memorandum dated 04 December 2025:

- a. Housekeeping changes
- b. Updated the Section on "Disqualification, Suspension, Removal of a Director" to incorporate the additional ground for disqualification under BSP Circular No. 1216 "Amendments to the Regulations on Disqualification of Directors and Officers" issued last 16 July 2025"
- c. Updated the Section on Board Committees to align with the current list and responsibilities
- d. Updated the following sections to align with the respective policy documents issued:
  - Duties to Stakeholders>Governance Policy on Financial Crime, Fraud, and Bribery and Corruption"
  - Policy on Sustainability

Summary of the material Changes is attached as Annex "1".

Issued this 30<sup>th</sup> day of January 2026, in Makati City.



**ATTY. JOSEPH ANTHONY P. LOPEZ**  
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me this 30 JAN 2026 at Makati City, affiant exhibiting to me his Passport No. P7500114B issued in DFA Manila, valid until 30 August 2031.

Doc. No. 47 ;  
Page No. 11 ;  
Book No. VII ;  
Series of 2026.



**ATTY. HENSON M. MONTALVO, CPA**  
NOTARY PUBLIC FOR AND IN THE CITY OF MAKATI  
UNTIL DECEMBER 31, 2026  
APPOINTMENT No. M-164; ROLL No. 65865  
IBP No. 590437; 01/06/2026; PPLM CHAPTER  
PTR No. 10766125; 01/05/2026; MAKATI CITY  
MCLE Compliance No. VIII-0036850; 05-29-2025; Pasig City  
20/F SECURITY BANK CENTRE, 6776 AYALA AVE., MAKATI CITY

## ANNEX 1: SUMMARY OF MATERIAL CHANGES

Provision	Amendment	Rationale
<p>B. Directors</p> <p>2. Qualification and Disqualification of Directors (x)</p>	<p>Not permanently or temporarily disqualified as director per <del>Subsection X143.1</del> of the <u>BSP Manual of Regulations for Banks (MORB) and SEC Memorandum Circular No. 49, series of 2016 regulations</u></p>	<p>The specific subsection reference to the MORB was made generic to take into consideration any future regulatory issuances by the BSP and the SEC.</p>
<p>7. Disqualification, Suspension or Removal of a Director</p>	<p><u>m. Persons who voluntarily submitted an irrevocable sworn written commitment to perpetually inhibit themselves from participating in the ownership whether directly or indirectly, and/or management, in whatever capacity of any BSP supervised financial institution.</u></p>	<p>This is <b>new</b> provision. It incorporates the additional ground for disqualification provided under BSP Circular No. 1216.</p>
<p>Grounds for Suspension of Directors</p>	<p>(a) Violation of the provisions of <del>the</del> Manual of Regulations for Banks (MORB) - At the discretion of the Monetary Board and based on the seriousness, materiality or repeat of the acts or omission, a penalty of suspension may be imposed upon a director of a bank that conducts business in an unsafe and unsound manner (Section 002 <del>X149.9</del> of the MORB) or for such other violations for which the MORB specifically provides for the penalty of suspension;</p> <p><del>i. Second offense violation of Section X235.5 of the MORB on delivery of securities;</del></p> <p><del>ii. Second offense violation of Section X267.8 of the MORB on money market placements of rural banks;</del></p> <p><del>iii. Second offense and/or subsequent violation/s of Section X238.3 of the MORB on securities custodianship operations;</del></p> <p><del>iv. Second offense and/or subsequent violation/s of Section X388.6 of the MORB on investment in debt and readily-marketable equity securities; and</del></p> <p><del>v. Second offense and/or subsequent violation/s of Section X441.29 of the MORB on securities guardianship and securities registry operations.</del></p>	<p>This was made into a more general reference to provisions in the MORB that provided for the penalty of suspension for directors, to take into consideration any future issuances of the BSP related to this.</p>
<p>C. Board Committees</p>	<p>Changes were made to the following sections:</p> <p>Corporate Governance Committee</p> <ul style="list-style-type: none"> <li>• Purpose</li> <li>• Procedures</li> </ul> <p>Nominations and Remuneration Committee</p> <ul style="list-style-type: none"> <li>• Authority and Responsibilities</li> </ul> <p>Risk Oversight Committee</p> <ul style="list-style-type: none"> <li>• Purpose</li> <li>• Committee Membership</li> <li>• Rules</li> <li>• Authority and Responsibilities</li> </ul>	<p>This was made to align with the current charters of the Board-level Committees.</p>

	<ul style="list-style-type: none"> <li>• Inclusion of the Information Security Risk Management Committee</li> </ul> <p>Audit Committee</p> <ul style="list-style-type: none"> <li>• Powers (previously Authority)</li> <li>• Membership</li> <li>• Meetings</li> <li>• Duties and Responsibilities</li> </ul> <p>Related Party Transactions Committee</p> <ul style="list-style-type: none"> <li>• Meetings</li> <li>• Duties and Responsibilities</li> </ul> <p>Senior Credit Committee Trust Committee Transformation and Technology Committee</p> <p>Removed Restructuring Committee</p>	
E. Management	<p>Management is the body given the authority by the Board to implement policies for the conduct of the company business. Under the direction of the Board, Management ensures that its activities are consistent with business strategy, risk tolerance and appetite, and the policies are approved by the Board. Senior Management should implement appropriate systems for managing both financial and non-financial risks, including a comprehensive and independent risk management function and an effective system of internal controls. An effective Board acts as an independent mechanism of oversight as to activities of managers to whom the Board has delegated authority.</p>	<p>This is an existing provision, the location of which was transferred as it was more appropriate to put this in the section on Management.</p>
IV. DUTIES TO STAKEHOLDERS	<p><b>Governance Policy on Financial Crime</b> <del>Money Laundering, Fraud, and Bribery and Corruption</del></p> <p><del>Money Laundering</del> <b>Financial Crime</b></p> <p>The Bank is committed to conducting all business activities in accordance with the highest ethical, legal, and professional standards. This commitment includes safeguarding the Bank's reputation and ensuring that its products, services, and operations are not misused as a vehicle, conduit, or target for money laundering, terrorism financing, or any other form of financial crime. Protecting the integrity of the financial system and the interests of our stakeholders remains a core governance priority.</p> <p><del>It is the policy of the Bank to conduct business in conformity with high ethical standards to protect the reputation and integrity of the banking system from becoming a vehicle or conduit for or a victim of financial crime and to protect the diverse</del></p>	<p>The amendment was to align with the provisions of the Bank's AML Policy.</p>

	<p><del>interests of the institution's stakeholder groups.</del></p> <p><del>Employees are required to report to prescribed channels if they become aware of any circumstances leading them to suspect that any transaction might involve the payment or the receipt of proceeds of any unlawful activity.</del></p> <p><del>See</del></p> <p><u><b>Bribery and Corruption</b></u></p> <p>The SBC Group has zero tolerance for bribery and corruption in any form. The Bank's zero-tolerance approach means it is fully committed to preventing, detecting, and deterring bribery and corruption and will not engage in, support, or appear to endorse any improper or unethical incentives.</p> <p><del>Neither the Bank</del> No SBC employee <del>nor any third party acting on the Bank's behalf shall</del> <b>may offer, promise, authorize, request or accept pay anything of significant value,</b> whether directly or indirectly, to influence <del>someone to any government official or any other person or entity including those in the private or commercial sector, where it is intended to induce the recipient to misuse his or her their position or to gain obtain an improper business advantage.</del> <b>This applies to dealings with public officials and private parties alike, including benefits provided to close family members or individuals closely connected to them. Gifts of cash or cash equivalents are strictly prohibited unless specifically allowed under SBC policy. These standards apply to all dealings with customers, co-employees, third parties, and government officials.</b></p> <p><del>No Bank employee shall request or accept a bribe. No gift of cash or any cash equivalent is ever permitted to be given to or for the benefit of any third party, or requested or accepted by any Bank employee, unless specifically authorized by the Bank's policy.</del></p>	
<p><b>V. POLICY ON SUSTAINABILITY</b></p>	<p><b>V. POLICY ON SUSTAINABILITY</b></p> <p><del>As a major provider of financial services in the Philippines, Security Bank recognizes the important role that financial institutions play in nation building and sustainable development. The Bank acknowledges that environmental and social risks arising from its activities and those of its customers have a significant impact on its operations. It aims to manage these risks appropriately by providing excellent products and services, acting responsibly, and supporting worthwhile advocacies. In doing this, it also seeks to contribute to the sustainable growth</del></p>	<p>Provisions were aligned with what is provided in <del>the</del> Bank's Sustainability policy.</p>

~~of our business and enhancement of our corporate value.~~

Security Bank as a leading financial services provider in the Philippines is committed ~~on a~~ long-term basis to developing lasting relationships with its stakeholders, ~~both to~~ clients and society, and promoting shared and sustainable growth for a better world. ~~Our~~ vision that the Bank is continuously working towards. With its vision to become the most customer-centric bank in the Philippines, the Bank is anchored on its mission to enrich lives, empower businesses, and build communities sustainable through financial service excellence.

With a deeper understanding of sustainability, the Bank recognizes its key role as a bank in influencing social and economic growth. Its aspiration is to lead, transforming the financial industry towards a low-carbon economy and a sustainable, resilient society.

In line with reinforcing this commitment, the Board of Directors has approved ~~an~~ Environmental and Social Policy ~~the~~ Sustainability Framework which provides guidelines for integrating sustainability into the Bank's decision-making processes and helps outline the Bank's goals, strategies and actions to achieve sustainability objectives, ensuring consistency across its operations. ~~establishes the basis for the Bank's policies, and the management of environmental and social issues. The policy also includes an Environmental and Social Risk Management System (ESRMS) Framework to help identify, assess and manage environmental and social risks associated with banking operations.~~

The framework is guided by the following principles:

1. We incorporate sustainability in our business decisions resulting in better outcomes for our stakeholders, society and the planet.
2. We recognize the substantial risk that climate change poses on our business, employees, clients and the communities we serve. At the same time, we acknowledge the impact of our operations on the environment and society, both directly and indirectly. This understanding drives our commitment to proactively manage these risks responsibly and equitably.
3. We help make the shift to a low-carbon economy fair and inclusive by offering financial products and solutions as well

- 88 guide our clients through this transition.
4. We acknowledge the significance of aligning with the national and global sustainable development agenda, particularly the United Nations Sustainable Development Goals (SDGs), the Philippines' Nationally Determined Contributions (NDCs), the ASEAN Low Carbon Economy Programme (ALCEP) and other initiatives to address economic, environmental and social challenges.
  5. We believe that a culture of sustainability begins with our employees. When they adopt this mindset, they join a mission that extends beyond business as usual and incorporate sustainability into their everyday practices.
  6. We are committed to working with all stakeholders to ensure accountability, transparency and collaboration in our quest for sustainable development.

The Framework also includes the Bank's Sustainability Strategy which is aligned with the corporate mission and vision and guided by the Bank's core values. It also outlines the Sustainability goals which will help the Bank realize its vision of becoming the best-in-class in sustainable banking.

The three pillars of the Bank's sustainability goals are:

- (1) ~~Enriching lives~~ — This means ensuring that the Bank's ~~Better Banking~~ promise is fulfilled for its internal and external customers. It also means ensuring the total well-being of its people and promoting a positive and ~~harmonious~~ working environment.
- (2) ~~Empowering businesses~~ — The Bank is positioned to be a partner for sustainable growth and will ~~contribute to~~ economic development by supporting and equipping a wide range of industries with resources necessary for growth.
- (3) ~~Building communities sustainably~~ — The Bank shall apply a holistic approach to giving, which entails thoroughly assessing the needs of peoples and communities; ~~analyzing and identifying ideal project partners; executing plans~~

~~excellently through collaboration among employees, partners and beneficiaries, and providing follow-through programs to ensure sustainable impact.~~

The Bank's dedication to sustainability is built on strong governance, with key committees collaborating to ensure its initiatives are effective and its goals are met:

1. **The Board of Directors** shall, among others, institutionalize the incorporation of sustainability principles, including those covering E&S risk areas, ~~has~~ **overall responsibility in ensuring that sustainability principles are embedded in the strategic objectives, corporate governance and risk management frameworks, as well as in the Bank's strategic objectives and operations (given the Bank's risk appetite and ability to manage risks, systems of the Bank.**
2. **The Corporate Governance Committee** ~~approves the sustainability framework and transition plan. It will also~~ **oversees and ensures the full implementation of the Bank's Sustainability risk management Framework.**
3. **The Risk Oversight Committee** ~~is~~ **responsible** ~~operates at the Board level with the responsibility of approving and supervising for the approval and oversight of the Environmental and Social Risk Management System (ESRMS).~~
4. **Internal Audit and Compliance** shall regularly evaluate the robustness and continuing relevance of the Sustainability Framework and other sustainability-related programs, policies and processes.
5. **The Sustainability Committee** is the management level **committee** that is responsible for rolling out the Sustainability Framework, ~~which shall provide holistic perspectives to ensure consistency and alignment of cross functional activities; advocate capacity for sustainability strategies, approve external communications and monitor the Bank's progress in attaining the sustainability objectives. The Sustainability Unit headed by the Sustainability Officer plans, drives, coordinate and monitors the sustainability initiatives of the Bank.~~

	<p>6. <b>The Sustainability Unit</b>, led by a Sustainability Head, guides the different business units and subsidiaries in executing the Bank's sustainability programs.</p> <p>7. <b>The Sustainable Finance Team</b> plays a pivotal role in identifying and qualifying eligible loans based on the bank's Sustainable Finance Framework.</p> <p>8. <b>The Sustainability Workstreams</b> were established by the Sustainability Committee to advance the Bank's strategic sustainability initiatives.</p> <p>9. <b>Business units and subsidiaries shall</b> proactively adhere to the Sustainability Framework and other related policies, ensuring unified approach and adoption of sustainability strategy and goals across the bank.</p> <p><b>SBC employees</b> are the foundation of the Bank and should reflect the Bank's commitment to sustainability by being Sustainability Ambassadors, contributing significantly to the achievement of its strategic goals.</p>	
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## Summary of Material Changes

Provision	Amendment	Rationale
<p>B. Directors</p> <p>2. Qualification and Disqualification of Directors (x)</p>	<p>Not permanently or temporarily disqualified as director per <del>Subsection X143.1</del> of the BSP Manual of Regulations for Banks (MORB) and SEC <del>Memorandum Circular No. 19, series of 2016</del> regulations</p>	<p>The specific subsection reference to the MORB was made generic to take into consideration any future regulatory issuances by the BSP and the SEC.</p>
<p>7. Disqualification, Suspension or Removal of a Director</p>	<p><del>m. Persons who voluntarily submitted an irrevocable sworn written commitment to perpetually inhibit themselves from participating in the ownership whether directly or indirectly, and/or management, in whatever capacity, of any BSP supervised financial institution.</del></p>	<p>This is new provision. It incorporates the additional ground for disqualification provided under BSP Circular No. 1216.</p>
<p>Grounds for Suspension of Directors</p>	<p>(a) Violation of the provisions of the Manual of Regulations for Banks (MORB) - At the discretion of the Monetary Board and based on the seriousness, materiality or repeat of the acts or omission, a penalty of suspension may be imposed upon a director of a bank that conducts business in an unsafe and unsound manner (Section <del>002 X149.9</del> of the MORB) or for such other violations for which the MORB specifically provides for the penalty of suspension;</p> <p><del>i. Second offense violation of Section X235.5 of the MORB on delivery of securities;</del></p> <p><del>ii. Second offense violation of Section X237.3 of the MORB on money market placements of rural banks;</del></p> <p><del>iii. Second offense and/or subsequent violation/s of Section X238.3 of the MORB on securities custodianship operations;</del></p> <p><del>iv. Second offense and/or subsequent violation/s of Section X388.5 of the MORB on investment in debt and readily marketable equity securities; and</del></p> <p><del>v. Second offense and/or subsequent violation/s of Section X441.29 of the MORB on securities guardianship and securities registry operations.</del></p>	<p>This was made into a more general reference to provisions in the MORB that provided for the penalty of suspension for directors, to take into consideration any future issuances of the BSP related to this.</p>
<p>C. Board Committees</p>	<p>Changes were made to the following sections:</p> <p>Corporate Governance Committee</p> <ul style="list-style-type: none"> <li>• Purpose</li> <li>• Procedures</li> </ul> <p>Nominations and Remuneration Committee</p> <ul style="list-style-type: none"> <li>• Authority and Responsibilities</li> </ul> <p>Risk Oversight Committee</p> <ul style="list-style-type: none"> <li>• Purpose</li> <li>• Committee Membership</li> <li>• Rules</li> <li>• Authority and Responsibilities</li> </ul>	<p>This was made to align with the current charters of the Board-level Committees.</p>

	<ul style="list-style-type: none"> <li>• Inclusion of the Information Security Risk Management Committee</li> </ul> <p>Audit Committee</p> <ul style="list-style-type: none"> <li>• Powers (previously Authority)</li> <li>• Membership</li> <li>• Meetings</li> <li>• Duties and Responsibilities</li> </ul> <p>Related Party Transactions Committee</p> <ul style="list-style-type: none"> <li>• Meetings</li> <li>• Duties and Responsibilities</li> </ul> <p>Senior Credit Committee Trust Committee Transformation and Technology Committee</p> <p>Removed Restructuring Committee</p>	
<p>E. Management</p>	<p>Management is the body given the authority by the Board to implement policies for the conduct of the company business. Under the direction of the Board, Management ensures that its activities are consistent with business strategy, risk tolerance and appetite, and the policies are approved by the Board. Senior Management should implement appropriate systems for managing both financial and non-financial risks, including a comprehensive and independent risk management function and an effective system of internal controls. An effective Board acts as an independent mechanism of oversight as to activities of managers to whom the Board has delegated authority.</p>	<p>This is an existing provision, the location of which was transferred as it was more appropriate to put this in the section on Management.</p>
<p>IV. DUTIES TO STAKEHOLDERS</p>	<p>Governance Policy on <del>Financial Crime Money Laundering</del>, Fraud, and Bribery and Corruption</p> <p><del>Money Laundering Financial Crime</del></p> <p>The Bank is committed to conducting all business activities in accordance with the highest ethical, legal, and professional standards. This commitment includes safeguarding the Bank's reputation and ensuring that its products, services, and operations are not misused as a vehicle, conduit, or target for money laundering, terrorism financing, or any other form of financial crime. Protecting the integrity of the financial system and the interests of our stakeholders remains a core governance priority.</p> <p><del>It is the policy of the Bank to conduct business in conformity with high ethical standards to protect the reputation and integrity of the banking system from becoming a vehicle or conduit for or a victim of financial crime and to protect the diverse</del></p>	<p>The amendment was to align with the provisions of the Bank's AML Policy.</p>

	<p><del>interests of the institution's stakeholder groups:</del></p> <p><del>Employees are required to report to prescribed channels if they become aware of any circumstances leading them to suspect that any transaction might involve the payment or the receipt of proceeds of any unlawful activity:</del></p> <p><del>Xxx</del></p> <p><u><i>Bribery and Corruption</i></u></p> <p>The SBC Group has zero tolerance for bribery and corruption in any form. The Bank's zero-tolerance approach means it is fully committed to preventing, detecting, and deterring bribery and corruption and will not engage in, support, or appear to endorse any improper or unethical incentives.</p> <p><del>Neither the Bank</del> No SBC employee nor any third party acting on the Bank's behalf <del>shall</del> may offer, promise, authorize, request or accept <del>pay</del> anything of significant value, whether directly or indirectly, to influence someone to any "government official" or any other person or entity including those in the private or commercial sector, where it is intended to induce the recipient to misuse his or her their position or to gain <del>obtain</del> an improper business advantage. This applies to dealings with public officials and private parties alike, including benefits provided to close family members or individuals closely connected to them. Gifts of cash or cash equivalents are strictly prohibited unless specifically allowed under SBC policy. These standards apply to all dealings with customers, co-employees, third parties, and government officials.</p> <p><del>No Bank employee shall request or accept a bribe. No gift of cash or any cash equivalent is ever permitted to be given to or for the benefit of any third party, or requested or accepted by any Bank employee, unless specifically authorized by the Bank's policy.</del></p>	
<p>V. POLICY ON SUSTAINABILITY</p>	<p><b>V. POLICY ON SUSTAINABILITY</b></p> <p><del>As a major provider of financial services in the Philippines, Security Bank recognizes the important role that financial institutions play in nation building and sustainable development. The Bank acknowledges that environmental and social risks arising from its activities and those of its customers have a significant impact on its operations. It aims to manage these risks appropriately by providing excellent products and services, acting responsibly, and supporting worthwhile advocacies. In doing this, it also seeks to contribute to the sustainable growth</del></p>	<p>Provisions were aligned with what is provided in the Bank's Sustainability policy.</p>

~~of our business and enhancement of our corporate value.~~

Security Bank as a leading financial services provider in the Philippines is committed ~~on a long-term basis~~ to developing lasting relationships with its stakeholders, ~~both its clients and society~~, and promoting shared and sustainable growth for a better world, ~~a vision that the Bank is continuously working towards~~. With its vision to become the most customer-centric bank in the Philippines, the Bank is anchored on its mission to enrich lives, empower businesses, and build communities sustainable through financial service excellence.

With a deeper understanding of sustainability, the Bank recognizes its key role as a bank in influencing social and economic growth. Its aspiration is to lead, transforming the financial industry towards a low-carbon economy and a sustainable, resilient society.

In line with reinforcing this commitment, the Board of Directors has approved ~~an Environmental and Social Policy~~ the Sustainability Framework which provides guidelines for integrating sustainability into the Bank's decision-making processes and helps outline the Bank's goals, strategies and actions to achieve sustainability objectives, ensuring consistency across its operations. ~~establishes the basis for the Bank's policies, and the management of environmental and social issues. The policy also includes an Environmental and Social Risk Management System (ESRMS) Framework to help identify, assess and manage environmental and social risks associated with banking operations.~~

The framework is guided by the following principles:

1. We incorporate sustainability in our business decisions resulting in better outcomes for our stakeholders, society and the planet.
2. We recognize the substantial risk that climate change poses on our business, employees, clients and the communities we serve. At the same time, we acknowledge the impact of our operations on the environment and society, both directly and indirectly. This understanding drives our commitment to proactively manage these risks responsibly and equitably.
3. We help make the shift to a low-carbon economy fair and inclusive by offering financial products and solutions as well

	<p>as guide our clients through this transition.</p> <p>4. We acknowledge the significance of aligning with the national and global sustainable development agenda, particularly the United Nations Sustainable Development Goals (SDGs), the Philippines' Nationally Determined Contributions (NDCs), the ASEAN Low Carbon Economy Programme (ALCEP) and other initiatives to address economic, environmental and social challenges.</p> <p>5. We believe that a culture of sustainability begins with our employees. When they adopt this mindset, they join a mission that extends beyond business as usual and incorporate sustainability into their everyday practices.</p> <p>6. We are committed to working with all stakeholders to ensure accountability, transparency and collaboration in our quest for sustainable development.</p> <p>The Framework also includes the Bank's Sustainability Strategy which is aligned with the corporate mission and vision and guided by the Bank's core values. It also outlines the Sustainability goals which will help the Bank realize its vision of becoming the best-in-class in sustainable banking.</p> <p><del>The three pillars of the Bank's sustainability goals are:</del></p> <p><del>(1) — Enriching lives — This means ensuring that the Bank's BetterBanking promise is fulfilled for its internal and external customers. It also means ensuring the total well-being of its people and promoting a positive and harmonious working environment.</del></p> <p><del>(2) — Empowering businesses — The Bank is positioned to be a partner for sustainable growth and will contribute to economic development by supporting and equipping a wide range of industries with resources necessary for growth.</del></p> <p>(3) Building communities sustainably — The Bank shall apply a holistic approach to giving, which entails thoroughly assessing the needs of peoples and communities; analyzing and identifying ideal project partners; executing plans</p>	
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~~excellently through collaboration among employees, partners and beneficiaries; and providing follow-through programs to ensure sustainable impact.~~

The Bank's dedication to sustainability is built on strong governance, with key committees collaborating to ensure its initiatives are effective and its goals are met:

1. **The Board of Directors** shall, among others, institutionalize the incorporation of sustainability principles, including those covering E&S risk areas, ~~has overall responsibility in ensuring that sustainability principles are embedded~~ in the ~~strategic objectives,~~ corporate governance and risk management frameworks, as well as in the Bank's strategic objectives and operations (given the Bank's risk appetite and ability to manage risks. ~~systems of the Bank.~~
2. **The Corporate Governance Committee** ~~approves the sustainability framework and transition plan. It will also~~ oversees ~~and ensure~~ the full implementation of the Bank's Sustainability ~~risk management~~ Framework.
3. **The Risk Oversight Committee** ~~is responsible~~ operates at the Board level with the responsibility of approving and supervising ~~for the approval and oversight of~~ the Environmental and Social Risk Management System (ESRMS).
4. **Internal Audit and Compliance** shall regularly evaluate the robustness and continuing relevance of the Sustainability Framework and other sustainability-related programs, policies and processes.
5. **The Sustainability Committee** is the management level committee that is responsible for rolling out the Sustainability Framework. ~~which shall provide holistic perspectives to ensure consistency and alignment of cross functional activities; advocate capacity for sustainability strategies, approve external communications and monitor the Bank's progress in attaining the sustainability objectives. The Sustainability Unit headed by the Sustainability Officer plans, drives, coordinates and monitors the sustainability initiatives of the Bank.~~

	<p>6. The <b>Sustainability Unit</b>, led by a Sustainability Head, guides the different business units and subsidiaries in executing the Bank's sustainability programs.</p> <p>7. The <b>Sustainable Finance Team</b> plays a pivotal role in identifying and qualifying eligible loans based on the bank's Sustainable Finance Framework.</p> <p>8. The <b>Sustainability Workstreams</b> were established by the Sustainability Committee to advance the Bank's strategic sustainability initiatives.</p> <p>9. <b>Business units and subsidiaries shall</b> proactively adhere to the Sustainability Framework and other related policies, ensuring unified approach and adoption of sustainability strategy and goals across the bank.</p> <p><b>SBC employees</b> are the foundation of the Bank and should reflect the Bank's commitment to sustainability by being Sustainability Ambassadors, contributing significantly to the achievement of its strategic goals.</p>	
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# SECURITIES AND EXCHANGE COMMISSION

THE SEC HEADQUARTERS 7907 Makati Avenue, Salcedo Village, Bel-Air, Makati City  
1209 Trunk Line No:02-5322-7696 Email Us:www.sec.gov.ph/imessagemo@sec.gov.ph



**The following document has been received:**

**Receiving:** DONNA ENCARNADO

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## Company Information

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# **Security Bank Corporation**

## **Manual of Corporate Governance**

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## INTRODUCTION

Security Bank embraces and adheres to good corporate governance practices.

