



**LANDBANK**

**MANUAL ON  
CORPORATE  
GOVERNANCE**

**MARCH 2016**

# LAND BANK OF THE PHILIPPINES

## MANUAL ON CORPORATE GOVERNANCE

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# **LAND BANK OF THE PHILIPPINES**

## **MANUAL ON CORPORATE GOVERNANCE**

### **INTRODUCTION**

Corporate Governance is a system where stakeholders of Land Bank of the Philippines (LANDBANK / The Bank) ensure that Management enhances the value of the Bank as it competes in an increasingly global market place.

This Manual shall institutionalize the principles of good corporate governance in the Bank. It adheres to the LANDBANK Charter (RA 7907), GCG Memorandum Circular No. 2012-07, Bangko Sentral ng Pilipinas (BSP) Circular and Securities and Exchange Commission (SEC) Memorandum Circular No. 2 dated April 5, 2002 which seeks to actively promote corporate governance reforms aimed to raise investor confidence, develop the capital market and help achieve high sustained growth for the corporate sector and the economy.

This Manual lays down broad principles on good corporate governance to be implemented in the Bank. It does not prescribe any detailed step-by-step procedure. Rather, it seeks to establish the ideals, the spirit, the tone, the style and the overall policies by which the Bank operates.

The Corporate Governance Committee shall undertake an annual review of this Manual and propose revisions as needed. The Corporate Governance Committee Secretariat shall assist the committee in updating the Manual.

# CHAPTER 1

## LANDBANK'S VISION, MISSION, STRATEGIC INTENT, OPERATING VALUES and CSR STATEMENT

### A. Vision

By 2018, LANDBANK will be the top universal bank that promotes inclusive growth and improves the quality of life especially in the countryside through the delivery of innovative financial and other services in all provinces, cities and municipalities.

### B. Mission

#### ***To our Clients and Publics:***

We will use the best technology solutions to deliver responsive financial and support services to our clients, while promoting sustainable development, and environmental protection.

#### ***To Our Employees:***

We will develop and nurture talents that will exemplify the highest standards of ethics and excellence consistent with the best in the world.

### C. Strategic Intent

Developing our internal capabilities and offering cutting-edge products and services to ensure total customer satisfaction via a strong organization, advanced technology and solid financial resources.

### D. Operating Values

Values which guide us in our organizational life and measure the rightness of our direction:

**SOCIAL RESPONSIBILITY:** service to community, concern for environment, customer satisfaction, man for others, caring

**TRUST :** equity, openness, fairness

**EXCELLENCE** : leadership, quality, initiative, innovative, competence

**PROFESSIONALISM** : integrity, mutual respect, teamwork, dedication, commitment, loyalty, fair compensation

## **E. Corporate Social Responsibility Statement (CSR) Statement**

LANDBANK's Corporate Social Responsibility embodies its commitment to the institution's social mandate with programs and activities that contribute to a better, safer and more progressive society, redounding to an improved quality of life for people of the present and future generations.

As a major catalyst in countryside development, our operations are anchored on the five (5) Sustainability Cornerstones of LANDBANK—(1) Enterprise Development, (2) Community Development, (3) Environmental Protection and Management, (4) Customer Service and (5) Employee Development—on which we continue to build and align our sustainability efforts that uphold the principles of responsible corporate citizenship.

These principles are aligned with the “Sustainability Reporting Guidelines and Financial Services Sector Supplement” of the Global Reporting Initiative (GRI):

### **1. Engaging Stakeholders in Environmental Responsibility**

LANDBANK commits to innovative products and services that allow the Bank and our clients to fulfil our sustainability and environmental protection goals in business lines, lower our carbon footprint, and promote ecological enhancement. Our *Corporate Environmental Policy* reiterates the incorporation of environmental management practices in all our operations, services and decisions.

Our *Environmental Policy on Credit Delivery* ensures that all financed projects are environmentally sound and compliant with all environmental laws, while our *Green Procurement* good practices serve as the Bank's supplemental guide in setting standards in evaluating products and services.

### **2. Improving Lives Across the Nation**

In line with our vision of being the dominant financial institution in countryside development, LANDBANK continues to fuel economic activity in the rural areas by supporting mandated clients and priority sectors,

spurring economic growth in rural and agricultural areas as the chief provider of financial and technical assistance.

We retain our leadership by sustaining excellent customer service through our efficient and cost-effective service operations, our maintenance of a substantial portion in our loan portfolio for priority sectors, and our continuing support to development assistance programs of the national government.

### **3. Banking on a Healthy Environment**

Inherently integrated in LANDBANK's mandate and company culture, our sustainability efforts are embedded in our mission to deliver innovative products and services that are consonant with ecological enhancement while effectively addressing our clients' needs. Our various environmental programs are geared toward the protection of natural resources, energy conservation and proper waste management, among others.

The environmental sustainability strategy of LANDBANK is founded on three goals: (1) To evaluate and manage our environmental footprint in our daily operations; (2) To deliver products and services that are ecologically sound and compliant with applicable environmental laws; and (3) To support climate change mitigation and adaptation undertakings.

### **4. Nurturing our Most Important Resource**

LANDBANK provides for the professional development and care of our human capital. We encourage growth by providing capability-building programs and granting every employee access to fair and equal opportunities for training and development.

We safeguard occupational health and safety through full compliance with relevant standards.

### **5. Championing Human Rights in the Quest for Prosperity**

We champion human rights by performing our duties and responsibilities with full courtesy and respect, without prejudice to race, religion, regional or ethnic origin, gender or political affiliation. We prioritize the protection of human life within and outside of our organization.

We protect our people through the administration of adequate security coverage for the Bank's personnel and clientele against unlawful acts, harm, damage, loss, and compromise. We practice non-discrimination in hiring and granting professional advancement opportunities and uphold

the rights of our employees to associate with and participate in a public sector union.

## **6. Promoting Social Justice and Sustainable Development**

We have established a well-defined governance structure consistent and compliant with all government policies and applicable laws, with current corporate governance rules and regulations, and with globally-accepted standards and principles of good governance.

We adhere strictly to civil service rules, and address and mitigate corruption through the implementation of rules on administrative cases, a strict implementation of the Code of Conduct for Public Officials and Employees, and adherence to the provisions of anti-corruption laws. We also expect all our employees to comply strictly with our *Code of Ethics*.

## **7. Serving Customers with Excellence and Integrity**

LANDBANK ensures excellence in customer service through full disclosure of the features, terms and conditions of our products and services that complies with all laws and rules of government regulatory bodies. We provide timely financial and technical support for our mandated clients and make pertinent product and service information easily available to them.

As a financial institution, we make sure that compliance testing is an established procedure that ensures the management of pertinent risks and compliance with applicable laws, rules, and regulations. We enhance customer service and reinforce the culture of quality, excellence and continued improvement by institutionalizing and adopting *Quality Management Systems (QMS)* in our banking processes.

We strictly adhere to the requirements of the *Anti-Red Tape Act (ARTA)* to improve efficiency in the delivery of services to the public by reducing bureaucratic red tape and preventing graft and corruption. All LANDBANK personnel are guided by the principles of professionalism and integrity, and abide by the *Code of Conduct for Employees* and *ARTA*.



# CHAPTER 2

## THE BOARD OF DIRECTORS

### A. COMPOSITION OF THE BOARD OF DIRECTORS

The affairs and business of the Bank shall be directed and its property managed and preserved by a Board of Directors consisting of nine (9) members (per RA 3844, as amended by RA 7907 of 1995) as follows:

- Secretary of Finance - Chairman (Ex Officio)
- LANDBANK President and CEO - Vice-Chairman
- Secretary of Agrarian Reform - Ex Officio Member
- Secretary of Labor and Employment - Ex Officio Member
- Secretary of Agriculture - Ex Officio Member
- Two members appointed by the President of the Philippines representing Agrarian Reform Beneficiaries
- Two members appointed by the President of the Philippines representing the Private Sector

The President and CEO shall be elected annually by the members of the Board from among its ranks. The President shall be subject to the disciplinary powers of the Board and may be removed by the Board for cause.<sup>1</sup>

An ex-officio member of the Board may designate as an Alternate to the LANDBANK Board only the following<sup>2</sup>:

1. An Officer of the Department or Agency to which LANDBANK is attached who shall have a rank that is not lower than the equivalent of Director III;
2. The Alternate must not already be a member of the Board of LANDBANK; and
3. The Alternate reports directly to the Principal Director on matters covered by the LANDBANK.

Unless specifically limited in the letter of designation, the duly-designated Alternate may act and vote with the same power and legal effect as that of the Principal Director in the Board and Board-Level Committee meetings, and during the entire period that the Principal Director is an *Ex Officio* Board Member.

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<sup>1</sup> GOCC Governance Act of 2011

<sup>2</sup> GCG MC No. 2012-08

The Principal Director shall designate a qualified Alternate through a written notice to the LANDBANK Corporate Secretary. He may also revoke the designation of the Alternate at any time, provided it shall be effective only upon written notice to LANDBANK Corporate Secretary.

At least twenty-percent (20%) but not less than two (2) members of the board of directors shall be independent directors: *Provided*, That any fractional result from applying the required minimum proportion, i.e., 20 percent (20%), shall be rounded up to the nearest whole number. An independent director may only serve as such for a total of five (5) consecutive years.<sup>1</sup>

## **B. TERM OF OFFICE OF APPOINTIVE DIRECTORS**

*Appointive Director* refers to all members of its Board of Directors who are not *ex officio* members thereof.<sup>2</sup>

Pursuant to Section 17 of the GOCC Governance Act of 2011, any provision in the Charter, Articles of Incorporation and/or By-laws of the Bank to the contrary notwithstanding, the term of office of each Appointive Director shall be for one (1) year, unless sooner removed for cause: Provided, however, that each Appointive Director shall continue to hold office until the successor is appointed and qualified.

1. By virtue of the provisions of the said section providing that "Any provision of law to the contrary notwithstanding, all incumbent CEOs and appointive members of the Board of GOCCS shall, upon approval of said Act, have a term of office until June 30, 2011, unless sooner replaced by the President," and notwithstanding any provision in the Charter, Articles of Incorporation and/or By-laws to the contrary, the one (1) year Term of Office of all Appointive Directors shall begin on 01 July of the year of appointment and ending on 30 June of the following year.
2. An Appointive Director may be nominated by the Governance Commission for GOCCs (GCG) for reappointment by the President only if one obtains a performance score of above average or its equivalent or higher in the immediately preceding year of tenure as Appointive Director based on the performance criteria for Appointive Directors adopted for the Bank.
3. Appointment to any vacancy shall only be for the unexpired term of the predecessor. The appointment of a Director to fill such vacancy shall be in accordance with the manner provided for regular nomination, shortlisting and appointment of Appointive Directors.

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<sup>1</sup> BSP Circular No. 749, S. 2012

<sup>2</sup> GOCC Governance Act of 2011

## **MULTIPLE BOARD SEATS<sup>1</sup>**

The capacity of Appointive Directors to serve with diligence shall not be compromised. As such, no Appointive Director in LANDBANK may hold more than two (2) other Board seats in other GOCCs, Subsidiaries and/or Affiliates. The number of Board seats that an incumbent GOCC Board Member may occupy, from which he/she may receive compensation is limited to at most three (3) positions inclusive of their primary position, at any given time.

## **C. QUALIFICATIONS OF A DIRECTOR**

1. No person shall be elected or appointed director of the Bank unless he is a natural born citizen of the Philippines, not less than thirty five (35) years of age, of good moral character and has attained proficiency, expertise and recognized competence in one or more of the following: banking, finance, economics, law, agriculture, agrarian reform, business management. Provided further, that no Director, stakeholder or employee of any other bank shall be eligible for election or appointment as member of the Board of Directors of the Bank.
2. An ex-officio member must be least a college graduate or have at least five (5) years experience in business. For an appointive director, he must have a college degree with at least five (5) years relevant work experience, except for a sectoral representative who only needs to be a *bona fide* member of the indicated sector of the association being represented as provided for in the Charter or By-Laws. An appointive director must possess management skills and competence preferably relating to the operations of the Bank.<sup>2</sup>
3. He must have attended a special seminar on corporate governance for Board of Directors conducted or accredited by the BSP.<sup>3</sup>
4. An appointive director must have attended or will attend within three (3) months from the date of appointment, a special seminar on public corporate governance for Directors conducted by the GCG or any individual or entity accredited by the GCG.<sup>4</sup>
5. He must be fit and proper for the position of a Director of the Bank. In determining whether a position is fit and proper for the position of a Director, the following matters must be considered:

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<sup>1</sup> GCG MC No. 2012-07

<sup>2</sup> *Ibid.*

<sup>3</sup> BSP MORB

<sup>4</sup> GCG MC No. 2012-05

- integrity/probity;
- physical/mental fitness;
- competence;
- relevant education/financial literacy/training;
- diligence; and
- knowledge/experience.

