

**SMALL BUSINESS CORPORATION  
CODE OF CORPORATE GOVERNANCE\***

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*\* For approval by the Governance Commission for GOCCs*

## **I. INTRODUCTION**

This Code of Corporate Governance provides Small Business Corporation (SBC) with a framework for the performance of its mandate and the management of its business. It conforms to the standards of good corporate management and the provisions of the Republic Act 9501, otherwise known as the Magna Carta for MSMEs, as amended, as well as the Philippine laws that are of relevance in this context.

It aims to establish a system of management and control that is accountable and is geared to creating sustainable, long-term value and to ensure transparency for all stakeholders.

## **II. COMMITMENT TO PRINCIPLES OF GOOD GOVERNANCE**

1. As an active partner of the government in national development, SB Corporation recognizes that its corporate organization is essential to the performance of its functions as provided for in Section 7 (Item C.), Rule 10 of the Implementing Rules and Regulations of the RA 9501 issued under Department Order No. 09., Series of 2008.
2. Its Board of Directors, Management and Staff, believe that good corporate governance is an integral component of sound strategic business management and of transparency and accountability in public corporate governance, and will therefore undertake every effort necessary to create awareness of those within the Corporation.
3. As such, SBC is committed to institutionalize the following guiding principles of good corporate governance in the entire organization:
  - a) SBC shall promote transparency, accountability and fairness, and shall strictly conduct its business in accordance with the rule of law and shall support the primary goals and objective of the government for MSME Development.
  - b) SBC shall make timely and accurate disclosure on all of its material aspects and development, including financial condition, performance, ownership and governance;
  - c) SBC shall accord its strategic guidance with the objectives set by the Government, with the effective monitoring of Management by the Board, and with the Board's accountability to the corporation and the stakeholders.
  - d) SBC shall actively cooperate with stakeholders in creating wealth, jobs, and the sustainability of a financially sound MSMEs.
4. The Board of Directors, Management and Staff of SB Corporation hereby commit themselves to these principles and best practices contained in this Code and acknowledge that this will serve as a guide in the attainment of corporate goals.

## **III. SBC BOARD**

5. The Board of Directors, hereinafter referred to as the “Board”, is primarily responsible for ensuring good corporate governance of the Corporation. Compliance with the principles of good corporate governance shall start with the Board.

### **1. Composition of the Board**

6. As prescribed in the “Magna Carta for Micro, Small and Medium Enterprises” (RA 9501), the Board of Directors of SBC shall be composed of eleven (11) members, as follows:
  - a) The Secretary of Trade and Industry;
  - b) The Secretary of Finance;
  - c) A private sector representative to be appointed by the President upon the recommendation of the MSMED Council and the Governance Commission for GOCCs (GCG);
  - d) Seven (7) representatives of the SB Corporation common stock shareholders based on proportional distribution, in accordance with Section 24 of the Corporation Code; and
  - e) The president of the SB Corporation as ex-officio member and to serve as vice chairman of the Board.
7. All Appointive Directors, or all members of the Board of Directors who are not ex-officio members, shall be appointed by the President of the Philippines from a shortlist prepared by the GCG.
8. The term of office of each Appointive Director shall be for one (1) year, unless sooner removed for cause; Provided, however, That the Appointive Director shall continue to hold office until the successor is appointed. An Appointive Director may be nominated by the GCG for reappointment by the President. Appointment to any vacancy shall only be for the unexpired term of the predecessor.