Corporate governance is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and Senior Management accountable for ensuring ethical behavior - reconciling long-term customer satisfaction with shareholder value – to the benefit of all stakeholders and society.

Its purpose is to maximize the organization’s long-term success, creating sustainable value for its shareholders, stakeholders and the nation.

The main regulations which govern this Manual of Corporate Governance (hereinafter the “Manual”) are:

1. Securities and Exchange Commission (SEC) Code of Corporate Governance for Publicly Listed Companies under SEC Memorandum Circular No. 19 Series of 2016.

To promote the development of a strong corporate governance culture and keep abreast with recent development in corporate governance, the Commission in its en banc meeting held on November 10, 2016 resolved to approve the Code of Corporate Governance for Publicly-Listed Companies (CG Code for PLCs).

The Code superseded the following Memorandum Circulars:

- a. SEC Memorandum Circular No. 6 series of 2009 (Revised Code of Corporate Governance);
  - b. SEC Memorandum Circular No. 9 Series of 2011 (Term limits for Independent Directors);
  - c. SEC Memorandum Circular No. 20 Series of 2013 (All members of the Board of Directors and Key Officers of Publicly Listed Companies to attend Corporate Governance Trainings only with SEC accredited Training providers);
  - d. SEC Memorandum Circular No. 9 Series of 2014 (Amendment to the Revised Code of Corporate Governance); and
  - e. Parts VI (Duration of Training) and VII (Exemption from SEC Memorandum Circular 20 Series of 2013) of SEC Memorandum Circular No. 2 Series of 2015 (Additional Guidelines on Corporate Governance Training Programs and Lectures).
2. Bangko Sentral ng Pilipinas Manual of Regulations for Banks (BSP MORB), Part One – Organization, Management and Administration, D. Corporate Governance

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It is the thrust of the BSP to continuously strengthen corporate governance in its supervised financial institutions cognizant that this is central in sustaining the resiliency and stability of the financial system.

To comply with the aforementioned regulatory issuances and to be in line with best practices, Security Bank Corporation (SBC) and its subsidiaries adopted a formal and written Manual of Corporate Governance. This Manual also serves as the Board Charter inasmuch as it already articulates the roles, duties and responsibilities, and accountabilities of the directors to guide them in carrying out their fiduciary duties and discharge their functions.

With respect to the SEC Code on Corporate Governance, SBC adopts the comply and explain approach which combines voluntary compliance with mandatory disclosure.

The Manual shall be reviewed and updated on an annual basis. Any laws or regulations issued prior to such annual review that will effect in amending any of the provisions herein shall be deemed as incorporated. In the event of any conflict between this Manual and the regulatory issuances/ amendment, the stricter provision will apply.

It is SBC’s desire that through this Manual, the principles of good corporate governance will be institutionalized in the entire Security Bank Group.

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## I. CORPORATE GOVERNANCE CHARTER

### A. CORPORATE GOVERNANCE FRAMEWORK

This Manual and Charter provides the corporate governance framework and sets the platform for corporate governance policies and practices that are in place in the Bank and to which both the Board collectively and the Directors individually are committed to consistently implement.

#### Policy Statement

The Board of Directors and Management, i.e., officers and staff, of Security Bank Corporation and its subsidiaries hereby commit to the principles and best practices that promote good corporate governance as embodied in the Manual of Regulations for Banks (MORB) issued by the BSP and the Code of Corporate Governance for Publicly-Listed Companies issued by the SEC, and acknowledge that the same may properly guide the Bank in attaining its corporate goals and objectives.

The Shareholders, Board of Directors and Senior Management believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness and ensure compliance with corporate governance policies and practices within the organization.

#### Governance System

1. The Board of Directors has ultimate responsibility for the Bank's business and risk strategy, organization, financial soundness, and governance. Accordingly, the Board should approve and monitor the overall business strategy of the Bank, thereby taking into account the Bank's long-term financial interests, its exposure to risk and its ability to manage risk effectively.

Moreover, the Board should approve and oversee the implementation of the Bank's:

- overall risk strategy, including its risk tolerance/appetite;
- policies for risk, risk management and compliance;
- internal control systems;
- corporate governance framework, principles, and corporate values, including a code of conduct (or comparable document); and
- compensation system.

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The Board should also provide effective oversight of Senior Management. In discharging these responsibilities, the Board should:

- exercise sound objective judgment;
- have and maintain appropriate qualifications and competence, individually and collectively;
- follow appropriate governance practices for its own work as a board; and
- be supported by competent, robust, and independent risk control functions that are subject to the Board's oversight.

The internal control system shall include oversight on the implementation of the key control functions, such as risk management, compliance and internal audit, and reviewing the corporation's human resource policies, conflict of interest situations, compensation program for employees and management succession plan.

2. The Corporate Governance Committee assists the Board of Directors in the performance of its corporate governance responsibilities.
3. The Audit Committee assists the Board in the performance of its oversight responsibility for the institution's financial reporting policies, practices and control, and internal and external audit functions. It shall be responsible for the setting up of the internal audit department and for the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the audit committee.
4. The Risk Oversight Committee is responsible for the oversight of Bank's Enterprise Risk Management system to ensure its functionality and effectiveness.
5. The Corporate Secretary is responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the Bank.
6. The Chief Compliance Officer is the lead senior officer responsible for administering the compliance program, including compliance with the Manual and the rules and regulations of regulatory agencies such as but not limited to BSP, SEC, PSE and AMLC.
7. The Chief Risk Officer is responsible for the identification, measurement, assessment, monitoring and management of the Bank's financial risk limits (credit, market, liquidity, etc.).
8. The Chief Audit Executive is responsible for reviewing the adequacy of controls established to ensure compliance with policies, plans, procedures and business objectives, in accordance with its Charter.

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9. The External Auditor is an audit professional who performs an audit in accordance with specific laws or rules on the financial statements of a company, government entity, other legal entity or organization, and who is independent of the entity being audited. Users of these entities' financial information, such as investors, government agencies, and the general public, rely on the external auditor to present an unbiased and independent audit report.
  
10. Management pertains to the group of executives given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation. Under the direction of the Board, they should ensure that the Bank's activities are consistent with the business strategy, risk tolerance/appetite and policies approved by the Board. In this regard, Senior Management should implement appropriate systems for managing both financial and non-financial risks to which the Bank is exposed, including a comprehensive and independent risk management function and an effective system of internal controls.
  
11. Risk governance framework shall refer to the framework through which the Board of Directors and management establish the BSFI's strategy; articulate and monitor adherence to risk appetite and risk limits; and identify, measure, and manage risks.

### **Corporate Governance Policies and Standards**

Good corporate governance and transparency are fundamental to achieving SBC's vision of becoming one of the top five universal banks in the country.

SBC strives for excellence in its products and services and in the way it does business throughout all its operations. This process commences with its Board of Directors, the Senior Management team and all its employees regardless of location through its BetterBanking endeavor. This applies equally to transparency, accuracy and integrity in reporting and meeting the expectations of regulators, shareholders and the public - regardless of whether this relates to financial performance reports and accounting procedures, product and standards, ethics in dealings with customers, co-workers and the public, or behaving in a safe and environmentally responsible manner.

SBC shall continually formulate and implement corporate governance policies that will strengthen and support the achievement of its corporate goals and objectives, of which increasing shareholders' value, giving excellent service to customers and complying to laws, rules and regulations are of primary importance.

### **Information Access Management**

To enable the Board to operate effectively and properly fulfill their duties and responsibilities, Management shall provide them access to complete, accurate and timely information about the matters to be taken up in

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their regular and special board meetings and in regular briefings/meetings with Senior Management. To achieve this, the Board shall ensure that an effective information framework exists throughout the organization and that a suitable information access system is in place to ensure that important information always reaches them on time.

The Board members shall be responsible for ensuring they have the right/necessary information. Information shall be submitted to the Board through formal and informal channels, which should be structured and organized in a manner that will enable Management and support staff to provide sufficient and accurate information. Formal channels include regular and special board meetings, regular briefings, structured presentations and other official documents. Informal channels include telephone, e-mails, discussions and meetings with Management, informal gatherings and the like.

Information volunteered by Management might not be sufficient in all circumstances. Hence, the Board shall be given independent access to Management and the Corporate Secretary for additional information which may include the background or explanation on matters brought before the Board, disclosures, budgets, forecast and internal financial documents.

Lengthy and complex documents and financial statements need to be provided to the directors within a sufficient period to allow them to assimilate the information before any subsequent discussions.

Where warranted, the members, either individually or as a Board, shall have access to independent professional advice at the corporation's expense.

**Accountability and Audit**

The Board is primarily accountable to the stockholders. It shall provide them with a balanced and comprehensible assessment of the corporation's performance, position, and prospects on a periodic basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.

Management shall formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal control in accordance with guidelines prescribed by applicable rules and regulations.

Internal control is a process designed and effected by the Board of Directors, Senior Management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete, and timely financial and management information; and compliance with applicable laws, regulations, and the organization's policies and procedures.

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The Board, after consultation with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the Securities & Exchange Commission who shall undertake an independent audit of the Bank, and shall provide an objective assurance on the manner by which the financial statements are prepared and presented to the stockholders. The external auditor shall not, at the same time, provide internal audit services to the corporation. Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.

### **Stockholders’ Rights and Protection of Stockholders’ Minority Interests**

The Board shall respect the rights of the stockholders as provided for in the Corporation Code, namely:

- i. Right to vote on all matters that require their consent and approval;
- ii. Pre-emptive right to all stock issuances of the corporation;
- iii. Right to inspect corporate books and records
- iv. Right to information
- v. Right to dividends
- vi. Appraisal right

Pre-emptive right to all stock issuances of the corporation was waived. Article 7 of the Bank’s Articles of Incorporation states that no holder of shares of securities issued by the Corporation shall be entitled to pre-emptive rights with respect to shares issued by the Bank.

The Board shall be transparent and fair in the conduct of the annual and special stockholders’ meetings of the corporation. Although all stockholders should be treated equally or without discrimination, the Board shall give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the corporation.

All shareholders, including minority shareholders, shall have the right to nominate candidates for the Board of Directors.

### **Governance Self-Rating System**

The Board shall create an internal self-rating system that measures the performance of the Board, board committees and Management in accordance with the criteria provided for in this Manual.

The creation and implementation of such self-rating system, including its salient features, may be disclosed in the corporation’s annual report.

### **Disclosure and Transparency**

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The essence of corporate governance is transparency. The Bank shall therefore publicly and timely disclose all material information which could adversely affect its viability or the interests of its stockholders and other stakeholders. Such information shall include, among others, earnings results, acquisition or disposition of assets, off-balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.

The Board shall therefore commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the Securities and Exchange Commission, Philippine Stock Exchange, Bangko Sentral ng Pilipinas, Bureau of Internal Revenue and other regulatory agencies, for the interest of its stockholders and other stakeholders.

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## II. GOVERNANCE STRUCTURE

### A. THE BOARD OF DIRECTORS

Compliance with the principles of good governance starts with the Board of Directors. The Board of Directors refers to the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties.

#### 1. Composition of the Board of Directors (BOD)

As prescribed by the By-Laws of the Bank, the Board shall consist of fifteen (15) directors, including independent directors. In accordance with regulations, membership to the Board shall be subject to the following limits and other requirements:

- (a) The Board shall be composed of at least five (5) but not more than fifteen (15) members who are elected by the stockholders, Provided, That in the case of a bank merger or consolidation, the number of directors may be increased up to the total number of the members of the board of directors of the merging or consolidating bank as provided for in the respective Articles of Incorporation, but in no case to exceed twenty-one (21). The Board shall determine the appropriate number of its members to ensure that the number thereof is commensurate with the size and complexity of the Bank's operations.
- (b) At least three are independent directors, or such number as to constitute at least one-third (1/3) of the members of the Board, whichever is higher.
- (c) Non-Filipino citizens may become members of the Board to the extent of the foreign participation in the equity of the Bank, Provided, majority of the directors are residents of the Philippines.
- (d) Membership may be a combination of executive and non-executive directors (which include independent directors) in order that no director or small group of directors can dominate the decision-making process. The majority of the members shall be non-executive directors, including the independent directors. They shall possess the necessary qualifications and stature that would enable them to effectively participate in the deliberation and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances.
- (e) Members of the Board of Directors shall not be appointed as Corporate Secretary or Chief Compliance Officer.
- (f) The Board composition should consider the balance of the following criteria:

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- Independence
- Business specialization and experience
- Technical skills
- Diversity
- Geographic representation

## 2. Diversity in the Board of Directors

### Policy Statement on Diversity of Experience and Background of the Board of Directors

The Bank recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, competence and knowledge, background, age, ethnicity, gender and other qualities of directors. These differences will be considered in determining the optimum composition of the Board and when possible, should be balanced appropriately. To ensure diversity in the Board of Directors, representation can include members with experience in Information Technology, Law, Finance, Marketing, Academe, Sciences, Media and Public Affairs, among others. All Board appointments are made on merit, considering the skills and experience of the Board Members to ensure an effective Board. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires to be effective.

### Objective on Gender Diversity

The Board has a specific objective to maintain at least two (2) female Board members in the total number of directors, and to take opportunities to increase over time the number of female Board members where that is consistent with skills, experience and other diversity requirements as well as global best practice

## 3. Powers of the Board of Directors

The corporate powers of the Bank shall be exercised, its business conducted, and all its property and resources controlled and held, by its Board of Directors. The powers of the Board of Directors as conferred by law are original and cannot be revoked by the stockholders. The Directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the Bank.

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#### 4. General Responsibility of the Board of Directors

The Board is primarily responsible for the governance of the Bank. It shall foster the long-term success of the Bank and secure its sustained competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders. The Board should approve and monitor the overall business strategy of the Bank, taking into account the long-term financial interest, its exposure to risk, and the ability to manage risks effectively. The Board shall review and guide corporate strategy, major plans, set performance objectives, monitor implementation and corporate performance, and oversee major capital expenditures, acquisition and divestitures, in order to sustain the company's long-term viability and strength. Further, the Board of Directors is also responsible for monitoring and overseeing the performance of Senior Management as the latter manages day-to-day affairs of the institution.

The Board shall periodically review the corporate vision and mission statements to ensure that they remain reflective of and accurately embody the Bank's purposes, goals and direction.

While management of the day-to-day affairs of the Bank is the responsibility of Management, the Board is responsible for monitoring and overseeing management actions.

#### 5. Accountability of the Board of Directors

The Board is primarily accountable to the stockholders and stakeholders in ensuring that the Bank is being run in a prudent and sound manner.

For the stockholders, the Board shall:

- Be transparent and fair in the conduct of the annual and special meetings of stockholders;
- Promote the rights of the stockholders, removing impediments to the exercise of the rights. Stockholders shall seek redress through the Bank's Office of the Corporate Secretary or the Investor Relations Office for breach of their rights;
- Take appropriate steps to remove excessive or unnecessary costs or other administrative impediments to the meaningful participation of stockholders in meetings, whether in person or by proxy.
- Provide stockholders with accurate and timely information to enable them to make sound judgment on all matters brought to their consideration for approval;
- Provide the stockholders with a comprehensive and balanced assessment of the Bank's performance, position and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.

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- Treat all stockholders equally, without discrimination.

For the stakeholders, the Board shall:

- Provide its employees the necessary employee benefit programs for their safety, health and welfare. To equip the employees in carrying out its function and duties, the Bank offers continuous training and development.
- The Bank considers its employees as one of the most important assets, therefore it recognizes everyone's contribution through rewards and compensation to encourage employees to perform better and motivates them to take a more dynamic role in the corporation.
- Recognize the important roles of its customers, creditors, Management and employees, the regulators, deposit insurer, suppliers, other business partners and the public at large in relation to the business and operations of the Bank.

Stakeholders refer to any individual, organization or society at large who can either affect and/or be affected by the company's strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.

## 6. Specific Duties and Responsibilities of the Board of Directors<sup>1</sup>

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

***(1) The Board of Directors shall define the Bank's corporate culture and values and conduct bank affairs with integrity.***

The Bank shall establish a code of conduct and ethical standards in the Bank and shall institutionalize a system that will allow reporting of concerns of violations to an appropriate body. In this regard, the Board

<sup>1</sup>Bangko Sentral ng Pilipinas Manual of Regulations for Banks (BSP MORB), Section 132.

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of Directors shall take the lead in establishing the tone of good governance from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior for itself, the senior management and other employees. Since reputation is a very valuable asset, it is in the institution’s best interest that in dealings with the public, it observes a high standard of integrity.

Pursuant to this, the Board shall:

- (a) Approve a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behaviours that could result or potentially result in conflict of interest, personal gain at the expense of the Bank as well as the corresponding disciplinary actions and sanctions. The code of conduct shall explicitly provide that directors, officers, and all personnel are expected to conduct themselves ethically and perform their job with skill, due care and diligence in addition to complying with laws, regulations and company policies.
- (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 the 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 likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/ or the Board 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 but not limited to financial misreporting, money laundering, fraud, bribery or corruption;
- (d) Approve clear policies on the handling of any transaction with DOSRI and other Related Parties ensuring 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 no stakeholder is unduly disadvantaged;
- (e) Require the Bank’s stockholders to confirm by majority vote, in the annual stockholders’ meeting, the Bank’s significant transactions with its DOSRI and other Related Parties;

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- (f) Articulate acceptable and unacceptable activities, transactions and behaviours that could result or potentially result in conflict of interest, personal gain at the expense of the institution or unethical conduct;
- (g) Explicitly discourage the taking of excessive risks as defined by internal policies and establish an employees' compensation scheme effectively aligned with prudent risk taking. The compensation scheme shall be adjusted for all types of risk and sensitive to the time horizon of risk. Further, the grant of compensation in forms other than cash shall be consistent with the overall risk alignment of the Bank. The Board of Directors shall regularly monitor and review the compensation scheme to ensure that it operates and achieves the objectives as intended.
- (2) ***The Board of Directors shall be responsible for approving the Bank's objectives and strategies and in overseeing management's implementation thereof.***

The Board shall also approve the Bank's strategic objectives and business plans, taking into account the Bank's long-term financial interests, 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 ensure that the Bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.

The Board shall be actively engaged 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.

The Board shall approve and oversee the implementation of policies governing major areas of the Bank's operations. It shall regularly review these policies, as well as evaluate control function (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 of Directors shall be responsible for approving the Bank's risk governance framework and overseeing management's implementation thereof.***

The Board of Directors shall define the Bank's risk appetite, which should take into account the business environment, regulatory landscape, and the Bank's long-term interests and ability to manage risks. It shall approve and oversee adherence to the risk appetite statement (RAS), risk policy, and risk limits. The Board shall also oversee the development of, approve, and oversee the implementation of policies and procedures relating to the management of risks throughout the institution, including its trust operations.

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It shall ensure that a robust internal reporting system is in place that shall enable each employee to contribute to the appreciation of the Bank’s overall risk exposures. The risk management policy shall include:

- (a) a comprehensive risk management approach;
- (b) a detailed structure of limits, guidelines and other parameters used to govern risk-taking;
- (c) a clear delineation of lines of responsibilities for managing risk;
- (d) an adequate system for measuring risk; and
- (e) effective internal controls and a comprehensive risk-reporting process

The Board shall 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. To this end, the board of directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources to effectively perform its functions (i.e. access to information technology systems and systems development resources, and support and access to internal information), and carry out their responsibilities independently, objectively and effectively. The Board of Directors shall also ensure that non-executive board members meet regularly, with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees, in the absence of senior management.

The Board of Directors shall recognize and acknowledge the importance of the assessment of the independent, competent and qualified internal and external auditors as well as the Risk and Compliance Officers in ensuring the safety and soundness of the operations of a Bank on a going concern basis and communicate the same throughout the Bank. This shall be displayed by undertaking timely and effective actions on issues identified.

#### *Liquidity Risk Management<sup>2</sup>*

The Board is ultimately responsible for the liquidity risk assumed by the Bank and the processes used to manage it. The Board of Directors shall:

- Establish the bank’s tolerance for liquidity risk;
- Approve the bank’s funding strategy;
- Ensure coherence of the measures used to contain liquidity risk within the stated tolerance level;

<sup>2</sup> Section IV, of Appendix 71 – Guidelines on Liquidity Risk Management of the BSP MORB

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- Maintain an appropriate structure for day-to-day funds management and the management of liquidity risk of the bank and its subsidiaries;
- Ensure that the bank has competent senior personnel and appropriate resources;
- Monitor the bank’s performance and overall liquidity risk profile; and
- Mandate and track the resolution of breaches in risk limits and actions taken on deviations from policies and procedures.

*Conduct of Stress Testing Exercises<sup>3</sup>*

The Board of Directors shall have the overall responsibility in ensuring that the stress testing framework is fully integrated into the bank’s risk management framework and capital planning process, and adequately supports decision-making

*Business Continuity Management (BCM)<sup>4</sup>*

The Board and senior management are responsible for overseeing the implementation of a sound BCM process, which involves the creation and promotion of an organizational culture that places high priority on business continuity. This should be reinforced by providing sufficient financial and human resources associated with the Bank’s business continuity initiative.

The Board shall approve the Business Continuity Management policies, standards and processes as endorsed by the senior management.

*Social Media Risk Management<sup>5</sup>*

The Bank should establish an appropriate framework that will result in sound social media governance and risk management. In this regard, the Board shall have the following responsibilities:

- Define the Bank’s risk tolerance level, understanding the nature and degree of risks the Bank will be exposed to and ensuring that these risks are properly addressed.
- Approve and oversee the design and implementation of the social media strategy, related standards, policies and procedures, and means to ensure compliance with said standards and/ or policies as well as applicable laws and regulations.

<sup>3</sup> Section 151 of the BSP MORB

<sup>4</sup> Section 149 of the BSP MORB

<sup>5</sup> Section 150 of the BSP MORB

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*Operational Risk Management<sup>6</sup>*

The duties and responsibilities of the Board of Directors in relation to the management of risk include the establishment of a comprehensive and effective operational risk management framework as part of the enterprise-wide risk management system. In this regard, the board shall:

- Ensure that it is aware of and understands the nature and complexity of the major operational risks of the bank’s business and operating environment, including risks arising from transactions or relationships with third parties, vendors, suppliers including outsourced service providers, and clients of services provided. This should include understanding of both the financial and non-financial impact of operational risk to which the bank is exposed to;
- Approve the operational risk management framework which shall form part of the bank’s enterprise-wide risk management system and shall cover all business lines and functions of the bank, including outsourced services and service provided to external providers. The organizational risk framework should include an enterprise-wide definition of operational risk consistent with the definition given in this section, governance and reporting structures including the roles and responsibilities of all personnel, feedback mechanism, as well as standards and tools for operational risk management. In this respect, the Board shall:
  - a. Define the operational risk management strategy and ensure that it is aligned with the bank’s overall business objectives. Relative to this, the board should set and provide clear guidance on the bank’s operational risk appetite (i.e., the level of operational risk the bank is willing to take and able to manage in pursuit of its business objectives as well as the type of risks that are not acceptable to the board and management), which should consider all material risk exposures as well as the bank’s financial condition and strategic direction;
  - b. Approve appropriate thresholds or limit to ensure that the level of operational risk is maintained within tolerance and at prudent levels and supported by adequate capital. Relative to this the board shall approve policy on resolving limit breaches which should cover escalation procedures for approving or investigating breaches, approving authorities, and requirements in reporting to the appropriate level of management or the board;
  - c. Ensure that operational risk is appropriately considered in the capital adequacy assessment process;

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<sup>6</sup> Section 146 of the BSP MORB

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d. Ensure that it receives adequate information on material developments in the operational risk profile of the bank, including pertinent information on the current and emerging operational risk exposures and vulnerabilities as well as information on the effectiveness of the operational risk management framework. The board must challenge the quality and comprehensiveness of the operational risk information it receives. It should also be satisfied with the reliability of the said information and the monitoring system for operational risk;

e. Ensure that business objectives, risk appetite, the operational risk management framework, and the respective roles and responsibilities of personnel and officers at all levels in terms of implementing the operational risk management framework, are properly disseminated, clearly communicated/discussed, and understood by personnel concerned;

f. Provide senior management with clear guidance and direction regarding the principles underlying the operational risk management framework. The board shall ensure that senior management appropriately implements policies, processes and procedures, and provides feedback on the operational risk management process. In this regard, the board shall establish a feedback and reporting system that will allow employees to raise their concerns without fear of negative consequences; and

g. Ensure that the operational risk management framework is subject to effective and comprehensive independent review, on a periodic basis, by operationally independent, appropriately trained, and competent staff to ensure that it remains commensurate with the bank's risk profile and continues to be adequate and effective in managing operational risk. The review should take into account the changes in business and operating environment, material changes in systems, business activity or volume of transactions, quality of control environment, effectiveness of risk management or mitigation strategies, loss experience, and the frequency, volume or nature of breaches in limits or any policy.

