

PAGASA PHILIPPINES FINANCE CORPORATION

TERMS OF REFERENCE

BOARD OF DIRECTORS

(BOARD CHARTER)

JUNE 2020

TERMS OF REFERENCE

Board of Directors

1. Purpose of these Terms of Reference

- 1.1 These Terms of Reference set out the authority, responsibilities, and membership of the Board of Directors (the “Board”) of Pagasa Philippines Finance Corporation (“PPFC” or the “Company”).

2. Authority

- 2.1 The Board comprises the directors of PPFC (“Directors”) and derives its authority to act from PPFC’s By-laws, Rules and Regulations (“By-laws”) and the applicable laws of the Philippines.

3. Role of the Board

- 3.1 The role of the Board is to provide strategic guidance for PPFC and effective oversight of its management as further described in paragraph 8. The underlying objective of decision-making by the Board is to pursue the long term interests of PPFC, its shareholders and other stakeholders.

4. Board composition

- 4.1 The Board will comprise Directors with a broad range of commercial skills and experience, general understanding of the banking activities and/or microfinance, or with appropriate professional qualifications, and who are able to bring useful expertise to the Board’s discussions and decisions. Board Directors must have the ability and capacity to make meaningful contributions to Board strategy and policy and be able, through questioning and analysis of reports, to participate in the overseeing of the proper functioning of management.
- 4.2 The total number of Directors shall be seven (7) in accordance with the By-laws.
- 4.3 The total number of Independent Directors shall at least be two (2) in accordance with the By-laws.
- 4.4 The Board will include Executive and Non-Executive Directors.

5. Chairman

- 5.1 The Chairman of the Board will be elected by the Board in accordance with the By-laws.

6. Board committees

- 6.1 The Board will establish committees as it considers appropriate to assist it in carrying out its responsibilities.
- 6.2 The Board shall, as a minimum, establish the following Board committees:
- Executive Committee

- Audit & Risk Committee
- Nomination Committee
- Remuneration Committee

6.3 The Board may also institute other permanent or temporary committees.

7. Delegation to management

7.1 The Board delegates to the management committees and to the management team necessary authority and power as shall deem adequate.

8. Responsibility of the Board

8.1 General role. The Board as a whole is collectively responsible for the success of the Company. The Board:

- determines the general policy of the Company and the group, and monitors the Company and the group's operations;
- provides entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed;
- sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives, and reviews management performance; and
- sets the Company's values and standards and ensures that its obligations to its shareholders and other stakeholders and others are understood and met.

8.2 Governance. The Board:

- establishes, reviews and monitors processes for corporate governance throughout PPFC, with due regard to all of PPFC's stakeholders and their respective roles;
- builds trust in PPFC through consistent behavior, transparency and accountability;
- monitors and influences the culture, reputation and ethical standards of PPFC;

8.3 Strategy. The Board:

- develops an in-depth understanding of each part of PPFC's business;
- reviews, approves and monitors PPFC's budget, business and strategic plans, and reviews the assumptions and rationale underlying them;
- makes suggestions to the Regular (or Special) Meeting concerning PPFC's capital structure;

- reviews, approves and monitors major investments and strategic commitments;

8.4 Reviewing Key Performance Indicators. The Board:

- reviews business results and monitors budgetary control;
- reviews, approves and monitors any necessary corrective actions and processes;

8.5 Integrity of external reporting. The Board:

- reviews and monitors the processes, controls and procedures which are in place to maintain the integrity of PPFC's accounting and financial records and statements;
- monitors and receives reports from the Audit & Risk Committee in relation to internal controls, compliance with prudential regulations and requirements, and internal and external audit reports;
- reviews and monitors the reporting to shareholders to ensure that it is objective, comprehensive and factual;

8.6 Risk management. The Board:

- establishes, monitors and reviews the risk management processes and framework with the guidance of the Audit & Risk Committee;
- reviews and monitors processes for the maintenance of adequate credit quality;
- reviews and monitors processes for the documentation and regular review and updating of PPFC's risk profile;

8.7 Management oversight and executive review. The Board:

- approves key executive appointments and monitors and reviews the business continuity plan;
- reviews and monitors the performance of the senior executives, the management team and any other senior management;
- considers nominations and appointments of representatives within subsidiaries and other controlled entities;

8.8 Board performance. The Board:

- monitors and reviews processes to assist Directors in having sufficient time to devote to Board matters to ensure that they discharge their duties effectively; and
- reviews these Terms of Reference and their continuing adequacy from time to time as well as the terms of reference of the Executive Directors, Non-Executive Directors and any board committee.

9. Board meetings

- 9.1 Directors are expected to prepare adequately, attend, and participate at Board and committee meetings.
- 9.2 Directors will be provided with adequate materials on topics to be discussed at Board meetings at least three (3) days in advance of the meeting date.
- 9.3 Board agendas will be structured throughout the year to ensure that each significant responsibility of the Board is addressed. As part of the agenda, the Board will review strategy and the achievement of financial and other goals. The Board will receive a detailed overview of the performance and significant issues, including risk factors of each business directly or indirectly owned by the Company.
- 9.4 The Board will receive from the general management, on a regular basis, key performance indicators and detailed financial reports; management will be invited to answer the Board's inquiries thereto.
- 9.5 The Board will review PPFC's long-term strategic plans and any major issues that it expects PPFC to face in the future.
- 9.6 The Board will review the internal audit reports during at least one (1) board meeting each year.