All members of the LANDBANK Board, including the President and CEO and its other officers, including Appointive Directors in Subsidiaries and Affiliates shall be qualified by the Fit and Proper Rule issued by the Governance Commission for GOCCs (GCG) approved by the President of the Philippines, including any future amendments and revisions thereof.

The foregoing qualifications for Directors shall be in addition to those required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations.

#### **D. DISQUALIFICATIONS OF A DIRECTOR<sup>1</sup>**

Without prejudice to specific provisions of law prescribing disqualifications for directors, the following are disqualified from becoming directors:

##### **1. Permanently Disqualified**

Directors/officers/employees permanently disqualified by the Monetary Board from holding a director position:

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

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<sup>1</sup> BSP MORB

- d. Persons who have been judicially declared insolvent, spendthrift or incapacitated to contract;
- e. Directors, officers or employees of closed banks who were found to be culpable for such institution's closure as determined by the Monetary Board;
- f. Directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; or
- g. Directors and officers of banks or any person found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

## 2. Temporarily Disqualified

Directors/officers/employees disqualified by the Monetary Board from holding a director position for a specific/indefinite period of time. Included are:

- a. Persons who refuse to fully disclose the extent of their business interest or any material information to the appropriate department of the SES when required pursuant to a provision of law or of a circular, memorandum, rule or regulation of the Bangko Sentral. This disqualification shall be in effect as long as the refusal persists;
- b. Directors who have been absent or who have not participated for whatever reasons in more than fifty percent (50%) of all meetings, both regular and special, of the board of directors during their incumbency, and directors who failed to physically attend for whatever reasons in at least twenty-five percent (25%) of all board meetings in any year, except that when a notarized certification executed by the corporate secretary has been submitted attesting that said directors were given the agenda materials prior to the meeting and their comments/decisions thereon were submitted for deliberation/discussion and were taken up in the actual board meeting said directors shall be considered present in the board meeting. This disqualification applies only for purposes of the immediately succeeding election;

c. Persons who are delinquent in the payment of their obligations as defined hereunder:

c.i. *Delinquency in the payment of obligations* means that an obligation of a person with a bank where he/she is a director or officer, or at least two (2) obligations with other banks/FIs, under different credit lines or loan contracts, are past due pursuant to Sec. X306 of the MORB;

c.ii. Obligations shall include all borrowing from a bank obtained by:

i. A director or officer for his own account or as the representative or agent of others or where he/she acts as a guarantor, endorser, or surety for loans from such financial institutions;

ii. The spouse or child under the parental authority of the director or officer;

iii. Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director or officer;

iv. A partnership of which a director or officer, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and

v. A corporation, association or firm wholly-owned or majority of the capital of which is owned by any or a group of persons mentioned in the foregoing Items "i", "ii" and "iv";

This disqualification shall be in effect as long as the delinquency persists.

d. Persons who have been convicted by a court for offenses involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22, violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of R.A. No. 6713, violation of banking laws, rules and regulations or those sentenced to serve a maximum term of imprisonment of more than six (6) years but whose conviction has not yet become final and executory;

e. Directors and officers of closed banks pending their clearance by the Monetary Board;

- f. Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under existing regulations. This disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board on recommendation by the appropriate department of the SES of such directors' election/reelection;
- g. Directors who failed to attend the special seminar for board of directors required under Item "c" of Subsec. X141.2 of BSP MORB. This disqualification applies until the director had attended such seminar.
- h. Persons dismissed/terminated from employment for cause. This disqualification shall be in effect until they have cleared themselves of involvement in the alleged irregularity or upon clearance, on their request, from the Monetary Board after showing good and justifiable reasons, or after the lapse of five (5) years from the time they were officially advised by the appropriate department of the SES of their disqualification;
- i. Those under preventive suspension;
- j. Persons with derogatory records as certified by, or on the official files, of the judiciary, NBI, Philippines National Police (PNP), quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities of foreign countries for irregularities or violations of any law, rules and regulations that would adversely affect the integrity of the director/officer or the ability to effectively discharge his duties. This disqualification applies until they have cleared themselves of the alleged irregularities/violations or after a lapse of five (5) years from the time the complaint, which was the basis of the derogatory record, was initiated;
- k. Directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court;
- l. Directors and officers of banks or any person found by the Monetary Board to be unfit for the position of director or officer because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or an offense/violation involving dishonesty or breach of trust, and which finding of said government agency is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court; and

- m. Directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed, regardless whether the finding of the Monetary Board is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court. The disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid.

## **E. POWERS/RESPONSIBILITIES AND DUTIES OF DIRECTORS<sup>1</sup>**

1. *Powers of the board of directors.* The corporate powers of the Bank shall be exercised, its business conducted and all its property 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.
2. *General responsibility of the board of directors.* 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 board of directors is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the board of directors is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day to day affairs of the institution.
3. *Specific duties and responsibilities of the board of directors:*
  - a. *To approve and monitor the implementation of strategic objectives.* Consistent with the institution's strategic objectives, business plans shall be established for the Bank including its trust operations, and initiatives thereto shall be implemented with clearly defined responsibilities and accountabilities. These shall take 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 likewise ensure that *the Bank has beneficial influence on the economy*

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<sup>1</sup> BSP Circular No. 749, S. 2012, as amended by BSP Circular No. 757, S.2012



by continuously providing services and facilities which will be supportive of the national economy.

- b. *To approve and oversee the implementation of policies governing major areas of banking operations.* The board shall approve policies on all major business activities, e.g., investments, loans, asset and liability management, trust, business planning and budgeting. The board shall accordingly define the Bank's level of risk tolerance in respect of said activities. A mechanism to ensure compliance with said policies shall also be provided. The board shall set out matters and authorities reserved to it for decision, which include, among others major capital expenditures, equity investments and divestments. The board shall also establish the limits of the discretionary powers of each officer, committee, sub-committee and such other groups for purposes of lending, investing or any other financial undertaking that exposes the Bank to significant risks.
- c. *To approve and oversee the implementation of risk management policies.* The board of directors shall be responsible for defining the Bank's level of risk tolerance and for the approval and oversight of the implementation of policies and procedures relating to the management of risks throughout the institution, including its trust operations. The risk management policy shall include:
  - (i) a comprehensive risk management approach;
  - (ii) a detailed structure of limits, guidelines and other parameters used to govern risk-taking;
  - (iii) a clear delineation of lines of responsibilities for managing risk;
  - (iv) an adequate system for measuring risk; and
  - (v) effective internal controls and a comprehensive risk-reporting process. The board of directors 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 board of directors shall ensure that the risk management function is given adequate resources to enable it to effectively perform its functions. The risk management function shall be afforded with adequate personnel, access to information technology systems and systems development resources, and support and access to internal information.

- d. *To oversee selection and performance of senior management.* It is the primary responsibility of the board of directors to appoint competent management team at all times, monitor and assess the performance of the management team based on established performance standards that are consistent with the Bank's strategic objectives, and conduct regular review of bank's policies with the management team.

- (i) The board of directors shall apply fit and proper standards on key personnel. Integrity, technical expertise and experience in the institution's business, either current or planned, shall be the key considerations in the selection process. And because 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 institution. The board of directors shall replace members of senior management, when necessary, and have in place an appropriate plan of succession.
- (ii) The board of directors shall regularly monitor the actions of senior management and ensure that these are consistent with the policies that it has approved. It shall put in place formal performance standards to be able to effectively assess the performance of senior management. The performance standards shall be consistent with the Bank's strategic objectives and business plans, taking into account the Bank's long-term financial interests.
- (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. The board of directors shall set the frequency of meeting with senior management taking into account the size, complexity of operations and risk profile of the Bank.
- (iv) The board of directors shall regularly review policies, internal controls 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.

The board of directors shall ensure that senior management's expertise and knowledge shall remain relevant given the Bank's strategic objectives, complexity of operations and risk profile.

- e. *To consistently conduct the affairs of the institution with a high degree of integrity.* 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. The board of directors shall 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. The board of directors shall:

- (i) Articulate 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 and no stakeholder is unduly disadvantaged. In this regard, the board of directors shall define “related party transaction”, which is expected to cover a wider definition than DOSRI under existing regulations and a broader spectrum of transactions (i.e., not limited to credit exposures), such that relevant transactions that could pose material risk or potential abuse to the Bank and its stakeholders are captured.
- (ii) 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.
- (iii) Articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the institution, or unethical conduct.
- (iv) Articulate policies that will prevent the use of the facilities of the Bank in furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.
- (v) 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.
- (vi) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the Bank at all times. Further, the board of directors shall ensure that all transactions involving the pension fund are conducted at arm’s length terms.
- (vii) Allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control

function, an objective external party, senior management and/or the board itself; and

- (viii) Articulate policies in communicating corporate values, codes of conduct and other standards in the Bank as well as the means to confidentially report concerns or violations to an appropriate body.
- f. *To define appropriate governance policies and practices for the Bank and for its own work and to establish means to ensure that such are followed and periodically reviewed for ongoing improvement.* The board of directors, through policies and its own practices, shall establish and actively promote, communicate and recognize sound governance principles and practices to reflect a culture of strong governance in the Bank as seen by both internal and external stakeholders.
- (i) The board of directors 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.
  - (ii) The board of directors shall maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities.
  - (iii) The board of directors 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. It shall also ensure that independent views in board meetings shall be given full consideration and all such meetings shall be duly minuted.
  - (iv) The board shall conduct and maintain the affairs of the institution within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound banking practice. 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.

- (v) 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.
  - (vi) The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the chief executive officer, the individual directors, and the Bank itself, which may be facilitated by the corporate governance committee or external facilitators. The composition of the board shall also be reviewed regularly with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation shall be adopted which shall include, but not limited to, the setting of benchmark and peer group analysis.
  - (vii) 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.
- g. *To constitute committees to increase efficiency and allow deeper focus in specific areas.* The board of directors shall create committees, the number and nature of which would depend on the size of the Bank and the board, the complexity of operations, long-term strategies and risk tolerance level of the Bank.
- (i) The board of directors shall 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.
  - (ii) 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 nonexecutive 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 the Audit, Risk Oversight and Corporate Governance committees, without prior approval of the Monetary Board.

- (iii) 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.
- (iv) The board of directors shall constitute, at a minimum, the following committees:
  - (a) *Audit committee.* The audit committee shall be composed of at least three (3) members of the board of directors, wherein two (2) of whom shall be independent directors, including the chairperson, preferably with accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank. To the greatest extent possible, the audit committee shall be composed of a sufficient number of independent and non-executive board members. Further, the chief executive officer, chief financial officer and/or treasurer, or officers holding equivalent positions, shall not be appointed as members of the audit committee.

The audit committee provides oversight over 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. In cases of appointment or dismissal of external auditors, it is encouraged that the decision be made only by independent and non-executive audit committee members. It shall monitor and evaluate the adequacy and effectiveness of the internal control system.

The audit committee shall review and approve the audit scope and frequency. It shall receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.

The audit committee shall have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions. The audit committee shall ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually.

The audit committee shall establish and maintain 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.

- (b) *Risk oversight committee.* The risk oversight committee shall be responsible for the development and oversight of the risk management program for the Bank and its trust unit. The committee shall be composed of at least three (3) members of the board of directors including at least one (1) independent director, and a chairperson who is a non-executive member. The members of the risk oversight committee shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached. The Bank's risk management unit and the chief risk officer shall communicate formally and informally to the risk oversight committee any material information relative to the discharge of its function. The risk oversight committee, shall, where appropriate, have access to external expert advice, particularly in relation to

proposed strategic transactions, such as mergers and acquisitions.

The core responsibilities of the risk oversight committee are to:

- *Identify and evaluate exposures.* The committee shall assess the probability of each risk becoming reality and shall estimate its possible effect and cost. Priority areas of concern are those risks that are most likely to occur and are costly when they happen.
  - *Develop risk management strategies.* The risk oversight committee shall develop a written plan defining the strategies for managing and controlling the major risks. It shall identify practical strategies to reduce the chance of harm and failure or minimize losses if the risk becomes real.
  - *Oversee the implementation of the risk management plan.* The risk oversight committee shall conduct regular discussion on the institution's current risk exposure based on regular management reports and assess how the concerned units or offices reduced these risks.
  - *Review and revise the plan as needed.* The committee shall evaluate the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The committee shall report regularly to the board of directors the entity's overall risk exposure, actions taken to reduce the risks, and recommend further action or plans as necessary.
- (c) *Corporate governance committee.* The corporate governance committee shall assist the board of directors in fulfilling its corporate governance responsibilities. It shall review and evaluate the qualifications of all persons nominated to the board as well as those nominated to other positions requiring appointment by the board of directors. The committee shall be composed of at least three (3) members of the board of directors, two (2) of whom shall be independent directors, including the chairperson.

The committee 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 corporate governance committee may coordinate with external facilitators in carrying out board assessment, within the frequency approved by the entire board. The corporate governance committee shall also decide 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). Internal guidelines shall be adopted that address the competing time commitments that are faced when directors serve on multiple boards.

