



# CORPORATE GOVERNANCE MANUAL

## Manual on Corporate Governance

**The Board of Directors and Management, i. e. officers and staff, of First Metro Asset Management, Inc.** hereby commit themselves to the principles and best practices contained in this Manual on Corporate Governance (the “Manual”), and acknowledge that the same may guide the attainment of our corporate goals.

### 1 Commitment to Good Corporate Governance

This Manual shall institutionalize the principles of good corporate governance in the entire organization in accordance with the Revised Code of Corporate Governance (the “**Code**”) as enunciated in SEC Memorandum Circular 19, series of 2016. The rules embodied herein shall be used as reference by the members of the Board and Management.

The Manual shall be made available for inspection by any shareholder at reasonable hours on business days.

### 2 Definition of Terms

- a. **Corporate Governance** – the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders.

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 longterm 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.

- b. **Board of Directors** – the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties.
- c. **Management** – a 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.
- d. **Independent director** – 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.
- e. **Executive director** – a director who has executive responsibility of day-to-day operations of a part or the whole of the organization.

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- f. **Non-executive director** – a director who has no executive responsibility and does not perform any work related to the operations of the corporation.
- g. **Conglomerate** – 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.
- h. **Internal control** – 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.
- i. **Enterprise Risk Management** – 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.<sup>1</sup>
- j. **Related Party** – shall cover the company’s subsidiaries, as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities), that the company exerts direct or indirect control over or that exerts direct or indirect control over the company; the company’s directors; officers; shareholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person or juridical entity whose interest may pose a potential conflict with the interest of the company.
- k. **Related Party Transactions** – a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.
- l. **Stakeholders** – 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.

### 3 Rules of Interpretation

- A) All references to the masculine gender in the salient provisions of this Manual shall likewise cover the feminine gender.

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<sup>1</sup> Committee of Sponsoring Organizations of the Treadway Commission (COSO Framework)

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- B) All doubts or questions that may arise in the interpretation of this Manual shall be resolved in promoting transparency, accountability and fairness to the stockholders and investors of the corporation.

### 4 Board Governance

The Board of Directors (the “Board”) is primarily responsible for the governance of the corporation. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management.

#### A) Composition of the Board

The Board shall be composed of at least five (5) but not more than fifteen (15), members who are elected by the stockholders.

The Board shall have **at least two (2)** independent directors or such number of independent directors that constitutes at least **(20%) of the members of the Board.**

The membership of the Board may be a combination of executive and nonexecutive directors (which include independent directors) in order that no director or small group of directors can dominate the decision-making process. The non-executive directors should possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

The Board shall be composed of directors with a collective working knowledge, experience or expertise that is relevant to the company’s industry/sector. The Board shall always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction.

#### B) Multiple Board Seat

The Board may consider the adoption of guidelines on the number of directorships that its members can hold in stock and non-stock corporation. The optimum number should take into consideration the capacity of a director to diligently and efficiently perform his duties and responsibilities.

The Chief Executive Officer (“CEO”) and other executive directors may be covered by a lower indicative limit for membership in other boards. A similar limit may apply to independent or non-executive directors who, at the same time, serve as full-time executives in other corporations. In any case the capacity of the directors to diligently and efficiently perform their duties and responsibilities to the boards they serve should not be compromised.

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### **C) The Chair and Chief Executive Officer**

The positions of Chairman of the Board and Chief Executive Officer shall be held by separate individuals and each having clearly defined responsibilities.

The roles and responsibilities of the Chairman include:

- a. 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;
- b. Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;
- c. Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
- d. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- e. Assures the availability of proper orientation for first-time directors and continuing training opportunities for all directors; and
- f. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on.

On the other hand, the CEO's roles and responsibilities are as follows:

- a. Determines the corporation's strategic direction and formulates and implements its strategic plan on the direction of the business;
- b. Communicates and implements the corporation's vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same;
- c. Oversees the operations of the corporation and manages human and financial resources in accordance with the strategic plan;
- d. Has a good working knowledge of the corporation's industry and market and keeps up-to-date with its core business purpose;
- e. Directs, evaluates and guides the work of the key officers of the corporation;
- f. Manages the corporation's resources prudently and ensures a proper balance of the same;
- g. Provides the Board with timely information and interfaces between the Board and the employees;

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- h. Builds the corporate culture and motivates the employees of the corporation; and
- i. Serves as the link between internal operations and external stakeholders.