- Provide adequate oversight of all outsourcing activities and ensure effective management of risks arising from these activities. In this regard, the board of directors shall approve a framework governing outsourcing activities, which includes a system to evaluate the risk and materiality of all existing and prospective outsourcing engagements and the policies that apply to such arrangements;
- Promote a culture of high standards of ethical behavior. The board shall adopt a code of conduct of ethical behaviors with corresponding disciplinary actions for noncompliance, which should cover, among others, guidance and protocols on conflicts of interest situations, safeguarding of confidential information, and use of sensitive information. The board should likewise institute tools, methodologies, and practices in order to ensure compliance and adherence to the standards by all employees including the senior officers and the board itself. In this regard, employees should be required to acknowledge in writing that they have read, understood, and will observe the code of conduct;

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- Ensure that business and risk management activities, including the operational risk management function, are carried out by adequate and qualified staff with the necessary experience, technical capabilities, and competence. Moreover, the board shall ensure that employees and officers in all areas of operations have a high degree of integrity.

For this purpose, the board shall approve appropriate hiring and selection policies and processes, adopt a continuing professional development program, and institutionalize a framework for continuing assessment of fitness and propriety of employees. These policies, processes and programs should reinforce the conduct and values being promoted in the organization.

Further, the board shall oversee the design and implementation of remuneration policies. It shall ensure that the remuneration policies do not encourage excessive risk-taking or provide incentives to people to perform contrary to the desired risk management values. It shall also ensure that remuneration policies are appropriate and aligned with the bank’s long-term strategic direction and risk appetite, as well as with relevant legal or regulatory requirements;

*Information Technology Risk Management<sup>7</sup> (including Information Security)*

The Board is ultimately responsible for understanding the IT risks confronted by the Bank and ensuring they are properly managed. To this end, it shall:

- Approve the design and implementation of the IT Risk Management Systems (ITRMS) and the IT strategic plan that is aligned with the institution’s business strategy;
- Delegate to an IT Steering Committee (ITSC) or its equivalent IT oversight function to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. The Board shall ratify the ITSC Charter which contains the roles and responsibilities of the IT Steering Committee.
- Oversee the development, implementation and maintenance of the Bank’s Information Security Strategic Plan (ISSP) and Information Security Program (ISP), in relation to the implementation by Management of IT controls as part of the overall IT risk mitigation strategy.
- The Board or Senior Management shall appoint an independent Information Security Officer (ISO) who will be responsible and accountable for the organization-wide IS program. The ISO shall report directly to the Board or Senior Management and have sufficient independence to perform his mandate.

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<sup>7</sup> Section 148 of the BSP MORB

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*Credit Risk Management*<sup>8</sup>

The role of the Board in establishing appropriate credit risk environment shall be the following:

- Approve and regularly review credit risk strategy and credit policy;
- Oversee the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of the Bank;
- Ensure that the system provides for adequate policies, procedures and processes to identify, measure, monitor and control all credit risks inherent in the bank’s products and activities, both at the individual and portfolio levels on a consistent and continuing basis, and that an independent assessment of the system is periodically performed, the results of which shall be reported to it or to a board-level committee for appropriate action
- Together with Senior Management, ensure that adequate resources and appropriate level of staffing are allocated to execute all kinds of credit activities.
- Ensure that no individual within the credit risk management organizational structure is assigned in conflicting responsibilities, that they effectively monitor and control the risks taken; and that independence and control oversight functions are effective to avoid or address any potential conflict of interest.

*Sustainable Finance Framework*<sup>9</sup>

Consistent with the expectations set out under Section 132 of the BSP MORB to promote the long-term financial interest of the bank and ensure that it has beneficial influence on the economy, the Board of Directors shall:

- Institutionalize the adoption of sustainability principles, including those covering Environmental & Social (E&S) risk areas in the Bank, by incorporating the same in the corporate governance and risk management frameworks as well as in the Bank’s strategic objectives and operations taking into account the Bank’s risk appetite and ability to manage risk.
- Promote a culture that fosters environmentally and socially responsible decisions. The Board of Directors shall ensure that sustainability implications are considered in the overall decision-making process;
- Approve the Bank’s Environmental and Social Risk Management System (ESRMS) that is commensurate with the Bank’s size, nature and complexity of operations and oversee its implementation. The Board

<sup>8</sup> Section 143 of the BSP MORB

<sup>9</sup> Section 153 of the BSP MORB

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of Directors shall ensure that the ESRMS is aligned with internationally recognized principles, standards and global practices and forms part of the enterprise-wide risk management (ERM) system.

- Ensure that sustainability objectives and policies are clearly communicated across the institution, and to its investors, clients and other stakeholders;
- Adopt an effective organizational structure to ensure attainment and continuing relevance of the bank's sustainability objectives. The Board of Directors or the designated board-level or management committee shall monitor the bank's progress in attaining sustainability objectives;
- Ensure that adequate resources are available to attain the Bank's sustainability objectives. The Board of Directors shall ensure that the members of the board, senior management and personnel are regularly apprised of the developments on sustainability standards and practices;
- Ensure that the sustainability agenda is integrated in the Bank's performance appraisal system.

***(4) The Board of Directors shall oversee the appointment/ selection of key members of Senior Management and heads of control functions and approve a sound remuneration and other incentives policy for personnel.***

Pursuant to this, the Board of Directors shall:

- Oversee selection of the Chief Executive Officer 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, either current or planned, shall be the key considerations in the selection process. Moreover, since mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the Bank.
- Approve and oversee the implementation of performance standards as well as remuneration and other incentives policy. The policy should be consistent with the long-term strategic objectives and financial soundness of the Bank and should promote good performance, convey acceptable risk-taking behaviour, and reinforce the Bank's operating and risk culture.
- Oversee the performance of Senior Management and Heads of control functions:
  - i. The Board of Directors shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.
  - ii. The Board of Directors shall hold members of senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the Board of Directors' performance expectations. These expectations shall include adherence to the Bank's values, risk appetite and risk culture, under all circumstances.
  - iii. The Board of Directors shall regularly meet with senior management to engage in discussions, question, and critically review the reports and information provided by the latter. It shall set the

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frequency of meetings with senior management taking into account the size, complexity of operations and risk profile of the Bank.

- iv. 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 Internal Audit, Compliance and Risk Management functions.
- Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the Board of Directors shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions.
- Ensure that personnel’s expertise and knowledge remain relevant given the Bank’s strategic objectives, complexity of operations and risk profile. The Board of Directors shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relative to their areas of responsibility.
- 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 arms’ length terms.

*Management of human resource-related risk<sup>10</sup>*

- Recruitment and Selection. The Board shall establish an efficient process that will facilitate timely recruitment and selection of personnel from a broad pool of candidates with appropriate educational background, skills, experience and competencies to fulfill the duties and responsibilities of the function.
- Performance Management. The Board shall establish an effective performance management framework that will ensure that personnel’s performance is at par with the standards set by the Board/senior management. Results of performance evaluation should be linked to other human resource activities such as training and development, remuneration, and succession planning. These should likewise form part of the assessment of the continuing fitness and propriety of personnel in carrying out their respective duties and responsibilities.

The assessment of continuing fitness and propriety of personnel should take into account factors that may affect the performance of an individual. For instance, the financial circumstances of an employee who will be responsible for the custody of, or handling of cash-related transactions, shall be taken into consideration in the evaluation of his continuing qualification.

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<sup>10</sup> Section 146 of the BSP MORB

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- **Training and Development.** The Board shall establish training and development programs that will ensure continuing development of employees’ knowledge, competence, and skill. Results of gaps assessment in the performance evaluation/appraisal process can be used in the creation of training and development programs for employees.
- **Remuneration and compensation.** The board shall establish sound remuneration and compensation policies that can be used by the institution to attract/ recruit and retain a highly qualified workforce. Said policies should appropriately motivate personnel and discourage excessive risk taking. This can be achieved through timely assessment of performance and competencies based on set standards. Results of performance assessment/ appraisal can be used in the organization’s remuneration decisions.
- **Succession Planning.** The board shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for key and or critical positions in an organization, through systematic evaluation process and training. This will require identifying critical skills and competencies; assessing gaps; and designing developing, and delivering training and development programs to build or improve critical skills and competencies. The program should be adequately documented to facilitate monitoring and assessment of its implementation.
- **Adequacy of complement.** The board shall establish effective strategic manpower planning to ensure that there is adequate and right manpower complement to meet the strategic goals and operational plans of the organization.
- **Disciplinary Actions.** The board, officers and all employees are expected to conform to prescribed ethical culture and guidelines, meet performance standards, and to behave ethically/appropriately in the workplace. Disciplinary or corrective actions may be taken to improve/arrest unacceptable behavior or performance. Disciplinary action must be in accordance with the laws and the applicable rules.
- **Separation from service.** The board shall establish policies and procedures governing the separation of employees from service (e.g., termination, dismissal, retrenchment, retirement, or resignation), which should include transfer of accountabilities and/or salient information (e.g., client data, business strategies and formula, other trade secrets, etc.) to the successor, and clearance requirements. Policies may also include “non-compete” clauses, in accordance with existing laws.

**(5) *The Board of Directors shall approve and oversee the implementation of the Bank’s corporate governance framework.***

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- (a) The Board of Directors shall define the appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed:
- i. The Board shall structure itself in a way, including in terms of size, frequency of meetings and the use of committees, so as to promote efficiency, critical discussion of issues and thorough review of matters. It shall meet regularly to properly discharge its functions and likewise have discussions on values, conduct and behaviors. It shall also ensure that independent views in board meetings shall be given full consideration and all such meetings shall be duly minuted.
  - ii. The Board shall create committees that focus on specific board functions to aid in the optimal performance of its roles and responsibilities, 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. At a minimum, the Board shall constitute the following committees: (1) Audit Committee; (2) Risk Oversight Committee; and (3) Corporate Governance Committee.

The Board of Directors shall regularly review the structure, size and composition of the Board of Directors and board-level committees with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation of the structure, size and composition of the Board of Directors and board-level committees shall be adopted which shall include, but not limited to, benchmark and peer group analysis. The results of assessment shall form part of the ongoing improvement efforts of the Board of Directors.

The Board of Directors shall also approve, review and update at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures. Said documents shall articulate how the committee will report to the full Board of Directors, what is expected of the committee members, and tenure limits for serving in the committee. The Board of Directors shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.

The Board of Directors shall appoint members of the committees taking into account the optimal 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. 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 Audit, Risk

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Oversight and Corporate Governance, Related Party Transactions Committees, without prior approval of the BSP Monetary Board<sup>11</sup>.

The Board of Directors shall 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.

- iii. The Board shall adopt policies aimed at ensuring that the members of the Board of Directors are able to commit to effectively discharge their responsibilities, which shall include policy on the number of directorship positions and/or other internal/external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the Bank’s operations.
- iv. The Board shall ensure that individual members of the Board and the shareholders are accurately and timely informed. It shall provide all its members and to the shareholders 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 institution at all times. It shall also provide appropriate information that flows internally and to the public.
- v. The Board shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the Chairman, the Chief Executive Officer, the individual directors, and the Bank itself, which may be facilitated by the Corporate Governance Committee/ Nominations and Remuneration Committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each board member taking into account his or her performance in the Board of Directors and board-level committees. Every three years, the assessment of performance of the Chairman, individual members of the Board and Board-level committees should be supported by an external facilitator, who can be any independent third party such as, but not limited to, a consulting firm, academic institution or professional organization.
- vi. The Board shall maintain appropriate records (e.g., meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. It shall also ensure that independent views in board meetings shall be given full consideration and all such meetings shall be duly minuted.

<sup>11</sup> These may be instances where the approval/ decisions made under the Committee that exercises executive or management functions may likewise be subject to review of the committees exercising independent oversight/ control functions.

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- vii. The Board of Directors shall establish a system of checks and balances which applies in the first instance to the Board itself. Among the members of the Board, an effective system of checks and balances must exist. The system shall also provide a mechanism for effective check and control by the Board over the Chief Executive Officer and key managers and by the latter over the line officers of the Bank. Checks and balances in the board shall be enhanced by appointing a Chairperson who is a non-executive, whenever possible.
- (b) The Board shall develop a remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The board of directors shall ensure that the policy is consistent with the long-term interest of the Bank, does not encourage excessive risk-taking, and is not in conflict with the director’s fiduciary responsibilities.
- (c) The Board shall adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.
- (d) The Board shall 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 or unsound banking. The Board shall appoint a Compliance Officer who shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. The Compliance Officer shall be vested with appropriate authority and provided with appropriate support and resources.
- (e) The Board shall maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities. It 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, especially between the roles of the Chairman of the board of directors and Chief Executive Officer/President.
- (f) The Board shall oversee the development, approve, and monitor implementation of corporate governance policies. It shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.
- (g) The Board shall approve an overarching policy on the handling of RPTs, which also covers DOSRIs, 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:

The Board of Directors shall approve all material RPTS, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority

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vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPT5 shall also be approved by the Board of Directors. All final decisions of the Board of Directors on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholder's meetings and duly reflected in the minutes of Board of Directors and stockholders' meetings.

The Board of Directors shall delegate to the appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the Board of Directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the Board of Directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.

The Board of Directors shall establish an effective system to:

- i. Determine, identify and monitor related parties and RPTs;
- ii. Continuously review and evaluate existing relationships between and among businesses and counterparties; and
- iii. Identify, measure, monitor and control risks arising from RPTs. The system should be able to define related parties' extent of relationship with the Bank; assess situations in which a nonrelated party {with whom the Bank has entered into a transaction subsequently becomes a related party and vice versa); and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulatory supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the Bangko Sentral and audit functions for review. Any changes in the policies and procedures shall be approved by the Board of Directors.

The Board of Directors shall maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the Bank is well insulated from any going concern issue of related parties.

The Board of Directors shall oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The board of directors should ensure that senior management addresses legitimate issues on RPT that are raised. The board of directors should take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals.

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- (h) The Board of Directors shall be ultimately responsible for the full compliance by the Bank with the Anti Money Laundering Act (AMLA) as amended, the Terrorist Financing Prevention and Suppression Act (TFPSA) and their Implementing Rules and Regulations, as well as other related Anti Money Laundering Council and Bangko Sentral issuances. It shall further ensure that ML/TF risks are effectively managed and that this forms part of the Bank’s enterprise risk management system.<sup>12</sup>
- (i) The Board of Directors is ultimately responsible in ensuring that consumer protection practices are embedded in the Bank’s business operations. The Bank must adhere to the highest service standards and embrace a culture of fair and responsible dealings in the conduct of its business through the adoption of a Financial Consumer Protection Framework that is appropriate for its structure, operations, and risk profile. The Bank’s Financial Consumer Protection Framework shall be embodied in its Board-approved Financial Consumer Protection Manual.<sup>13</sup>

The Board shall be primarily responsible for approving and overseeing the implementation of the Bank’s Consumer Protection Risk Management System (CPRMS). The CPRMS includes the governance structure, policies, processes, measurement and control procedures to ensure that consumer protection risks are identified, measured, monitored and mitigated.

The Board’s responsibilities shall include the following:

- i. Approve the CPRMS and consumer assistance mechanism (CAM) that takes into consideration the business model, market, product lines, and relationship with third parties that may give rise to consumer protection risks,
- ii. Promote a culture of ethical behavior and adherence to the highest standards of fair and responsible dealing with consumers.
- iii. Ensure that adequate information and actions taken are reported on a regular basis in terms of the measurement of consumer protection related risks, reports from the CAM as well as other material consumer related developments that will impact the Bank.
- iv. Ensure the adequate provision of resources and effective implementation of personnel training and competency requirements;
- v. Approve remuneration and compensation packages structured to encourage responsible business conduct, fair treatment and avoidance/mitigation of conflicts of interest; and
- vi. Review periodically the implementation and effectiveness of the CPRMS including how findings are reported and whether the audit mechanisms are in place to enable adequate oversight, and put in place a regular mechanism to review the relevance of the CPRMS in case of changes in the bank’s

<sup>12</sup> Part Nine of the MORB

<sup>13</sup> Part Eleven of the BSP MORB

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business model and/or operating environment.

**(6) The Board of Directors shall ensure proper communication with various stakeholders.**

- (a) The Board shall establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Bank.
- (b) The Board shall identify the stakeholders in the community in which it operates or are directly affected by its operations and formulate a clear policy of accurate, timely and effective communication with them.

**(7) The Board of Directors shall effectively utilize the work conducted by the internal audit, risk management and compliance functions and the external auditors.**

The Board of Directors shall recognize and acknowledge the importance of the assessment of the independent, competent and qualified internal and external auditors as well as the risk and compliance officers in ensuring the safety and soundness of the operations of the Bank on a going-concern basis and communicate the same through-out the Bank. This shall be displayed by undertaking timely and effective actions on issues identified.

The Board of Directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.

The Board of Directors shall regularly review policies, internal control and self-assessment 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. The Board of Directors shall set the frequency of review taking into account the size, complexity of operations and risk profile of the Bank.

Further, the Board must ensure that non-executive board members shall meet regularly, other than in meetings of the audit and risk oversight committees, in the absence of Senior Management and any Executive Directors, with the external auditor and heads of the internal audit, compliance and risk management functions. The meetings should be chaired by the lead Independent Director.

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The Board of Directors shall ensure that compliance program is defined for the Bank and that compliance issues are resolved expeditiously. The Corporate Governance Committee, chaired by an Independent Director, shall oversee the compliance program.<sup>14</sup>

The Board of Directors shall ensure that Bank personnel and affiliated parties adhere to the pre-defined compliance standards of the Bank. Implementation of the compliance program rests collectively with senior management, of which the CCO is the lead operating officer on compliance. Senior management, through the CCO, should periodically report to the Board of Directors or through the Corporate Governance Committee matters that affect the design and implementation of the compliance program. Any changes, updates and amendments to the compliance program must be approved by the Board of Directors. However, any material breaches of the compliance program shall be reported to and promptly addressed by the CCO within the mechanisms defined by the compliance manual.

The Board shall act on the delegated authority of the Stockholders on the appointment/ re-appointment of the external auditors of the Bank based on the recommendation of the Bank’s Audit Committee.

***(8) The Board of Directors shall perform independent oversight over controls and system of checks and balances to ensure high quality of the external audit function in relation to the audited financial statements of the Bank, such as:***

- (a) Adequate governance structures and control processes related to the different activities of the Bank are established and complied with, including:
  - a. *Systems that accurately identify and measure all material risks and adequately monitor and control these risks;*
  - b. *Adequate internal controls, organizational structures and accounting procedures leading to a suitable control environment aimed at meeting the Bank’s prescribed corporate strategy, performance, information system and compliance objectives;*
  - c. *The evaluation of the quality of assets and their proper recognition and measurement; and*
  - d. *Requirements on the gathering and disclosure of material and relevant information on financial accounts including related party transactions.*
  
- (b) Adequate governance structures and control processes for areas or exposures that may pose significant risk to the Bank such as fair value measurement and financial instruments. The Board's oversight responsibilities for the Bank's use of fair value accounting include:

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<sup>14</sup> Section 161 of the MORB

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- a. *Reviewing and approving written policies related to fair valuations;*
- b. *Continuing review of significant valuation model performance for issues escalated for resolution and all significant changes to valuation policies;*
- c. *Ensuring adequate resources are devoted to the valuation process;*
- d. *Articulating the Bank's tolerance for exposures subject to valuation uncertainty and monitoring compliance with the Board's overall policy settings at an aggregate firm wide level;*
- e. *Ensuring independence in the valuation process between risk taking and control units;*
- f. *Ensuring appropriate internal and external audit coverage of fair valuations and related processes and controls;*
- g. *Ensuring consistent application of accounting standards and disclosures within the applicable accounting framework;*
- h. *Ensuring the identification of significant differences, if any, between accounting and risk management measurements and their proper documentation and monitoring; and*
- i. *Ensuring adequate documentation of significant differences between the valuations used for financial reporting purposes and for regulatory purposes.*

(c) Appropriate management information systems are established; and

(d) The interests of stakeholders are adequately protected

***(9) The Board of Directors and senior management shall be responsible for promoting high ethical and integrity standards; establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud.***<sup>15</sup>

The Board of Directors shall be ultimately responsible for ensuring that senior management establishes and maintains an adequate, effective and efficient internal control framework commensurate with the size, risk profile and complexity of operations of the bank. The Board of Directors shall also ensure that the internal audit function has an appropriate stature and authority within the bank and is provided with adequate resources to enable it to effectively carry out its assignments with objectivity.

On a periodic basis, the board of directors shall:

(1) Conduct discussions with management on the effectiveness of the internal control system;

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<sup>15</sup> Section 162 of the MORB

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(2) Review evaluations made by the audit committee on the assessment of effectiveness of internal control made by management, internal auditors and external auditors;

(3) Ensure that management has promptly followed up on recommendations and concerns expressed by auditors and supervisory authorities on internal control weaknesses; and

(4) Review and approve the remuneration of the head and personnel of the internal audit function. Said remuneration shall be in accordance with the bank's remuneration policies and practices and shall be structured in such a way that these do not create conflicts of interest or compromise independence and objectivity.

In addition, the board of directors shall likewise commission an assessment team outside of the organization to conduct an independent quality assurance review of the internal audit function at least every five (5) years.

***(10) In group structures, the Board of Directors of the parent company shall have the overall responsibility for defining an appropriate corporate governance framework that shall contribute to the effective oversight over entities in the group. Towards this end, the Board of Directors of the parent company shall ensure consistent adoption of corporate governance policies and systems across the group and shall carry out the following duties and responsibilities:***

- (a) To define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account the nature and complexity of operations, size and the types of risks to which the Bank and its subsidiaries are exposed. The board shall also establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements.
- (b) The board of directors shall ensure that the group's corporate governance framework includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions.
- (c) To define the risk appetite for the group, which shall be linked to the process of determining the adequacy of capital of the group.
- (d) To ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems.
- (e) To define and approve policies and clear strategies for the establishment of new structures.
- (f) To understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company bank. The board of directors shall understand the legal and

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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.

- (g) To develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.
- (h) To require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the Board approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the Board.

***(11) The Board of Directors shall ensure that an effective governance process is in place in handling interlocking positions of directors and officers in entities within the SBC Group and/or other external entities<sup>16</sup>.***

In this regard, the Board shall:

- a. Approve a policy on having directors or officers with interlocking positions in other entities, which shall cover, among others, the following:
  - i. Cases and the corresponding rationale when the Bank shall allow/ appoint directors or officers to have/ with interlocking positions in other entities; the sectors or industries of the entities where the directors or officers may assume other positions; interlocking positions that may be held by directors or officers; and limit on the number of entities where the director or officer may hold interlocking positions; Provided, that the limit to be set shall be consistent with item b of the Qualification of a Director under Section 132 of the BSP Manual of Regulations for Banks.
  - ii. Measures to avoid excessive concentration of economic power, unfair competitive advantage and abusive practices. The policy shall also include measures in handling conflict of interest situations;
  - iii. Requirement to obtain approval from the board of directors of the appropriate authority designated in the Bank prior to acceptance of interlocking directorship/ officership positions in other entities;
  - iv. Requirement to obtain proof of disclosure to and consent from all the involved entities on interlocking positions held outside the banking group/ conglomerate; and
  - v. Courses of action in cases of conflict of interest arise or when the performance of the director or officer has been affected by the interlocking positions held.
- b. Ensure effective governance process on the selection and appointment of directors and/or officers who are holding interlocked positions in other entities and in approving the acceptance of directors/ officers

<sup>16</sup> BSP Circular No. 1129 "Amendments to Corporate Governance Guidelines for BSP-Supervised Financial Institutions"

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of interlocking positions in other entities. The governance process shall cover continuous assessment of potential conflict of interest in the entities involved as well as the interlocking positions held.

- c. Ensure that directors and/or officers holding interlocking positions in other entities effectively carry out their duties and responsibilities in the Bank. It shall be the responsibility of the Board of Directors to conduct a periodic performance evaluation of the concerned directors and officers measured against agreed upon standards for the position. The Board of Directors shall immediately take appropriate action should the results of performance evaluation reflect that the performance of the function in the Bank has been adversely affected by the interlocking positions held by the director and/or officer.
- d. Ensure that the control functions (i.e., risk management, compliance and internal audit) cover the assessment of adherence to internal policies and regulatory expectations on interlocking positions held by the directors and/or officers. For the interlocking positions held by heads of control functions, the assessment shall be performed by the Board of Directors or Board-level committee to whom they functionally report to.

***(12) The Board of Directors shall promote shareholder rights.***

The Board of Directors should ensure that basic shareholder rights are disclosed in this Manual on Corporate Governance and on the Bank’s website.

The Board should encourage active shareholder participation by sending the Notice of Annual and Special Shareholders’ Meeting with sufficient and relevant information at least fifteen (15) days<sup>17</sup> before the meeting and by making the result of the votes taken during the most recent Annual or Special Shareholders’ Meeting publicly available the next working day. In addition, the Minutes of the Annual and Special Shareholders’ Meeting should be available on the company website within five (5) business days from the end of the meeting.

The Board may consider making available, at the option of the shareholder, an alternative dispute resolution procedure to resolve intra-corporate disputes in an amicable and effective manner, which may be included in this Manual.

The Board shall establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Bank.

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<sup>17</sup> As per By-Laws

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The Board shall identify the stakeholders in the community in which it operates or are directly affected by its operations and formulate a clear policy of accurate, timely and effective communication with them.