The committee shall make recommendations to the board regarding the continuing education of directors, assignment to board committees, succession plan for the board members and senior officers, and their remuneration commensurate with corporate and individual performance.

The corporate governance committee shall decide the manner by which the board's performance shall be evaluated and propose an objective performance criteria approved by the board. Such performance indicators shall address how the board has enhanced long term shareholders' value. *Provided*, That in case of simple or non-complex banks, the board of directors may, at a minimum, constitute only the audit committee: *Provided, further*, That the board shall discuss risk management and corporate governance matters in their board meetings, with the views of the independent directors duly noted and minuted.

- h. *To 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 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.

Further, non-executive board members shall meet regularly, other than in meetings of the audit and risk oversight committees, in the absence

of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.

- i. *In group structures, the board of directors of the parent company banks 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 bank shall ensure consistent adoption of corporate governance policies and systems across the group and shall carry-out the following duties and responsibilities:
  - (i) To define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account nature and complexity of operations, size and the types of risks to which the 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.
  - (ii) To define the level of risk tolerance for the group, which shall be linked to the process of determining the adequacy of capital of the group.
  - (iii) 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.
  - (iv) To establish a system for monitoring compliance of each entity in the group with all applicable policies, practices and systems.
  - (v) To define and approve policies and clear strategies for the establishment of new structures.
  - (vi) 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 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.
  - (vii) To develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.

- (viii) 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.
- (ix) To disclose to the Bangko Sentral all entities in the group (e.g., owned directly or indirectly by the parent company bank and/or its subsidiaries/affiliates including special purpose entities (SPEs), and other entities that the Bank exerts control over or those that exert control over the Bank, or those that are related to the Bank and/or its subsidiaries/affiliates either through common ownership/directorship/officership) as well as all significant transactions between entities in the group involving any Bangko Sentral regulated entity in accordance with *Appendix 6* of the MORB. For this purpose, significant shall refer to transactions that would require board approval based on the Bank's internal policies or as provided under existing regulations: *Provided*, That the Bank shall continue to submit any report required under existing regulations covering transactions between companies within the group.

4. *Specific duties and responsibilities of a director:*

- a. *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.
- b. *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.

- c. *To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and general 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.
- d. *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.
- e. *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.
- f. *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.
- g. *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.
- h. *To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation and by-laws, the requirements of the Bangko Sentral and where applicable, the requirements of other*

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

- i. *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.
5. Formulate policies, rules and regulations for the effective operations of the Bank (i.e. loans, investments, deposits, borrowings, technical assistance);
  6. Set the Bank's corporate philosophy and mission;
  7. Set and review management's strategic and business plans, financial objectives and actions;
  8. Establish such branches and agencies as may be deemed necessary and convenient.
  9. Delegate management responsibility to the Bank President & Chief Executive Officer (CEO) and a team of Senior Officers.
  10. Evaluate the performance of the Bank President & CEO;
  11. Adopt and maintain adequate risk management policies and oversee the risk management process to ensure that policies are followed, limits respected and controls are in place.
  12. A Director or Officer shall not solicit, nor accept, directly or indirectly, any gift, gratuity, favor, entertainment, loan or anything of monetary value ("Gift") from any person where such Gift: (a) would be illegal or in violation of law; (b) is part of an attempt or agreement to do anything in return; (c) has a value beyond what is normal and customary in the Bank's business; (d) is being made to influence the member of Board's, or Officers' actions as such; or (e) could create the appearance of a conflict of interest.<sup>1</sup>
  13. Perform such other duties as provided for in the LANDBANK Charter and By-Laws, and perform such duties and obligations with fidelity.
  14. Specific duties and responsibilities of the Chairman of the Board of Directors:
    - a. Responsible for the efficient functioning of the Board;

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<sup>1</sup> GCG MC No. 2012-07

- b. Calls meetings, approves and sets the agenda, and presides over Board meetings and ensures that all directors are enabled and encouraged to actively participate in all discussions and resolutions on matters taken up by the Board;
  - c. Exercise control over quality, quantity and timeliness of the flow of information between Management and the Board<sup>1</sup>;
  - d. Assists in ensuring compliance with the Bank's guidelines on corporate governance;<sup>2</sup>
  - e. *To provide leadership in the board of directors.* The chairperson of the board shall ensure effective functioning of the board, including maintaining a relationship of trust with board members<sup>3</sup>; and
  - f. *To ensure that the board takes an informed decision.* The chairperson of the board shall ensure a sound decision making process and he should encourage and promote critical discussion and ensure that dissenting views can be expressed and discussed within the decision-making process.<sup>4</sup>
15. In the absence of the Chairman of the Board, the Vice Chairman shall preside at the meetings of the Board.<sup>5</sup>

*The Board shall also have the following internal control responsibilities:*

- 1. Ensure that the Bank is appropriately and effectively managed and controlled in a sound and prudent manner through:
  - a. Organizational and procedural controls supported by an effective management information system and risk management reporting system.
  - b. Independent audit mechanisms to monitor the adequacy and effectiveness of the Bank's governance, operations, information systems, to include reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations and contracts.
  - c. Statement by the Directors confirming the truth and fairness of the Bank's financial statements. (See Annex 1)<sup>1</sup>

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<sup>1</sup> GCG MC No. 2012-07

<sup>2</sup> *Ibid.*

<sup>3</sup> BSP Circular No. 749, S. 2012

<sup>4</sup> *Ibid.*

<sup>5</sup> GCG MC No. 2012-07

2. The minimum internal control mechanism for the Board's oversight responsibility may include:
  - a. Defining the duties and responsibilities of the President & CEO;
  - b. Reviewing proposed senior management appointments;
  - c. Ensuring the selection, appointment and retention of qualified and competent management;
  - d. Reviewing the Bank's personnel and human resource policies and sufficiency, conflict of interest situations, changes to the compensation plan for employees and officers and management succession plan.
3. The Bank shall have in place committees through which the Board, senior management and stakeholders may be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate and complied with.
4. Whenever any member attending a meeting of the Board has a personal interest in the discussion or resolution of any given matter, or any of his relatives within the fourth degree of consanguinity or a second degree of affinity has such interest, said member shall not participate in the discussion or resolution of the matter and must retire from the meeting during the deliberations thereon. The subject matter, when resolved, and the fact that a member had a personal interest in it, shall be made available to the public. The minutes of the meeting shall note the withdrawal of the member concerned.

*In relation to the implementation of the Internal Capital Adequacy Assessment Process (ICAAP), the Board shall also have the following functions and responsibilities:*

1. Approve the annual LANDBANK ICAAP Report consisting of the main report and the individual reports of the various risk categories.
2. Assess and approve the LANDBANK Capital Management and Capital Strengthening Policy which outlines the various options in strengthening capital.
3. Approve proposed capital build-up initiatives.
4. Monitor and evaluate the Bank's capital level, CAR, capital structure and composition including the underlying factors that caused the movements in capital on a per component basis and the factors and transactions with significant impact on capital and CAR.

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<sup>1</sup> GCG MC No. 2012-07

## F. OTHER RESPONSIBILITIES OF THE BOARD

Each Director shall:

1. Study the powers, duties and responsibilities of the Board;
2. Certify that he fully understands the same as required by BSP under this Manual; and
3. Faithfully perform the powers, duties and responsibilities of the Board.
4. Submit yearly a notarized Statement of Assets, Liabilities and Net Worth (SALN).
5. Submit a notarized “Panunumpa” (Oath of Office) to the Office of the Corporate Secretary pursuant to the appointment letter issued by the Office of the President of the Philippines.
6. Attach a copy of the formal Charter of Expectations, which each Director shall sign, to the copy of the “Oath of Office”. (See Annex 2)
7. Submit a List of Disclosures. (See Annex 3)

Failure to perform any of the duties and responsibilities shall be subject to penalty of Thirty thousand Pesos (P30,000.00) per violation.<sup>1</sup>

## G. INDEPENDENT DIRECTORS<sup>2</sup>

In selecting independent directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry out his duties and responsibilities: *Provided*, That 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.

An independent director shall refer to a person who -

1. is not or has not been an officer or employee of the bank, its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his election;

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<sup>1</sup> BSP Circular No. 283, S. 2001

<sup>2</sup> BSP Circular No. 749, S. 2012, as amended by BSP Circular No. 757, S.2012



2. is not a director or officer of the related companies of the institution's majority stockholder;
3. is not a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;
4. is not a relative, legitimate or common-law 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. For this purpose, *relatives* refer to the spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister inlaw;
5. 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; and
6. is not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

An independent director of the Bank may only serve as such for a total of five (5) consecutive years: *Provided*, That the maximum term and any "*cooling off*" period prescribed by the SEC for public and listed companies shall apply to all types of banks.

## **H. MEETINGS OF THE BOARD OF DIRECTORS**

1. The Board shall convene as often as necessary to discharge its responsibilities properly, but shall meet at least once every two (2) weeks. The Board may be convened either by the Chairman or in his absence, the Vice-Chairman. Independent views expressed during such meetings are given due consideration and all such meetings shall be properly documented or minuted.

2. Special meetings of the Board may be held upon the call of the Chairman or by the written request of two or more members, upon 48 hours notice, specifying the date, time and general purpose of the meeting, given to each Board member, either personally or through his office or by mail;
3. The majority of the Board Members shall constitute a quorum. All decisions of the Board shall require the concurrence of at least a majority.
4. 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: *Provided, further*, That in the case of a director who is unable to physically attend or participate in board meetings via teleconferencing or video conferencing, the corporate secretary shall execute a notarized certification attesting that said director was given the agenda materials prior to the meeting and that his/her comments/decisions thereon were submitted for deliberation/discussion and were taken up in the actual board meeting, and that the submission of said certification shall be considered compliance with the required fifty percent (50%) minimum attendance in board meetings.<sup>1</sup>

**I. LIMITS TO COMPENSATION, PER DIEMS, ALLOWANCES AND INCENTIVES – Pursuant to Section 23 of GOCC Governance Act of 2011:**

The Charters or By-laws of the Bank to the contrary notwithstanding, the compensation, *per diems*, allowances and incentives of the Appointive Directors shall be determined by the GCG, using as a reference, among others, Executive Order No. 24, dated February 10, 2011. Directors shall not be entitled to retirement benefits acting as such.

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<sup>1</sup> BSP Circular No. 749, S. 2012

# CHAPTER 3

## BOARD LEVEL COMMITTEES

To aid in complying with the principles of corporate governance, the Board shall constitute the following Committees:

### A. AUDIT AND COMPLIANCE COMMITTEE (AUDIT COM)<sup>1</sup>

#### 1. PURPOSE

The Audit and Compliance Committee shall assist the Board of Directors in fulfilling its oversight responsibilities over the Bank's financial reporting policies, practices and control, internal and external audit functions, and compliance function.

#### 2. AUTHORITY

The Audit and Compliance Committee shall have the authority to:

- a. Investigate any matter within its terms of reference, full access to and cooperation by management, full discretion to invite any director or executive officer to attend its meetings and adequate resources to enable it effectively discharge its functions.
- b. Provide functional supervision over the Internal Audit Group (IAG) and Compliance Management Office (CMO).
- c. Recommend the formulation of or amendments to existing policies, systems and procedures based on results of its evaluation of the reports from internal audit, compliance, external audit and regulatory bodies.

#### 3. COMPOSITION

- a. The Audit and Compliance Committee shall be composed of five (5) members of the Board of Directors, wherein two (2) of whom shall be independent directors including the Chairperson. It shall include a Chairperson, Vice Chairperson and three (3) members, who shall be appointed/designated by the Board of Directors.

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<sup>1</sup> Charter of the LBP Audit & Compliance Committee

- b. Appointed/designated members of the Audit and Compliance Committee who are ex-officio members of the Board of Directors may be represented by their respective alternates to the committee.
- c. Members of the Audit and Compliance Committee shall preferably with accounting, auditing or related financial management expertise or experience.
- d. No member shall simultaneously serve on the Audit and Compliance Committee of other agencies and/or the Trust Committee of the Bank.

#### **4. MEETINGS AND PROCEDURES**

- a. The Audit and Compliance Committee shall meet once a month with authority to convene for special meetings, as the circumstances require.
- b. The Chairperson, or in his absence, the Vice Chairperson, shall be the presiding officer during committee meetings.
- c. The presence of three (3) members shall constitute a quorum in all committee meetings.
- d. The Internal Audit Group shall serve as the Secretariat of the committee.

#### **5. RESPONSIBILITIES/FUNCTIONS**

The Audit and Compliance Committee shall have the following responsibilities:

- a. Provide functional supervision over the Internal Audit Group and Compliance Management Office to ensure effective performance of their functions.
- b. Utilize the work conducted by internal audit and compliance functions by undertaking timely and effective actions on issues identified.
- c. Assess the reports from external auditors and regulatory agencies, and ensure that management judiciously and appropriately acts on recommendations on significant deficiencies and/or material weaknesses identified.
- d. Ensure that a review of the effectiveness of the Bank's internal controls including financial, operational and compliance controls and risk management, is conducted at least annually.