### **2. Powers of the Board**

9. The Board of Directors shall have, among others, the following specific powers and authorities:
  - a) Formulate policies necessary to carry out effectively the provisions of the RA 6977, as amended by RA 9501, and to prescribe, amend and repeal by-laws, rules and regulations for the effective operations of the Small Business Corporation;
  - b) Establish such branches, agencies and subsidiaries as may be deemed necessary and convenient;
  - c) Compromise or release, in whole or in part, any claim or liability whatsoever for or against the SB Corporation, including interest, penalties, fees and/or

- other charges in accordance to its own by-laws and Bangko Sentral ng Pilipinas rules;
- d) Fix the features of non-voting preferred shares which shall be printed on the stock certificates evidencing the same;
  - e) Exercise all such other powers as may be necessary on incidental to carry out the SB Corporation's purposes; and
  - f) Notwithstanding the provisions of Republic Act No. 6758 and Compensation Circular No. 10, Series of 1989 issued by the Department of Budget and Management, the Board shall have the authority to provide for the organizational structure and staffing pattern of SB Corporation and to extend to the employees and personnel thereof salaries, allowances and fringe benefits similar to those extended to and currently enjoyed by employees and personnel of other government financial institutions, subject to the provisions of the Compensation and Position Classification System to be developed by the GCG and approved by the President.

### **3. General Responsibilities of the Board**

- 10. It shall be the responsibility of the Board to foster the long-term success of SB Corporation and secure its sustained competitiveness in a manner consistent with its powers set out in the SB Corporation Charter, which the Board shall exercise in the best interest of the Corporation and its stakeholders. The Board shall decide on all corporate acts as a collegial body. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

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

- 11. To ensure a high standard of best practice for SB Corporation and its stakeholders, the Board shall:
  - a) Determine SB Corporation's vision, mission and core values to guide the carrying out of its objectives and business strategies;
  - b) Establish corporate objectives and draw up strategies for achieving them including the formulation of a business plan to direct corporate activities;
  - c) Oversee and monitor Management action and performance;
  - d) Ensure the adoption of sound written policies on all major business activities including the maintenance of adequate risk management policy;
  - e) Prescribe a clear assignment of responsibilities and decision-making authorities, incorporating a hierarchy of required approvals from individual employees to the Board itself;

- f) Keep Board authority within the powers of SB Corporation as prescribed in its Charter, and in existing laws, rules and regulations;
- g) Assess at least annually its performance and effectiveness as a body, as well as its various committees, the Chief Executive Officer and the Corporation itself;
- h) Adopt a system of internal checks and balances – Among the Board members, 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 Corporation;
- i) Properly discharge Board functions by meeting regularly – Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted;
- j) Ensure that SB Corporation complies with all relevant laws, rules and regulations, company policies, procedures, and codes of ethics and corporate governance;
- k) Identify SB Corporation’s stakeholders and formulate a clear policy on communicating or relating with them;
- l) Assume overall responsibility for ensuring adherence to corporate governance principles and best practices.

#### **4. General Responsibility of a Board of Director**

12. A Director shall act in a manner characterized by transparency, accountability and fairness and shall assume certain responsibilities to different constituencies and stakeholders, e.g., the Corporation itself, the Government, customers, creditors, employees, and the public at large, who have the right to expect that the Corporation is run in a prudent and sound manner.

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

13. A Director shall have the following duties and responsibilities:
- a) *Conduct fair business transactions with SB Corporation and ensure that personal interest does not bias Board decisions* – A Director shall avoid situations that give rise to a conflict of interest or compromise his impartiality. A Director shall not use his position to make profit or to acquire benefit or advantage for himself and/or his related interest;
  - b) Act always in good faith with the care which an ordinarily prudent man would exercise under similar circumstances, with loyalty and in the best interest of SB Corporation and its stakeholders;

- c) *Devote time and attention necessary to properly discharge his duties and responsibilities* – A Director shall familiarize himself with SB Corporation’s business, be aware of the Corporation’s condition, contribute meaningfully to the Board’s work, attend and actively participate in Board and committee meetings, request and review meeting materials;
- d) *Act judiciously* – Before deciding on any matter, a Director shall thoroughly evaluate the issues, ask questions and seek clarifications when necessary;
- e) *Exercise independent judgment* – A Director shall view each problem or situation objectively. When disagreement with others occurs, he shall carefully evaluate the situation and state his position, he shall not be afraid to take a position even though unpopular, and he shall support plans and ideas that he thinks will be beneficial to SB Corporation;
- f) *Have a working knowledge of the statutory and regulatory requirements affecting SB Corporation, including the contents of its Charter and the requirements of government regulatory agencies* – A Director shall also keep himself informed of the industry developments and business trends in order to safeguard SB Corporation’s competitiveness;
- g) *Observe confidentiality* – A Director shall observe the confidentiality of non-public information acquired by reason of his position as Director, and shall not disclose such information without authority of the Board;
- h) Ensure the continuing soundness, effectiveness and adequacy of SB Corporation’s control environment.