## 7. Leadership

### a. The Chairman of the Board

The Chairman of the Board shall be elected during the annual stockholders' meeting from among the non-executive directors or independent directors. He must not have served as CEO of the Bank within the past three (3) years.

The role of the Chairman of the Board and the Chief Executive Officer (CEO) shall be kept separate to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board.

#### *Duties and Responsibilities of the Chairman of the Board*

The Chairman of the Board shall:

- Provide leadership in the Board of Directors and ensure effective functioning of the Board, including maintaining a relationship of trust with board members.
- Ensure that the Board takes an informed decision through a sound decision making process.
- Encourage and promote critical discussions and ensure that dissenting views can be expressed and discussed within the decision-making process.
- Ensure that meetings of the Board are held in accordance with the By-laws or as the Chair may deem necessary.
- Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the Directors;
- Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;
- Maintain open and timely lines of communication and information between the Board and Management.
- Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;
- Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;

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- Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- Assures the availability of proper orientation for first-time directors and continuing training opportunities for all directors; and
- Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on.

*Deliverables of the Chairman of the Board*

- Lead in setting the long-term strategy and updating the mission and vision statements of the institution;
- Ensure compliance of members to assignments on meetings per agenda, in accordance with By-laws and regulatory requirements;
- Lead in compliance with the principles of good governance;
- Lead in maintaining good corporate citizenship.

**b. Vice-Chairman**

The Vice-Chairman shall likewise be elected during the annual stockholders’ meeting from among the non-executive directors or independent directors. He must not have served as CEO of the Bank within the past three (3) years.

The Vice-Chairman shall support the Chairman in dispensing the latter’s responsibilities, as may be delegated to him by the Chairman or in the event of the Chairman’s absence.

**c. Lead Independent Director<sup>18</sup>**

The Lead Independent Director shall be designated from among the Independent Directors if the Chairman of the Board is not independent, including if the positions of the Chairman of the Board and Chief Executive Officer are held by one person. The designation of a Lead Independent Director ensures independent views and perspectives, avoids the abuse of power and authority, and potential conflict of interest. He shall have sufficient authority to lead the Board in cases where Management has clear conflicts of interest and should function in an environment that allows him to effectively challenge the CEO as circumstances may warrant. His functions include, among others, the following:

- Serves as an intermediary between the Chairman and the other directors when necessary;
- Lead the independent directors at board of directors’ meetings in raising queries and pursuing matters;
- Convenes and chairs meetings of the non-executive directors; and

<sup>18</sup> SEC Memorandum Circular No. 19, s. 2016 Recommendation 5.5 and Section 132 of the BSP MORB

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- Contributes to the performance evaluation of the Chairman, as required.

## 8. Board Governance

### a. Conduct of Board Meetings

#### *Full Board of Directors' Meetings*

The Board shall hold regular and special meetings in accordance with the By-Laws. The By-Laws state that regular Board meetings are to be held every last Tuesday of the month. Unless otherwise stated in the By-Laws, a quorum at any meeting shall consist of a majority of the entire membership of the Board and a majority of such quorum shall decide every question or matter duly submitted at such meeting.

The meetings of the board of directors may be conducted through modern technologies such as, but not limited to, teleconferencing and video conferencing as long as the director who is taking part in said meetings can actively participate in the deliberations on matters taken up therein: *Provided*, That every member of the board shall participate in at least fifty percent (50%) and shall physically attend at least twenty-five percent (25%) of all board meetings every year save in cases where the law or regulations has lifted the physical attendance minimum requirement: *Provided, further*, That 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.

#### *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. The attendance and participation of members in committee meetings shall be considered in the assessment of continuing fitness and propriety of each director as member of board-level committees and the board of directors.

#### *Meeting of Non-Executive Directors*

The non-executive directors (NEDs) should meet with the external auditor and heads of the internal audit, compliance and risk functions, without any executive directors present to ensure that proper checks and balances are in place within the corporation. The meeting shall be chaired by the Lead Independent Director.

#### *Abstention from Deliberations*

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A director with a potential or existing interest in any transaction affecting the Bank should abstain from taking part in the deliberations for the same. The abstention of a director from participating in the deliberation of related party transactions, self-dealings or any transactions or matters on which he has material interest is a fundamental principle to be observed to ensure that the Board is acting in the best interest of the Bank and the shareholders.

#### *Agenda Items*

The Chairman of the Board and of the Committee will establish the agenda for their respective meetings. To the degree that this can be foreseen at the start of the year, the Chairman will establish agenda subjects to be discussed during the year.

Each Board/ Committee member is free to suggest the inclusion of items in the agenda and to raise at any Board/ Committee meeting subjects that are not in the agenda for that meeting.

A detailed agenda, and to the extent feasible, supporting documents and proposed resolutions, will be provided in advance to the members. For Board meetings, this should at least be five (5) calendar days prior to the meeting, inclusive of the date of the Board meeting. For Committee meetings, it should be on such dates as may be prescribed in their respective Charters. The Board/ Committee members should review these materials in advance of the meeting.

Subject to applicable notice requirements, Board/ Committee members who have items for inclusion in the agenda for future Board/ Committee meetings should advise the Chairman well in advance of such meetings.

#### *Minutes and Records*

The Board and the Committees should ensure that the minutes of their meetings and actions taken are properly documented.

Minutes and records should detail the deliberative process undertaken by the Board and the Committees to serve as reminders on what has been decided and why, and also to serve as evidence on how the Board and the Committees fulfilled their fiduciary duties.

### **b. Training Policy for Board of Directors**

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In order to promote effective Board performance and continuing qualification of the Directors in carrying out their duties and responsibilities, an orientation program for first-time directors and relevant annual continuing training shall be implemented.

The Corporate Governance Committee shall submit the recommendations for continuing education of Board members to improve the effectiveness in the performance of their functions and in particular in consideration of their assignment to Board committees.

The Committee can seek the assistance of the Bank’s Academy in identifying the Board members’ training needs and look for or develop programs designed to meet specific board needs thereby deepening the Board’s knowledge of the Bank’s operations, financial status, risk exposures, the industry and external forces and developments, and create a healthier working relationship between Management and the Board.

The Training Program for the Board of Directors shall cover the pre-requisite seminar before assumption of BOD office/function and continuing education and developmental training conducted by qualified professionals.

The Orientation Program for the new Directors shall cover SEC-mandated topics on corporate governance and the introduction to the Company’s business, Articles of Incorporation, and the Code of Conduct which shall take at least eight hours. The annual continuing training program of Directors, which shall be at least for four hours shall cover courses on corporate governance matters relevant to the company, including audit, internal controls, risk management, sustainability and strategy.

Senior Management shall provide training support to the BOD through regular briefings on new regulatory issuances and updates on status of compliance program and other business initiatives.

The training plan consists of the following, the topics of which may be amended based on the need and/or request of the Board members as well as the availability in the market:

*i. Pre-requisite Training*

A director shall be required to attend a special seminar on corporate governance which shall be conducted by a BSP duly recognized/accredited private or government institute, before assuming and performing his function as such.

*ii. Continuing Developmental Education*

❖ *Through External Seminars/Trainings:*

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Financial Literacy Programs

- Assessing the Quality of Earnings and Financial Position
- Overview of Philippine and International Financial Reporting Standards
- Risk Oversight: Creating the Risk Intelligent Board
- Internal Control Concepts

Director Development

- Board Fiduciary Duties
- Board Form and Function
- Executive Development and Succession Strategies
- Executive and Director Compensation
- Developing a Value-Driven Board Evaluation Program

Customized Training Program

- The board’s role in the development of strategy
- Improving the Board’s decision-making process
- Understanding enterprise risk and creating the “risk intelligent” board
- Value-driven ethics and compliance programs
- Assessing earnings quality
- The board’s role in responding to a crisis
- Executive development and succession planning
- Emerging trends in executive compensation
- The board’s role in mergers and acquisitions
- Assessing fraud risk and setting the tone at the top
- Managing competing values in environments of dynamic change
- Industry-specific and competitive developments

❖ *During Senior Management Meetings/Briefings*

- Regulatory Updates
- Ethics and Compliance Program Oversight

**c. Annual Performance Evaluation**

The Corporate Governance Committee oversees the periodic performance evaluation of the Board and its Committees and present recommendations to the Board on the manner by which performance may be evaluated, with the objective performance criteria approved by the Board. Performance indicators shall address how the Board and its Committees have enhanced long-term enterprise and shareholders’ value.

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The Nominations and Remunerations oversees the periodic performance evaluation of Board members, the Chairman, the Corporate Secretary, and Executive Management, deciding whether or not a director or executive is able to and has been adequately carrying out his/her duties as director or executive based on its own assessment or the assessment of external facilitators, bearing in mind the director's or executive's contribution, potential and performance (e.g., competence, candor, attendance, preparedness and participation).

### 9. Succession Plan for Board of Directors

The succession plan shall consider the following:

- a) The regular Board members are those with stake or shareholdings in the Bank.
- b) The succession plan of the President & CEO, who is a mandatory member, is covered by the Succession Plan for Senior Management.

The Nominations and Remunerations Committee shall be responsible for the continuous search for nominees qualified to join the Board of Directors in the event of vacancies. The Nominations and Remuneration Committee and Senior Management shall work closely in identifying and coming up with a pool of qualified individuals for the Executive, Non-executive and Independent Director's (ID) seat. Sources of possible Directors are:

- a. Active directory of professional organizations, such as but not limited to the Institute of Corporate Directors (ICD), the Management Association of the Philippines (MAP) and FINEX among others;
- b. Regulated pool of accredited regular and independent directors, if any;
- c. Directors of listed companies.

### 10. Board Refreshment Policy

- a. The new board members elected starting in 2017 shall not stand for election for any term that begins after his 75<sup>th</sup> birthday.
- b. Existing board members beyond the age of 70 who have been with the Board prior to 2017 shall be allowed an extension of 10 years.

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- c. Existing board members below the age of 70 who have been with the Board prior to 2017 shall be allowed an extension of 10 years after they reach the age of 75.
- d. The Nominations and Remuneration Committee shall regularly assess the capability of Board members to continuously serve in the Board.

## B. DIRECTORS

### 1. Definition of Directors

Directors shall include:

- a. directors who are named as such in the Articles of Incorporation;
- b. directors duly elected in subsequent meetings of the stockholders or those appointed by virtue of the charter of government-owned banks; and
- c. those elected to fill vacancies in the Board of Directors.

Directors may either be:

- Executive Director (ED)

Referring to a director who is also the head of a department or unit of the corporation or performs any work related to its operation. He directly manages/has executive responsibility of day-to-day operations of a part or the whole of the organization.

- Non-Executive Director (NED)

Referring to those who are not part of the day-to-day management of operations and shall not include the Independent Director. However, not all non-executive directors are considered independent directors.

- Independent Director (ID)

Referring to a person who is independent of Management and the controlling shareholder, and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director<sup>19</sup>.

<sup>19</sup> SEC Memorandum Circular No. 19, s. 2016 – Code of Corporate Governance for Publicly-Listed Companies

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He lends impartial views on the assumptions, recommendations and reports submitted by Management and renders unbiased decisions on matters that pose potential conflict of interest (e.g., transactions with related parties).

Independent Directors shall possess a good general understanding of the industry and that independence and competence should go hand-in-hand. Non-executive directors, including independent directors, must possess the qualifications and stature that would enable them to effectively and objectively participate in the deliberations of the Board.

In particular, an independent director shall mean a person who<sup>20</sup> –

- (i) Is not, or has not been an officer or employee of the Bank unless there has been a change in the controlling ownership of the company;
- (ii) Is not, and has not been in the three (3) years immediately preceding the election, a director of the Bank; a director, officer, employee of the Bank’s subsidiaries, associates, affiliates, r e l a t e d companies<sup>21</sup> or related interests; or a director, officer, employee of the Bank’s substantial shareholders<sup>22</sup> and its related companies;
- (iii) Has not been appointed in the Bank, its subsidiaries, associates, affiliates; related companies or related interests as Chairman “Emeritus,” “Ex-Officio” Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three (3) years immediately preceding his election;
- (iv) Is not a securities broker-dealer of listed companies and registered issuers of securities. “Securities broker-dealer” refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer;

<sup>20</sup> SEC Memorandum Circular No. 19, s 2016 – Code of Corporate Governance for Publicly Listed Companies and Section 131 of the BSP MORB

<sup>21</sup> Related companies refer to (a) the Bank’s holding/parent company; (b) its subsidiaries or affiliates; (c) subsidiaries of its holding/parent company; and (d) a corporation where the Bank or its majority stockholder own such number of shares that will allow/ enable such person or group to elect at least one (1) member of the Board of Directors or a partnership where such majority stockholder is a partner.

<sup>22</sup> Substantial shareholders/ stockholders shall refer to a person or group of persons whether natural or juridical, owning such number of shares that will allow such person or group to elect at least one (1) member of the board of directors of the Bank or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

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- (v) Is independent of Management and does not engage or has not engaged, whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with the Bank or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and could not materially interfere with or influence the exercise of his independent judgment;
- (vi) Is or was not retained, either in his personal capacity or through a firm or company, as a professional adviser, auditor, consultant, agent or counsel of the Bank, any of its related companies or substantial shareholder, within the three (3) years immediately preceding the date of his election;
- (vii) Is not affiliated with any non-profit organization that receives significant funding from the Bank or any of its related companies or substantial shareholders;
- (viii) Is not employed as an executive officer of another company where any of the Bank's executives serve as directors.
- (ix) Is not acting as a nominee or representative of any director or substantial shareholder of the Bank, any of its related companies or any of its substantial shareholders;
- (x) Is not an owner of more than two percent (2%) of the outstanding shares of the Bank or a stockholder with shares of stock sufficient to elect one (1) seat in the Board of Directors of the Bank, its subsidiaries, associates, affiliates or related companies or of its majority corporate shareholders;
- (xi) Is not a close family member<sup>23</sup> of any director, officer or stockholder holding shares of stock sufficient to elect one seat in the Board of the Bank or any of its related companies or of any of its substantial shareholders.

The Board's independent directors should serve for a maximum cumulative term of nine (9) years. After which, the independent director should be perpetually barred from re-election as such in the same company, but may continue to qualify for nomination and election as a non-independent director. Regulatory requests from the nine-year exemption shall not be allowed.

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<sup>23</sup> Close family member shall refer to persons related to the Bank's directors, officers or stockholders within the second (2<sup>nd</sup>) degree of consanguinity or affinity, legitimate or common law.

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## 2. Qualifications and Disqualifications of Directors

The selection and identification of potential Board Members should consider the long term positive or negative impact on the organization that a particular candidate can have. The Board should be comprised of directors who are committed to the organization’s mission.

### Criteria for the Selection/Appointment of a Director

A director shall have the following minimum qualifications:

- (i) At least a college graduate or equivalent academic degree;
- (ii) At least twenty-five (25) years old and not more than 75 years old;
- (iii) Must have attended a special seminar on corporate governance for board of directors conducted or accredited by the BSP;
- (iv) Must be fit and proper for the position of a director of the Bank, i.e., with integrity and probity, competence, education, diligence and business experience/training, and physical and mental fitness;
- (v) Must be assiduous;
- (vi) With practical understanding of the business of the Bank, collective working knowledge, experience or expertise that is relevant to the Bank;
- (vii) Membership in good standing in relevant industry, business or professional organizations;
- (viii) Holder of at least one (1) share of stock of the Bank;
- (ix) Such other qualifications as may be required by the Corporation Code, Securities Regulation Code and other relevant laws;
- (x) Not permanently or temporarily disqualified as director per the BSP Manual of Regulations for Banks (MORB) and SEC regulations;
- (xi) Within five years prior to his election or appointment, has not:
  - a. Been convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years;
  - b. Been convicted by final judgment for violating the Revised Corporation Code or Securities Regulation Code;
  - c. Been found administratively liable, by final judgment, for any offense involving fraudulent acts punishable under Republic Act No. 11232, otherwise known as the Revised Corporate Code of the

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Philippine, Republic Act No. 8799, otherwise known as the Securities Regulations Code, and other laws, rules and regulations enforced or implemented by the Commission;

- d. Been convicted or found administratively liable by a foreign court or equivalent foreign regulatory authority for acts, violations or misconduct similar to those enumerated in paragraphs (a) and (b) of Section 26 of the Revised Corporation Code;
  - e. Been found administratively liable, by final judgment, for refusal to allow the inspection and/or reproduction of corporate records; and
- (xii) Board seats in other publicly listed companies shall not exceed five (5), with due consideration of the capacity of the director to perform his duties and responsibilities diligently and efficiently, the nature and complexity of the business and absence of conflict of interest.

#### **Additional Requirements for Independent Directors**

In selecting independent directors, the number and types of entities for which the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry-out his duties and responsibilities. The rules and regulations of the SEC governing public and listed companies on the maximum number of companies of the conglomerate in which an individual can serve as an independent director shall apply to independent directors of all types of banks. The maximum term of the Independent Director is nine (9) years, to wit:

1. An independent director can be elected to only five (5) companies of the conglomerate (parent, subsidiary or affiliate);
2. An Independent Director shall serve the company for a maximum cumulative term of nine years, with reckoning of the nine-year term from 2012;
3. After which, the Independent Director shall be perpetually barred from re-election as an independent director in the same company, but may continue to qualify as a non-independent director;
4. Regulatory requests for exemption from the nine-year term shall not be allowed.

Conglomerate refers to a group of corporations that has diversified business activities in varied industries, whereby the operations of such businesses are controlled and managed by a parent corporate entity.

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### **Interlocking Directorships**

This Bank shall comply with relevant regulations issued by the BSP on interlocking directorships<sup>24</sup> as well as internal implementing guidelines issued for this purpose, which includes a requirement for the endorsement of the Nominations and Remuneration Committee as well as the approval of the Board for any interlocked roles.

In the assessment of the interlocking role, the Board shall consider the number of directorships that its members can hold in other corporations. The Nominations and Remuneration Committee shall consider the following guidelines in addressing the competing time commitment of a director with multiple board seats:

- The nature of the business of the corporations which he is a director;
- Age of the director;
- Number of directorships/active memberships and officerships in other corporations or organizations; and
- Possible conflict of interest.

The optimum number shall be related to the capacity of a director to perform his duties and responsibilities diligently and efficiently, and shall ensure compliance to regulations on maximum five (5) board seats in publicly listed companies.

Should this number be breached, the same should be approved by the Nominations and Remuneration Committee and confirmed by the Board of Directors. In any case, the capacity of the directors to perform their duties and responsibilities diligently and efficiently to the boards they serve should not be compromised. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the nonexecutive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement.

A director shall notify the Board where he is an incumbent director before accepting a directorship in another company. The Board, through the Nominations and Remuneration Committee, shall assess the Director's present responsibilities and commitment to assess if the director can still adequately perform his duties and responsibilities to the Bank.

Newly elected/appointed director or officer shall disclose concurrent position he holds in other company whether publicly listed or not.

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<sup>24</sup> Section 137 of the MORB

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### Criteria for the Re-Appointment of a Director

The fifteen (15) directors shall hold office for a term of one (1) year or until their successor shall have been elected and shall have qualified.

A director may be re-appointed to the Board, provided that he has fully satisfied the following requirements:

- i. Compliance with Fit and Proper Rule of the BSP;
- ii. Compliance with required number and mode of attendance in regular and special meetings;
- iii. Active participation in Board and Committee meetings and exercise of sound and independent judgment in the exercise of his Board roles and responsibilities such as approval of strategic objective of the Bank, definition of level of risk and tolerance for business activities, appointment of competent Management, leading in establishing good governance from the top, ensuring that the Bank continuously provide services and facilities that are supportive to national economy, etc.
- iv. Disqualification Criteria should not be met; and
- v. Board seats in other publicly listed companies shall not exceed five (5), with due consideration of the capacity of the director to perform his duties and responsibilities diligently and efficiently, the nature and complexity of the business and absence of conflict of interest; and
- vi. For independent directors, board seats should not exceed five (5) within the SBC Group.

### 3. Nomination and Election of Directors

To encourage shareholder’s participation in the nomination and election of Directors to the Board, procedures have been established and duly disclosed in the Bank’s website.

#### The Nominations Process

1. The nomination of a director shall be conducted by the Nominations and Remuneration Committee prior to a stockholders’ meeting.
2. The Committee itself may likewise identify and recommend qualified individuals for nomination and election to the Board.
3. The Committee may make use of professional search firms or other external sources to search for qualified candidates to the Board.

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4. All shareholders shall have the right to nominate, elect, remove and replace directors, and vote on certain corporate acts in accordance with the Corporation Code.
5. Nominations shall be submitted to any of the members of the Nominations Committee, or to the Office of the Corporate Secretary at least 2 weeks before the Board meeting scheduled in February. The Board will approve during the February Board meeting, upon the endorsement of the Nominations Committee, the list of nominees for election during the April meeting of shareholders.
6. All nominations or recommendations shall be signed by the nominating stockholders, together with an acceptance and conformity of the nominees. No nominee shall qualify to be elected as Director unless this requirement is complied with.
7. The Nominations and Remuneration Committee shall pre-screen the qualification and prepare a final list of candidates. This will ensure that only those who possess all the qualifications and none of the disqualifications may be elected to the Board. The Committee shall put in place screening policies and parameters that meet the minimum requirements as provided by the Bank's By-Laws, Manual of Corporate Governance, and relevant rules and regulations.

In the evaluation of nominees, the Committee shall consider the benefits of a diverse Board for competitive advantage. A diverse Board makes use of differences in skills, regional and industry experience, background, race, gender and other qualities of directors. These differences will be considered in determining the optimum composition of the Board and should be balanced appropriately.

8. The final list of qualified nominees shall be recommended to the Board of Directors for approval. The Board shall recommend to the stockholders the qualified nominees included in the final list for election during the annual meeting of shareholders.
9. The Committee shall prepare a list of candidates which shall contain all the information about all nominees for director as required by SEC and BSP rules for filing and distribution to all shareholders through the SEC Information Statement. The list should indicate the nominees for independent director. The name of the person or group of persons who recommended the nomination of the independent director shall be identified, including any relationship with the nominee.
10. Only nominees whose names appear in the List shall be eligible for election to the Board of Directors. After the list of candidates is approved by the Board of Directors for endorsement to the shareholders for approval, additional nominations shall not be entertained. No further nominations will also be allowed during the actual meeting of shareholders, unless there is a withdrawal of acceptance of the nomination, or a nominee is no longer available for whatever reason.

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### The Voting Process:

1. Any stockholder who is not delinquent in his subscription shall be allowed to vote either in person or by proxy executed by the stockholder.
2. The stockholders shall elect the members of the Board by Ballot. Proxy forms shall be tallied for the votes for Board members.
3. A stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he sees fit, as long as the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Bank multiplied by the whole number of directors to be elected.

If the votes cast are in excess of the allowable limit, there shall be a pro-rata adjustment of the votes to conform with the allowable limit.

4. If there are more nominees that the Board seats for election, the following guidelines shall prevail:
  - There shall be two pools for directors for election. The first pool will refer to Regular Directors. The second pool will refer to Independent Directors.

The Bank will comply with the regulations on the required number of Independent Directors in the Board (currently at 1/3).

- If the excess nominees refer to the Regular Pool of Directors, the directors with the highest votes allowed to cover the number of regular directors will be elected.
- Directors in the regular pool of directors who miss the cut-off will not be allowed to take the Board seats allotted for Independent Directors, even if their votes come in higher than the nominees for Independent Directors.
- If the excess nominees refer to the Independent Directors:
  - The directors with the highest votes among the independent directors get to fill in the seats allotted for the independent directors as required by regulations.
  - After filling in the required slots for independent directors and there remains a vacancy among the slots for regular directors, these open slots can be filled in by the Independent Director nominees.

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### Confirmation of Election/ Appointment of a Director

The election/appointment of Directors shall be subject to confirmation by the Monetary Board.

The Office of the Corporate Secretary shall:

- (1) Furnish all of the first-time directors with a copy of the general responsibility and specific duties and responsibilities of the Board of Directors and of a director;
- (2) Submit the biodata of the elected director to the Financial Supervision Sector of the BSP together with the duly notarized authorization form with a request for the Monetary Board's confirmation of the election/appointment of the directors within ten (10) banking days from date of election;
- (3) Submit the Certificate of Qualification of the Independent Directors to SEC together with the company's Information Statements (SEC Form 20-IS) and before the election of the Independent Director.
- (4) Secure consent of the nominated Director/individual for election/re-election, prior to disclosing any of his/her information.

If after evaluation, the BSP shall find grounds for the disqualification, the director so elected/appointed may be recommended for removal from office.

The election/appointment of Directors shall be deemed to have been confirmed by the Bangko Sentral, if after sixty (60) banking days from receipt of the complete required reports, the appropriate supervising department of the FSS does not advise the bank concerned against said election/appointment.

However, the confirmation by the Monetary Board shall not be required in the following cases:

- a. Re-election of a director (as a director) in the same bank or election of the same director in another bank, QB, trust corporation, and non-bank financial institution with trust authority within a banking group;
- b. Re-election of an independent director (as an independent director or not) in the same bank or election of the same director (as an independent director or not) in another bank, QB, trust corporation and non-bank financial institution with trust authority within a banking group;

A director whose election/ appointment was not confirmed for failure to submit the complete documentary requirements shall be deemed removed from office after due notice to the board of directors

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of the bank, even if he has assumed the position to which he was elected/ appointed, pursuant to section 16 of R.A. No. 8791.

#### **4. Responsibilities of a Director**

The position of a bank 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 employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner.

The two key elements of the fiduciary duty of board members are the duty of care and the duty of loyalty. The duty of care requires board members to act on a fully informed basis, in good faith, with due diligence and care. In exercising the duty of loyalty, board members should act in the interest of the company and all its shareholders, and not those of the controlling company of the group or any other stakeholder.