- e. Establish and maintain mechanisms by which officers and staff may, 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.
- f. Assess the organizational structure and staffing of IAG and CMO, subject to the Bank's standard guidelines, for the effective performance of their assigned tasks and endorse the same to management.

**5.1. RESPONSIBILITIES IN THE FUNCTIONAL SUPERVISION OVER IAG AND CMO**

- a. Endorse to the Board the appointment or removal of the Heads of IAG and CMO.
- b. Review and approve the IAG and CMO plans and programs and major changes thereof.
- c. Evaluate the performance of the IAG and CMO relative to their plans and programs and other matters.
- d. Review and approve the performance evaluation/appraisal of the Heads of IAG and CMO.
- e. Assess the appropriateness of IAG and CMO scope of plans and programs vis-à-vis their resources.

**5.2. SPECIFIC RESPONSIBILITIES IN THE FUNCTIONAL SUPERVISION OVER IAG**

- a. Responsible for establishing and maintaining an independent, competent and effective internal audit function commensurate with the complexity of its risk profile.
- b. Review and approve the IAG's Charter and any amendment/s thereto and endorse the same to the Board of Directors for confirmation.
- c. Review and approve an audit program that encompasses audit plans, policies, processes, procedures, and strategies that would govern IAG, including major changes thereof.

- d. Ensure that IAG is free from interference in determining the scope of the internal auditing examinations necessary to perform the work and communication of results.
- e. Ensure that internal auditors have free access to all Bank's records, personnel and properties relevant to the performance of their functions.
- f. Receive key audit reports, and ensure that Senior Management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.
- g. Evaluate the performance of IAG relative to their audit plans and programs and other matters.
- h. Ensure that IAG conforms with the Philippine Government Internal Auditing Manual (PGIAM) and other professional standards such as the International Standards for the Professional Practice of Internal Auditing (ISPPA) issued by the Institute of Internal Auditors (IIA) and those standards issued by the Information Systems Audit and Control Association (ISACA), whenever possible, and Code of Ethics and corresponding Rules of Conduct.

### **5.3. SPECIFIC RESPONSIBILITIES IN THE FUNCTIONAL SUPERVISION OVER CMO**

- a. Ensure that the Compliance Program is able to identify, monitor and mitigate business risks.
- b. Oversee the implementation of the Risk-based Compliance Methodology Manual and the Money Laundering and Terrorist Financing Prevention Program (MLPP).
- c. Review any update/amendment to the Compliance Charter, Compliance Program, Risk-based Compliance Methodology Manual and MLPP and endorse the same to the Board of Directors for approval.
- d. Review reports submitted by CMO and deliberate/resolve major findings on compliance/AML issues to policies, rules and regulations expeditiously.
- e. Note/confirm the minutes and resolutions of the AML Committee

- f. Adopt measures to ensure the independence of the compliance function from the business activities of the Bank.
- g. Establish the right of the compliance function to obtain access to information necessary to carry out its responsibilities.
- h. Provide the Board of Directors with regular reports on the findings of external regulatory bodies together with the actions of management on said findings.

#### **5.4. OTHER RESPONSIBILITIES**

- a. The Audit and Compliance Committee, through the Chairperson, shall regularly report to the Board of Directors its activities, issues and related recommendations.
- b. Obtain any information and or training needed to enhance the members' understanding/competence on the areas of financial reporting policies, practices and control, internal and external audit functions, and compliance function.
- c. Review and update this Charter at least annually or whenever there are significant changes, and endorse the same to the Board for approval.
- d. Conduct annual self-assessment of the committee's performance including its effectiveness and compliance with this Charter.

## **B. RISK OVERSIGHT COMMITTEE (RISKCOM)<sup>1</sup>**

### **1. Purpose**

The RISKCOM Charter shall serve as the basis for the RISKCOM in the performance of its mandated functions. Among others, it provides the composition, authority, duties and responsibilities of the RISKCOM as provided for under BSP Circular No. 456, Series of 2004.

### **2. Composition**

The RISKCOM shall be composed of at least five (5) members of the Board of Directors who shall possess a range of expertise as well as adequate knowledge of the Bank's risks exposure to be able to develop

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<sup>1</sup> Charter of the LBP Risk Oversight Committee

appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

The following shall be considered in the composition of the Committee members:

- a. At least one of the Committee members shall be a member of the Audit and Compliance Committee;
- b. The members shall have no close blood relationship with anyone in senior management of the Bank;
- c. The members shall have no close and heavy financial, as well as, business relationship with the Bank, in full compliance with the requirements of existing guidelines such as the Code of Ethics, Guidelines on Conflict of Interest and rules on Directors, Officers, Stockholders and other Related Interest (DOSRI); and
- d. The members shall not be currently, nor have been (in the last three years) employed by the Bank or its Subsidiaries.

The Board shall appoint the members of the RISKCOM. It shall also appoint one of the members as the Chairperson of the Committee. More than 50% of the members shall be present to form a quorum.

### **3. Role**

The RISKCOM shall be primarily responsible for:

- a. Fulfilling statutory, fiduciary and regulatory responsibilities.
- b. Assisting the Board in defining the risk appetite of the Bank.
- c. Ensuring alignment of risk management objectives with overall business strategies and performance goals.
- d. Developing and overseeing the risk management programs of the Bank which include the following:
  - i. Oversight of management functions and approval of proposals regarding the Bank's policies, procedures and best practices relative to asset and liability management, credit, market and business operational risks ensuring that:
    - a) Risk Management systems are in place;



- b) Limits/tolerance levels are observed;
  - c) System of limits remain effective; and
  - d) Immediate corrective actions are taken whenever limits are breached or whenever necessary.
- ii. Ensuring compliance to written policies and procedures relating to the management of risks throughout the Bank. This shall include:
- a) Comprehensive risk management approach;
  - b) Detailed structure of limits, guidelines and other parameters used to govern risk-taking units;
  - c) Clear delineation of lines of responsibilities for managing risk;
  - d) Adequate system for measuring risk; and
  - e) Effective internal controls and a comprehensive risk reporting process;
- e. Developing a continuing education program to enhance its members' understanding of relevant regulatory and banking industry issues.

#### **4. Authority**

The RISKCOM shall exercise authority over matters within the scope of its functions and responsibilities. It is empowered to:

- a. Approve the risk management program prepared by Risk Management Group (RMG);
- b. Exercise functional supervision over RMG. Administrative supervision of RMG shall be under the President and CEO;
- c. Serve as direct channel of communication to the Chief Risk Officer, Heads of Credit Policy and Risk Management Department (CPRMD), Treasury Risk Management Department (TRMD) and Business Risk Management Department (BRMD);
- d. Endorse the manpower complement, organizational structure and leveling of positions of the RMG consistent with the Bank's organizational policies and manpower guidelines.

- e. Authorize investigations or verifications into any risk-related matters or obtain any information of the Bank within the Committee's scope of responsibilities.
- f. Issue risk management policies and require implementation of Committee instructions and recommendations.
- g. Obtain advice and assistance from independent professional advisors to assist in carrying out its responsibilities as set forth in this Charter; and
- h. Approve and endorse to the Board of Directors the Bank's Internal Capital Adequacy Assessment Process (ICAAP) Annual Document.

## **5. Duties and Responsibilities**

### **a. Core Duties and Responsibilities**

The RISKCOM shall perform the following core duties and responsibilities:

- i. Identify and Evaluate Exposures. The RISKCOM shall
- ii. Assess the probability of each risk becoming reality and shall estimate its possible effect and cost with priority on those risks that are most likely to occur and are costly when they happen.
- iii. Identify and assess the external risks that may affect the business plans and directions of the Bank.

### **b. Develop Risk Management Strategies. The RISKCOM shall**

- i. Develop a written plan defining the strategies for managing and controlling the major risks.
- ii. Identify practical strategies to reduce the chance of harm and failure or minimize losses if the risks become real.

### **c. Oversee the implementation of the Risk Management Plan. The RISKCOM shall:**

- i. Communicate the risk management plan and loss control procedures to affected parties; and
- ii. Conduct regular discussions on the Bank's current risk exposure based on regular management reports and assess

how the concerned units or offices manage / mitigate these risks.

d. Review and Revise the Risk Management Plan, as Needed. The RISKCOM shall:

- i. Review and evaluate the steps that management has taken to monitor and control risk exposures to ensure its continued relevance, comprehensiveness and effectiveness;
- ii. Revisit strategies, look for emerging or changing exposures and stay abreast of developments that might affect the likelihood of harm or loss to the Bank;
- iii. Ensure that the risk infrastructure and operating policies are congruent with corporate policies on prudent risk management, and conform to regulatory, industry and technological standards, trends and best practices.
- iv. Report regularly to the Board of Directors the Bank's overall risk exposure, actions taken to manage / mitigate the risks and recommend further actions or plans as necessary.

e. Specific Duties and Responsibilities

The RISKCOM shall perform the following specific duties and responsibilities:

- i. The RISKCOM shall meet with, request/gather (or compel submission, in proper cases), receive and evaluate information from management and appropriate sources and act or endorse for approval of the Board of Directors, or approve proposals in accordance with its core duties and responsibilities on the following items relating to:

a) Asset and Liability Management

- Fiduciary and asset management activities, including oversight structure for fiduciary activities, general policies and reports;
- Capital allocation methodology;
- Capital levels; and
- Status of the investments and securities portfolio and end-user derivatives portfolio, including performance, appreciation or depreciation profile and accounts;

b) Liquidity Risk

- Liquidity position and liquidity gaps;
- Bank's strategic direction and tolerance for liquidity risk;
- Liquidity risk limits and guidelines;
- Implementation of corrective action in instances of breaches in policies and procedures;
- Contingency plans for dealing with potential temporary and long-term liquidity disruptions; and
- Sufficiency of competent personnel, including internal audit staff, and adequate measurement systems to effectively manage liquidity risk

c) Interest Rate Risk

- Bank's tolerance for interest rate risk/Interest rate risk limits;
- Sensitivity of earnings under varying interest rate scenario;
- Overall interest rate risk profile; and
- Strategies and policies with respect to interest rate risk management

d) Market Risk

- Policies and procedures on market risk, risk measurement methodologies, limit setting, monitoring and control procedures among others;
- Limit setting and ratification of limit structure;
- Market risk resulting from the Bank's trading and information on the "Value-at-risk" calculation models;
- Trends in economy in general with a view of their impact on the Bank; and
- Information relating to compliance with both external and internal regulations regarding market risks.

e) Credit Risk

- Policies and Procedures on credit risk;
- Specific loan portfolios and/or industries;
- Non-performing assets and Real and Other Properties Acquired (ROPA) by the Bank, charge-off level and adequacy of the allowance for loan and lease losses;
- Bank's limits on lending, such as industry concentration limits and investing limits; and

- Information relating to compliance with both external and internal regulations regarding credit risks
- f) Business Operational Risk
- Policies and procedures on operational risk matters (e.g. technology, legal, reputational and personnel risks);
  - Management reports relating to operational issues;
  - Awareness on proper risk culture and how risks should be addressed; and
  - Information relating to compliance with both external and internal regulations regarding operational risks.
- ii. Promote an enterprise-wide risk culture that requires and encourages the highest standards of ethical behavior by risk management overseers and establish ownership of risks by authorized risk takers;
  - iii. Monitor and evaluate the independence of risk management functions throughout the Bank;
  - iv. Monitor effectiveness of risk management functions, regularly updating the design and operating effectiveness of such controls;
  - v. Ensure that infrastructure, resources and systems are in place for risk management and are adequate to maintain a satisfactory level of risk management discipline;
  - vi. Review issues raised by internal audit that impact on risk management framework;
  - vii. Meet with, request the submission of and evaluate information from the Management Committee and other committees of the Bank; and perform/approve the necessary actions/proposals as it deems appropriate, regarding the scope of its work, significant findings, together with the actions and responses of management.
  - viii. Oversee the management of future risks rather than risk in past transactions;
  - ix. Recognize those risks and institute contingency plans to mitigate said risks;

- x. Provide regular periodic reports to the Board of Directors pertaining to the Bank's overall risk exposure and actions taken to reduce the risks;
- xi. Encourage the professional development and training of personnel engaged in both risk oversight and risk-taking activities; and
- xii. Review and reassess the adequacy of this Charter on an annual basis and recommend any proposed changes to the Board of Directors for approval.

## **6. Meetings and Procedures**

- a. The RISKCOM shall establish its own rules of procedures consistent with the Bank's Charter and this Charter;
- b. The RISKCOM shall meet monthly or as often as it considers necessary and appropriate. A majority of the members will constitute a quorum. The RISKCOM Chairperson or the majority of its members may call a special meeting when deemed necessary.

An annual calendar shall be prepared to plan meetings, address issues and align with planning and reporting cycles.