## **5. Meetings of the Board**

- 14. The Board, may by resolution, provide for regular meetings at such particular date, hour or place or frequency as may be deemed advisable but in no case shall the regular meeting be less than once every month.
- 15. Special meetings may be called by the Chairman at his discretion, or upon written request of majority of the members of the Board.

## **6. Disqualifications of a Director**

- 16. No person shall be nominated or elected or appointed as Director of the SB Corporation unless he is a natural born citizen of the Philippines, not less than thirty five (35) years old, of good moral character, at least a college graduate, and has attained proficiency, expertise and competencies in the fields of its business.
- 17. The following shall be grounds for automatic and permanent disqualification as a member of the SBC Board:

- a) Any person who has been convicted by final judgment of the court for offenses involving dishonesty or breach of trust such as estafa, embezzlement, extortion, forgery, malversation, swindling and theft.
- b) Any person finally found by a court or administrative body to have willfully violated or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, or any other law administered by the Security and Exchange Commission or the Bangko Sentral ng Pilipinas.
- c) Any person judicially declared to be insolvent, spendthrift or incapacitated to contract.
- d) Directors, trustees, officers or employees of closed institutions under the supervisory and regulatory powers of the BSP who were responsible for such institution's closure as determined by the Monetary Board.

18. Incumbent Board members shall be temporarily disqualified for the following grounds:

- a) Persistent refusal to fully disclose the extent of his business interest, when required pursuant to a provision of law or of a circular, memorandum, rule or regulation of the BSP, and which is necessary to enable the Board to determine if the member is engaged in a business which competes with or is antagonistic to the Corporation. This disqualification shall be in effect as long as the refusal persists.
- b) Absence or non-participation for whatever reason/s in more than 50% of all meetings, both regular and special, of the Board during his incumbency, or any twelve (12) month period during said incumbency. This disqualification applies for purposes of the succeeding election.
- c) Dismissal or termination from employment or Board membership with another corporation for cause . This disqualification shall be in effect until they have cleared themselves 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 of their disqualification.
- d) Being under preventive suspension by the SB Corporation for any reason.
- e) Conviction for offenses referred to as grounds for permanent disqualification of Board members, which conviction has not yet become final and executory.
- f) Delinquency in the payment of their obligations. This disqualification shall be in effect as long as the delinquency persists.

Delinquency in the payment of obligations means that an obligation of person with the institution where he/she is a director or officer, or at least two (2)

obligations with other financial institutions, under different credit lines or loan contracts, are past due.

Obligations shall include all borrowings from any financial institution by:

- i. A director, trustee or officer for his own accounts 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, trustee or officer;
  - iii. Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director, trustee or officer;
  - iv. A partnership of which a director, trustee or officer, or his/her spouse is the managing partner or a general partner owning 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".
- g) Being directors, trustees and officers of closed institutions under the supervisory and regulatory of the BSP pending their clearance by the Monetary Board.
  - h) Being directors and trustees 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 of such director's election/ re-election.
  - i) Having derogatory records with the NBI, court, Interpol and monetary authority (central bank) of other countries (for foreign directors and officers) involving violation of any law, rule or regulation of the government or any of its instrumentalities adversely affecting the integrity and/or ability to discharge the duties of a director/trustee/officer. This disqualification applies until they have cleared themselves of involvement in the alleged irregularity.
19. Temporary disqualification shall be at the discretion of the Board and shall require a resolution of a majority of the Board.
20. The Corporate Governance Report shall state the chairperson and vice chairperson as well as the name, year of birth, the year of the first appointment of every Board member and the end of their current period of office. If a member of the Board fails to personally attend more than half of the meetings of the Board, this fact shall be stated in the Corporate Governance Report.