### **D) Qualification of Directors**

In addition to the qualifications for membership in the Board provided for in the Corporation Code, Securities Regulation Code and other relevant laws, the Board may provide for additional qualifications which include, among others, the following:

- (i) College education or equivalent academic degree
- (ii) Practical understanding of the business of the corporation;
- (iii) Membership in good standing in relevant industry, business or professional organizations; and
- (iv) Previous business experience.

### **E) Disqualification of Directors**

#### **1. Permanent Disqualification**

- 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, Bangko Sentral ng Pilipinas (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) above, or willfully violating the laws that govern securities and banking activities.

The disqualification should also apply if (a) such person is the subject of an order of the SEC, BSP or any court or administrative body denying,

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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 Commission or BSP; (b) such person has otherwise been restrained to engage in any activity involving securities and banking; or (c) such person is the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

- c. Any person convicted by final judgment or order by a court, or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- 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. Any person judicially declared as insolvent;
- f. 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;
- g. Conviction by final judgment of an offense punishable by imprisonment for more than six years, or a violation of the Corporation Code committed within five years prior to the date of his election or appointment; and
- h. Other grounds as the SEC may provide.

### 2. Temporary Disqualification

- a. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any 12-month period during the 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;
- b. 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;
- c. If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent

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(2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with; and

- d. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

## F) Responsibilities, Duties and Functions of the Board

### 1. General Responsibility

It is the Board's responsibility to foster the long-term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of *its stockholders and other stakeholders*.

The Board shall formulate the corporation's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor Management's performance.

The Board members shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and all shareholders.

The Board shall oversee the development of and approve the company's business objectives and strategy, and monitor their implementation, in order to sustain the company's long-term viability and strength.

### 2. Duties and Functions

To ensure a high standard of best practice for the corporation, *its stockholders and other stakeholders*, the Board should conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

- a) Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest and highly motivated management officers. Adopt an effective succession planning program for Management.
- b) Provide sound strategic policies and guidelines to the corporation on major capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance.



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- c) Ensure the corporation's faithful compliance with all applicable laws, regulations and best business practices.
- d) Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the corporation. If feasible, the CEO or CFO shall exercise oversight responsibility over this program.
- e) Identify the corporation's *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.
- f) Adopt a system of check and balance with the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the corporation's internal control system in order to maintain its adequacy and effectiveness.
- g) Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the corporation to anticipate and prepare for possible threats to its operational and financial viability.
- h) Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships by members of the Board.
- i) Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.
- j) Establish and maintain an alternative dispute resolution system in the corporation that can amicably settle conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.
- k) Meet at such times or frequency as may be needed. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration.
- l) Keep the activities and decisions of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules and regulations.

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- m) Appoint a Compliance Officer who shall have a rank of at least vice president. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.

### **G) Specific Duties and Responsibilities of a Director**

A director's office is one of trust and confidence. A director should act in the best interest of the corporation in a manner characterized by transparency, accountability and fairness. He should also exercise leadership, prudence and integrity in directing the corporation towards sustained progress.

A director should observe the following norms of conduct:

- (i) Conduct fair business transactions with the corporation and ensure that his personal interest does not conflict with the interests of the corporation.

The basic principle to be observed is that a director should not use his position to profit or gain some benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest may arise on the part of a director, he should fully and immediately disclose it and should not participate in the decision-making process. A director who has a continuing material conflict of interest should seriously consider resigning from his position.

A conflict of interest shall be considered material if the director's personal or business interest is antagonistic to that of the corporation, or stands to acquire or gain financial advantage at the expense of the corporation.

- (ii) Devote the time and attention necessary to properly and effectively perform his duties and responsibilities.