To ensure a high standard of best practice for the Bank, its stockholders and other stakeholders, the Board shall conduct itself with honesty and integrity in the performance of its duties and functions:

1. *To remain fit and proper for the position for the duration of his term.*

A director is expected to remain fit and proper for the position for the duration of his term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that the Bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training.

2. *To conduct fair business transactions with the Bank and to ensure that personal interest does not bias board decisions.*

Directors should, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the institution cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the institution than those offered to others. 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 would compromise his impartiality.

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3. *To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the public.*

A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.

4. *To devote time and attention necessary to properly discharge their duties and responsibilities.*

Directors should devote sufficient time to familiarize themselves with the institution’s business.

They must be constantly aware of the institution’s condition and be knowledgeable enough to contribute meaningfully to the Board’s work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the Board.

5. *To act judiciously.*

Before deciding on any matter brought before the BOD, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

6. *To contribute significantly to the decision-making process of the Board.*

Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such board.

7. *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. Corollarily, he should support plans and ideas that he thinks will be beneficial to the institution.

8. *To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation and by-laws, the requirements of the BSP and where applicable, the requirements of other regulatory agencies.*

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A director should also keep himself informed of industry developments and business trends in order to safeguard the institution’s competitiveness.

9. *To observe confidentiality.*

Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. They may not disclose said information to any other person without the authority of the Board.

Directors and/or Board members are mandated to uphold and promote the principles of the Bank’s Code of Business Ethics for Members of the Board of Directors approved by the Board on April 30, 2013 incorporated in this Manual as Annex 1.

**5. Remuneration Policy for Directors and Key Officers**

The Board, through the Nominations and Remuneration Committee shall implement and approve remuneration policy for key officers and board members that is aligned with the long-term interests of the Bank including the overall business and risk strategy.

Its components shall include fixed remuneration, performance-based bonus, regular bonuses, incentives and other benefits. Nominations and Remuneration Committee determines appropriate remuneration based on specific financial and non-financial metrics to measure performance and set specific provisions for employees with significant influence on the overall risk profile of the corporation.

Key considerations in determining proper compensation:

- a. The level of remuneration is commensurate to the responsibilities of the role;
- b. No director shall participate in deciding his own remuneration;
- c. Remuneration pay-out schedules shall be sensitive to risk outcomes over a multi-year horizon
- d. Remuneration of employees assigned in control functions such as Audit, Risk and Compliance, shall be determined independent of any business line being overseen, and performance measures are based principally on the achievement of their objectives.

Pursuant to regulations, the Bank recognizes that the BSP Monetary Board, to protect the funds of depositors and creditors, may regulate/restrict the payment by the bank of compensation, allowances, fees,

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bonuses, stock options, profit sharing and fringe benefits to its directors and officers in exceptional cases and when the circumstances warrant, such as, but not limited to, the following:

- a. When the bank is under controllership, conservatorship or when it has outstanding emergency loans and advances and such other forms of credit accommodation from the Bangko Sentral which are intended to provide it with liquidity in times of need;
- b. When the institution is found by the Monetary Board to be conducting business in an unsafe or unsound manner;
- c. When it is found by the Monetary Board to be in an unsatisfactory financial condition such as, but not limited to, the following cases:
  - (1) Its capital is impaired;
  - (2) It has suffered continuous losses from operations for the past three (3) years;
  - (3) Its composite CAMEL(S) rating in the latest examination is below “3”; and
  - (4) It is under rehabilitation by the Bangko Sentral/PDIC which rehabilitation may include debt-to-equity conversion, etc.

In the presence of any one (1) or more of the circumstances mentioned above, the Monetary Board may impose the following restrictions in the compensation and other benefits of directors and officers:

- a. In the case of profit sharing, the provision of Sec. X146 shall be observed except that for purposes of this Section, the total amount of unbooked valuation reserves and deferred charges shall be deducted from the net income.
- b. Except for the financial assistance to meet expenses for the medical, maternity, education and other emergency needs of the directors or officers or their immediate family, the other forms of financial assistance may be suspended.
- c. When the total compensation package including salaries, allowances, fees and bonuses of directors and officers are significantly excessive as compared with peer group averages, the Monetary Board may order their reduction to reasonable levels: *Provided*, That even if a bank is in financial trouble, it may nevertheless be allowed to grant relatively higher salary packages in order to attract competent officers and quality staff as part of its rehabilitation program.

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## 6. Resignation of a Director from the Board

A Board member may resign at any time by giving notice in writing or by electronic transmission to the Chairman of the Board, the President, or the Corporate Secretary. Such resignation shall take effect upon receipt or at any later time specified in the notice.

The Bank shall report to the appropriate department of the FSS any succeeding resignation, retirement, or replacement of directors/officers as mentioned within twenty (20) banking days after such resignation/retirement/replacement.

## 7. Disqualification, Suspension or Removal of a Director

### Grounds for the Permanent Disqualification of Directors

The Board may provide for the permanent disqualification of a director for any of the following grounds:

- a. Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that: (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
- b. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC, BSP or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) Engaging in or continuing any conduct or practice in any of the capacities mentioned in subparagraphs (a) and (b) of this paragraph, or willfully violating the laws that govern securities and banking activities.

The disqualification should also apply if (a) such person is the subject of an order of the SEC, BSP or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP; (b) such person has otherwise been restrained to engage in any activity involving securities and banking; or (c)

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such person is the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

- c. 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 fraud, estafa, embezzlement, extortion, forgery, counterfeiting, misappropriation, malversation, swindling, false affirmation, perjury or other fraudulent acts, theft, robbery, falsification, bribery, violation of B.P. Blg. 22 (Anti-Bouncing Check Law), violation of R.A. No. 3019 (Anti-Graft and Corrupt Practices Act), violation of R.A. No. 9160, as amended (Anti-Money Laundering Act), and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees);
- d. Any person who has been adjudged by final judgment or order of the SEC, BSP, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law, rule, regulation or order administered by the SEC or BSP;
- e. Persons judicially declared with finality as insolvent; spendthrift or incapacitated to contract;
- f. Persons who have been convicted by final judgment of a court or other tribunal for violation of securities and banking laws, rules and regulations;
- g. Persons who were found to be culpable for the bank's closure as determined by the Monetary Board;
- h. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated previously;
- i. Persons who have been convicted by final judgment of a court for offenses which involves moral turpitude, or for offenses which they were sentenced to serve a term of imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five years prior to the date of his election or appointment; and
- j. Persons who have been convicted by final judgment for cases filed against them for offenses under RA No. 3591, as amended (PDIC Charter).
- k. Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the BSP, where a penalty of removal from office is imposed, and which resolution of the Monetary Board has become final and executory.

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- i. Persons found liable by any government agency/corporation, including government financial institution, for violation of any law, rule and regulation involving dishonesty, misconduct, or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affects their fitness and propriety as directors/officers, and which finding of said government institution has become final and executory.
- m. Persons who voluntarily submitted an irrevocable sworn written commitment to perpetually inhibit themselves from participating in the ownership whether directly or indirectly, and/or management, in whatever capacity, of any BSP supervised financial institution.
- n. Other grounds as the SEC or BSP may provide.

In addition to the aforementioned grounds, an independent director shall also be permanently disqualified as such when:

- i. The independent director becomes an officer, employee or consultant of the Bank during his tenure; and
- ii. The nine (9) year maximum cumulative term limit has been reached, counting from January 2012 election in accordance with SEC Memorandum Circular No. 4 Term Limit of Independent Directors.

### **Processes Adopted for the Permanent Disqualification of Directors**

- The Board of Directors and Management shall be responsible for determining the existence of the ground for permanent disqualification of a director and for reporting the same to the BSP within ten (10) calendar days from knowledge thereof. The bank shall ensure that the person concerned is informed that his/her offense was reported to the appropriate supervising department of the BSP and, as such, may be evaluated for watchlisting.
- In the event of approval by the Monetary Board of said permanent disqualification case, the Board of Directors shall be immediately informed and directed to act on it not later than the following board meeting. The Corporate Secretary shall report to the BSP the action taken by the Board on the director involved within 3 banking days after the board meeting.
- Without prejudice to the authority of the Monetary Board, the Board of Directors may direct the Corporate Governance Committee to conduct its own investigation on the director involved, impose the appropriate sanction, and report the results thereof to the appropriate supervising department of the BSP within twenty (20) calendar days from the termination of investigation.

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### Grounds for the Temporary Disqualification of Directors

The Board may provide for the temporary disqualification of a directors for any of the following grounds:

- a. Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations, to fully disclose the extent of their business interest or any material information to the appropriate department of the FSS - BSP when required pursuant to a provision of law or circular, memorandum, rule or regulation of the BSP. This disqualification shall be in effect as long as his refusal persists;
- b. Absence in more than fifty percent (50%) of all meetings, both regular and special, of the Board of Directors during his incumbency, or any twelve (12) month period during said incumbency unless the absence is due to illness, death in the immediate family or serious accident. The disqualification should apply for purposes of the succeeding election;
- c. Dismissal or termination for cause as director of any publicly-listed company, public company, registered issuer of securities and holder of a secondary license from the Commission. The disqualification should be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;
- d. If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with;
- e. Persons who have shown unwillingness to settle their financial obligations, as evidenced by, but not limited to the following circumstances:
  - i. The person has failed to satisfy any financial obligation that has been adjudicated by a court;
  - ii. The person has filed for insolvency or suspension of payments that adversely affects his/her fitness and propriety as director/officer;
  - iii. Persons who is delinquent in the payment of an obligation with a bank where he/she is a director or officer; or at least 2 obligations with other banks/FIs.

Financial obligations as herein contemplated shall include all borrowings obtained by:

- i. A person for his/her own account or where he/she acts as a guarantor, endorser or surety for loans;

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- ii. The spouse except when incurred after legal separation of properties or when the property regime governing the spouses is absolute separation of properties or except when incurred prior to the marriage;
- iii. Any debtor whose borrowings or loan proceeds were credited to the account of or used for the benefit of the person described under item “b(1)” of this Section (Persons disqualified to become directors/officers);
- iv. A partnership of which a person, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership
- v. A corporation, association or firm wholly-owned or majority of the capital of which is owned by any or a group of individuals/entities mentioned in the immediately preceding items “(i)”, “(ii)” and “(iv)”.

They shall remain temporarily disqualified until the financial obligations have been settled or satisfied.

- f. Persons with cases pending before a court or other tribunal, or those convicted by said court or tribunal whose conviction has not become final and executory for offenses involving (a) dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22 (Anti-Bouncing Check Law), violation of R.A. No. 3019 (Anti-Graft and Corrupt Practices Act), violation of R.A. No. 9160, as amended (Anti-Money Laundering Act), and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees); (b) violation of securities and banking laws, rules and regulations;
- g. Persons involved in the closure of banks pending their clearance by the Monetary Board;
- h. Persons confirmed by the Monetary Board to have committed acts or omissions, which include failure to observe/discharge their duties and responsibilities prescribed under existing regulations, that: (a) caused undue injury or disadvantage to the bank through manifest partiality, evident bad faith or gross inexcusable negligence; (b) caused or may have caused material loss or damage to the bank, its depositors, creditors, investors, stockholders, to the BSP or to the public in general; or (c) exposed the safety, stability, liquidity or solvency of the bank to abnormal risk or danger;
- i. Persons found to have been involved in any irregularity/violation which constitutes a just cause for dismissal/termination as defined under the Labor Code of the Philippines, as amended, regardless of any action taken by the bank.;
- j. Persons certified by, or in the official files of, foreign financial regulatory authorities, financial intelligence units, or similar agencies or authorities of foreign countries, as charged with commission of,

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or having committed, irregularities or violations of any law, rule or regulation, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his/her duties;

- k. Persons, other than those covered under Item “b(8)” of the section who after conduct of investigation by domestic financial or commercial regulatory authorities, financial intelligence unit or similar agencies or authorities such as that SEC, AMLC or PDIC have complaints against them by the aforementioned authorities/units/agencies pending before a court of law or quasi-judicial body, or convicted by said court or quasi-judicial body but whose conviction has not become final and executory, for offenses involving violation of laws, rules and regulations, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his/her duties;
- l. Persons who have been convicted by a court for an offense involving moral turpitude, and persons who have been sentenced to serve a term of imprisonment of more than six (6) years for other crimes but whose conviction has not yet become final and executory.
- m. Persons with pending cases for offenses under R.A No. 3591, as amended (PDIC Charter) or those who have convicted for said cases but whose conviction has not yet become final and executory.
- n. Persons found by the Monetary Board to be administratively liable for violations of laws, rules and regulations implemented by the BSP where a penalty of removal from office is imposed, and which resolution of the Monetary Board is on appeal, unless execution or enforcement thereof is restrained by the appellate court;
- o. Persons against whom a formal charge has been filed or who are found liable by any government agency/corporation, including government financial institution, for violation of any law, rule and regulation involving dishonesty, misconduct, or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affects their fitness and propriety as directors/officers, and which finding of said government institution is on appeal, unless execution or enforcement thereof is restrained by the appellate court;
- p. Persons found by the Monetary Board to be administratively liable for violations of laws, rules and regulations implemented by the BSP where a penalty of suspension from office or fine is imposed, unless the finding is on appeal and the execution or enforcement thereof is restrained by the appellate court;
- q. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

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A temporarily 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.

In addition to the aforementioned grounds, an Independent Director shall likewise be temporarily disqualified as such when his beneficial equity ownership in the Bank or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification as an independent director shall be lifted if the ownership limit is later complied with.

### **Processes Adopted for the Temporary Disqualification of Directors**

- The Board of Directors and Management shall be responsible for determining the existence of the ground for permanent disqualification of a director and for reporting the same to the BSP within ten (10) calendar days from knowledge thereof. The bank shall ensure that the person concerned is informed that his/her offense was reported to the appropriate supervising department of the BSP and, as such, may be evaluated for watchlisting.
- In the event of approval by the Monetary Board of said permanent disqualification case, the Board of Directors shall be immediately informed and directed to act on it not later than the following board meeting. The Corporate Secretary shall report to the BSP the action taken by the Board on the director involved within 3 banking days after the board meeting.
- Without prejudice to the authority of the Monetary Board, the Board of Directors may direct the Corporate Governance Committee to conduct its own investigation on the director involved, impose the appropriate sanction, and report the results thereof to the appropriate supervising department of the BSP within twenty (20) calendar days from the termination of investigation.

### **Grounds for the Suspension of Directors**

The Board shall provide for the suspension of a director for any of the following infraction as a penalty or sanction for his:

- (a) Violation of the provisions of the Manual of Regulations for Banks (MORB) - At the discretion of the Monetary Board and based on the seriousness, materiality or repeat of the acts or omission, a penalty of suspension may be imposed upon a director of a bank that conducts business in an unsafe and unsound manner (Section 002 of the MORB) or for such other violations for which the MORB specifically provides for the penalty of suspension;

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- (b) Non-compliance with any of the provisions of the Bank’s Manual on Corporate Governance; and
- (c) If the cause for the director’s temporary disqualification occurs after his confirmation by the BSP, the director is considered suspended.

### Processes Adopted in the Suspension of Directors

- The Board of Directors and Management shall be responsible for determining the existence of the ground for suspension/disqualification of a director of the Bank and for reporting the same to the BSP within seventy-two (72) hours from knowledge thereof.
- In the event of approval by the Monetary Board of said suspension case, the Board of Directors shall be immediately informed and directed to act on the disqualification not later than the following board meeting. The Corporate Secretary shall report to the Governor of the BSP the action taken by the Board on the director involved.
- Without prejudice to the authority of the Monetary Board, the Board of Directors may direct the Corporate Governance Committee to conduct its own investigation on the director involved and shall impose the appropriate sanction as set forth in this Manual. A temporarily disqualified director shall be granted sixty (60) days to correct his disqualification and any unjustified failure or refusal to do so, shall render the disqualification permanent.

### Requirements for the Reinstatement of Directors

A director who has been temporarily disqualified shall be re-instated upon full service of the preventive suspension and fulfillment of such other conditions imposed as sanction or penalty against him, Provided, That the approval of the majority of the members of the Board has been obtained, Provided finally, That such reinstatement has been duly approved by the Monetary Board of the BSP in accordance with regulations.

### Processes Adopted in the Reinstatement of Directors

- The Corporate Secretary shall notify the Board of Directors in writing that the director concerned has served his suspension.
- The Board shall resolve if the director shall be reinstated or not. If the resolution is to reinstate the concerned director, it shall be approved by a majority of the Board of Directors.
- The Corporate Secretary shall submit in writing to the Monetary Board (MB) a notification that the director has fully served his suspension together with the recommendation to reinstate the director as resolved by a majority of the Bank’s Board of Directors.

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- Upon receipt of MB approval, the Corporate Secretary shall serve a written notification to the concerned director of his reinstatement.

### Grounds for the Removal of Directors

A director may be removed from the Board with or without cause, Provided, That the removal without cause may not be used to deprive minority stockholders or members of the right of representation to which they may be entitled under the Corporation Code of the Philippines.

A director may likewise be removed from office due to the following causes:

- i. If the director resigns;
- ii. If the director fails to comply with the prescribed attendance in board meetings;
- iii. If the director becomes bankrupt or makes any compromise or arrangements with his creditors;
- iv. If the director suffers from mental disorder; and
- v. If the director is permanently disqualified.

### Processes Adopted in the Removal of Directors

A director of the Bank may be removed from office by a vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock, either at a regular or special meeting called for that purpose.

- The Corporate Secretary shall send a notice of meeting to stockholders for the proposed removal of the director involved. Notice of the time and place of such meeting, as well as of the intention to propose such removal, must be given by publication or by written notice prescribed in the Corporation Code of the Philippines.
- A special meeting of the stockholders of the Bank for the purpose of the removal of the director involved must be called by the Corporate Secretary on order of the President or on the written demand of the stockholders representing or holding at least a majority of the outstanding capital stock of the Bank.
- Should the Corporate Secretary fail or refuse to call the special meeting upon such demand or fail or refuse to give the notice, or if there is no secretary, the call for the meeting may be addressed directly to the stockholders by any of the stockholder of the Bank signing the demand.

## C. BOARD COMMITTEES

To aid in complying with the principles of good corporate governance, the Board shall constitute, at a minimum, the following committees which shall report regularly to the Board of Directors. The Board shall appoint the Chairman and the Members of the Committees in accordance with their respective Charters and regulatory

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requirements. All Committee members shall have one (1) year terms and can be replaced/ removed by the Board at any time.

The descriptions of the composition and roles and responsibilities of the Committees shall be without prejudice to the respective Charters which each committee has separately issued and which shall prevail. Any amendments to the Charters shall be incorporated in this Manual during the regular annual review.

## **1. Corporate Governance Committee**

### **Purpose**

The Corporate Governance Committee shall assist the Board of Directors in fulfilling its corporate governance responsibilities, including approving and overseeing implementation of the corporate governance framework.

Towards this end, The Committee shall have oversight and be responsible for ensuring the Board's effectiveness and due observance of corporate governance principles and guidelines.

### **Committee Members**

The Corporate Governance Committee shall be composed of at least three (3) members of the Board of Directors who shall all be non-executive directors, majority of whom shall be independent directors, including the Chairperson.

### **Procedures**

The Corporate Governance Committee shall meet at least quarterly. The meeting can be held in person or via remote communications as may be allowed by law. The Committee may invite other Directors, Board Advisors or Management to participate in meetings from time to time.

A quorum shall comprise a majority of members.

The meeting agenda will be prepared for each meeting and provided at least two (2) days in advance to all members, along with appropriate briefing materials. Minutes of the meeting shall be prepared and circulated to all directors after each meeting. The Committee shall provide a summary of the actions taken at each Committee meeting, which shall be presented to the Board at the next Board meeting.

The Bank's Corporate Secretary or Assistant Corporate Secretary shall provide assistance to the Committee in the preparation of the Agenda and Minutes of Meeting.

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## Duties and Responsibilities

The Corporate Governance Committee shall:

- Oversee the implementation of the corporate governance framework and periodically review the said framework to ensure that it remains appropriate in light of material changes to the corporation’s size, complexity and business strategy, as well as its business and regulatory environments;
- Define the appropriate governance principles, guidelines and structure; ensure that these are reviewed and updated regularly; and consistently implemented in form and substance;
- Oversee the periodic performance evaluation of the Board and its Committees and present recommendations to the Board on the manner by which performance may be evaluated, with the objective performance criteria approved by the Board. Performance indicators shall address how the Board and its Committees have enhanced long-term enterprise and shareholders’ value.
- Ensure that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvements;
- Oversee the Bank’s Compliance Program, including the management of the Bank’s compliance function, to ensure that the Bank complies with all applicable laws, regulations, codes of conduct and standards of good practice. This includes the appointment, evaluation, remuneration and dismissal of the Chief Compliance Officer and the conduct of inquiries on Senior Management and key personnel’s performance relative to regulatory findings.
- Oversee and present recommendations to the Board regarding the continuing education program for directors.
- Ensure that directors are able to commit to effectively discharge their responsibilities and that directors with multiple board seat are able to devote sufficient time to fulfill their duties.
- Ensure that the board structure promotes efficiency, critical discussion of issues such as values, conduct and behaviors, and thorough review of matters. It shall regularly review the board’s structure, size and composition including board level-committees.

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- For the management-level committees that report to the Corporate Governance Committee<sup>1</sup>, oversee the performance of their responsibilities as indicated in their respective charters and evaluate/ approve policies recommended by them to ensure the effective management of relevant risks.

## 2. Nominations and Remunerations Committee

### Purpose

The Nominations and Remuneration Committee shall review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval. It shall assess the effectiveness of the Board’s processes and procedures in the election and replacement of directors.

It shall likewise establish a formal and transparent procedure for developing policy on remuneration of directors and officers to ensure that compensation is consistent with the Bank’s culture, strategy and the business environment on which the Bank operates.

### Committee Members

The Nominations and Remuneration Committee shall be composed of at least three (3) members of the board of directors who shall all be non-executive directors, majority of whom shall be independent directors, including the chairperson.

### Procedures

The Nominations and Remuneration Committee shall meet at least 4 times on an annual basis. The Committee may invite Executive Directors or management to participate in meetings from time to time.

A quorum shall comprise a majority of members.

An agenda shall be prepared for each meeting and distributed in advance of the meeting. Minutes of the meeting shall be prepared and circulated to all directors after each meeting. The Committee shall provide a summary of the actions taken at each Committee meeting, which shall be presented to the Board at the next Board meeting.

The Bank’s Corporate Secretary will provide assistance to the Committee in the preparation of the Agenda and Minutes of Meeting.

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### Authority and Responsibilities

The Nominations and Remuneration Committee shall be responsible for:

- Defining the general profile of the Board members that the Bank may need, ensuring that the nominees have the appropriate knowledge, competencies and expertise that will complement the existing skills of the Board;
- Determining the nomination, election and replacement process for the Bank’s directors;
- Reviewing and evaluating the qualifications of all persons nominated to the Board, as well as those nominated to other positions requiring appointment by the Board of Directors,
- Overseeing the periodic performance evaluation of Board members and executive management, deciding whether or not a director is able to and has been adequately carrying out his/her duties as director based on its own assessment or the assessment of external facilitators, bearing in mind the director’s contribution and performance (e.g., competence, candor, attendance, preparedness and participation);
- Recommending assignment to Board committees and engaging in succession planning for Board members and Executive Management, which includes a system of identifying and developing potential successors,
- Recommending a formal and transparent procedure for developing a policy on remuneration of directors and officers that is consistent with the Corporation’s culture, strategy, the business environment on which it operates, and commensurate with corporate and individual performance and potential;
- Monitoring and reviewing the remuneration and other incentives policy including plans, policies and outcomes at least annually;
- Working closely with the Bank’s Risk Oversight Committee in evaluating the incentives created by the remuneration system.
- Approving the hiring re-appointment, dismissal, promotion, profit sharing and merit increases of all Vice Presidents and higher as a Committee or through assigned representatives of the Committee;
- Holding members of Executive Management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the Board of Directors’ performance expectations, which include adherence to the Bank’s values, risk appetite, culture and required behaviour under all circumstances;
- Meeting with Executive Management to engage in discussions, question and critically review the reports and information provided by the latter;
- Ensuring that the SBC Retirement Fund is 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;

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- Overseeing the management of the People Empowerment Committee and SBC Retirement Committee.
- Ensuring that personnel’s expertise and knowledge remain relevant by providing regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibilities.

### 3. Risk Oversight Committee

#### Purpose

The Risk Oversight Committee (ROC) shall be responsible for the approval and oversight of the Enterprise Risk Management (ERM) framework and program of the Bank and its Subsidiaries, including its implementation by Management. The framework shall lay out the foundation for the Bank’s risk culture and risk governance structures aligned with its Vision, Mission, and Core Values; define the principles that shall align enterprise risk management with the Bank’s strategic objectives and goals; and strengthen the roles and responsibilities among the three (3) lines of defense in terms of identifying, assessing, treating, monitoring, and reporting risks.

#### Committee Membership

1. The Risk Oversight Committee shall be composed of at least three (3) members of the board of directors, majority of whom should be independent directors, including the chairman;
2. The Chairperson of the ROC must not serve as the Chairperson of the Board of Directors or of any other board-level committee;
3. The ROC membership shall, in the determination of the Board, consist of the appropriate backgrounds and experience to discharge the oversight responsibilities of the ROC, and the ROC membership shall meet all applicable regulatory or legal requirements regarding expertise and other qualifications. At least one member shall have experience in risk management issues and practices. If possible, one member shall have experience in technology and adoption and digital transformation in a similar business ecosystem.
4. The ROC has authority to retain advisers when it deems appropriate, including approval of fees and terms of retention, without the prior permission of the Board or management, and shall be provided the necessary resources for such purposes.