## **7. Collective and Individual Liability of Board Members**

21. Board members, whether nominated by the government or other shareholders, who willfully and knowingly vote or consent to patently unlawful acts of the SB Corporation or who are guilty of gross negligence or bad faith in directing the Corporation's affairs and or acquire any personal or pecuniary interest in conflict with their duty as such members, shall be liable jointly and severally for all damages resulting therefrom suffered by SB Corporation, shareholders, stakeholders, and or persons without prejudice to the imposition of criminal or administrative penalties.
22. Any Board member who enters into a transaction or contract grossly disadvantageous to the Government, whether he profited from it or not, shall be liable for violation of Republic Act. No 3019 or the Anti Graft and Corrupt Practices Act.

## **8. Specialized Board Committees**

23. To aid in complying with the principles of good corporate governance, the Board shall set up specialized committees which shall serve to improve the efficiency of the work of the Board and shall deal with complex issues. The Board may, however, discuss the issues of the committees with the entire Board at its discretion.
24. Each committee shall have a charter or terms of reference (TOR) specifying among others the objectives, membership, meeting attendance, meeting frequency, authority, duties and responsibilities, and reporting procedures. The chairman and members of committees shall be selected according to skills and experiences needed by the committees. The Board Chairman shall not be the chairperson of any committee.
25. Each chairperson of a committee shall report periodically to the Board on the work of the committee. The Board shall ensure that a committee has the authorization to take decisions in urgent cases. The report shall state the names of the committee members and the name of the chairperson and must disclose the number of meetings of the committees and discuss the activities of the committees.
26. The committees shall be provided with the resources necessary to discharge the functions, duties and responsibilities assigned to them, and shall include the following:
  - a) Corporate Governance Committee (CGC);
  - b) Risk Oversight Committee (ROC); and
  - c) Audit and Compliance Committee (ACC)

### **A. Corporate Governance Committee (CGC)**

27. The CGC shall be composed of at least three (3) members of the Board of Directors, two (2) of whom shall be independent directors. The members of the Committee shall be appointed by the Board. The CGC shall be responsible for:
- a) Formulating and institutionalizing the Corporation's Code of Corporate Governance and Code of Ethics and ensure adherence to the Codes;
  - b) Reviewing from time to time the Code of Corporate Governance, the Code of Ethics and the CGC Charter, and recommending any changes to the Board;
  - c) Ensuring the attendance of Directors to corporate governance seminars conducted by BSP-accredited governance program seminar/training providers;
  - d) Determining if there is any potential conflict of interest by a Director and key officers, and institute a process for handling these situations in accordance with existing laws, rules and regulations and in line with global as well as ethical and other regulatory standards;
  - e) Overseeing the periodic performance evaluation of the Board and its Committees. It shall also conduct an annual self-evaluation of its performance;
  - f) Deciding the manner by which the Board's performance may 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;
  - g) Reviewing regularly the organization plan and structure including proposed organizational changes/enhancements, compensation package (benchmark with other GFIs as provided by RA 9501) as well as manpower plan to ensure adequacy in meeting the growth need of the Corporation;
  - h) Reviewing and evaluating the qualifications of all persons nominated to positions requiring appointment by the Board of Directors;
  - i) Overseeing the Corporation's compliance efforts with respect to the Code of Corporate Governance, Code of Ethics, and related laws, rules and regulations as well as company policies and procedure;
  - j) Networking with other offices with the view of reviewing programs designed to raise the culture of ethics and compliance within the Corporation, and corollarily, to install an enforcement mechanism which should sanction non-compliance and unethical behavior while rewarding the serving ones.
28. The compliance functions of the CGC shall cover non-financial matters. Whenever necessary, the CGC shall jointly work with the Audit and Compliance Committee to make sure that governance and compliance aspects of a particular issue are thoroughly and adequately addressed.