- c. A notice of each meeting confirming the date, time, venue and agenda shall be forwarded to each member of the Committee at least three (3) working days before the date of the meeting. The notice for members will include relevant supporting papers for the agenda items to be discussed.
- d. The Risk Management Group (RMG) shall serve as the Secretariat of the RISKCOM and shall maintain written minutes of its meetings. The minutes of meetings and actions on matters arising from the minutes taken shall be reported to and noted by the Board.
- e. The RISKCOM may request any director, officer or employee of the Bank, or other persons whose advice and counsel are sought by the latter, to attend a meeting in order to provide information as it deems necessary.

## **7. Independence**

The RISKCOM shall be an independent Committee and for that purpose it shall report directly to and hold on the authority of the Board of Directors.

## **C. TRUST COMMITTEE (TRUST COM)<sup>1</sup>**

### **1. Mandate**

LANDBANK is a government-owned universal bank authorized to perform trust functions and committed to carrying out its business in accordance with all applicable laws, rules and regulations of regulatory authorities, internal policies and procedures. It shall pursue its operations with the highest ethical standards and principles of fidelity and prudence, observing skill, care, prudence and diligence in the management and administration of fiduciary assets. In compliance with BSP Circular No. 766, series of 2012, the Board of Directors shall ensure an appropriate degree of independence between the activities of the Bank and its Trust Banking Group.

### **2. Purpose**

The Trust Committee shall be appointed by the Board of Directors as its oversight committee on the fiduciary activities of its trust business; ensuring that the operation of its trust business are conducted in accordance with applicable laws, rules and regulations, internal policies and procedures, with the required skill, care, prudence and diligence in the management and administration of fiduciary assets.

### **3. Composition and Qualifications**

The Trust Committee shall be composed of at least five (5) members constituted as follows:

- a. At least three (3) qualified Non-executive or Independent Directors or Qualified Independent professionals appointed by the Board of Directors;
- b. The President and CEO or any Senior Officer of the Bank; and,
- c. The Trust Officer

No member of the Audit and Compliance Committee shall be concurrently designated as a member of the Trust Committee

Directors, Trust Committee members and Officers charged with the administration of trust and other fiduciary activities shall, in addition to meeting the qualification standards prescribed for directors and officers of Banks, possess the necessary technical expertise in such business.

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<sup>1</sup> Charter of the LBP Trust Committee

The Trust Committee members must possess the necessary technical expertise and relevant experience in trust activities which may be indicated by any of the following:

- At least one (1) year of actual experience in trust, other fiduciary business, or investment management activities, or
- At least three (3) years of professional experience in a relevant field such as banking, finance, economics, law, and risk management; or
- Completion of at least ninety (90) training hours on trust, other fiduciary business, or investment management activities; or
- Completion of a relevant global or local professional certification program in finance.

The Trust Committee members should be familiar with Philippine laws, rules and regulations on trust business, and uphold at all times ethical and good governance standards.

The Trust Committee is expected to enhance its knowledge and skill by attending seminars and program certifications relevant to the trust business to effectively oversee the management and the growth of its business.

The qualifications of the Trust Officer should be compliant with the minimum requirements of BSP Circular No. 766, series of 2012, or as regulatory authorities may require, and shall possess any of the following:

- At least five (5) years of actual experience in trust operations; or
- At least three (3) years of actual experience in trust operations and must have (1) completed at least ninety (90) training hours in trust, other fiduciary business or investment management activities acceptable to the BSP, or (2) completed a relevant global or local professional certification program; or
- At least five (5) years of actual experience as an officer of a bank/non-bank financial intermediary and must have (1) completed at least ninety (90) training hours in trust, other fiduciary business or investment management activities acceptable to the BSP, or (2) completed a relevant global or local professional certification program.

#### **4. Meetings**

The Committee shall meet once every other month or at least six (6) times in a year or more frequently, as the circumstances dictate. All Committee members are expected to attend each meeting in person or through an authorized representative having the same qualification as required by the Bangko Sentral ng Pilipinas.



A quorum will comprise of at least three Trust Committee members consisting a majority of the Trust Committee members.

The Secretariat shall notify the Trust Committee members and may invite members of the management, counsel, or external auditors to attend meetings and provide information or reports on any matter pertinent to the agenda. The agenda and briefing materials will be provided to the Trust Committee members within a reasonable period in advance of each meeting.

The Trust Committee shall submit the minutes of all its meetings and other necessary reports to the Board of Directors for notation, confirmation or approval, as the case may be.

## **5. Responsibilities of Administration**

The Trust Committee, duly constituted and authorized by the Board of Directors, shall perform its responsibility for overseeing the fiduciary activities of the Bank in accordance with its authority. In the discharge of its function, it shall:

- a. Ensure that policies and procedures are in place from account opening to account administration and management up to account termination, in conformity with applicable laws, rules and regulations and prudent practices;
- b. 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;
- c. Monitor the implementation of stringent controls for the prudent management of fiduciary assets and its appropriate administration; maintaining adequate books, records and files for each account;
- d. Oversee the proper implementation of the risk management framework, compliance program and internal controls to ensure that accounts are managed accordingly in different cycle of the market;
- e. Adopt an appropriate organizational structure and staffing complement that will enable the Trust business unit to efficiently carry out its function with utmost diligence and skill; and ensure proper and continuous training for its Trust officers and personnel considering growing sophistication and complexity in trust business and changes in the financial market environment.

- f. Oversee and evaluate the performance of the Trust Officer and of the Trust operations with regard to business objectives and strategies, compliance and risk monitoring and management, requiring periodic reports on the different areas of responsibility;
- g. Require the review of trust and other fiduciary accounts at least once every three (3) years or as needed depending on the nature of the account, to determine the advisability of retaining or disposing of the trust or fiduciary assets; and whether the account is being managed in accordance with the instrument creating the trust or other fiduciary relationship. For this purpose, the Trust Committee shall meet whenever necessary and keep minutes of its actions and make periodic reports thereon to the Board;
- h. Review reports submitted by internal and external auditors and regulatory agencies, and deliberate on major exceptions or non-compliance with existing laws, rules and regulations, policies and procedures and act on appropriate recommendations;
- i. Ensure that the TBG is taking appropriate measures to address all regulatory requirements under applicable laws, rules and regulations and that plans and actions are taken to correct reported conditions and accomplish satisfactory disposition of findings;
- j. Review and approve the plans and program of activities of the Trust Banking Group; and,
- k. Regularly report to BOD on matters arising from fiduciary activities.

Particularly, the Trust Committee shall oversee the performance of the Trust Officer who is vested with the function and responsibility of managing the day-to-day fiduciary activities. The Trust Officer shall perform the following functions, among others:

- a. Ensure adherence to the basic standards in the administration of trust, other fiduciary and investment management accounts in accordance with applicable laws, rules and regulations and policies and procedures;
- b. Develop and implement relevant policies and procedures on fiduciary activities;
- c. Observe sound risk management practices and maintain necessary controls to protect assets under custody and held in trust or other fiduciary capacity;

- d. Carry out investment and other fiduciary activities in accordance with agreements with clients and parameters set by the Trust Committee as approved by the Board of Directors;
- e. Report regularly to the Trust Committee on business performance and other matters requiring its attention;
- f. Maintain adequate books, records and files for each trust or other fiduciary account and provide timely and regular disclosures to clients on the status of their account; and
- g. Submit periodic reports to regulatory agencies on the conduct of trust operations.

## **6. Charter Review**

The Committee shall review and reassess the adequacy of the Trust Committee's Charter annually and recommend to the Board necessary changes to the Charter.

## **D. CORPORATE GOVERNANCE COMMITTEE (CG COM)<sup>1</sup>**

### **1. Composition**

The Corporate Governance Committee (CG Com) shall be composed of at least five (5) members of the Board of Directors, two of whom shall at least be independent directors. The members shall possess a range of expertise as well as adequate knowledge of the Bank's corporate and operational structure and its workings. It shall include a Chair, Vice Chair and at least three (3) members, who shall be appointed/assigned by the Board of Directors. The Chairman and Vice Chairman of the Committee should be Independent Directors.

Designated members of the CG Com who are ex-officio members of the Board of Directors may be represented by their respective alternates to the committee.

### **2. Duties and Functions**

The CG Com shall have the following duties and functions:

- a. To review and recommend the organizational structure of the Bank and its units;

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<sup>1</sup> Charter of the LBP Corporate Governance Committee

- b. To review and evaluate the qualification standards for all positions in the Bank;
- c. To review and recommend the selection/promotion of the officers as endorsed by the Selection Board II;
- d. To ensure the Board's effectiveness and due observance of corporate governance principles and guidelines;
- e. To oversee the periodic performance evaluation of the Board and its committees and executive management;
- f. To conduct an annual self-evaluation of its performance;
- g. To decide whether or not a director is able to and has been adequately carrying out his/her duties as director bearing in mind the director's contribution and performance (e.g. competence, candor, attendance, preparedness and participation);
- h. To adopt, propose and recommend to the Board such internal guidelines to address the competing time commitments that are faced when directors and other Bank officers serve on multiple boards;
- i. To study and recommend to the Board such policies regarding the continuing education of the Directors, assignment to Board Committees, succession plan for the senior officers and their remuneration commensurate with corporate and individual performance;
- j. To decide the manner by which the Board's performance may be evaluated and propose an objective performance criteria to be approved by the Board;
- k. To study and recommend policies to ensure appropriate and effective management through organizational and procedural controls and independent audit mechanisms;
- l. To promote transparency and operational responsibility and accountability in a manner consistent with the Bank's vision, mission, strategic intent and operating values.

### **3. Meetings and Procedure**

- a. The Chair, or in his absence, the Vice Chair, shall be the presiding officer during CG Com meetings. In their absence, the members

present shall designate an acting presiding officer from among themselves.

- b. The CG Com shall meet quarterly or as often as it is considered necessary and appropriate. The CG Com Chair or the majority of its members may call a special meeting when deemed necessary;
- c. The presence of the majority of the members will constitute a quorum in all meetings of the CG Com. They shall be entitled to the payment of per diems.
- d. The CG Com shall invite resource persons including but not limited to the Bank's directors, officers or employees, during its regular or special meetings to render a report or to clarify relevant issues and matters confronting the CG Com or whose advice and/or expertise shall be sought to provide relevant information as it may deem necessary and appropriate in the exercise of its functions;
- e. The CG Com shall report to the LANDBANK Board of Directors the minutes of each meeting, including the matters discussed and actions taken during said meetings; and
- f. The administrative requirements of the CG Com shall be provided and handled by the Office of the Corporate Secretary, which shall serve as the Secretariat and shall keep the written minutes of its meetings.

#### **4. Independence**

The CG Com shall be an independent committee and shall report directly only to and hold office on the authority of the Board of Directors.

#### **5. Review of the Charter**

The CG Com shall review, assess and update the Charter at least annually and recommend any proposed change(s) subject to the approval of the Board of Directors.

### **E. INVESTMENT AND LOAN COMMITTEE (ILC)<sup>1</sup>**

#### **1. Purpose**

The ILC Charter shall serve as the basis for the ILC in the performance of its mandated functions. Among others, it provides the composition, authority, duties and responsibilities of the ILC as provided under

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<sup>1</sup> Charter of the LBP Investment and Loan Committee

LANDBANK Board Resolution No. 12-851 dated 10 December 2012 and Special Order No. 82, s. of 2012 dated 17 December 2012.

## **2. Composition**

The ILC shall be composed of five (5) members including the President and Chief Executive Officer (CEO) plus four (4) other members of the LANDBANK Board of Directors. The members shall possess a range of expertise as well as adequate knowledge of the Bank's investments and loan exposures to be able to formulate appropriate strategies, policies, rules and regulations in order for the Bank to perform effectively resulting to optimize income and minimal losses.

It shall include a Chair, a Vice-Chair and three (3) members who shall be appointed by the Bank's Board of Directors.

The ILC shall also include Resource Persons as follows:

1. Head, Agricultural and Development Lending Sector;
2. Head, Branch Banking Sector;
3. Head, Operations Sector;
4. Head, Treasury and Investment Banking Sector;
5. Head, Legal Services Group/General Counsel; and
6. Head, Risk Management Group.