#### Rules

- a. The Risk Oversight Committee shall meet quarterly or as often as it deems appropriate.
- b. The meeting may be held in person or via remote communications as may be allowed by law.

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- c. The Committee may invite other Directors, Board Advisers or Management to participate in meetings from time to time.
- d. Majority of the members of the Committee shall constitute a quorum.
- e. The Chief Risk Officer and the ROC Secretariat shall jointly prepare the agenda for each meeting for the Committee Chairperson’s review and inputs which shall be ~~and~~ distributed three (3) days in advance of the meeting. The briefing materials shall start to be distributed to the ROC members at least three (3) days prior to the meeting. It may be distributed in batches and should be completed no later than two (2) days before the meeting.
- f. The Minutes of the meeting shall be prepared by the ROC Secretariat together with the Risk Management Group and shall be circulated to all Committee members no later than two (2) weeks after each meeting.
- g. The Risk Oversight Committee shall report periodically to the Board, generally at the next regularly scheduled Board meeting following the ROC meetings, on actions taken and significant matters reviewed by the ROC.
- h. Risk Management Group will be responsible for preparing and disseminating the agenda and minutes of the meeting.

#### **Authority and Responsibilities**

1. The ROC shall advise the Board of Directors on the Bank’s overall current and future risk appetite, oversee senior management’s adherence to the risk appetite statement, risk appetite levels, risk tolerance limits, and report on the state of risk profile of the Bank.
1. The ROC shall:
  - a. Oversee the Enterprise Risk Management framework
    - i. Risks covered shall include credit risk, market and liquidity risk, operational risk (incl. operational resilience) as well as other material and emerging risks (e.g., reputational risk, ESG risks, among others) as defined and enumerated in the ERM framework and the Risk Appetite Policy.
    - ii. The ROC shall oversee the development of and approve the Bank’s primary risk management policies, risk appetite statements (RAS) and risk limits, and annually review and approve any material changes to such.
    - iii. It shall work with management to identify significant risk issues and ensure that said risks are promptly and properly assessed in terms of probability and impact, treated, reported, and monitored.
    - iv. It shall ensure that there is a periodic review of the effectiveness of the risk management systems, contingency plans and recovery plans.

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- b. Oversee adherence to the risk appetite.
  - i. The ROC shall receive reports on risk appetite outcomes against defined risk appetite levels for quantitative parameters and qualitative factors. It shall ensure that any necessary corrective actions are promptly implemented to address risk management concerns.
  - ii. The ROC shall ensure that risk exposures align with the Bank’s strategy and risk appetites by evaluating compliance with the limits, policies, procedures relating, and management performance, among others.
- c. Oversee the risk management function.
  - i. The ROC shall ensure that the risk management function has adequate staff and resources to carry out their responsibilities independently, objectively and effectively.
  - ii. The ROC shall be responsible for the appointment/ selection, remuneration, performance assessment, and dismissal of the Chief Risk Officer (CRO).
  - iii. It shall ensure that the risk management function oversees the risk-taking activities of the group and drives the enterprise-wide implementation and adherence to the Enterprise Risk Management Framework.
- d. On Capital Management, which the Executive Committee oversees, the Risk Oversight Committee shall provide support in addressing matters related to the Internal Capital Adequacy Assessment Process (ICAAP), specifically on risk assessment and stress testing of scenarios.
- e. For Outsourcing matters, the Risk Oversight Committee shall:
  - i. Oversee the Outsourcing Committee<sup>25</sup> in its role of managing and reviewing outsourcing contracts with third party providers.
  - ii. Approve policies recommended by the Outsourcing Committee to ensure effective management of risks arising from outsourced activities.
- f. For oversight of the Bank’s Fiduciary and Subsidiaries’ Risk Management:
  - i. The ROC shall exercise risk management oversight of Trust and the Bank’s subsidiaries.
  - ii. Provided, that this shall be done in coordination with and reported to the respective board of directors of the subsidiaries.
  - iii. Provided further, that the respective board of directors of the subsidiaries shall remain ultimately responsible for the management of risk exposures.
- g. For Operational Resilience, the Risk Oversight Committee shall:
  - i. Oversee the integration of operational resilience principles with the existing risk management framework.
  - ii. Approve impact tolerances, recovery objectives and related policies to ensure prioritization of risks which impact Critical Operations.

<sup>25</sup> The Outsourcing Committee, composed of designated bank officers, meets on a monthly basis to review potential and existing service providers of the Bank and its Subsidiaries

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### Information Security Risk Management Committee

To provide focus in the management of technology, information security and business continuity risks, the Risk Oversight Committee (ROC) forms the Information Security Risk Management Committee (ISRMC) tasked with the oversight and maintenance of the SBC's Information Security Strategic Plan (ISSP) and Information Security Program (ISDP) along with other related activities, ensuring emerging technology and fraud risks associated with customer accounts are addressed.

The ROC shall determine Committee Membership, frequency of meetings, attendees to the meeting and other administrative requirements.

Its authorities and responsibilities shall include:

- Oversee, review and approve the development, implementation and annual update of SBC's ISSP and ISP, including all related security policies.
- Provide guidance in the development of the Bank's policies, risk appetite and limits relevant to the management of technology, information security and business continuity risks, ensuring that current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite.
- Receive, review and provide inputs to reports of significant risk issues identified by management and ensure that said risks are promptly assessed, mitigated or corrected and monitored.
  - o Material residual risks and threats, and the appropriateness of the risk management policies, procedures and mitigation controls in place that is commensurate with the assessed severity of the risk.
  - o Update on consolidated issues register, including number of new issues, closed issues and general implementation status of key actions.
  - o Significant control exposures/ incidents/ compliance breaches/ potential fraud or malpractice and selection of most appropriate response.
  - o Progress against control implementation plans and any re-estimate of implementation timelines.
- Periodically review with management the Bank' contingency/ crisis management plans, business continuity and disaster recovery plans to ensure operational resiliency.
- Ensure that the Information Security Risk Management function has adequate staff and resources and carry out their responsibilities independently, objectively, and effectively.
- Ensure that all employees undergo risk awareness training appropriate to their position and maintain these skills as required.

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#### 4. Audit Committee

##### Purpose

The Audit Committee (Committee for purposes of this subsection) is appointed by the Board of Directors of Security Bank Corporation for the following purpose:

- a. To monitor and evaluate the adequacy, effectiveness and efficiency of the following:
  - Integrity of the Bank’s financial statements;
  - Bank’s internal control system including financial reporting process, information technology, governance and management of risks;
  - The Bank’s process in monitoring compliance with applicable laws, rules and regulations, internal policies and its own code of business conduct; and
  - Conduct of operations and safeguarding and effective use of assets.
  
- b. Perform oversight function over the following:
  - Internal audit function and independence of auditors;
  - Internal audit service provider (if any) and its independence; and
  - External audit function and external auditor’s qualifications, independence and performance.
  
- c. Fulfilment of other responsibilities included in the Committee Charter.

The Committee is empowered by the Board to:

- a. Have resources and authority appropriate to discharge its responsibilities as defined in the Charter, including the authority to engage external auditors for special audits, reviews and other procedures and to obtain advice from special council and other experts or consultants to assist in any investigations without the need for Board approval;
- b. Have full access to members of management, employees, properties and records and relevant information of the Bank it considers necessary to discharge its duties;
- c. Receive regularly from Management on information on risk exposure and risk management activities;
- d. Resolve any disagreements between management and the internal and external auditors regarding audit issues and/or financial reporting;
- e. Delegate authority to the Head of Internal Audit Function or Chief Audit Executive (CAE) and other sub-Committees;

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- f. Enter into service level agreements with the Audit Committee of the Bank’s subsidiaries and affiliates with regards to the shared services of the Internal Audit function and other dependencies on the activities of the Audit Committee of the Banks; and
- g. Commission an assessment team outside of the organization to conduct an independent quality assurance review of the internal audit function at least every five years.

**Membership**

- a. The Committee shall be composed of at least three (3) members of the Board who shall all be non-executive directors, majority of whom shall be independent directors, including the Chairman,
- b. All members must have relevant background, knowledge, skills, and/ or experience in the areas of accounting, auditing or finance. It shall have access to independent experts to assist them in carrying out its responsibilities.
- c. The Chairman should not be the chairman of the Board or of any other Board level committees.
- d. The members of the Audit Committee shall not be members of the Trust Committee, per regulation.
- e. The Secretary of the Committee shall be the head of the internal audit function or Chief Audit Executive or any person appointed by the Committee. The Secretary shall be responsible in managing the activities of the Committee particularly in coordinating the Committee meetings, preparing the minutes of meetings and safekeeping of records of the Committee.

**Meetings**

- 1. The Committee shall hold meetings at least quarterly. Special meetings may be convened as required. The head of internal audit function or CAE or external auditor may initiate a separate meeting or executive sessions with the Committee.
- 2. The Committee shall conduct regular meetings and dialogues with the external audit team without anyone from management present.
- 3. The meetings can be held at such date, time and place the Committee considers appropriate.
- 4. A quorum for any meeting will be majority of the members.
- 5. Resolutions at a meeting of the Committee shall be passed by a majority of votes of the members participating in such meetings.
- 6. The meeting can be held in person, or via remote communications as may be allowed by law.
- 7. The Committee may invite other members of the Board, advisers, management, external auditors or others to attend meetings and provide pertinent information as necessary.
- 8. Meeting agendas will be prepared by the head of internal audit or Chief Audit Executive or the appointed Committee Secretary and provided five (5) days in advance to all members, along with appropriate briefing materials.
- 9. Minutes of meeting will be prepared by the Secretary.

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- The Committee meets with the Board at least once a year without the presence of the Chief Executive Officer (CEO) or other senior management.

### **Duties and Responsibilities**

The Committee shall have the following duties and responsibilities:

#### General Procedures

- Escalate to the Board in a timely manner any Committee recommendations or decisions requiring ratification or approval by the Board as stated in the Committee Charter.
- Submit an annual report to the Board with regards to the overall assessment of the Bank’s internal control system.

#### Financial Statements

- Review and approve for endorsement the interim and annual audited financial statements and reports audited by external auditors prior to submission to the Board, with particular focus on the following matters:
  - Any change/s in accounting policies and practices;
  - Areas where a significant amount of judgment has been exercised;
  - Significant adjustments resulting from the audit;
  - Going concern assumptions;
  - Compliance with accounting standards/financial reporting regulation;
  - Compliance with tax, legal and regulatory requirements. and
- Discuss the external auditor’s attestation and report on management’s internal control with regards to the following:
  - All critical accounting principles and practices;
  - All alternative treatments of financial information within international/ Philippine Financial Reporting System (IFRS/PFRS), Generally Accepted Accounting Principles (GAAP) and the Philippine Accounting Standards (PAS) that have been discussed with the management and its implications; and
  - Reviews the recommendations in the external auditor’s management letter.

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Internal Control

1. Monitor and evaluate the adequacy and effectiveness of the internal control system, including information technology, security and controls, integrity of financial reporting, and security of physical and information assets.
2. Ensure that there is an annual review of the effectiveness of the Bank’s internal controls, including financial, operational and compliance controls, and risk management, through the review of reports of the external and internal audit.
3. Through reports received from the Internal Audit function, ensure that management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations including reporting of significant matters to the Board.

Internal Audit and Internal Audit Service Provider

1. Oversee the independence of Internal Audit Group by ensuring that the head of internal audit function or CAE functionally reports to the Committee and administratively to the Executive Director.
2. Periodically review and recommend approval of the Internal Audit Charter, which formally defines the responsibilities, powers and authority of Internal Audit, the audit plan as well as oversees the implementation of the IA Charter.
3. Ensure that the internal and external auditors are independent and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions taking into consideration relevant Philippine professional and regulatory requirements.
4. Recommend the appointment and removal of the head of internal audit function or CAE as well as his qualifications, and grounds for appointment and removal.
5. Report to the Board the annual performance appraisal of the head of internal audit function or CAE
6. Recommend for approval of the Board the annual remuneration of the head of internal audit function or CAE and key internal auditors (Division Heads and/or VP up).
7. Review and approve the annual internal audit risk assessment and plan to ensure its conformity with the objectives of the Bank. The plan which is based on robust risk assessment shall include the audit

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scope, frequency, resources and budget necessary to implement it. Any significant change to the audit plan shall be likewise approved by the Committee.

8. Ensure that the internal auditors have sufficient knowledge, skills, experience and professional certifications to effectively discharge their functions.
9. Review and ensure that budget, resources, plan and activities and organizational structure will support the internal audit function.
10. Review periodically the implementation and accomplishment of the approved audit plan.
11. Review the internal audit reports and the corresponding recommendations to address the weaknesses noted, discussing the same with the head of internal audit function or CAE and reporting significant matters to the Board.
12. Review discoveries of fraud and violations of laws and regulations as raised by the internal audit function.
13. Ensure that the internal audit function maintains open communication with executive management and key personnel, the Audit Committee, external auditors, and the supervisory authority;
14. Ensure that the Internal Audit Group has a Quality Assurance and Improvement Program.
15. Ensure that Internal Audit Group has an external quality assurance review every five years.
16. Review the results of the internal periodic and independent external quality assurance review and monitor the implementation of the Internal Audit Group's action plans to address any recommendations.
17. Evaluate, review and approve outsourcing needs (if any) of the Internal Audit Group to ensure that it achieves its internal audit plan. The Audit Committee should also approve the terms and conditions for outsourcing internal audit services.
18. Select and oversee the performance of the internal audit service provider.

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19. Ensure that the external audit service provider is independent, objective, and has adequate manpower resources with sufficient qualifications and skills necessary to accomplish the internal audit activities.
20. Monitor and review the effectiveness of performance of internal audit function and internal audit service provider, if any, including its independence and reporting relationships.
21. Ensure that Internal Audit and internal audit service providers comply with sound internal auditing standards such as the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/ government agencies, as well as with relevant code of ethics;

External Audit

1. The Committee recommends to the Board the appointment, reappointment, removal, and fees of external auditor, duly accredited by the Securities and Exchange Commission and BSP. It shall review and approve the engagement contract and ensure that the scope of audit likewise covers areas specifically prescribed by BSP and other regulators. For removal or change in the external auditor, the reasons for removal or change should be disclosed to the regulators, the shareholders and the public through the company website and other required disclosures.
2. Reviews the recommendations in the External Auditor's management letter and oversee the resolution of disagreements, if any, between management and the external auditors.
3. Review the performance of the external auditors at least annually including technical competence, integrity, independence, objectivity and overall effectiveness of the external audit process.
4. Discuss with the external auditors the nature, proposed audit scope, approach and expenses of the audit, including coordination of audit effort with internal audit.
5. Ensure that external auditors, including the engagement and quality control partners of the audit firm are rotated in accordance with the relevant provisions of the Code of Ethics for Professional Accountants in the Philippines as adopted by the Philippine Board of Accountancy.
6. Evaluate and determine the non-audit work, if any, of the External Auditor, and periodically review the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the bank's overall consultancy expenses. The Committee should disallow any non-audit work that will conflict with his duties as an External Auditor or may pose threat to his independence and objectivity. The non-audit

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work, if allowed, should be disclosed in the bank's Annual Report and Annual Corporate Governance Report.

7. Ensure that the scope of the external audit work appropriately covers areas relevant to the Bank's operations and risk exposures prescribed by Bangko Sentral ng Pilipinas and other regulators. These include:
  - Review of the adoption of applicable reporting framework as well as the assessment of the accuracy, adequacy, and reliability of accounting records and financial reports;
  - Assessment of the propriety and adequacy of disclosures in the financial statements;
  - Assessment of the adequacy and effectiveness of internal controls and risk management systems;
  - Assessment of the quality of capital in relation to risk exposures; and
  - Evaluation of the quality of corporate governance.

#### Reporting Responsibilities

1. Report to the Board about Committee activities and issues in relation to the quality or integrity of the Bank's financial statements as reported by the internal and external auditors and engagement of independent external auditors.
2. Report to the Board the status of accomplishments of the outsourced internal audit activities (if any) including significant findings noted during the conduct of the internal audit.
3. The Committee shall also provide an avenue of communication between the management, the external and internal auditors, supervisory authorities, and the Board.

#### Other Responsibilities

1. Establish and maintain whistleblowing mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action and subsequent resolution of complaints.
2. Investigate any matter within its terms of reference, have full access to and full cooperation of management, and have full discretion to invite any director or executive officer to attend its meetings.
3. Perform other oversight functions as requested by the Board.

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## 5. Related Party Transactions Committee

### Purpose

The Related Party Transactions Committee (RPTC) shall assist the Board of Directors in fulfilling its oversight responsibilities in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and stakeholders. This shall include, among others:

- Adoption and proper implementation of a group-wide RPT policy, encompassing all entities within the SBC Group, which shall:
  - Take into account their size, structure, risk profile and complexity of operations;
  - Define related parties and covered transactions;
  - Include guidelines in ensuring that RPTs are conducted in the regular course of business and not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances;
  - Identify, prevent or manage potential or actual conflicts of interest, which may arise;
  - Set materiality threshold and excluded transactions;
  - Set internal limits for individual and aggregate exposures;
  - Include effective whistleblowing mechanisms as provided in the Bank’s Whistleblowing Policy;
  - Include measures to retribute losses and other remedies for abusive RPTs
- Establishment of 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;
  - iii. Identify, measure, monitor and control risks arising from RPTs. The system should be able to define related parties’ extent of relationship; assess situations in which a non-related party (with whom the SBC group has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulators. The system as well as the overarching policies shall be subjected to periodic assessment by internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and system shall be made available to the

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Bangko Sentral and audit functions for review. Any changes in the policies and procedure shall be made approved by the Board of Directors.

- Coordinating with the Audit Committee to ensure that senior management addresses legitimate issues on RPT that are raised including the protection of the whistleblower from detrimental treatment and reprisal.
- Ensuring that adequate capital against risks associated with exposures to related parties is maintained. In this regard, material risk 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 SBC group is well-insulated from any going concern issue of related parties.

The Committee shall also provide an avenue of communication between related parties, management, Compliance Office, the external and internal auditors and the Board.

### Membership

The RPTC shall be composed of at least three (3) members of the Board, two of whom shall be independent directors, including the Chairperson, and one non-executive director. Each Committee member should have an understanding of the detailed responsibilities of committee membership.

The Compliance Officer or Internal Auditor may sit as resource persons in the Committee.

The Secretary of the Committee shall be the designated officer under the Office of the Corporate Secretary. He shall ensure that the notice and agenda of the meeting, with relevant supporting papers, are furnished to the RPTC members prior to each meeting.

The Corporate Governance Officer shall ensure completeness and propriety of the agenda for the regular or special RPTC meeting.

### Meetings

The Committee shall meet at least quarterly. Special meetings may be convened as required.

The meeting may be held in person or via remote communications as may be allowed by law.

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A quorum for any meeting will be a majority of the RPTC. In case a member has conflict of interest in a particular RPT, he shall not participate in the evaluation and abstain from voting for approval of the transaction.

The Committee may invite other Directors, Board Advisors or management to participate in meetings from time to time.

The meeting agenda will be prepared and provided at least two (2) days in advance to all members, along with appropriate briefing materials.

The minutes of meetings shall be submitted to the Board for notation.

### **Duties and Responsibilities**

The Committee shall:

- Evaluate on an on-going basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured; Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/ supervisors;
- Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non- related parties under similar circumstances and that no corporate or business resources of the company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee takes into account, among others, the following:
  - The related party’s relationship to the company and interest in the transaction;
  - The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  - The benefits to the corporation of the proposed RPT;
  - The availability of other sources of comparable products or services; and
  - An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The company should have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs;

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All RPTs that are considered material based on the Bank’s internal policies shall be endorsed by the RPT Committee to the Board of Directors for approval. All RPTs below the materiality threshold shall be approved by the RPT Committee, subject to Board confirmation. These shall, however, exclude DOSRI transactions which are required to be approved by the Board of Directors.

- Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the company’s RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the company’s affiliation or transactions with other related parties;
- Report to the Board of Directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties;
- Ensure that RPTs, including write-off exposures, are subject to periodic independent review and audit process;
- Oversee implementation of RPT management system, including the periodic review of RPT policies and procedures
- Perform other oversight functions as requested by the Board.

## 6. Other Board Committees

The Board may likewise constitute other Committees in addition to the above as it shall deem fit. Currently, the Bank additionally has the following committees:

### Executive Committee

The Executive Committee shall exercise the authority of the Board of Directors as delegated to it by the Board and as may be allowed by law during intervals between meetings of the Board of Directors.

Specifically, it shall:

- Act on specific matters within the competence of the Board of Directors and as delegated to it by the Board of Directors from time to time. These shall include but will not be limited to the following:

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- Approval of MEPs in excess of identified thresholds; and
- Approval of urgent items otherwise requiring board approval unless specifically excluded by the charter.
- Oversee the performance of management-level committees that report to the Executive Committee as indicated in their respective charters and evaluate/ approve policies recommended by them to ensure the effective management of relevant risks;
- Oversee the financial management of the SBC Group, including strategic and financial planning, the budget, capital planning, and compliance with the regulatory limits with respect to capital, liquidity ratios and other measures as may be required by the relevant regulatory agencies;
- Approve the sale of ROPOA as recommended by the Asset Disposal Committee of identified threshold amounts through two (2) designated Executive Committee Members
- Review investor relations activities; and
- Review and monitor the Bank’s debt ratings, dialogue with the credit agencies and bank credit arrangements.

### Senior Credit Committee

The Senior Credit Committee is the highest credit decision-making body in the Bank after the Board of Directors. It shall be responsible for reviewing and approving proposals and facilities related to credit (except DOSRI and material RPT accounts which are reviewed and endorsed for Board approval), approving remedial and/or recovery strategies of the Bank for identified problem loan accounts, and working closely with the Risk Oversight Committee (ROC) in managing the overall credit risk of the Bank.

### Trust Committee

The Trust Committee is primary responsible for overseeing the trust, Investment Management Activities and other fiduciary activities of the Bank’s Trust and Asset Management Group.

Specifically, it shall:

- Ensure that fiduciary activities are conducted in accordance with applicable laws, rules and regulations, and prudent practices.
- Ensure that policies and procedures that translate the Board's objectives and risk tolerance into prudent operating standards are in place and continue to be relevant, comprehensive and effective.
- Oversee the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities.
- Adopt an appropriate organizational structure/staffing pattern and operating budgets that shall enable the Bank’s Trust and Asset Management Group (TAMG) to effectively carry out its functions.

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- Endorse the appointment of a qualified Trust Officer and thereafter, submit to the Compliance Group or Division to facilitate the transmittal for approval of the BSP Monetary Board in compliance with the relevant regulations of the BSP on the acceptance on the appointment of the Trust Officer.
- Deliberate and approve the Key Results Areas (or “KRAs”) of the Trust Officer for the year which shall be the basis of the TrustCom in evaluating the performance of the Trust Officer by the end of the year.
- Evaluate the full-year performance of the Trust Officer on the basis of the KRAs approved for the year, in accordance with the performance appraisal Policies and Guidelines of the Bank.
- Conduct regular meetings at least once every quarter, or more frequently as necessary, depending on the size and complexity of the fiduciary business; and
- Report regularly to the BOD on matter arising from TAMG's activities.

### Transformation and Technology Committee

The Transformation and Technology Committee is responsible for overseeing the development and implementation of strategy, transformation, innovation and information technology initiatives of the Bank and its subsidiaries and affiliates, in support of the Group’s vision, mission and strategic objectives.

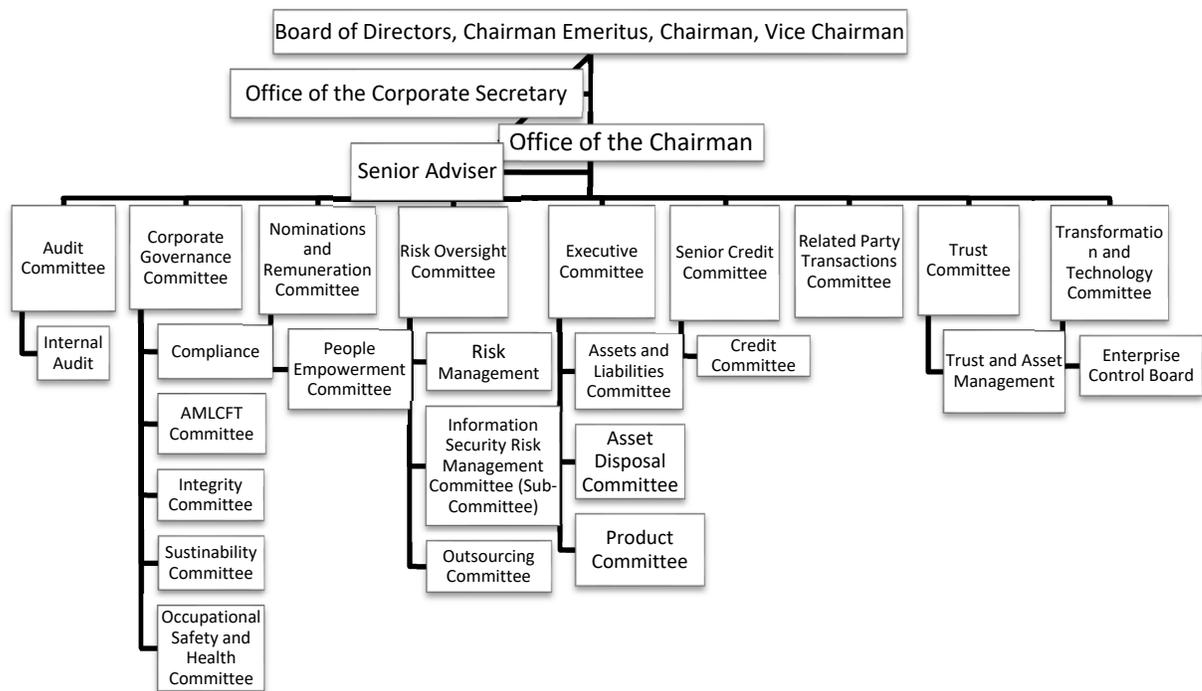
Specifically, it shall:

- Advise the Bank in all major strategy, transformation and information technology initiatives in terms of strategy, culture, process, leadership, technology and structure;
- Oversee the strategic transformation, and technology initiatives, including:
  - Recommending for Board approval the Bank’s Strategy and Transformation Roadmap
  - Recommending for Board approval the Bank’s Information and Technology Architecture and Strategic Plan
  - Reviewing proposed strategic, transformation, and information technology initiatives and projects for risk, value, potential returns and support of the Bank’s strategic plans
  - Endorse Major Expenditure Proposals (MEP) related to strategic programs and projects of the Executive Committee (ExCom) and Board
  - Endorse and note all technology-related outsourcing matters for board notation.
  - Monitoring the implementation and execution of various strategic, transformation and information technology initiatives and projects across the Bank based on goals, cost and benefits defined in the MEP and the SMART goals (Specific, Measurable, Achievable, Relevant, Time-bound). Scope of programs governed in TTC will be deemed strategic as per classification/ definition approved by TTC.
- Review and approve IT policies
- Ensure that a review of IT procedures and standards is performed at least on an annual basis

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- Report to the Board on the IT performance, status of strategic projects and associated risks, and other significant issues
- Appoint members of the Senior Management Team, who will be part of the “Enterprise Control Board” that will ensure alignment of the IT projects with the Bank’s Strategic Plan. The TTC shall review and approve the ECB Charter on an annual basis.