## **B. Risk Oversight Committee (ROC)**

29. The ROC shall be composed of five (5) members from the Board of Directors, at least three (3) of whom are non-members of Management. On an annual basis, the members of the ROC shall be appointed by the Board of Directors from among themselves and shall serve until such member's successor is duly elected and qualified or until such member's earlier resignation or removal. In instances of early resignation or removal, the Board of Directors may have the option not to replace a member with an unfinished term.
30. All members of the ROC shall have a basic understanding and appreciation of risk management in a financial institution. They are also, expected to have a significant and relevant understanding of the financial, operational and legal issues and concerns which affect the business of running the Corporation.
31. The ROC shall primarily be responsible for the development and oversight of the risk management programs of the Corporation which include the following:
  - a) Oversight of management function relative to the Corporation's risk management framework, its formulation of risk management policies, procedures and best practices relative to the various types of risks faced by the Corporation and thereby ensuring that system of limits to discretionary authority which the Board delegated to management are properly observed, remains to be effective and that immediate corrective actions are taken whenever limits are breached.
  - b) Ensure compliance to written policies and procedures relating to risk management. This shall include a comprehensive and integrated risk management approach through the enterprise risk management process; effective management of all risk categories thru the establishment and promotion of a sustainable and effective risk culture in all corporate undertakings; and identification of critical risk areas and ensure that these are properly mitigated.
32. The core responsibilities of the ROC shall be the following:
  - a) Identify and Evaluate Exposures. The ROC shall assess the probability of each risk becoming reality and 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.
  - b) Develop Risk Management Strategies. The ROC shall develop a written plan defining the strategies for managing and controlling the major risks. Identify practical strategies to reduce the chance or harm and failure or minimize losses if the risk becomes real.
  - c) Implement the Risk Management Plan. The ROC shall communicate the risk management plan and loss control procedures to affected parties. Conduct regular discussions on the Corporation's current risk exposure based on regular

management reports and direct concerned units or offices on how to reduce these risks.

- d) Review and Revise the Plan as Needed. The ROC shall evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. Revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. 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.
33. The Committee shall meet with, request/gather (or compel submission, in proper cases), receive and evaluate information from management and appropriate sources and act or approve proposals on items relating to the following risks:
- a) Credit Risk - The ROC shall ensure that appropriate credit risk management systems such as the borrower risk rating and the facility risk rating are developed; concentration and exposure limits are well-defined; documentation are perfected and proper monitoring covenants are to ensure that the Corporation's borrowers or counter-parties are able to meet their obligations on time and based on agreed terms.
  - b) Operational Risk - The ROC shall review Management reports relating to operational risk issues in areas including but not limited to internal and external fraud; development of material products and services; technological risks and technology strategies; business disruption and system failure; and business practices generally.
  - c) Compliance Risk - The ROC shall ensure that the Corporation is taking appropriate measures to address all existing regulatory requirements, and new requirements that may be enacted hereafter, including those under the Bangko Sentral ng Pilipinas, the Securities and Exchange Commission, the Commission on Audit and other regulatory agencies as may be required by higher authorities.
  - d) Market Risk - The ROC shall ensure that the Corporation has in place policies that will protect it from market fluctuations in the trading of assets and liabilities wherein sudden and unexpected changes in interest rates, foreign exchange rates, and other asset prices can result to huge losses which may impair revenue generation.
  - e) Liquidity and Solvency Risks - The Committee shall ensure that the Corporation has enough liquid assets to service its short-term liabilities and thus prevent any adverse impact on its solvency. Policy should address optimum timing in asset and liability disposal and asset acquisition to preclude any mismatch in cash flows. In like manner, the Committee shall ensure that the Corporation thru prudent risk management strategies and exposures limits is able to avert huge losses that can result to insolvency. Safeguards should be in place to sustain and maintain capital at adequate levels. The Committee shall

monitor on a regular basis liquidity and capital adequacy positions of the Corporation and address any deficiencies through policy directives as needed.