## **3. Duties and Responsibilities**

The Investment and Loan Committee shall have the following duties and responsibilities:

- a. Evaluate, approve, or recommend to the LANDBANK Board of Directors for consideration and approval of investments and loans in accordance with the following:
  - For Investments- Codified Approving/Signing Authorities (CA/SA), Section D (Treasury, Investment and Fund Sourcing Transactions) and Executive Order No. 25, s. of 2012 entitled Investment Policy Guidelines and Strategy of the Bank;
  - For Loans-LANDBANK CA/SA, Section A (Lending Transactions); and
  - Lending Programs presented by Lending Program Management Group.
- b. Recommend credit policies and guidelines, including but not limited to the following:

- Limits on the Bank's total lending exposures to the different industry/business sectors;
  - Kinds of collaterals, including release and substitution of these collaterals;
  - Loan values of collaterals and collateral cover;
  - Terms and conditions for each type of credit accommodation;
  - Interest rate, penalty and other charges;
  - Standards of account profitability yields on loan accounts;
  - Appraisal of loan collaterals;
  - Loan ceilings of crops;
  - Remedial measures including but not limited to restructuring, refinancing and other form of work-out strategies; and
  - Foreclosure, dacion en pago, and other forms of settlement for loan accounts.
- c. Review and recommend to the LANDBANK Board of Directors investment policies and guidelines that define the structure, eligible investments and management of investment portfolios; and
- d. Review and monitor the following:
- Non-Performing and Past Due Loans;
  - Approved New Borrowers;
  - Changes in the previously Approved Interest Rates;
  - Amendment in the terms and conditions of loans originally approved by the LANDBANK Board of Directors and ILC; and
  - Major Financial Indicators of Selected Local Commercial Banks.

#### **4. Meetings and Procedures**

- a. The Chair, or in his absence, the Vice Chair, shall be the presiding officer during ILC meetings.
- b. The ILC shall meet weekly or as often as it is considered necessary and appropriate. The Committee Chair or the majority of its members may call a special meeting when deemed necessary.
- c. The presence of three (3) members will constitute a quorum in all meetings of the ILC. They shall be entitled to the payment of honoraria.
- d. The ILC may request any Bank director, officers or employees, or other persons whose advice and/or expertise are sought by the latter, during its regular or special meetings to render a report or to clarify relevant issues and matters confronting the ILC, in order to provide

relevant information as it may deem necessary and appropriate in the exercise of its functions.

- e. The administrative requirements of the ILC shall be provided and handled by the Credit Policy and Risk Management Department, which shall serve as the Secretariat and shall maintain written minutes of its meetings. The Minutes of Meetings and actions on matters arising from the Minutes taken shall be reported to and noted by the LANDBANK Board of Directors.

## **5. Independence**

The ILC shall be an independent Committee and shall report directly to and hold office on the authority of the LANDBANK Board of Directors.

## **6. Review of the Charter**

The ILC shall review, reassess and update the Charter at least annually and recommend any proposed change(s) subject to the approval of the LANDBANK Board of Directors.

## **F. AGRI-AGRA SOCIAL CONCERNS COMMITTEE (AASC COM)<sup>1</sup>**

### **1. Composition**

LANDBANK Agri-Agra Social Concerns Committee shall be composed of five (5) members of the Board of Directors: to include the Secretary of Agriculture (or his alternate), the Secretary of Agrarian Reform (or his alternate), and the Bank President & CEO. It shall include a Chair, a Vice-Chair and three (3) members, who shall all be appointed/assigned by the Board of Directors.

### **2. Duties and Functions**

The Agri-Agra Social Concerns Committee shall have the following duties and functions:

- a. Formulate non-credit policies to improve the delivery of services on CARP and other agri-agra matters.
- b. Serve as clearing house for CARP-related non-credit programs of LANDBANK and endorse to the LANDBANK Board for final approval.

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<sup>1</sup> Charter of the LBP Agri-Agra Social Concerns Committee



- c. Monitor the status of implementation of the various non-credit agri-agra programs of the Bank.
- d. Monitor the status of implementation of social concerns programs of LANDBANK.
- e. Attend to other functions as may be assigned by the Board of Directors.

### **3. Meetings**

- a. Meetings of the Committee shall be presided over by the Chair or, in his absence, the Vice Chair.
- b. The Committee shall have regular monthly meetings. Special meetings may, however, be called as may be necessary and appropriate. The Committee Chair or the majority of its members may call a special meeting when deemed necessary.
- c. The presence of three (3) members will constitute a quorum in all meetings of the Committee. They shall be entitled to per diems which shall be determined and approved by the LANDBANK Board.
- d. The Committee may invite any of the Bank's directors, officers or employees or other resource persons during its regular or special meetings to render a report or to clarify relevant issues and matters confronting the Committee.
- e. The Committee shall report to the LANDBANK Board of Directors the minutes and actions taken during meetings.

### **4. Review of the Charter**

The Committee shall review, assess and update the Charter at least annually and recommend any proposed change(s) subject to the approval of the Board of Directors.

# CHAPTER 4

## THE PRESIDENT AND CHIEF EXECUTIVE OFFICER AND OTHER EXECUTIVE OFFICERS

The Chief Executive of the Bank shall be the President, who shall be chosen and may be removed by the Board of Directors with the advice and consent of the President of the Philippines.

Executive Officer refers to the CEO or whoever is the highest ranking officer in the Bank, and such other corporate officer of the Bank as expressly provided for in its Charter, such as the Vice-President, Chief Financial Officer, Chief Investment Officer, and General Manager. As distinguished from Board Officers, Executive Officers primarily form part of the Management of the Bank.<sup>1</sup>

### A. DUTIES AND POWERS OF THE PRESIDENT AND CEO

1. The President and CEO of the Bank shall exercise general supervision and authority over the regular course of business, affairs, and property of LANDBANK, and over its employees and officers.<sup>2</sup>
2. He shall, among others, execute the policies, measures, orders and resolutions promulgated by the Board of Directors and supervise and administer the operations of the Bank.
3. He shall be the legal representative of the Bank and shall make all contracts and enter into all necessary obligations on behalf of the Bank.
4. He shall submit to the Board as soon as possible after the close of each fiscal year, a complete report of the operations of the Bank for the preceding year, and the state of its affairs.<sup>3</sup>
5. He shall report periodically to the Board of Directors the main facts concerning the operations of the Bank and recommend changes of policies as may be necessary.
6. He shall furnish, upon the request of the President of the Philippines, any information in his possession regarding the operations of the Bank.

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<sup>1</sup> GCG MC No. 2012-07

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

7. He shall perform such other duties and responsibilities as the Board may impose upon him.<sup>1</sup>

The President and CEO shall be assisted by senior Bank Officers as may be required and necessary, whose appointments and removal for cause shall be approved by the Board of Directors.

## **B. OTHER EXECUTIVE OFFICERS<sup>2</sup>**

Subject to the provisions of the Bank's Charter and By-Laws, the Executive Officers shall be appointed by the Board.

### *1. Corporate Treasurer*

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

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

### *2. Chief Finance Officer (CFO)*

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

- a. Providing management with accurate, relevant, and timely operating and financial reports and analysis necessary for financial planning and

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<sup>1</sup> GCG MC No. 2012-07

<sup>2</sup> *Ibid.*

strategy formulation, and monitoring actual implementation of budgets, plans and programs towards the achievement of corporate goals;

- b. Maintaining the integrity of accounting records as the basis of the financial statements and reports provided to Management for decision-making and to government regulatory bodies in compliance with statutory requirements;
- c. Promoting investor and public confidence in the Bank by addressing the various information requirements of the investing public and ensuring that all other legal reportorial obligations to the concerned agencies are complied with;
- d. Strengthening internal controls by monitoring compliance with policies and recommending to Management appropriate actions and changes in systems and procedures in the exigencies of the service; and
- e. Performing such other responsibilities as the Board may impose.

### **C. QUALIFICATIONS OF EXECUTIVE OFFICERS**

No person shall be appointed to any executive position in the Bank unless he be of good moral character and of unquestionable integrity and responsibility and who is of recognized competence in the field of economics, agriculture, industry, law, banking and/or finance, and possessed of demonstrated administrative skill and ability.<sup>1</sup>

### **D. COMPENSATION OF EXECUTIVE OFFICERS**

The Governance Commission for GOCCs has the power to recommend the fixing of salaries of the Executive Officers.<sup>2</sup>

### **E. DUTIES AND RESPONSIBILITIES OF OFFICERS<sup>3</sup>**

*Officers* shall include the president, executive vice president, senior vice-president, vice president, general manager, treasurer, secretary, trust officer and others mentioned as officers of the bank, or those whose duties as such are defined in the by-laws, or are generally known to be the officers of the bank (or any of its branches and offices other than the head office) either through announcement, representation, publication or any kind of communication made by the bank: *Provided*, That a person holding the position of chairman or vice chairman of the board or another position in the board shall not be considered as an officer unless the duties of his position in

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<sup>1</sup> LBP Charter

<sup>2</sup> GOCC Governance Act of 2011

<sup>3</sup> BSP Circular No. 749, S. 2012

the board include functions of management such as those ordinarily performed by regular officers: *Provided, further*, That members of a group or committee, including sub-groups or subcommittees, whose duties include functions of management such as those ordinarily performed by regular officers, and are not purely recommendatory or advisory, shall likewise be considered as officers.<sup>1</sup>

1. *To set the tone of good governance from the top.* Bank officers shall promote the good governance practices within the Bank by ensuring that policies on governance as approved by the board of directors are consistently adopted across the Bank.
2. *To oversee the day-to-day management of the Bank.* Bank officers shall ensure that bank's activities and operations are consistent with the Bank's strategic objectives, risk strategy, corporate values and policies as approved by the board of directors. They shall establish a bank-wide management system characterized by strategically aligned and mutually reinforcing performance standards across the organization.
3. *To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency.* Bank officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each bank personnel. Bank officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the board of directors for the performance of the Bank.
4. *To promote and strengthen checks and balances systems in the Bank.* Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions.

## **F. THE CORPORATE SECRETARY**

The Board of Directors shall appoint a Corporate Secretary who shall be a citizen and a resident of the Philippines and who shall have the following duties and responsibilities:

1. Legal counseling and rendering of opinions on application/interpretation of the LANDBANK Charter and By-Laws.
2. To act as the Corporate Secretariat for the Board of Directors with the following functions:

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<sup>1</sup> BSP MORB

- 2.1 To have custody and care of the Corporate Seal, Stock and Transfer book, and the corporate records and minutes of the meetings of the Board of Directors.
- 2.2 To attend all meetings of the Board of Directors and keep or cause to be kept in a book provided for the purpose a true and complete record of the proceedings of such meetings;
- 2.3 To attend to the giving and serving of all notices of meetings of the Board of Directors and of the agenda folders;
- 2.4 To prepare and take charge of the agenda folders and all papers and documents pertaining to the meetings and business of the Board of Directors including the minutes of meeting and Board resolutions;
- 2.5 To facilitate compliance with reportorial requirements of the BSP and other supervisory agencies;
- 2.6 To fill and countersign all certificates of stock issued;
- 2.7 To countersign/authenticate CARP bonds;
- 2.8 To serve as an adviser to the Board Members on their responsibilities and obligations;
- 2.9 To be fully informed and be part of the scheduling process of other activities of the Board;
- 2.10 Ensure fulfillment of disclosure requirements to regulatory bodies; and
- 2.11 To perform such other duties as may from time to time be assigned by the Board of Directors. The Board shall have separate and independent access to the Corporate Secretary.

The Corporate Secretary shall also ensure that all Directors are furnished with copies of the Corporate Governance Manual and the duties and responsibilities of the Board and the individual directors. The Office of the Corporate Secretary (OCS) shall secure acknowledgement of receipt of said copies and a certification from each Director that he fully understands the same.

## **G. LEGAL COUNSEL**

1. The Bank shall have its own Legal Services Group (LSG), headed by the General Counsel, who shall supervise and control the activities of the

departments under the LSG in providing timely, adequate, effective and efficient legal support services to the different sectors of the Bank as well as the Regional/Field Units and LANDBANK subsidiaries.

2. The General Counsel shall also provide efficient and effective legal support service to the Board of Directors, Office of the President and all Sectors of the Bank in the preparation/drafting/review of contracts/memoranda/agreements and all other contracts where the Bank is a party and render legal opinions/advice on issues/problems referred to the Office of the General Counsel (OGC).
3. To efficiently and effectively perform the above functions, the General Counsel shall pursue better supervision and control of the activities of personnel and its units, augment the manpower/logistical requirements of LSG and its units to respond to the increasing involvement of the Bank in countryside development; raise the professional standard of all LSG lawyers and personnel through seminars, symposia, training programs, etc. within or outside the Bank.
4. In the performance of his duties and responsibilities, the General Counsel shall adhere to the principles of fairness, accountability and transparency in the pursuit of good corporate governance.

#### **H. POWER OF GOVERNING BOARD TO DISCIPLINE/REMOVE OFFICERS<sup>1</sup>**

Subject to existing civil service laws, rules and regulations, and in ensuring compliance with the requirements of due process, the Board shall have the authority to discipline, or remove from office, the President and CEO, or any officer and employee, upon a majority vote of the members of the Board who actually took part in the deliberation.

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<sup>1</sup> GCG MC No. 2012-07

# CHAPTER 5

## COMPLIANCE SYSTEM<sup>1</sup>

The LANDBANK's compliance system is designed to identify and mitigate Business Risk which may erode the franchise value of the Bank. It also ensures that business operations are conducted in accordance with laws, rules, and regulations, codes of conduct, sound policies and standards of good practice. It is a line-driven function and the direct responsibility of each line manager.