A director should devote sufficient time to familiarize himself with the corporation's business. He should be constantly aware of and knowledgeable with the corporation's operations to enable him to meaningfully contribute to the Board's work. He should attend and actively participate in Board and committee meetings, review meeting materials and, if called for, ask questions or seek explanation.

- (iii) Act judiciously.

Before deciding on any matter brought before the Board, a director should carefully evaluate the issues and, if necessary, make inquiries and request clarification.

- (iv) Exercise independent judgment.

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A director should view each problem or situation objectively. If a disagreement with other director arises, he should carefully evaluate and explain his position. He should not be afraid to take an unpopular position. Corollarily, he should support plans and ideas that he thinks are beneficial to the corporation.

- (v) Observe confidentiality.

A director should keep secure and confidential all non-public information he may acquire or learn by reason of his position as director. He should not reveal confidential information to unauthorized persons without the authority of the Board.

### **H) Internal Control Responsibilities of the Board**

The control environment of the corporation consists of (a) the Board which ensures that the corporation is properly and effectively managed and supervised; (b) a Management that actively manages and operates the corporation in a sound and prudent manner; (c) the organizational and procedural controls supported by effective management information and risk management reporting systems; and (d) an independent audit mechanism to monitor the adequacy and effectiveness of the corporation's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.

- (i) The minimum internal control mechanisms for the performance of the Board's oversight responsibility may include:
  - a) Definition of the duties and responsibilities of the CEO who is ultimately accountable for the corporation's organizational and operational controls;
  - b) Selection of the person who possesses the ability integrity and expertise essential for the position of CEO;
  - c) Evaluation of proposed senior management appointments;
  - d) Selection and appointment of qualified and competent management officers; and
  - e) Review of the corporation's human resource policies conflict of interest situations, compensation program for employees, and management succession plan.
- (ii) The scope and particulars of the systems of effective organizational and operational controls may differ among corporations depending on, among

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others, the following factors: nature and complexity of the business and the business culture; volume, size and complexity of transactions; degree of risks involved; degree of centralization and delegation of authority; extent and effectiveness of information technology; and extent of regulatory compliance.

- (iii) A corporation may establish an internal audit system that can reasonably assure the Board, Management and stockholders that its key organizational and operational controls are faithfully complied with. The Board may appoint an Internal Auditor to perform the audit function, and may require him to report to a level in the organization that allows the internal audit activity to fulfill its mandate. The Internal Auditor shall be guided by the International Standards on Professional Practice of Internal Auditing.

### **I) Board Meetings and Quorum Requirement**

The members of the Board should attend its regular and special meetings in person or through teleconferencing conducted in accordance with the rules and regulations of the Commission.

Independent directors should always attend Board meetings. Unless otherwise provided in the by-laws, their absence shall not affect the quorum requirement. However, the Board may, to promote transparency, require the presence of at least one independent director in all its meetings.

To monitor the directors' compliance with the attendance requirements, corporations shall submit to the Commission, on or before January 30 of the following year, a sworn certification about the directors' record of attendance in Board meetings. The certification may be submitted through SEC Form 17-C or in a separate filing.

### **J) Remuneration of Directors and Officers**

The levels of remuneration of the corporation should be sufficient to be able to attract and retain the services of qualified and competent directors and officers. A portion of the remuneration of executive directors may be structured or be based on corporate and individual performance.

Corporations may establish formal and transparent procedures for the development of a policy on executive remuneration or determination of remuneration levels for individual directors and officers depending on the particular needs of the corporation. No director should participate in deciding on his remuneration.

The corporation's annual reports and information and proxy statements shall include a clear, concise and understandable disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors and top four (4) management officers during the preceding fiscal year.

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To protect the funds of a corporation, the Commission may, in exceptional cases, e.g. when a corporation is under receivership or rehabilitation, regulate the payment of the compensation, allowances, fees and fringe benefits to its directors and officers.

### **K) Board Committees**

The Board shall constitute the proper committees to assist it in good corporate governance.

- (i) The Audit Committee shall consist of at least three (3) directors who shall preferably have an accounting and finance backgrounds. One of whom shall be an independent director and another with audit experience. The chair of the Audit Committee should be an independent director.