### **C. Audit and Compliance Committee (ACC)**

34. The purpose of the ACC is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the company's process for monitoring compliance with laws and regulations and the Code of Conduct.
35. Management shall be responsible in determining that SBC's financial statements and disclosure are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations.
36. The Committee shall be composed of at least three (3) Board members, two (2) of whom shall be independent directors, preferably with accounting, auditing or related financial management expertise or experience. The members of the ACC shall be appointed by the Board.
37. The Committee shall carry out the following responsibilities:

#### *(a) Financial Statements*

- i Review the quarterly, half-year and annual financial statements focusing particularly on any change/s in accounting policies and practices, major judgment areas, significant adjustments resulting from the audit, going concern assumption, compliance with Philippine Financial Reporting Standards, and compliance with tax, legal and Commission on Audit/Bangko Sentral ng Pilipinas requirements.
- ii Receive and review reports of internal auditor and regulatory agencies and ensure that Management is taking appropriate corrective actions in timely manner in addressing control and compliance functions with regulatory agencies.
- iii Review interim financial reports with management before filing with regulators and consider whether they are complete and consistent with the information known to committee members.
- iv Understand how management develops interim financial information and the nature and extent of internal and external auditor involvement.

#### *(b) Internal Control*

- i Consider the effectiveness of the company's internal control system, including information technology security and control and coordinate with the Commission on Audit.

- ii Understand the scope of internal and external auditors' review of internal control over financial reporting and obtain reports on significant findings and recommendations, together with management's responses.

*(c) Internal Audit*

- i Review with management and the chief audit officer the charter, plans, activities, staffing and organizational structure of the internal audit function.
- ii Establish and identify the reporting line of the chief audit officer so that reporting level allows the internal audit activity to fulfill its responsibilities. The chief audit officer shall report directly to the Audit and Compliance Committee functionally. The Committee shall ensure that the internal auditors shall have free and full access to all the Company's records, properties and personnel relevant to the internal audit activity and that the internal audit activity should be free from interference in determining the scope of internal audit examinations, performing work, and communicating results, and shall provide a venue for the Committee to review and approve the annual internal audit plan.
- iii Review the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.
- iv Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the chief audit officer.
- v On a regular basis, meet separately with the chief audit officer to discuss any matters that the committee or internal audit believes should be discussed separately.

*(d) Corporate Compliance*

- i Oversee the corporate compliance program, including policies and practices designed to ensure the organization's compliance with all applicable legal, regulatory, and ethical requirements. These include compliance with RA 9501 (Magna Carta for MSMEs), COA and BSP rules and regulations, and applicable Philippine Financial Reporting Standards (PFRS).
- ii Recommend approval of the annual corporate compliance plan and review processes and procedures for reporting concerns by officers, employees and others.
- iii Recommend organizational integrity guidelines and a Code of Conduct. Review and reassess the guidelines and Code of Conduct at least annually.
- iv Review resources for corporate compliance with the compliance officer and CEO to ensure that sufficient resources are provided.

- v Review and evaluate findings and recommendations from completed compliance activities and audits, including management responses and action plans.
- vi Report to the Board of Directors at least annually on the corporate compliance program.

*(e) Existing provisions*

- i Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- ii Review the findings of any examinations by regulatory agencies, and any auditor observations.
- iii Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.
- iv Obtain regular updates from management and company legal counsel regarding compliance matters.

*(f) Reporting Responsibilities*

- i Regularly report to the Board about committee activities, issues and related recommendations.
- ii Provide an open avenue for communication between internal audit, the external auditors, and the Board of Directors
- iii Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- iv Review any other reports the company issues that relate to committee responsibilities.