### 7. Organizational Structure of the Board and Board Committees



### D. THE BOARD OF ADVISORS

The Board of Advisors is a diverse group of professionals who are prominent in their respective fields who can deliver guidance to the Board of Directors on matters relating to the business, including planning, strategy, business development, market intelligence and product development aside from enhancing the bank’s reputation and credibility in the marketplace and increasing consumer and investor confidence.

Board advisors have no authority to act on behalf of the bank or to make decisions. Their actions should be in the best interests of the bank and not for personal gain. Board advisors are required to disclose potential

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conflicts of interest as well as maintain the confidentiality of office and information received. Board advisors have no voting power, and their role is purely ministerial and advisory. Advice or recommendation given by the board advisor is non-binding since directors are still expected to discuss and decide on a course of action among themselves after having considered the advice of the board advisor.

The Board of Directors shall appoint as many board advisors as it deems fit. Nominees shall be evaluated by the Nomination and Remunerations Committee before being appointed by the Board as a board advisor.

Anyone who has been a board advisor for the past three (3) years may not be appointed as an independent director of the SBC Group pursuant to the relevant regulation. Board advisors shall also be considered as related parties for purposes of the Related Party Transaction Policy.

## **E. MANAGEMENT**

Management is the body given the authority by the Board to implement policies for the conduct of the company business. Under the direction of the Board, Management ensures that its activities are consistent with business strategy, risk tolerance and appetite, and the policies are approved by the Board. Senior Management should implement appropriate systems for managing both financial and non-financial risks, including a comprehensive and independent risk management function and an effective system of internal controls. An effective Board acts as an independent mechanism of oversight as to activities of managers to whom the Board has delegated authority.

The management of the Bank and the implementation of strategies approved by the Board lies on the Chief Executive Officer/ President, who is supported by his Senior Management Team.

### **1. Chief Executive Officer/ President**

The role of the Chief Executive Officer (CEO) shall be kept separate from that of the Chairman of the Board of Directors to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board.

#### *Duties and Responsibilities of the Chief Executive Officer (CEO)/President*

As stated in the Bank's By-Laws, the President, subject to the control of the Board of Directors shall be the Chief Executive Officer of the Bank. As such, he shall have direct and immediate charge of the business, affairs and property of the Bank, with the following roles accountabilities:

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*Roles*

- a. Lead, in conjunction with the Board, the development and execution of the institution’s long-term strategy with a view to creating shareholder value;
- b. Determine the corporation’s strategic direction and formulates and implements its strategic plan on the direction of the business;
- c. Be ultimately responsible for all day-to-day management decisions and for implementing the institution’s long- and short-term plans, in accordance with its strategy;
- d. Act as a direct liaison between the Board and Management of the institution and communicate to the Board on behalf of Management; Provides the Board with timely information and interfaces between the Board and the employees;
- e. Effectively communicate, on behalf of the institution, to shareholders, employees, Government authorities, other stakeholders and the public;
- f. Set the tone of good governance from the top;
- g. Have a good working knowledge of the corporation’s industry and market and keep up to date with its core business purpose;
- h. Oversee the operations of the corporation and manage human and financial resources in accordance with the strategic plan; and
- i. Build the corporate culture and motivates the employees of the corporation.

*Accountabilities*

*To the Board of Directors:*

- a. Ensure that the institution maintains high standards of corporate governance, corporate citizenship and social responsibility wherever it does business;
- b. Properly advise and provide sufficient information to enable the Directors to make appropriate judgments and decisions;

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c. Ensure the integrity of all public disclosure by the institution

*To Management and Employees:*

- a. Ensure proper dissemination of adequate information of all material undertakings and activities of the institution and all material external factors affecting it.
- b. Direct, evaluate and guide the work of the key officers of the corporation.

*To the Government:*

Ensure the institution's compliance with all laws, rules and regulation.

*Deliverables of the Chief Executive Officer*

1. Communicate and implement the vision, mission, values of the Bank, including overall strategy and promotes any organization or stakeholder change in relation to the same; and the attainment of long-term sustainability for the benefit of all stakeholders;
2. Key Result Areas (KRAs) covering financial perspective, risk management perspective, employee perspective, customer perspective and society perspective.

## **2. Corporate Secretary**

The Corporate Secretary is an officer of the Bank who works fairly and objectively with the Board, Management, stockholders and other stakeholders.

The qualifications of the Corporate Secretary include:

- Should be a Filipino citizen and a resident of the Philippines;
- Must have appropriate administrative and interpersonal skills;
- Have a working knowledge of the operations of the Bank;
- If he is not at the same time the Bank's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
- He must also have some financial and accounting skills.
- Should be a separate individual from the Compliance Officer and is not a Director.
- Should annually attend a training on corporate governance.

The Corporate Secretary is primarily responsible to the Bank and its shareholders, and not to the Chairman or President of the Bank and has, among others, the following duties and responsibilities:

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- a. Assists the Board and the Board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its committees to set agendas for those meetings;
- b. Ensuring that the materials for the Board meeting agenda shall be made available to the Board members at least five (5) business days before the Board meeting;
- c. Safekeeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the corporation;
- d. Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the corporation, and advises the Board and the Chairman on all relevant issues as they arise;
- e. Works fairly and objectively with the Board, Management and stockholders and contributes to the flow of information between the Board and Management, the Board and its committees, and the Board and its stakeholders, including shareholders;
- f. Advises on the establishment of board committees and their terms of reference;
- g. Informs members of the Board, in accordance with the By-laws, of the agenda of their meetings at least five (5) working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- h. Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
- i. Performs required administrative functions;
- j. Oversees the drafting of the By-laws and ensures that they conform with regulatory requirements;
- k. Annual submission of the Integrated Annual Corporate Governance Report (IACGR) to SEC and PSE and advisement letter on directors' attendance within five (5) days from the end of the year.
- l. Furnishes all of the first-time directors with a copy of the general responsibility and specific duties and responsibilities of the Board of Directors and of a director;

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- m. Submits the bio-data of the elected director to the Financial Supervision Sector of the BSP together with the duly notarized authorization form with a request for the Monetary Board’s confirmation of the election/appointment of the directors within ten (10) banking days from date of election; If after evaluation, the BSP shall find grounds for the disqualification, the director so elected/appointed may be recommended for removal from office.
- n. Performs such other duties and responsibilities as may be provided by the SEC.
- o. Acts as the Secretary to the Corporate Governance Committee.

### 3. Chief Compliance Officer

To ensure adherence to corporate principles and best practices, the Board of Directors shall designate a Chief Compliance Officer who is a Senior Officer or its equivalent position with adequate stature and authority in the Bank. He/ She is a member of the Bank’s Management team in charge of the Compliance Function. He is primarily liable to the corporation and its shareholders, and not to the Chairman or President of the Bank. He should annually attend a training on corporate governance. He/she has, among others, the following duties and responsibilities:

- a. Ensures proper onboarding of new directors (i.e., orientation on the company’s business, charter, articles of incorporation and by-laws, among others);
- b. Ensures the attendance of board members and key officers to relevant trainings;
- c. Monitors, reviews, evaluates and ensures the compliance by the corporation, its officers and directors with the relevant laws, this Manual, rules and regulations and all governance issuances of regulatory agencies;
- d. Reports the matter to the Board if violations are found and recommends the imposition of appropriate disciplinary action;
- e. Ensures the integrity and accuracy of all documentary submissions to regulators;
- f. Interacts with the BSP, SEC and PSE on compliance-related matters, including documentary submissions;
- g. Appears before the SEC when summoned in relation to compliance with the Corporate Governance Code;

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- h. Forges a strategic alliance with the other Bank Control Units relative to its common role and interest of instilling the appropriate control discipline amongst the various business and operations units;
- i. Performs investigations for perceived systemic prevalence of risks and addresses identified breaches through implementation of action items in coordination with the business and operating units;
- j. Implements a comprehensive compliance training program for all Officers and Staff with respect to the compliance program and the identified business risks;
- k. Identifies possible areas of compliance issues and works towards the resolution of the same;
- l. Fosters a strong working relationship with the regulators (Financial Supervision Sector and the Financial System Integrity Department) and the Association of Bank Compliance Officers (ABCOMP); and
- m. Performs such other duties and responsibilities as may be provided by the SEC/BSP.

The appointment of the Compliance Officer shall be immediately disclosed to the Securities and Exchange Commission on SEC Form 17- C. All correspondences relative to these functions as such shall be addressed to said Office.

#### **4. Internal Control and Risk Management Framework**

##### **Internal Auditor**

The Bank shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which the Board, Senior Management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate and complied with. It shall further provide an independent and objective assurance, and consulting services designed to add value and improve the company's operations.

Internal audit plans should cover at the minimum:

- The evaluation of the adequacy and effectiveness of controls that cover governance, operations and information systems
- Reliability and integrity of financial and operational information, effectiveness and efficiency of operations,

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- Protection of assets
- Compliance with contracts, laws, rules and regulations.

A separate internal audit function is essential to monitor and guide the implementation of company policies. It helps the company accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of the company’s governance, risk management and control functions. The following are the functions of the internal audit, among others:

- a. Provides an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in (1) promoting the right values and ethics, (2) ensuring effective performance management and accounting in the organization, (3) communicating risk and control information, and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;
- b. Performs regular and special audit as contained in the annual audit plan and/or based on the company’s risk assessment;
- c. Performs consulting and advisory services related to governance and control as appropriate for the organization;
- d. Performs compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;
- e. Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the company;
- f. Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
- g. Evaluates specific operations at the request of the Board or Management, as appropriate; and
- h. Monitors and evaluates governance processes.

The Bank’s internal audit activity may be a fully resourced activity housed within the organization or may be outsourced to qualified independent third-party service providers.

The Internal Auditor shall report to the Audit Committee. The Internal Auditor should submit to the Audit Committee and Management an annual report on the internal audit department’s activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual

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report should include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management.

The Internal Auditor should certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. Disclosure to the Board and Management should be initiated by the Internal Auditor for the reasons of his non-compliance with said standards.

### Chief Audit Executive

The Chief Audit Executive (CAE) shall oversee and be responsible for the internal audit activity of the organization, including that portion that is outsourced to a third-party service provider. In case of a fully outsourced internal audit activity, some qualified independent executive or senior management personnel should be assigned the responsibility for managing the fully outsourced internal audit activity.

The CAE, in order to achieve the necessary independence to fulfill his/her responsibilities, directly reports functionally to the Audit Committee and administratively to the CEO. The following are the responsibilities of the CAE, among others:

- a. Periodically reviews the internal audit charter and presents it to Senior Management and the Board Audit Committee for approval;
- b. Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals;
- c. Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to Senior Management and the Audit Committee for review and approval;
- d. Spearheads the performance of the internal audit activity to ensure it adds value to the organization;
- e. Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and
- f. Presents findings and recommendations to the Audit Committee and gives advice to Senior Management and the Board on how to improve internal processes.

### External Auditor

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The external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the Bank. An external auditor shall be selected and appointed by the Board of Directors upon recommendation of the Audit Committee.

The external auditor of the Bank shall not at the same time provide the services of an internal auditor to the same client. The Bank shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor or does not pose a threat to his independence.

The Bank's external auditor shall be rotated or the handling partner shall be changed every five (5) years or earlier or the signing partner of the external auditing firm assigned to the Bank should be changed with the same frequency.

The reason/s for the resignation, dismissal or cessation from service and the date thereof an external auditor shall be reported in the Bank's annual and current reports. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

The external auditor shall conclude whether it has obtained reasonable assurance that the financial statements, as a whole, are free from material misstatement, whether due to fraud or error. That conclusion shall include an evaluation of the following:

- i. Whether sufficient appropriate audit evidence has been obtained;
- ii. Whether uncorrected misstatements are material, individually or in aggregate; and
- iii. Compliance with the applicable framework.

If material error or fraud is discovered, the external auditor shall immediately bring such information to the attention of the Audit Committee. Moreover, the external auditor shall report to the BSP such material error or fraud and other matters as prescribed under existing regulations.

In carrying out the audit of the Bank's financial statements, the external auditor shall:

- i. assess the Bank's compliance with certain BSP rules and regulations as prescribed under existing regulations. In this respect, the BSP requires external auditors to directly report to the BSP material breaches in said rules and regulations such as but not limited to capital adequacy ratio and loans and other risk assets review and classification. While the provisioning requirements under the prescribed financial reporting framework and BSP rules and regulations may differ, external auditors are expected to look into the soundness of the assumptions and methodologies used under both regimes. In addition, external auditors should also consider the adequacy and propriety of documentation of significant differences between the valuations used for financial reporting purposes and for regulatory purposes.

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- ii. assess the adequacy and propriety of disclosures on related party transactions. The external auditors should exercise sound judgment on whether mere compliance with disclosure requirements prescribed under the applicable financial reporting framework already provide sufficient information to make a conclusion on whether the transactions are done at arm's length terms.
- iii. document its discussion with the Bank's Board of Directors and the Audit Committee. Where there are differences between BSP regulations and the applicable financial reporting framework, as when there is more than one option allowed, discussions on the treatment adopted in the financial statements should be duly minuted. The external auditors are nonetheless expected to recommend compliance with BSP-prescribed accounting treatment particularly when such is likewise acceptable under the applicable financial reporting framework.

If an external auditor believes that the statements made in the Bank's annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall present his views in said reports.

### Chief Risk Officer

The Bank shall appoint a Chief Risk Officer (CRO), or any equivalent position, who is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources and support to fulfill his/her responsibilities, subject to the Bank's size, risk profile and complexity of operations. He shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions. This independence shall be displayed in practice at all times as such, albeit the CRO may report to the President or Senior Management, he shall have direct access to the Board of Directors and the Risk Oversight Committee without any impediment. In this regard, the Board of Directors shall confirm the performance ratings given by the President or Senior Management to the CRO.

The CRO shall have sufficient stature, authority and seniority within the Bank. This will be assessed based on the ability of the CRO to influence decisions that affect the Bank's exposure to risk. The CRO shall have the ability, without compromising his independence, to engage in discussions with the Board of Directors, Chief Executive Officer and other Senior Management on key risk issues and to access such information as he deems necessary to form his or her judgment. The CRO shall meet with the Board of Directors/Risk Oversight Committee on a regular basis and such meetings shall be duly minuted and adequately documented.

Further, the CRO should have the knowledge and skills necessary to oversee the BSFI's risk management activities. He should have the ability to interpret and articulate risk in a clear and understandable manner.

The CRO has the following functions, among others:

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- a. Support the Board of Directors in the development of the risk appetite and the Risk Appetite Statement (RAS) of the Bank, and for translating the risk appetite into a risk limit structure.
- b. Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;

Enterprise Risk Management is a process, effected by an entity’s Board of Directors, Management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives.

- c. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board Risk Oversight Committee;
- d. Collaborates with the CEO in updating and making recommendations to the Board Risk Oversight Committee;
- e. Suggests ERM policies and related guidance, as may be needed; and
- f. Provides insights on the following:
  - Risk management processes are performing as intended;
  - Risk measures reported are continuously reviewed by risk owners for effectiveness; and
  - Established risk policies and procedures are being complied with.

CROs shall be appointed and replaced with prior approval of the Board of Directors. In cases, when the CRO will be replaced, the Bank shall report the same to the FSS of the Bangko Sentral ng Pilipinas within five (5) days from the time it has been approved by the Board of Directors.

There should be clear communication between the Board Risk Oversight Committee and the CRO.

### **Risk Management Function**

The risk management function involves the following activities, among others:

- a. Defining a risk management strategy;
- b. Identifying and analyzing key risks exposure relating to economic, environmental, social and governance (EESG) factors and the achievement of the organization’s strategic objectives;

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- c. Evaluating and categorizing each identified risk using the company's predefined risk categories and parameters;
- d. Establishing a risk register with clearly defined, prioritized and residual risks;
- e. Developing a risk mitigation plan for the most important risks to the company, as defined by the risk management strategy;
- f. Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Board Risk Oversight Committee; and
- g. Monitoring and evaluating the effectiveness of the organization's risk management processes.

## 5. Management Committees

A management-level committee is a committee composed of officers of the Bank whose responsibilities are more operational in nature and may be constituted by:

- The Board, to perform delegated authorities on its behalf; or
- The Board Committees, upon approval by the Board, to assist or support the Board Committees in the exercise of their roles and responsibilities.

## 6. Confirmation of Appointment of Officers

The appointment of the following officers shall be subject to confirmation by the BSP FSS Committee:

- Heads of the following operating functions: (i) Comptrollership/ Finance; (ii) Lending (iii) Treasury; (iv) Branch Banking and (v) Information Technology, directly reporting to the CEO/President or its equivalent rank and with rank of Senior Vice President and above;
- Heads of internal audit, risk management and compliance functions regardless of rank; Trust Officer, regardless of rank

The appointment of abovementioned officers shall be deemed to have been confirmed by the Bangko Sentral, if after sixty (60) banking days from receipt of the complete required reports, the appropriate supervising department of the FSS does not advise the bank concerned against said appointment.

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However, the confirmation by the FSS Committee of the appointment to above-mentioned position levels shall not be required in the following cases:

Promotion of an officer, other than to that which requires (a) prior Monetary Board confirmation, or (b) a different set of minimum qualifications, or (c) a different level of confirming authority as provided above, in the same bank or appointment/ transfer to another bank, QB, trust corporation and non-bank financial institution with trust authority within a banking group; Provided, that the officer concerned has been previously confirmed by the Monetary Board, or if previously confirmed by the FSS Committee, his/ her re-election/ promotion/ transfer requires the same level of confirming authority as provided above; provided further, that said officer has had continuous service within the Bank or banking group. This exemption shall apply to officers confirmed by the FSS Committee starting 01 January 2011.

The appointment of officers other than those mentioned above shall not be subject to Bangko Sentral confirmation.

An officer whose appointment was not confirmed for failure to submit the complete documentary requirements shall be deemed removed from office after due notice to the board of directors of the Bank, even if he has assumed the position to which he was appointed, pursuant to section 16 of R.A. No. 8791.

## **7. Policy on Interlocking Directorships and/or Officerships and Secondments**

Under the MORB, the BSP recognizes that effective sharing of managerial and technical expertise across institutions promotes economies of scale and organizational synergies, as well as broadens perspectives in strategy formulation and risk management. The Bank is expected to implement an effective governance process in the appointment of interlocking directorships and/or officerships to ensure that the benefits are optimized, that concerned directors or officers devote sufficient time and attention necessary to effectively carry out their duties and responsibilities and to safeguard against the excessive concentration of economic power, unfair competitive advantage, abusive practices or conflict of interest situations.<sup>26</sup> To this end, the Bank has executed implementing guidelines on interlocking directorships and/or officerships.

The provisions on interlocking directorships under Section “B. Directors” of this Manual are deemed incorporated in this Section.

### *Interlocking directorships and officerships*

<sup>26</sup> BSP Circular No. 1129 - Amendments to Corporate Governance Guidelines for BSP Supervised Financial Institutions

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Interlocking directorships and officerships are allowed provided that the positions do not pose conflict of interest. The appointment should be consistent with the policy adopted by the Bank.

Interlocking directorship and officership between a bank and an investment house is allowed subject to the requirements of BSP and other applicable laws and regulations: Provided however that interlocking officerships between a bank and an investment house may only be allowed where the majority or all of the equity of the investment house is owned by the Bank.

*Interlocking officerships*

A concurrent officership in different FIs may present more serious problems of self-dealing and conflict of interest. Multiple positions may result in poor governance or unfair competitive advantage. Considering the full-time nature of officer positions, the difficulties of serving two (2) offices at the same time, and the need for effective and efficient management, the following rules shall be observed:

As a general rule, there shall be no concurrent officerships except:

- a. Held in the same capacity within a banking group as (i) corporate secretary; (ii) security officer, (iii) Chief Risk Officer, Chief Compliance Officer, Head of Internal Audit, or (iv) other positions performing similar functions as those in (i) to (iii) hereof; Provided, that the assumption of interlocking officerships is consistent with the enterprise risk management approach of the Bank and SBC Group;
- b. As corporate secretary or assistant corporate secretary between/ among entities, which are not part of the same banking group/ conglomerate; Provided that, proof of disclosure to and consent from all of the involved entities on the interlocking officerships are obtained; and the positions do not pose conflict of interest and that the officer holding interlocking positions will still be able to devote sufficient time and attention to effectively carry out his/her duties and responsibilities.

The Board of Directors or the appropriate authority designated by the Board shall approve the interlocking positions held by directors and officers of the Bank. Proposals for interlocking positions that are submitted to the Board or the designated authority for approval must include sufficient justification that the interlocking appointment will not result in a conflict-of-interest situation, that appropriate controls are in place to address any such risks that may subsequently arise, and that the appointee will be able to devote the necessary time and attention to fulfill the responsibilities covering both roles. The documents supporting the approval shall reflect the assessment done by the approving authority consistent with the policy adopted by the bank and regulatory requirements.

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The approval requirements under the Conflict-of-Interest Policy shall govern for Bank officers intending to hold concurrent positions, whether as director or officer, in entities outside of the SBC Group.

**Secondment**

The Bank may second or transfer its employee to another entity for temporary assignment. *Provided*, That: it has a board-approved policy on secondment and that the transfer of the employee is approved by the appropriate authority .in the Bank, *Provided further*, That: the secondee 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 (10) banking days from the approval of secondments of employees to the appropriate supervising department of the BSP.

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## II. DISCLOSURE AND TRANSPARENCY

### Reportorial or Disclosure System of the Bank's Corporate Governance Policies

The reports or disclosures required under this Manual shall be prepared and submitted to the Securities and Exchange Commission (SEC), Bangko Sentral ng Pilipinas (BSP) and the Philippine Stock Exchange (PSE), as the case may be, in accordance with existing regulations, by the responsible department/officer or through the Bank's Chief Compliance Officer.

All material information, i.e., anything that could potentially affect share price, shall be publicly disclosed. The Bank is prohibited from communicating material non-public information about itself to any person, unless the Bank is ready to simultaneously disclose the material non-public information to the Philippine Stock Exchange. This rule does not apply if the disclosure is made to (a) a person who is bound by duty to maintain trust and confidence to the Bank such as but not limited to its auditors, legal counsels, investment bankers, financial advisers and (b) a person who agrees in writing to maintain in strict confidence the disclosed material information and will not take advantage of it for his personal gain.

Material information for disclosure shall include earnings results, acquisition or disposal of assets, board changes, related party transactions, shareholdings of directors and changes to ownership, remuneration (including stock option) of all directors and Senior Management, corporate strategy, off-balance sheet transactions, as well as items covered in the Disclosure Rules of the Philippine Stock Exchange.

All disclosed information shall be released via the approved stock exchange procedure for Bank announcements as well as through the annual report.

The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information for the interest of the shareholders.

### Policy Statement on Disclosure of Non-Financial Information

It is appropriate for shareholders and stakeholders to be informed of the Bank's strategic goal and objectives and how well it manages its business and improve sustainability. This information is reflected through the Global Reporting Initiative framework which the Bank has adopted to communicate with the public regarding the Bank's contribution to economy, environment, social and governance.

More than reporting and keeping the stakeholders informed of the Bank's activities, it recognizes the importance on the interdependence between business and society, and promotes a mutually beneficial

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relationship that allows the company to grow its business, while contributing to the advancement of the society where it operates.

#### **Policy on Acquisition/ Sale of Significant/ Material Assets**

The Bank shall make a full, fair, accurate and timely disclosure to the public of every material fact or event that occurs, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders.

The disclosure on the acquisition or disposal of significant assets includes, among others, the rationale, effect on operations and approval at board meetings with independent directors present to establish transparency and independence on the transaction.

Moreover, the offeree company should appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.