The Audit Committee is responsible for overseeing the senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The Audit Committee has the following duties and responsibilities, among others:

- a. Recommends the approval the Internal Audit Charter (IA Charter), which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the IA Charter;
- b. Through the Internal Audit (IA) Department, monitors and evaluates the adequacy and effectiveness of the corporation's internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances should be in place in order to (a) safeguard the company's resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the company's financial data, and (d) ensure compliance with applicable laws and regulations;
- c. Oversees the Internal Audit Department, and recommends the appointment and/or grounds for approval of an internal audit head or Chief Audit Executive (CAE). The Audit Committee should also approve the terms and conditions for outsourcing internal audit services;

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- d. Establishes and identifies the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. For this purpose, he should directly report to the Audit Committee;
- e. Reviews and monitors Management's responsiveness to the Internal Auditor's findings and recommendations;
- f. Prior to the commencement of the audit, discusses with the External Auditor the nature, scope and expenses of the audit, and ensures the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- g. Evaluates and determines the non-audit work, if any, of the External Auditor, and periodically reviews the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the corporation'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 a threat to his independence<sup>2</sup>. The nonaudit work, if allowed, should be disclosed in the corporation's Annual Report and Annual Corporate Governance Report;
- h. Reviews and approves the Interim and Annual Financial Statements before their 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
  - Compliance with tax, legal and regulatory requirements
- i. Reviews the disposition of the recommendations in the External Auditor's management letter;
- j. Performs oversight functions over the corporation's Internal and External Auditors. It ensures the independence of Internal and External Auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- k. Coordinates, monitors and facilitates compliance with laws, rules and regulations;

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<sup>2</sup> As defined under the Code of Ethics for Professional Accountants

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- l. Recommends to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Commission, who undertakes an independent audit of the corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders; and
- m. In case the company does not have a Board Risk Oversight Committee and/or Related Party Transactions Committee, performs the functions of said committees as provided under Recommendations 3.4 and 3.5.

The Audit Committee meets with the Board at least every quarter without the presence of the CEO or other management team members, and periodically meets with the head of the internal audit.

- (ii) The Board may also organize a Nomination Committee, which may be composed of at least three (3) members and one of whom should be an independent director, to review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval, and to assess effectiveness of the Board's processes and procedures in the election or replacement of directors.

ii.a. It is the Board's responsibility to develop a policy on board nomination, which is contained in the company's Manual on Corporate Governance. The policy should encourage shareholders' participation by including procedures on how the Board accepts nominations from minority shareholders. The policy should also promote transparency of the Board's nomination and election process.

The nomination and election process also includes the review and evaluation of the qualifications of all persons nominated to the Board, including whether candidates: (1) possess the knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in light of the entity's business and risk profile; (2) have a record of integrity and good repute; (3) have sufficient time to carry out their responsibilities; and (4) have the ability to promote a smooth interaction between board members. A good practice is the use of professional search firms or external sources when searching for candidates to the Board.

In addition, the process also includes monitoring the qualifications of the directors. The qualifications and grounds for disqualification are contained in the company's Manual on Corporate Governance.

The Board may also organize a Compensation or Remuneration Committee which may be composed of at least three (3) members and one of whom shall be an independent director to establish a formal and



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transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the corporation's culture strategy and the business environment in which it operates. The company should provide a clear disclosure of its policies and procedure for setting Board and executive remuneration, as well as the level and mix of the same in the Annual Corporate Governance Report. Also, companies should disclose the remuneration on an individual basis, including termination and retirement provisions.

- (iii) The Board may also organize a Corporate Governance Committee composed of at least three (3) members of the Board, two (2) of whom shall be independent directors.