*(g) Other Responsibilities*

- i Perform other activities related to this charter as requested by the Board.
- ii Institute and oversee special investigations as needed.
- iii Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation

38. The Committee shall have the explicit authority to conduct or authorize investigations into any matters within its scope of responsibility and full access to

and cooperation by Management. Adequate resources shall be provided to enable it to effectively discharge its functions. It is empowered to:

- a) Resolve any disagreements between management and the internal auditor regarding financial reporting.
  - b) Pre-approve all audit work plan.
  - c) Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
  - d) Seek any information it requires from employees-all of whom are directed to cooperate with the committee's requests-or external parties.
  - e) Meet with company officers, external auditors, or outside counsel, as necessary.
39. The Committee shall meet at least four times a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via tele- or video-conference. The Committee shall invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It shall hold private meetings with auditors / compliance officer and executive sessions as necessary. Meeting agendas shall be prepared and provided in advance to members, along with appropriate briefing materials. Minutes shall be prepared.
40. A separate staff unit is to be set up for internal auditing, which shall report to the Board. At least once a year, a report on the auditing plan and any material findings is to be presented to the Audit Committee.

#### **IV. MANAGEMENT**

##### **1. Scope of Competence and Responsibilities of the Management**

41. The Management shall have sole responsibility for managing the SB Corporation and shall endeavor to take into account the interests of the shareholders, of the employees and the public good.
42. Fundamental decisions shall be reached by the entire Management. Such decisions shall include, in particular, the concrete formulation of goals of SB Corporation and the definition of its strategy. In the case of significant deviations from projected figures, the Management shall immediately inform the Board.
43. The Management shall be responsible for the implementation of the decisions it takes.
44. The Management shall have overall responsibility for communications tasks that significantly impact the image of the Corporation as perceived by stakeholders, and may receive support in carrying out these tasks from the relevant departments of the Corporation.

45. The Management shall provide the Board periodically and in a timely manner with comprehensive information on all relevant issues of business developments including an assessment of the risks prevalent and the risk management in place at the Corporation. If an event of major significance occurs, the Management shall immediately inform the Chairman of the Board; furthermore, the Board shall be immediately informed of any circumstances that may have a material impact on the profitability or liquidity of the company (special report). Ensuring that the Board is supplied with sufficient information is a joint task of the Management and Board. Members of the Board and Management and the employees involved are obliged to maintain strict confidentiality.
46. The Management shall agree on the strategic direction of SBC with the Board and shall periodically discuss the progress made on implementing the strategy.
47. In order to fulfill their responsibilities, Board Members shall be provided by the Management with complete, adequate and timely information prior to Board meetings and on on-going basis. The Board may have separate and independent access to SB Corporation's Senior Management.
48. The Board Members may require additional information to fulfill their duties properly. Such information may include the background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and monthly internal financial statements. With respect to the budget, any variance between the projections and actual results shall be disclosed and explained.

## **2. Executive Officers**

### **a. The Chairman of the Board/Chief Executive Officer (CEO)**

49. The President of the Philippines shall appoint, from among the members of the Board, the Chairman of the Corporation. The Board Chairman, who is the Chief Executive Officer, shall serve on a full time basis. He shall focus on the proper governance of the Corporation through the Board.
50. The Chairman shall preside over all meetings of the Board and/or of the stockholders. In the absence or inability of the Chairman, the Vice Chairman who is the President of the Corporation shall take charge thereof.
51. The Chairman shall have such powers and duties as the Board may prescribe. His/her express role in the Corporation is described as follows:
  - a) To lead the Board in defining the strategic thrust and policies of the Corporation in consideration of the development agenda of the national government for MSMEs and the economy in general, and of emerging business and social opportunities.

- b) To be the chief strategist of the Corporation as guided by the goals, objectives and targets set by the Board. He/she shall formulate the Corporation's strategy and action plan, determine priorities and how to get things done within the organization, and take command and responsibility for its performance.
- c) To ensure that policy direction is well-grounded and based on an objective assessment of the internal and external environments of the Corporation.
- d) To guide the Board in formulating policies that will ensure that the Corporation's effort to reach its clientele are processed under correct procedures and with adequate safeguards.
- e) To be the lead public advocate of the Corporation in promoting its goals and objectives, capabilities and performance among the various markets and partners, and in touching base with outside parties from government and/or private sectors with the end in view of helping MSMEs gain the financial access and/or assistance they need.