#### **Trading in SECB Shares**

As a publicly listed company, the Bank shall strictly observe the prohibition on insider trading under Section 27 of the Securities Regulation Code (SRC) and any subsequent amendments thereto. Towards this end and consistent with the principles of fair dealing and transparency in the securities market, a Director or Officer with the rank of Senior Vice President and up, when dealing in the Bank's shares shall:

1. Notify the Board through the Office of the Corporate Secretary (OCS) of his intention to deal in SECB shares at least one (1) day prior to trading. Notification may be done verbally or in writing, detailing the (a) transaction date (b) number of shares (c) transaction type whether buying or selling (d) transaction price per share and (e) name of broker-dealer through whom transaction will be effected.
2. Submit the necessary SEC Form 23A (Initial Statement of Beneficial Ownership of the Securities) and/or SEC Form 23B (Statement of Changes in Beneficial Ownership of Securities) to the Securities and Exchange Commission and the Philippine Stock Exchange within three (3) business days from initial acquisition or changes (subsequent acquisition or disposal). Likewise, he shall coordinate with the OCS to ensure the timely filing of said reports.

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The Bank shall likewise strictly prohibit the short selling of SECB shares by any of its Director or Officer in accordance with the applicable provisions of the SRC and its Amended Implementing Rules and Regulations.<sup>27</sup>

Compliance with the foregoing requirements shall not preclude the Bank from filing a suit against any of its Director or Officer to recover any profit realized by them from any purchase and sale, or any sale and purchase of SECB shares within any period of less than six (6) months in accordance with the provisions of Section 23.2 of the SRC. No such suit shall be filed where the shares was acquired in good faith, in connection with a debt previously contracted, and after the lapse of two (2) years from the date when such profit was realized.

**Disclosure Requirement on the Bank’s Corporate Website**

Pursuant to SEC Memorandum Circular No. 11 series of 2014, the following information are the minimum recommended topics to be posted in the Bank’s website:

<p><b>Our Business</b> The Company’s Business Operations</p> <p><b>Our Company</b></p> <ol style="list-style-type: none"> <li>1. The Company’s Corporate or Business Profile;</li> <li>2. The Company’s Mission, Vision and Values;</li> <li>3. The Company’s Board of Directors, Management Team and Executive Officers;</li> <li>4. The Company’s Organizational Chart;</li> <li>5. The Company’s Conglomerate Map or Group Corporate Structure;</li> <li>6. The Company’s Shareholdings Structure; and</li> <li>7. The Company’s Articles of Incorporation and By-Laws and all amendments thereto.</li> </ol> <p><b>Corporate Governance</b> Manual on Corporate Governance Code of business conduct and ethics Annual Corporate Governance Report (ACGR)</p>
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<sup>27</sup> As defined in SRC Rule 24.2-2 (1), the term “short sale” shall mean any sale of a security which the seller does not own or any sale which is consummated by the delivery of a security borrowed by, or for the account of the seller. A person shall be deemed to own a security if: (1) he or his agent has title to it; (2) he has purchased, or has entered into an unconditional contract, binding on both parties thereto, to purchase it and has not yet received it; (3) he owns a security convertible into or exchangeable for it and has tendered such security for conversion or exchange; (4) he has an option to purchase or acquire it and has exercised such option; or (5) he has rights or warrants to subscribe to it and has exercised such rights or warrants to subscribe to it and has exercised such rights or warrants provided, however, that a person shall be deemed to own securities only to the extent he has a net long position in such securities.

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1. ACGR for 2012;
2. Updates and changes as of December 31, 2013;
3. Consolidated Changes in the ACGR for 2013;
4. Updates and Changes as of present date; and
5. Consolidated Changes in the ACGR for 2014 and so on and so forth until ACGR is required.

**Board Committees**

1. Board Committees;
2. Board Committee Members; and
3. Board Committee Charters

**Corporate Social Responsibility**

The Company’s Corporate Social Responsibility Initiatives

**Enterprise Risk Management**

The Company’s Risk Management System

**Company’s Policies**

1. Whistle Blowing Policy;
2. Conflict of Interest Policy;
3. Insider Trading Policy;
4. Related Party Transactions Policy;
5. Policy and Data Relating to Health, Safety and Welfare of Employees, including company sponsored trainings.

**Company Disclosures**

**SEC Filings**

1. SEC Form 17- A (Annual Report);
2. SEC Form 17- Q (Quarterly Report);
3. SEC Form 17- C (Current Report);
4. SEC Form 20- IS (Information Statement);
5. SEC Form 23- A/B (Statement of Beneficial Ownership);
6. General Information Sheet

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**Notice of Annual or Special Stockholder’s Meetings**  
**Minutes of all General or Special Stockholder’s Meetings**  
**Other Disclosures to SEC, PSE and Other Pertinent Agencies**

**Press Materials/ News**

Materials provided in briefings to analysts and media

**Investor Relations**

Investor Relations Programs

Share Information

1. Total Outstanding Shares;
2. Exchange where listed; and
3. Top 20 Stockholders

All required information must be retained in the company’s website for a period of five (5) years.

**Reportorial Requirements**

- a. BSP
  - i. Annual Report on Group Structure (Conglomerate Mapping)
    - o Should be updated annually and submitted to the relevant Financial Supervision Department, Financial Supervision Sector of the BSP within thirty (30) calendar days after end of every calendar year.
  - ii. Material Related Party Transaction Report
    - o Should be submitted to the relevant Financial Supervision Department, Financial Supervision Sector of the BSP within twenty (20) calendar days after end of the reference quarter.
- b. Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE)
  - i. Integrated Annual Corporate Governance Report (IACGR)
    - o Guidelines in the submission of the Report in accordance with SEC Memo No. 15 series of 2017.
      - Annual, every 30<sup>th</sup> of May

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- This report shall be submitted simultaneously to SEC and PSE.
- Three copies are required to be submitted to SEC with at least one duly notarized copy bearing the original and manual signature of the following:
  - a. Chairman of the Board;
  - b. Chief Executive Officer or President;
  - c. All Independent Directors;
  - d. Compliance Officer; and
  - e. Corporate Secretary
- One copy shall be submitted to PSE via the EDGE system
- The IACGR with accessible link shall be posted to the Bank’s website within two (2) business days from submission.

ii. Manual on Corporate Governance

Any amendments to the Manual on Corporate Governance must be submitted to the SEC and PSE within five (5) days from the approval of the Board of Directors.

Submission of the Updated Corporate Governance Manual shall include the following:

- a. Copy of the revised manual;
- b. Secretary’s Certificate attesting to the resolution of the BOD to approve the revisions.
- c. Cover letter duly signed by the Chief Compliance Officer
- d. SEC Form

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### III. CULTIVATING A SYNERGIC RELATIONSHIP WITH SHAREHOLDERS

#### Shareholder's Rights

The Bank recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors. Therefore, the Board shall respect the rights of the stockholders as provided for in the Corporation Code:

##### 1. Right to Nominate:

All shareholders, including minority shareholders, shall have the right to nominate candidates for the Board of Directors.

The list of names of the nominees to the Board of Directors shall be filed and submitted to the Corporate Governance Committee through the Office of the Corporate Secretary at least thirty (30) business days prior to the annual stockholders' meeting wherein they will be elected.

##### 2. Voting Right

Shareholders have the right to vote on all matters that require consent or approval.

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

Cumulative voting shall be used in the election of directors.

A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

Stockholders who cannot attend meetings have the right to appoint a proxy. The exercise of the proxy rights shall not be unduly restricted and any doubt about the validity of the proxy should be resolved in the stockholders' favor.

##### 3. Pre-emptive Right

Article Seventh of the Bank's Articles of Incorporation states that no holder of shares of securities issued by the Corporation shall be entitled to pre-emptive rights with respect to shares issued by the company.

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The Articles of Incorporation shall lay down the specific rights and power of shareholders with respect to the shares they hold, all of which shall be protected by law so long as they shall not be in conflict with the Corporation Code.

#### 4. Power of Inspection

All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporate Code at reasonable hours on business days.

All shareholders shall also be furnished with annual reports, including financial statements, without costs or restrictions.

#### 5. Right to Information

The shareholders 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 Bank'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".

Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

#### 6. Rights to Dividends

Shareholders shall have the right to receive dividends subject to the discretion of the Board and prior approval by the Bangko Sentral ng Pilipinas.

The fundamental philosophy for the Bank's dividend policy is sustainability with payouts referenced against the Bank's capital management process.

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## 7. Appraisal Right

The shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:

- 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 outstanding shares of any class, or of extending or shortening the term of corporate existence;
- In case of sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
- In case of merger or consolidation.

It shall be the duty of the directors to promote shareholder 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 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.

### **Notice of Annual and Special Shareholders' Meeting**

For stockholders to be able to exercise their right especially in the holding of meeting, the Bank prepares and sends the notice of the meeting at least twenty-eight (28) days prior the meeting. The notice incorporates the required information such as:

1. Date and location.
2. Meeting agenda and its rationale and explanation;
3. Annual Report and ratification of the acts of the Board of Directors, all the management Committees and Officers which include:
4. President and CEO Annual report of the operating performance of the company.

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5. All Acts, resolutions and proceedings adopted and/or implemented by the Board of Directors, Board and Management Committees, Officers and agents of the Bank;
6. Significant transactions with DOSRI and other related parties; and
7. Election of Directors including their profile
8. Other matters that need to be deliberated on and approved or ratified by the stockholders, such as:
  - Appointment of the Bank’s External Auditor.
  - Material Related Party Transactions

The notice of the meeting is duly disclosed in the Bank’s website.

The result of the votes taken during the most recent annual or special stockholders meeting shall be posted on the Bank’s website on the next working day. Further, minutes of the annual and special stockholders meeting shall be made available on the Bank’s website within five (5) business days from the end of the meeting.

**Alternative Dispute Resolution**

The Bank shall establish a venue and system that allow stockholders and stakeholders to communicate their concern including issues or situations where their rights were violated. The following alternative dispute resolution systems are available:

Alternative Dispute Resolution System	
<b>Corporation and Stockholders</b>	The Office of the Investor Relations and the Office of the Corporate Secretary attend to stockholders’ concerns.
<b>Corporation and Third Parties</b>	The authorized officers of the Bank meet with concerned third parties to discuss, resolve conflicts and arrive at a compromise.
<b>Corporation and Regulatory Authorities</b>	Compliance Office acts as Liaison to regulatory agencies with primary objectives of identifying and averting potential issues and resolving actual audit exceptions by

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	providing substantive explanation and documentation to avoid monetary and administrative sanctions.
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**Investor Relations Office**

The Bank’s Investor Relations Office is designed to ensure constant engagement with its stockholders. The Investor Relations Office provides an avenue to receive feedback, complaints and queries from shareholders it also assures their active participation with regard to activities and policies of the Bank. Further, it shall ensure all information regarding the activities of the Bank are properly and timely communicated to shareholders. The Investor Relations Officer shall be present at every shareholders’ meeting.

**Whistleblowing Mechanism**

Employees are encouraged to report in good faith suspected employee offenses or irregularities to their immediate superior for proper disposition. If the immediate superior cannot act on the said offense due to his involvement, the employee may elevate the same to any of the authorities. As reporting party, who may only divulge information that is of his personal knowledge, said employee is prohibited to act on his own by conducting any investigative activity nor participate in any investigative activity other than the one conducted by the duly authorized investigating body. At any rate, due process shall at all times be observed at any stage of the investigation on the acts exposed by the whistleblower.

The Bank shall prohibit discrimination, harassment and retaliation against any employee who reports suspected employee offenses or irregularities. Management shall ensure that a whistleblower’s safety and well-being is adequately protected up to the maximum extent allowed by the SBC Code of Conduct.

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## IV. DUTIES TO STAKEHOLDERS

### Board Duties to Stakeholders

Consistent with the Board’s duties and responsibilities to its various stakeholders enumerated under Section 1 of this Manual, the Board adopts the following mechanisms and frameworks to aid in fulfilling its duties to its stakeholders:

- The Board establishes programs to provide a mechanism on the fair treatment and protection of stakeholders.
- The Board likewise adopts a transparent framework and process that allow stakeholders to communicate with the company and to obtain redress for the violation of their rights.
- The Board identifies the company’s various stakeholders and promotes cooperation between them and the company in creating wealth, growth and sustainability.
- The Board establishes policies, programs and procedures that encourage employees to actively participate in the realization of the company’s goals and in its governance.

The Board also sets the tone and makes a stand against corrupt practices by adopting an anti-corruption policy and program. This is being disseminated to employees across the organization through trainings to embed them in the company’s culture.

### Governance Policy on Financial Crime, Fraud, and Bribery and Corruption

#### Financial Crime

The Bank is committed to conducting all business activities in accordance with the highest ethical, legal, and professional standards. This commitment includes safeguarding the Bank’s reputation and ensuring that its products, services, and operations are not misused as a vehicle, conduit, or target for money laundering, terrorism financing, or any other form of financial crime. Protecting the integrity of the financial system and the interests of our stakeholders remains a core governance priority.

#### Fraud

The Bank is committed to the highest standards of moral and ethical behavior and is opposed to any unethical behavior such as fraud and corruption. The Bank considers all forms of fraud as extremely serious

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offenses and is committed to preventing, deterring and eliminating fraud and/or corrupt conduct, whether committed for the benefit of or to the detriment of the institution. The Bank considers any act(s) of fraud or other wrongful acts committed by its officers and staff to be reprehensible and in response will take all necessary disciplinary action it deems appropriate.

*Bribery and Corruption*

The SBC Group has zero tolerance for bribery and corruption in any form. The Bank’s zero-tolerance approach means it is fully committed to preventing, detecting, and deterring bribery and corruption and will not engage in, support, or appear to endorse any improper or unethical incentives.

No SBC employee nor any third party acting on the Bank’s behalf may offer, promise, authorize, request or accept anything of value, whether directly or indirectly, to influence someone to misuse their position or to gain an improper business advantage. This applies to dealings with public officials and private parties alike, including benefits provided to close family members or individuals closely connected to them. Gifts of cash or cash equivalents are strictly prohibited unless specifically allowed under SBC policy. These standards apply to all dealings with customers, co-employees, third parties, and government officials.

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## V. POLICY ON SUSTAINABILITY

Security Bank as a leading financial services provider in the Philippines is committed to developing lasting relationships with its stakeholders<sup>28</sup>, and promoting shared and sustainable growth for a better world. With its vision to become the most customer-centric bank in the Philippines, the Bank is anchored on its mission to enrich lives, empower businesses, and build communities sustainable through financial service excellence.

With a deeper understanding of sustainability, the Bank recognizes its key role as a bank in influencing social and economic growth. Its aspiration is to lead, transforming the financial industry towards a low-carbon economy and a sustainable, resilient society.

In line with reinforcing this commitment, the Board of Directors has approved the Sustainability Framework which provides guidelines for integrating sustainability into the Bank’s decision-making processes and helps outline the Bank’s goals, strategies and actions to achieve sustainability objectives, ensuring consistency across its operations.

The framework is guided by the following principles:

1. We incorporate sustainability in our business decisions resulting in better outcomes for our stakeholders, society and the planet.
2. We recognize the substantial risk that climate change poses on our business, employees, clients and the communities we serve. At the same time, we acknowledge the impact of our operations on the environment and society, both directly and indirectly. This understanding drives our commitment to proactively manage these risks responsibly and equitably.
3. We help make the shift to a low-carbon economy fair and inclusive by offering financial products and solutions as well as guide our clients through this transition.
4. We acknowledge the significance of aligning with the national and global sustainable development agenda, particularly the United Nations Sustainable Development Goals (SDGs), the Philippines’ Nationally Determined Contributions (NDCs), the ASEAN Low Carbon Economy Programme (ALCEP) and other initiatives to address economic, environmental and social challenges.
5. We believe that a culture of sustainability begins with our employees. When they adopt this mindset, they join a mission that extends beyond business as usual and incorporate sustainability into their everyday practices.
6. We are committed to working with all stakeholders to ensure accountability, transparency and collaboration in our quest for sustainable development.

<sup>28</sup> Stakeholders are defined as individuals and groups who are significantly impacted by the Bank’s business activities and those who hold the greatest capacity to influence them.

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The Framework also includes the Bank’s Sustainability Strategy which is aligned with the corporate mission and vision and guided by the Bank’s core values. It also outlines the Sustainability goals which will help the Bank realize its vision of becoming the best-in-class in sustainable banking.

The Bank’s dedication to sustainability is built on strong governance, with key committees collaborating to ensure its initiatives are effective and its goals are met:

1. The **Board of Directors** shall, among others, institutionalize the incorporation of sustainability principles, including those covering E&S risk areas, in the corporate governance and risk management frameworks, as well as in the Bank’s strategic objectives and operations (given the Bank’s risk appetite and ability to manage risks).
2. The **Corporate Governance Committee** oversees the full implementation of the Bank’s Sustainability Framework.
3. The **Risk Oversight Committee** operates at the Board level with the responsibility of approving and supervising the Environmental and Social Risk Management System (ESRMS).
4. **Internal Audit and Compliance** shall regularly evaluate the robustness and continuing relevance of the Sustainability Framework and other sustainability-related programs, policies and processes.
5. The **Sustainability Committee** is the management level committee that is responsible for rolling out the Sustainability Framework.
6. The **Sustainability Unit**, led by a Sustainability Head, guides the different business units and subsidiaries in executing the Bank’s sustainability programs.
7. The **Sustainable Finance Team** plays a pivotal role in identifying and qualifying eligible loans based on the bank’s Sustainable Finance Framework.
8. The **Sustainability Workstreams** were established by the Sustainability Committee to advance the Bank’s strategic sustainability initiatives.
9. **Business units and subsidiaries shall** proactively adhere to the Sustainability Framework and other related policies, ensuring unified approach and adoption of sustainability strategy and goals across the bank.
10. **SBC employees** are the foundation of the Bank and should reflect the Bank’s commitment to sustainability by being Sustainability Ambassadors, contributing significantly to the achievement of its strategic goals.

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## VI. COMMUNICATION AND IMPLEMENTATION OF THIS MANUAL

This Manual shall be effective upon approval by the Board of Directors. It shall be reviewed annually by the Corporate Governance Office of the Compliance Group.

The Manual shall be available for inspection by any stockholder of the Bank at reasonable hours on business days.

All directors, executives, division and department heads are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.

The SEC stamped received copy shall be posted on the Bank's website within two days from submission to SEC. It shall likewise be posted on Compliance Office's SharePoint, which shall be available for "read purposes" only. The printing or reproduction of the Corporate Governance Manual by any employee or Officer of the Bank is strictly prohibited.

The Compliance Office shall ensure timely issuance of e-mail notification on revisions to the Manual with direct reference to updated postings in the aforementioned media.

### Penalties for Non-Compliance with the Manual

To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing in accordance with the Bank's Code of Conduct, on the Bank's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of this Manual:

- In case of first violation, the subject person shall be reprimanded.
- Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.
- For third violation, the maximum penalty of removal from office shall be imposed.

The commission of a third violation of this Manual by any member of the Board of the Bank or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.

The Chief Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

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## ANNEX 1

### Code of Business Ethics for Members of the Board of Directors

#### Statement of Policy

It is the policy of the Security Bank Group of Companies to maintain its excellent reputation for ethical behavior and fair dealings in the conduct of its business. Board members are expected to behave in an ethical manner and comply with the requirements of laws and regulations. Directors represent the ultimate tone at the top, and when directors act in an ethical manner, they send a clear signal to the whole team.

This Code of Business Ethics will serve as guide to the Board members of the Group on their business conduct, establish an agreed set of ethical principles, promote and maintain confidence and trust in the Security Bank Group, and prevent the development and acceptance of unethical practices by the Group.

The Code of Business Ethics shall apply to all members of the Board of Directors of the Security Bank Group. All members of the Board shall uphold and promote the principles of this code.

#### Principles of the Code of Business Ethics

Members of the Board shall observe the highest standards of ethical conduct. They will avoid any action or inaction, which could in any way, impair the Bank's capacity to carry out its duties, or compromise its reputation for integrity, fairness, honesty and transparency.

A Board Member is expected to:

- Be fit and proper for the duration of his term. He shall:
  - Possess unquestionable credibility to make decisions objectively and resist undue influence;
  - Treat board directorship as a profession and have clear understanding of his duties and responsibilities, as well as his role in promoting good governance;
  - Maintain his professional integrity, exercising objective independent judgement on corporate affairs requiring Board decision;

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- Continuously seek to enhance his skills, knowledge and understanding of the activities that the Bank/subsidiary is engaged in, or intends to pursue so as to meaningfully contribute to the Board’s work;
- Safeguard the institution’s competitiveness with his working knowledge of the statutory and regulatory requirements, the contents of the institution’s articles and by-laws, the requirements of the BSP and other regulatory agencies, as well as the developments in the industry through continuing professional development activities.
- Devote time and attention necessary to properly discharge duties and responsibilities;
- Attend and actively participate in Board and Committee meetings, requesting and reviewing materials, making reasonable inquiries, and requesting explanations.
- Act in a financially responsible manner, understanding financial reports, audit reports and other financial materials that are presented to the Board
- Act judiciously. He shall:
  - Thoroughly evaluate the issues before deciding on matters brought before the Board for decision making;
  - Understand the financial, strategic and other implications of decisions.
- Use his position appropriately. He shall:
  - Treat other directors with professionalism, courtesy and respect;
  - Work cooperatively with fellow members towards agreed goals while accepting the obligation to be independent in judgement and actions;
  - Use the Group’s resources or time for official purposes and not for personal gain, for the benefit of persons or organizations not connected with the Group, or for the benefit of competition;
  - Conduct fair business transactions and ensure that personal interest does not bias Board decisions, nor would the position be used to seek an undue advantage for yourself, family members and associates;

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- Where possible, avoid situations that would compromise his impartiality or give rise to a conflict of interest. If such transactions with conflict of interest cannot be avoided, these should be done in the regular course of business and upon terms not less favorable to the institution than those offered by others;
- Promptly and fully disclose to the Chairman of the Board, the Chairman of the Corporate Governance Committee or the Corporate Secretary, any conflict of interest, whether of an actual or potential nature, and whether involving his personal (including family or close personal friends) or business affairs;
- When encountering potential conflicts of interest, depending on assessed significance, take one of the following courses of action (in order of increasing significance): (a) refrain from voting on a relevant matter during a Board meeting, (b) withdraw from discussion of relevant matter(s) during a Board meeting, (c) take a leave of absence from the Board for a period, or (d) resign from the Board.
- Act with honesty and good faith, with loyalty and in the best interest of the institution and its stakeholders. He shall:
  - Be open and transparent in his dealings;
  - Avoid activities that may bring disrepute to the institution and to himself;
  - Not engage in any outside business, professional or other activities that would directly or indirectly materially adversely affect the institution;
  - Give due regard to the rights and interests of other stakeholders;
  - Deal fairly with customers, suppliers, competitors and employees, not taking unfair advantage of stakeholders through manipulation, concealment, abuse of privileged information, misrepresentation of materials facts or any unfair dealing practices;
  - Promote and respect safety and health of all employees, customers and other third parties with whom he comes in contact with;
  - Provide equal opportunities to all employees and aspirants for employment, irrespective of gender, religion or race, with merit being the sole discriminating factor;

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- Minimize any detrimental impact of Security Bank Group operations on the environment.
- Encourage the reporting of any illegal or unethical behavior. He shall:
  - Promote ethical behavior and take steps to ensure that the Company encourages employees to (a) talk to appropriate personnel when in doubt about the best course of action in a particular situation, (b) report violations of laws, rules, regulations, or the Company’s Code of Conduct, and (c) inform employees that the Company will not allow retaliation for reports made in good faith.
- Use information appropriately. He shall:
  - Ensure information gained as a Director is only applied to proper purposes and is kept confidential and not used for personal benefit;
  - Exercise discretion regarding Board information which is not in the public domain, as well as information handled via facsimile or other electronic transmission devices to ensure that this is not inadvertently made available to unauthorized parties;
  - Strictly maintain confidentiality of Information, even if he is no longer a member of the Board;
  - Not give tips to others on trading of shares on the basis of material information before it is made publicly available. Such information includes news about acquisitions, investments, new business relationships, financial results, important management changes, and other information that has the potential to affect the stock price of publicly listed Security Bank Corporation.
- Ensure compliance with regulatory/legal requirements. He shall:
  - Ensure and actively promote compliance by employees, officers and other directors with laws, rules and regulations applicable to the company, including insider trading laws;
  - Ensure appropriate disclosures to the Company Secretary on details of outside employment, business interests or interests of any of family members which may be in conflict or potential conflict with businesses of the Security Bank Group.
- Exercise due care in accepting gifts, favors and entertainment.

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- Accepting occasional gifts and entertainment in role as director may be appropriate in developing business relationships;
- Gifts and entertainment should further the business interests, and should not be lavish or in excess of the generally accepted business practices in the industry;
- Soliciting or requesting personal gifts, entertainment or services is not acceptable;
- Accepting gifts of cash or cash equivalents is also always unacceptable;
- Position should not be exploited to provide individual preferential treatment from vendors in pricing or terms.
- Demonstrate leadership and stewardship. He shall:
  - Promote and support the application of the values of the Security Bank Group;
  - Act in accordance with this Code of Business Ethics.

Where issues arise that cannot be specifically foreseen in this Code, directors shall be expected to exercise sound judgement and behavior, consistent with the General Principles mentioned above.

Upon completion of engagement as a director, he is expected to:

- (a) Immediately deliver to the Company all property in his possession that belongs to the Company;
- (b) Not to represent himself as being in any way connected with the Company (other than as owner of financial interests such as shares);
- (c) Repay to the Company any amount due and payable to the Company.

#### Enforcement

Any member of the Board requiring clarification of this Code may contact the Corporate Secretary or any officer specifically designated by the Board of Directors.

Directors should communicate any suspected violations of this Code promptly to the Chairman of the Board, or the Chairman of the Corporate Governance Committee for deliberation of non-compliance issues for sanctions and penalties.

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The Board shall oversee that there is a proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies. The Company's ethics policy shall be communicated across all the group through awareness campaign and continuous training.