The Corporate Governance Committee (CG Committee) is tasked with ensuring compliance with and proper observance of corporate governance principles and practices. It has the following duties and functions, among others:

- a. Oversees the implementation of the corporate governance framework and periodically reviews 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;
- b. Oversees the periodic performance evaluation of the Board and its committees as well as executive management, and conducts an annual self-evaluation of its performance;
- c. Ensures 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 improvement;
- d. Recommends continuing education/training programs for directors, assignment of tasks/projects to board committees, succession plan for the board members and senior officers, and remuneration packages for corporate and individual performance;
- e. Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;
- f. Proposes and plans relevant trainings for the members of the Board;
- g. Determines the nomination and election process for the company's directors and has the special duty of defining the general profile of board members that the company may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board; and



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- h. Establishes a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the corporation's culture and strategy as well as the business environment in which it operates.

The establishment of a Corporate Governance Committee does not preclude companies from establishing separate Remuneration or Nomination Committees, if they deem necessary.

V. The Board may also organize a Related Party Transaction (RPT) Committee should be composed of at least three non-executive directors, two of whom should be independent, including the Chairman.

The following are the functions of the RPT Committee, among others:

- a. Evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors;
- b. Evaluates all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with nonrelated parties under similar circumstances and that no corporate or business resources of the 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:
  - 1. The related party's relationship to the company and interest in the transaction;
  - 2. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  - 3. The benefits to the corporation of the proposed RPT;
  - 4. The availability of other sources of comparable products or services; and
  - 5. 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;
- c. Ensures 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

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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;

- d. Reports 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;
- e. Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process; and
- f. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.

### **L) The Corporate Secretary**

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

- 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. Safe keeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the corporation;
- c. 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;
- d. 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;
- e. Advises on the establishment of board committees and their terms of reference;

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- f. Informs members of the Board, in accordance with the by-laws, of the agenda of their meetings at least five working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- g. 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;
- h. Performs required administrative functions;
- i. Oversees the drafting of the by-laws and ensures that they conform with regulatory requirements; and
- j. Performs such other duties and responsibilities as may be provided by the SEC.

### **M) The Compliance Officer**

The Compliance Officer is a member of the company's management team in charge of the compliance function. Similar to the Corporate Secretary, he/she is primarily liable to the corporation and its shareholders, and not to the Chairman or President of the company. 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. Monitors, reviews, evaluates and ensures the compliance by the corporation, its officers and directors with the relevant laws, this Code, rules and regulations and all governance issuances of regulatory agencies;
- c. Reports the matter to the Board if violations are found and recommends the imposition of appropriate disciplinary action;
- d. Ensures the integrity and accuracy of all documentary submissions to regulators;
- e. Appears before the SEC when summoned in relation to compliance with this Code;
- f. Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
- g. Identifies possible areas of compliance issues and works towards the resolution of the same;

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- h. Ensures the attendance of board members and key officers to relevant trainings; and
- i. Performs such other duties and responsibilities as may be provided by the SEC.

### **5 Adequate and Timely Information**

To enable the members of the Board to properly fulfill their duties and responsibilities, Management should provide them with complete, adequate and timely information about matters to be taken in their meetings.

Reliance on information volunteered by Management would not be sufficient in all circumstances and further inquiries may have to be made by a member of the Board to enable him to properly perform his duties and responsibilities. Hence the members should be given independent access to Management and the Corporate Secretary.

The information may include the background or explanation on matters brought before the Board disclosures, budgets forecast and internal financial documents.

The members, either individually or as a Board, and in furtherance of their duties and responsibilities, should have access to independent professional advice at the corporation's expense.

### **6 Accountability and Audit**

- A) The Board is primarily accountable to the stockholders. It should provide them with a balanced and comprehensible assessment of the corporation'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.

Thus, it is essential that Management provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders.

Management should formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

- (i) The extent of its responsibility in the preparation of the financial statements of the corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;

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- (ii) An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the corporation for the benefit of all *stockholders and other stakeholders*;
  - (iii) On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the corporation's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;
  - (iv) The corporation should consistently comply with the financial reporting requirements of the Commission;
  - (v) The external auditor should be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the corporation, should be changed with the same frequency. 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 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. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.
- B) The Board, after consultations with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the Commission who shall undertake an independent audit of the corporation, and shall provide an objective assurance on the manner by which the financial statements shall be 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.