For LANDBANK, compliance is part of the culture of the Bank. It is not just the responsibility of only one person or of one unit alone. It is a collective and shared responsibility of everyone, from the Board of Directors, to Senior Management, and to all of the employees.

The Bank's compliance system has the following basic elements:

- A formal written document (Compliance Manual) that reflects the Compliance Program approved by the Board of Directors
- A constructive working relationships with the Bangko Sentral ng Pilipinas, other regulatory agencies and units within the Bank
- Clear and open communication lines within the Bank to educate and address compliance matters

The synergy of the elements of the Bank's compliance system reinforces the Bank's control over Business Risk. The ability of the Compliance Management Group to effectively manage the elements of the Compliance System helps the Bank take a pro-active stance in addressing the Business Risk.

### A. COMPLIANCE FUNCTION

The Compliance Function Charter defines the fundamental principles, rules and responsibilities of the Compliance Function in LANDBANK, its relationship with the Senior Management, the Audit and Compliance Committee, the Board of Directors and the Business Units as well as the performance of its mandated Compliance Function that is integrated in the overall risk management strategy.

#### 1. Role and Responsibilities on Compliance Function

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<sup>1</sup> LBP Compliance Charter



a. Board of Directors

The Board is responsible for overseeing the management of the Bank's Business Risk and is ultimately responsible for ensuring the effective implementation of the compliance system.

The Board shall approve the compliance system, ensure that the Bank's Compliance Program is defined and that compliance issues are resolved expeditiously.

The Board shall likewise be responsible in providing sufficient authority, independence and resources to the Chief Compliance Officer as lead operating officer on compliance, to ensure effective implementation of the compliance system.

b. Audit and Compliance Committee shall oversee the implementation of the Bank's Compliance Program

c. Senior Management is responsible for the effective implementation of the compliance system and in ensuring that Bank personnel and affiliated parties adhere to the pre-defined compliance standards of the Bank.

d. Compliance Management Group (CMG)

The duties and responsibilities of CMG include identification, measurement, assessment and monitoring of Business Risk, advising Senior Management and reporting to the Board, through ACCom:

- 1) Identify and assess compliance requirements of the relevant laws, rules, regulations, and standards on banking operations.
- 2) Advise Management, concerned BUs, Compliance Coordinators and personnel on the applicable laws, regulations, rules, standards and other regulatory requirements and keeping them up-to-date with any developments;
- 3) Maintain a constructive working relationship with BSP, other regulatory agencies and units within the Bank;
- 4) Develop and implement orientation/training program of personnel to make them aware of the regulatory and compliance requirements;
- 5) Provide an active advisory service on compliance matters/queries;
- 6) Participate in the review of policies and procedures and in the development of new products/services and business practices and

proposed establishment of new types of business and customer relationships.

- 7) Develop and implement compliance testing procedures, documentation and reporting mechanism;
- 8) Coordinate and monitor regulatory and compliance findings and the taking of corrective actions to comply and to prevent recurrence;
- 9) Report on a regular basis to the Board through ACCom compliance matters, including any identified breaches and/or deficiencies and the corrective actions taken; and the general status of the Bank's level of compliance.
- 10) Update regularly the Compliance Program/Manual;
- 11) Promote adherence to corporate governance principles and best practices.

The Board of Directors shall designate a Chief Compliance Officer (CCO) who shall hold a position of at least the rank of Vice President or its equivalent, who shall be designated as Head of CMG performing only Compliance duties and responsibilities as follows:

#### 1) Principal Functions of CCO

The principal function of CCO, being the lead operating officer on compliance, is to oversee the design of the compliance system, promote its effective implications and address breaches that may arise. The CCO reports functionally to the Board of Directors through the Audit and Compliance Committee and exercises functional supervision over the designated Compliance Coordinators and Compliance Designates relative to the compliance function being performed/handled by them. CCO also provides essential compliance oversight function on the CCO's of the Bank's financial subsidiaries.

#### 2) Primary Accountability/Job Summary

The Chief Compliance Officer oversees the implementation of the Bank's Compliance Program, including the Money Laundering and Terrorist Financing Prevention Program, functioning as an independent and objective body that reviews and evaluates compliance issues/concerns within the institution. The position ensures that the Board of Directors, Management and employees are in compliance with the applicable laws, rules and regulations.

e. Trust Banking Group

The Trust Banking Group (TBG) manages and administers Trust, Other Fiduciary and Investment Management Account (IMA), provides support services to the Trust Committee and supervises the Units therein.

The TBG ensures the conduct of a comprehensive review of the Trust, Fiduciary and Investment Management Accounts. To further strengthen compliance, controls and risk monitoring of Trust operations, the Account Review Committee has been established where the Compliance Officer for Trust sits as member and exercises functions.

TBG has a separate Board – approved Compliance Program/Manual for Trust Operations, developed in accordance with the applicable law, rules and regulations, and TBG’s internal policies and procedures. TBG’s Compliance Program is paralleled/aligned with the Bank’s Compliance Program, to ensure consistent and harmonized compliance methods and tools and implementation.

f. Compliance Coordinators

The primary objective of designating CC in each Sector/Group/Business Unit is to establish a structure to effect closer coordination between CMG and every unit of the Bank thereby ensuring a clear and open communication channel towards harmonized compliance function throughout the Bank.

g. Officers and Staff

It shall be the responsibility of Sector/Group/Department/Unit Heads, Officers and Staff to ensure that the transactions they are processing/ reviewing/ approving or their operations are compliant with relevant banking laws, regulations and rules, codes of conduct, policies and standards of good practice.

h. Internal Audit Group

The Compliance Program operates parallel to or as part of the Bank’s Internal Control and Audit Program, thus, Internal Audit Group (IAG) is part of the Compliance Function Structure.

Compliance risk shall be included in the risk assessment methodology of the internal audit function, and an Audit Program that covers the adequacy and effectiveness of the Bank’s compliance function shall be

established, including testing of controls commensurate with the perceived level of risk.

### **Internal Audit Group and Risk Management Group**

It is the responsibility of CMG, IAG and Risk Management Group to coordinate monitoring/testing activities; share compliance monitoring/testing results; and use common database of breaches/non-compliance or share information on breaches/ non-compliance.

## **CHAPTER 6**

### **PERSONNEL**

- A. The Board of Directors shall provide for an organization and staff of officers and employees of the Bank, and upon the recommendation of the President and CEO, recommend their remuneration and other emoluments which shall be competitive with the Banking industry.
- B. The Board shall also have the power to remove such officers and employees; Provided, that the Board shall have exclusive and final authority to promote, transfer, assign or reassign personnel of the Bank, any provisions of existing law to the contrary notwithstanding. Provided further, that the Board may delegate such authority to management.
- C. All positions in the Bank shall be governed by a compensation and position classification system endorsed by the Board of Directors and approved by the GCG based on the qualification standards and a comprehensive job analysis and audit of actual duties and responsibilities. The compensation plan shall be comparable with the prevailing compensation plans in the private sector and shall be subject to periodic review by the Board no more than once every two (2) years without prejudice to yearly merit reviews or increases based on productivity and profitability. The Bank shall therefore be exempt from existing laws, rules and regulations on compensation, position classification and qualification standards. It shall however endeavor to make its system conform as closely as possible with the principles under Republic Act No. 6758 (Compensation and Position Classification Act of 1989).

- D. The Bank officers and employees, including all members of the Board, shall not engage directly or indirectly in partisan activities or take part in any election except to vote.
- E. No officer or employee of the Bank shall be removed or suspended except for cause as provided by law and Civil Service Law and Regulation.

## CHAPTER 7

### AUDIT

The Bank shall formulate and implement progressive auditing rules and regulations designed to expedite the operations of the Bank and prevent the occurrence of delays and risk incidents in its processes.

#### A. EXTERNAL AUDITOR

The Chairman of the Commission on Audit shall act as the ex-officio Auditor of the Bank and as such, he is empowered and authorized to appoint a representative who shall be the auditor in charge of the auditing office of the Bank and, in accordance with law, fix his salary, and to appoint and fix the salaries and number of personnel to assist said representative in his work, but in all cases subject to the approval of the Board of Directors. The salaries and all other expenses of maintaining the auditor's office shall be paid by the Bank. The Auditor of the Bank and personnel under him may be removed only by the Commission on Audit.

#### B. INTERNAL AUDIT GROUP (IAG)<sup>1</sup>

***Purpose and Services*** - IAG shall provide independent, objective assurance and risk-based audit services designed to add value and improve the Bank's operations. It shall help the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

IAG shall provide the following services:

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<sup>1</sup> Charter of the LBP Internal Audit Group

- a. Assurance Services - An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the Bank.
- b. Consulting Services - Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve the Bank's governance, risk management, and control processes without the internal auditor assuming management responsibility.
- c. Special/Fraud Audit – the gathering of sufficient information about specific details and performing those procedures necessary to determine whether fraud has occurred, the loss or exposures associated with the fraud, who was involved in it, and the fraud scheme. IAG assists in fraud investigation by conducting fact-finding engagement.

The Audit and Compliance Committee and Management recognize that fraud prevention and detection are primarily the responsibility of Management. However, IAG may add value to the Bank by:

- Evaluating the consideration of fraud risk in every audit and conducting the appropriate audit procedure based on the identified fraud risk.
  - Exercising due professional care to the degree that fraud may be present in activities covered by the normal course of audit.
  - Evaluating the risk of fraud and the manner in which it is managed by the Bank.
  - Examining and evaluating the adequacy and effectiveness of the internal control's system commensurate with the extent of a potential exposure within the Bank.
- d. Other Services that may be requested by Management or as instructed by the Audit and Compliance Committee provided such activities would not compromise IAG's objectivity and independence.

**Scope of Work** - The scope of internal audit shall include the:

- a. Examination and evaluation of the adequacy and effectiveness of the internal control systems;
- b. Review of the application and effectiveness of risk management procedures and risk assessment methodologies;

- c. Review of the management and financial information systems, including the electronic information system and electronic banking services;
- d. Assessment of the accuracy and reliability of the accounting system and of the resulting financial reports;
- e. Review of the systems and procedures of safeguarding assets;
- f. Review of the system of assessing capital in relation to the estimate of organizational risk;
- g. Transaction testing and assessment of specific internal control procedures; and
- h. Review of the compliance system and the implementation of established policies and procedures.

**Reporting Arrangement** - To ensure independence, the IAG shall be functionally under the supervision of the Audit and Compliance Committee appointed by the Board of Directors and administratively under the supervision of the President.

**Standards** - The IAG shall govern itself by adherence to the PGIAM, BSP Circulars, IPPF, other standards prescribed by the government and regulatory bodies, industry best practices, and Land Bank's relevant policies and procedures.

**Code of Ethics** - Internal Auditors are expected to apply and uphold the Code of Ethics relevant to the professional practice of internal auditing:

- a. Integrity
- b. Objectivity
- c. Confidentiality
- d. Competency

**Continuing Professional Development** - Internal auditors shall enhance their knowledge, skills and other competencies through continuing professional development.

### **Authority**

- a. The IAG, with strict accountability for confidentiality and safeguarding records and information, shall have unrestricted access to any and all bank documents, records, properties, personnel, and information technology assets pertinent to carrying out any engagement, and is relatedly authorized to:

- Require any personnel of the audited units to supply information and/or explanation as needed;
  - Have discussions with any personnel of the auditable units during reasonable office time;
- b. The IAG, subject to the approval of the Audit and Compliance Committee, shall have the authority to:
- Decide on the nature, scope and timing of audits;
  - Allocate resources, select subjects, and apply techniques required to accomplish audit objectives; and
  - Carry out any ad hoc appraisal, inspection, investigation, examination or review requested by the Audit & Compliance Committee or the management.
- c. The IAG, unless duly authorized, shall not have the authority to:
- Perform any operational duty for the Bank; and
  - Initiate or approve transactions external to IAG.

**Responsibility** - The IAG shall be responsible for the planning and implementation, reporting, and monitoring of the results of assurance services, consulting services, special/fraud audits and other services.

**Accountability** – The IAG shall be accountable to the Audit and Compliance Committee to:

- Provide assessment on the adequacy and effectiveness of the Bank’s processes for controlling its activities;
- Report significant issues related to the processes for controlling the activities of the Bank and provide information concerning such issues; and
- Periodically provide information on the status and result of the audit.

**Function** - The function of IAG encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of control, risk management and governance processes as well as the quality of performance in carrying out assigned responsibilities to achieve Land Bank’s stated goals and objectives.



**Head** - The Head of Internal Audit Group assumes the designation of Group Head and reports functionally to the Chairman of the Audit and Compliance Committee and administratively to the President.

**Organization and Specific Functions** - The IAG shall be composed of 3 departments, Audit Services Team and Quality Assurance and Support.