10. Directors' remuneration

- 10.1 The Annual Regular Meeting decides of the annual remuneration recommendations of Directors through the Remuneration Committee.
- 10.2 The Company will reimburse the Directors all reasonable out of pocket expenses necessarily incurred in carrying out your duties in accordance with the Company's expenses policy as amended from time to time (a copy of which is made available on request).

11. Executive Directors

- 11.1 The Company shall appoint at least one (1) Executive Director (Chief Executive Officer) who is responsible for the overall leadership and general and active management of the affairs of the Company. The duties and responsibilities of Executive Directors encompass leading all operational, financial and administrative functions of the Company and any other functions established from time to time.
- 11.2 The Board of Directors defines the institution's strategic vision, and Executive Directors are accountable for its implementation and the results achieved.
- 11.3 Executive Directors may also be members of the Board but are, at all times, subject to the supervision and control by the Board.
- 11.4 The Executive Directors are responsible for reporting to the Board on the activities of the Company and participating in its meetings from time to time as requested by the Board. To the extent requested by the Board, the Executive Directors shall ensure that appropriate staff members are available to assist at Board meetings.

11.5 Executive Directors are responsible for promptly, regularly and fully informing the Chairman of the Board about the current affairs, activities and finances of the Company.

11.6 The Term of Reference of Executive Directors shall be adopted by the Board.

12. Non-Executive Directors

12.1 At least three (3) Non-Executive Directors will be appointed to the Board of Directors. A Non-Executive will be eligible to serve on the Board and Board Committees of PPFC if the Director satisfies the standards adopted by the Board from time to time. These standards will reflect appropriate independence requirements under best practice recommendations.

12.2 A Non-Executive Director must be independent of management and free of any business relationship that could materially interfere with - or could reasonably be perceived to materially interfere with - the exercise of his objective and independent judgment.

12.3 The Board of Directors will adopt Terms of Reference for Non-Executive Directors.

13. Appointment and re-election of Directors

13.1 All Board Directors are elected by the Regular Meeting amongst the shareholders holding.

13.2 PPFC will provide a formal letter of appointment for each Director setting out the key responsibilities and authorities as Director of the Board.

13.3 The process for re-election of a Director is in accordance with PPFC's Regulations, which requires that a Director's term of office shall be for three (3) years, subject to re-election by the Annual Regular Meeting.

14. Performance and evaluation

The Board will annually review and evaluate the performance of the Board committees, the senior management of PPFC, the relationship between the Board and management, and matters of general corporate governance.

15. Access to management

15.1 In order to conduct properly their duties, Board Directors will have open access to Directors of management during scheduled Board sessions. In line with best practice, such access is exclusively limited to Board meetings or any formal or informal management meetings to which Directors are invited from time to time.

15.2 As an intrinsic part of the Board's responsibility of management oversight, Board committees, specifically, will have access to and mandatory meetings with individual senior management.

16. Board Secretary

16.1 All Directors shall have direct access to the Secretary of the Board ("Board Secretary").

16.2 The Secretary shall be appointed by the Board.

17. Terms of reference

17.1 This Board Terms of Reference governs the conduct of the Board and each Director. It is the policy of the Company that all Directors, staff, employees and other working for and on behalf of the Company will adhere to the highest ethical standards and values and business conduct as may be further specified by the Board from time to time.

18. Confidential information and Secrecy

18.1 The internal control systems are monitored and employee integrity is fostered to ensure that Company's secrecy is at all times fully respected and confidential customer information is not improperly disclosed outside PPFC or used for individual personal gain.

18.2 When the Directors are serving on the boards of other companies and undertaking private transactions, they are to have regard to their confidentiality obligations at all times.

19. Conflicts of interest

19.1 Directors are expected to avoid any action, position or interest that conflicts with an interest of PPFC, or gives the appearance of a conflict.

19.2 A Director who has a material personal interest in a matter that relates to the affairs of PPFC must give the Board of Directors notice of such interest. Such notice should be provided in writing to the Chairman and Board Secretary, who are to ensure that the notice is brought to the attention of the other Directors.

19.3 When a potential conflict of interest arises, the Director concerned will take no part in discussions nor exercise any influence over other Directors of the Board.

19.4 Any financial arrangement concluded between PPFC and the Directors is subject to the prior approval of the General Meeting whether this deal is transacted directly or indirectly.

19.5 PPFC will include in its annual report the transactions concluded with the Directors. The Board and PPFC's external auditors shall establish a special report in this regard.

20. Communications

20.1 The Board confirms that the Chairman, or any other person designated by the latter, is the sole spokesperson for PPFC. Individual Board Directors are expected to consult with the Chairman before any communication with various constituencies who are involved with PPFC that might engage it or interfere with its activity or affect its reputation.

21. Publicly available information

21.1 The following information will be made publicly available, and updated as required, by posting the material on PFFC's website:

- Corporate Governance Manual
- the Terms of Reference for the Board of Directors
- the names and details of the qualifications of the Directors of the Board
- the number of meetings of the Board and the names of those attending

This edition of Terms of Reference has been prepared on 24 June 2020 and approved by the Board on June 29, 2020.