If the external auditor resigns, is dismissed or ceases to perform his services, the reason/s for and the date of effectivity of such action shall be reported in the corporation's annual and current reports. The report shall include a discussion of any disagreement between him and the corporation on accounting principles or practices, financial disclosures or audit procedures which the former auditor and the corporation failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the corporation to the external auditor before its submission.

If the external auditor believes that any statement made in an annual report, information statement or any report filed with the Commission or any regulatory

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body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said reports.

### 7 Stockholders' Rights and Protection of Minority Stockholders' Interests

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

- Pre-emptive rights;
- Dividend policies;
- Right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting;
- Right to nominate candidates to the Board of Directors;
- Nomination process; and
- Voting procedures that would govern the Annual and Special Shareholders' Meeting.

B) The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the corporation. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the bylaws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.

It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.

The Board should take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. 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.

Although all stockholders should be treated equally or without discrimination, the Board should 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.

### 8 Disclosure and Transparency

The essence of corporate governance is transparency. The more transparent the internal workings of the corporation are, the more difficult it will be for Management and dominant stockholders to mismanage the corporation or misappropriate its assets.

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It is therefore essential that all material information about the corporation which could adversely affect its viability or the interest of *its stockholders and other stakeholders* should be publicly and timely disclosed. Such information should 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 Commission for the interest of its stockholders and other stakeholders.*

### **PENALTIES FOR NON-COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE AND THE MANUAL OF CORPORATE GOVERNANCE**

- The Company shall be imposed a fine of not more than Two Hundred Thousand Pesos [P200,000.00] by the SEC for every year that it violates the Code of Corporate Governance, without prejudice to other sanctions that the Commission may be authorized to impose under the law.
- Directors, officers, and staff of the Bank who willfully violate the provisions of the Code and of this Manual shall, after due notice, hearing, and review, be subject to penalties and/or sanctions as may be imposed by the Board of Directors.

### **GOVERNANCE SELF-RATING SYSTEM**

The Board may create an internal self-rating system that can measure the performance of the Board and Executive Management in accordance with the criteria provided in this Manual and the approved charters of the board-level committees.

The Corporate Governance Committee (CGCOM) shall be responsible for ensuring the board's effectiveness and due observance of corporate governance principles and guidelines. It shall oversee the periodic performance evaluation of the Board and its committees and executive management; and shall also conduct an annual self-evaluation of its performance. The committee shall decide the manner by which the Board's performance may be evaluated and propose and objective performance criteria approved by the board.

For this purpose, the CGCOM shall request all members of the Board of Directors and executive management to accomplish the following Rating/Self-Rating Sheets every performance year:

- Self-Rating Sheet of Individual Director – Annex A
- Self-Rating Sheet for the Board of Directors – Annex B
- Rating Sheet for the Chairman of the Board – Annex C.
- Rating Sheet for the President – See Annex D
- Self-Rating Sheet for the Executive Committee – Annex E.

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- Self-Rating Sheet for the Corporate Governance Committee – Annex F.
- Self-Rating Sheet for the Audit Committee – See Annex G.
- Self-Rating Sheet for the Related Party Transaction Committee – Annex H.
- Self-Rating Sheet for the Nomination Committee – Annex I.
- Self-Rating Sheet for the Investment Committee – Annex J.

The CGCOM shall collate the raw scores and would then discuss the results of the self-assessment, focusing on those areas which clearly need improvement or where there is wide variation in answers. The results of the self-assessment and any action plans that would arise should be reported to the Board through the Corporate Governance Committee

### **REGULAR REVIEW OF THE MANUAL AND THE SCORECARD**

The corporation shall periodically review this Manual to ensure that it is updated and complied with.

To monitor the compliance by the corporation with the Code, the corporation shall, as the Commission may require, accomplish annually a scorecard on the scope, nature and extent of the actions they have taken to meet the objectives of this Manual or the Code.

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**Jose Patricio A. Dumlao**  
FAMI Chairman

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**Karen Liza M. Roa**  
FAMI President

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**Jonathan T. Tabac**  
Compliance Officer