- a. Field Operations Audit Department (FOAD).– Shall be responsible for the audit of all Branches, Extension Offices and Accounting Centers/divisions
- b. Credit Review Department (CRD).– Shall be responsible for the audit of all Bank units and subsidiaries with credit-related functions;
- c. Head Office and Systems Technology Audit Department (HOSTAD).– Shall be responsible for the audit of the following:
  - Agrarian Operations Centers and all non-credit related Head Office units and subsidiaries (not covered by Audit Services Team); and
  - Adequacy and effectiveness of the information systems and control and security of the automated systems employed by the Bank, as well as the efficiency and integrity of its information assets.
- d. Audit Services Team (AST).– Shall be responsible for the following engagements/assignments:
  - Conduct of special/fraud audit as directed by the Audit and Compliance Committee and the Management;
  - Audit of all legal services units, supervising units, Compliance Management Office and units under the Risk Management Group;
  - Assistance to IAG in providing secretariat services to the Audit and Compliance Committee and the Accountability Assessment Committee;
  - Review of ICAAP documents;
  - Validation of credit ratings of Universal, Commercial and Offshore Banks operating in the Philippines and Local Government Units; and
  - Validation of risk measurement models.
- e. Quality Assurance and Support – shall oversee the implementation of Quality Assurance and Improvement Program (QA/IP) including periodic reporting of the significant findings/ results of quality assessments to the

Audit and Compliance Committee and Senior Management and provide technical support to the Group Head.

**Other Functions** – The IAG shall provide secretariat services to the Audit and Compliance Committee and to the Accountability Assessment Committee (AAC).

**Personnel Complement.**– The personnel complement of the Departments and Team under IAG shall be based on audit cycle, number of auditable units, volume of transactions, complexity of operations and related aspects, subject to approval of the Audit and Compliance Committee and existing Bank policies.

## CHAPTER 8

### RISK MANAGEMENT

**Risk Management Function<sup>1</sup>.** The risk management function is generally responsible for:

1. Identifying the key risk exposures and assessing and measuring the extent of risk exposures of the Bank and its trust operations;
2. Monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the Bank's internal capital adequacy assessment on an on-going basis;
3. Monitoring and assessing decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
4. Reporting on a regular basis to senior management and to the board of directors of the results of assessment and monitoring. Risk management personnel shall possess sufficient experience and qualifications, including knowledge on the Banking business, the developments in the market, industry and product lines, as well as mastery of risk disciplines. They shall have the ability and willingness to challenge business lines regarding all aspects of risk arising from the Bank's activities.

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<sup>1</sup> BSP Circular No. 749, S. 2012

## **Chief Risk Officer<sup>1</sup>**

The Bank shall appoint a Chief Risk Officer (CRO), or any equivalent position, who 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 discussion 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.

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 appropriate department of the SES within five (5) days from the time it has been approved by the board of directors.

### **A. Duties and Responsibilities of the Risk Management Group<sup>2</sup>**

The Risk Management Group (RMG) shall monitor the risk environment for LANDBANK and provide direction for the activities to mitigate, to an acceptable level, the risks that may adversely affect the Bank's ability to achieve its goals. RMG shall facilitate continuous improvement of the Bank's capabilities around managing its priority risks. It shall monitor and evaluate the risk management process of the Bank and undertake enhancements when needed.

**Specifically, RMG shall undertake the following risk management functions:**

1. Develop and implement a sound and formally structured risk management framework for the Bank.

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<sup>1</sup> BSP Circular No. 749, S. 2012

<sup>2</sup> Charter of the LBP Risk Management Group

2. Undertake periodic review and assessment of the RM framework to ensure its effectiveness and relevance to the prevailing risk environment.
3. Formulate and implement risk management plans, programs, policies and guidelines to execute applicable strategic actions to monitor risk initiatives undertaken by the Bank to identify, assess, control and report credit, market, operational as well as enterprise-wide and group-wide risks.
4. Develop and implement systems and processes to promote timely compliance with Basel II and Bangko Sentral ng Pilipinas requirements.
5. Conduct studies and researches on innovative systems and processes to move towards the adoption of advanced risk management approaches and ultimately to global best practices and standards.
6. Initiate the regular review of the Bank's risk profile and cause the identification of emerging risks.
7. Apply qualitative and quantitative methodologies to assess and measure risks.
8. Evaluate the effectiveness of risk mitigation measures and current RM strategies and recommend possible policy enhancements or modifications when needed.
9. Monitor and assess risks and prepare risk reports for management and the Board.
10. Provide guidance regarding ERM infrastructure, including systems, processes and organizational structure.

The RMG is not responsible for any day-to-day task involved in the mitigation of any risks. However, individuals in the Group may have specific risk management tasks as part of their primary job.

The above list of activities should serve as a guide with the understanding that the RMG may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal or other conditions.

The RMG shall also carry out any other responsibilities and duties delegated to it by the Risk Oversight Committee (RiskCom) and/or the President & CEO, related to the purposes of the RMG as outlined in this section.

## **B. Composition and Operations**

The RMG adopts the management- and Board-approved structure and is composed of three (3) departments, as follows:

1. Business Risk Management Department (BRMD)
2. Credit Policy & Risk Management Department (CPRMD)
3. Treasury Risk Management Department (TRMD)

The RMG Head is the Chief Risk Officer (CRO) of the Bank and reports functionally to the RiskCom and administratively to the President & CEO. The three department heads report directly to the RMG Head.

The Office of the RMG Group Head/CRO (RMG-OGH) is composed of four (4) Basel II Officers and one (1) Administrative Service Officer (ASO). Each of the Basel II Officers is given a specific risk assignment: Basel Officer for Enterprise Risk; Basel Officer for Operational Risk; Basel Officer for Credit Risk; and Basel Officer for Market Risk.

# **CHAPTER 9**

## **REPORT ON THE CONDITION OF THE BANK**

The Bank commits to full disclosure of material information to its stakeholders, supervising agencies and the public in compliance with BSP reporting requirements. The report shall contain, among other things, a statement of the resources and liabilities, including earnings and expenses, the amount of capital stock, surplus, reserve and profits, as well as losses and bad debts carried in the books and assets of the Bank.

The Controllership Group shall prepare the following periodic reports:

1. Monthly Statement of Condition submitted to the BSP;
2. Monthly Statement of Condition and Income and Expenses submitted to the Board of Directors;
3. Quarterly Published Report on Statement of Condition;
4. Quarterly Statement of Income and Expense and Surplus Free submitted to the BSP

# CHAPTER 10

## MONITORING

- A. The Board-Level Committees, the Management Committee, the Asset and Liability Committee, the Information Technology Committee, (and other Bank Committees which the Board may require) shall report regularly to the Board for notation/confirmation of significant actions and developments. The respective Committee Secretariats shall be tasked to submit said reports to the Board.
- B. The Board may require management to make a report on any aspect of its operations as the Board may deem appropriate.

# CHAPTER 11

## OBLIGATIONS OF THE BANK TO DIRECTORS AND OFFICERS<sup>1</sup>

- A. Providing for Staff Support to Directors

The Bank shall provide the members of the Board with reasonable support staff and office facilities to allow them to properly discharge their duties and responsibilities.

- B. Obtaining of Directors and Officers Liability Insurance (DOLI)

Having imposed the highest level of responsibility and accountability on the members of the Board and Officers, i.e., that of extraordinary diligence, it is equitable that when the Bank itself and/or the members of the Board and Management are sued before tribunals on matters that are within the official functions and capacity and on matters where business judgment has been exercised in good faith, that there be proper recovery of the costs of litigation and the judgment liability imposed. It is prudent measure therefore for the Bank to obtain “Directors and Officers Liability Insurance” (DOLI) coverage for itself and the members of the Board and Officers against contingent claims and liabilities that may arise from, as well as the expenses that may be

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<sup>1</sup> GCG MC No. 2012-07

incurred in, prosecuting the actions that may be filed against the Bank arising from the actions of the Board and/or Management that may cause loss or damage to third parties.

Nothing in the preceding paragraph shall be construed as to authorize the reimbursement or the incurring of costs, such as the payment of premiums on DOLI coverage, by the Bank on the litigation expenses incurred and the judgment liability decreed against a Director or Officer for breach of any of his fiduciary duties or for fraud committed in the performance of his or her duties to the Bank and/or its stakeholders.

## **CHAPTER 12**

### **RELATION WITH THE SUPPLIERS<sup>1</sup>**

As with other relationships with the Stakeholders, the Bank should aim to develop relationships and improve networking with business partners and suppliers based on mutual trust. The Bank should aim to offer, through partnership with its suppliers, the best combination of state-of-the-art technology and world class service, strong customer relations and deep industry knowledge and experience, together with the capacity to implement and deliver value-added solutions on time and within budget.

## **CHAPTER 13**

### **PERFORMANCE SELF-RATING SYSTEM**

To strengthen corporate governance, the Board of Directors as a whole and as individual members, and the six Board-level committees (Audit and Compliance Committee, Investment & Loan Committee, Risk Oversight Committee, Trust Committee, Corporate Governance Committee & Agri-Agra Social Concerns Committee) shall accomplish an annual performance self-rating system to evaluate its performance in order to identify strengths and areas for improvement, for a more effective performance. The results of the self-rating system shall be annually evaluated and deliberated upon by the Corporate Governance Committee in a duly constituted meeting.

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<sup>1</sup> GCG MC No. 2012-07

# CHAPTER 14

## ANNUAL MEETING AMONG NON-EXECUTIVE DIRECTORS AND HEADS OF INTERNAL AUDIT, COMPLIANCE AND RISK MANAGEMENT

The non-executive directors shall meet annually or as needed and discuss issues that may warrant closer attention with the heads of Internal Audit, Compliance and Risk Management, in the absence of the Management, other than in meetings of Audit and Compliance and Risk Oversight Committees, which shall be formally documented. The said heads shall have free and unrestricted access to any director.

# CHAPTER 15

## REPORTING

- A. The President and CEO and the Compliance Officer shall submit a certification on the extent of the Bank's compliance to the Manual as per BSP and SEC requirements every January 30 of each year.
- B. The Board shall regularly submit, as may be required by the GCG and other Government Agencies, the following: (a) Performance Scorecards; (b) implementation of the audit recommendations of COA; and (c) compliance with commitments on servicing loans to, and borrowings guaranteed by, the National Government.<sup>1</sup>
- C. The Bank shall also submit to the GCG periodically in electronic form the following: (a) common form financial statements based on annual audited financial statements within thirty (30) days from receipt of the report; (b) dividend computations and payments in accordance with Republic Act No. 7656, also known as "The Dividends Law"; (c) cash and investment balances; (d) actual and projected Statement of Cash Surplus/Deficit; (e) capital expenditure program; (f) Statement of Financial Operations; (g) acquisition or disposition of assets; (h) off balance sheet transactions; and (i) reports for the annual corporate budget call such as but not limited to the following: (i.1) physical and financial performance reports (the immediately preceding three

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<sup>1</sup> GCG MC No. 2012-07



(3) years); and (i.2) sources and uses of funds (the immediately preceding three (3) years) and the proposal for the coming year.<sup>1</sup>

- D. The Report on Conglomerate Structure shall be considered as Category A-1 report and shall be submitted to the BSP Central Point of Contact Department within 30 calendar days after the end of every calendar year.<sup>2</sup>
- E. The Report on Material Related Party Transactions shall be considered as Category A-1 report and shall be submitted to the BSP Central Point of Contact Department within 20 calendar days after the end of the reference quarter.<sup>3</sup>
- F. The report required under Section 5 of BSP Circular No. 749, Series of 2012, relative to the replacement of the Chief Risk Officer shall be considered as Category A-1 report and shall be submitted to BSP within 5 calendar days from the time of approval of the board of directors.

## **CHAPTER 16**

### **PENALTIES**

Non-observance of the provisions of this Manual shall be subject to penalties as may be prescribed by BSP, SEC, GCG and other regulatory agencies.

## **CHAPTER 17**

### **EFFECTIVITY**

This Amended Manual shall be applicable, binding and shall have full force and effect on the Board of Directors and senior officers of the Bank to be effective immediately after approval by the Board of Directors.

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<sup>1</sup> GCG MC No. 2012-07

<sup>2</sup> BSP Circular 895, S.2015

<sup>3</sup> *Ibid.*

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Sources:

1. LANDBANK Charter, as amended.
2. Amended By-Laws of the Land Bank of the Philippines
3. BSP Manual of Regulations for Banks (MORB)
4. BSP Circular 749, Series of 2012
5. BSP Circular 757, Series of 2012
6. GOCC Governance Act of 2011 (R.A. No. 10149)
7. GCG Memorandum Circular No. 2012-05
8. GCG Memorandum Circular No. 2012-07
9. GCG Memorandum Circular No. 2012-08
10. Charter of the Agri-Agra Social Concerns Committee
11. Charter of the Audit and Compliance Committee
12. Charter of the Corporate Governance Committee
13. Charter of the Investment & Loan Committee
14. Charter of the Risk Oversight Committee
15. Charter of the Trust Committee
16. LANDBANK Compliance Charter
17. Revised Charter of the Internal Audit Group
18. Revised Charter of the Risk Management Group