**b. The President and Chief Operating Officer (COO)**

- 52. The President of the Corporation shall be its Chief Operating Officer and Vice Chairman of the Board. He/she shall execute and administer the policies, measures, orders and resolutions approved by the Board, and direct and supervise the operations and administration of the Corporation.
- 53. The President shall attend all meetings of the Board where he/she be the chief proponent of matters that require Board approval and shall be responsible for providing necessary information on key operational and environmental developments relevant to the Corporation.
- 54. Among other powers and duties inherent in his/her office, his/her express role in the Corporation is as follows:
  - i To provide the Board with the necessary tools for decision making such as continuing assessments of the Corporation's internal and external environments and the performance of its programs in the various markets, researches on new business and social opportunities and budget recommendations, among others.
  - ii To assist the CEO and the Board in building the organization, its structures and systems,
  - iii To be the financial steward if the Corporation, assessing its financial health, valuing its acquisitions and monitoring its revenues and investments.
  - iv To perform such other duties as may be prescribed by the Board.

**c. The Corporate Secretary**

55. The Corporate Secretary shall have the following functions:

- i. Keep the accurate Minutes of all meetings of the Board and of the stockholders;
- ii. Fill out and countersign all the certificates of stock;
- iii. Keep the Stock and Transfer Book and the corporate seal, which he shall stamp on all documents requiring seal;
- iv. Give, or cause to be given, all notices required by law or by the By-laws of the Corporation; and
- v. Perform such duties as may be prescribed by the Board or the Chairman.

#### **d. The Comptroller**

56. The Comptroller shall perform the following duties:

- i. To have custody of, and be responsible for all the funds, securities and bonds of the Corporation;
- ii. To keep a complete and accurate record of receipts and disbursement and other commercial transactions, and to see to it that all disbursements and expenditures are evidenced by appropriate vouchers and receipts;
- iii. To deposit in the name of and to the credit of the Corporation in the official depository bank of the government all money, funds, securities, bonds, and similar valuable assets of the Corporation coming under his control;
- iv. To render the annual statement showing the financial condition of the Corporation at the end of the fiscal year; and such other financial reports as the Board or the Chairman may from time to time require; and
- v. Perform such duties as may be prescribed by the Board or the Chairman.

### **V. RULES GOVERNING CONFLICTS OF INTEREST AND SELF-DEALING**

57. The Management shall make its decisions without being influenced by its own interests or the interests of controlling shareholders, on the basis of the facts and in compliance with applicable laws.

58. The members of the Management must disclose to the Board any material personal interests in transactions of the Corporation as well as any other conflicts of interest. Furthermore, they shall also immediately inform the other members of the Management of this.

59. All transactions between the Corporation and the members of the Management or any persons or companies with whom the Management members have a close

relationship must be in line with common business practice. The transactions and their conditions must be approved in advance by the Board with the exception of routine daily business transactions.

60. Without the approval of the Board, members of the Management shall not be permitted to run an enterprise or assume a mandate on the Board of another company, unless such company is associated with SB corporation.
61. When reaching decisions, Board members must not act in their own interests or in the interests of persons or enterprises with whom they have close relationships if such behavior conflicts with the interests of the enterprise or serves to attract business opportunities to the said member that otherwise would have gone to the enterprise.
62. If a Board member finds himself or herself in a conflict of interest, he or she shall immediately disclose this to the chairperson of the Board. If the chairperson of the Board finds himself or herself in a conflict of interest, he or she shall immediately disclose this to his or her Vice -Chairperson of the Board.

## **VI. RELATION WITH STAKEHOLDERS**

63. SB Corporation shall establish mechanism and procedures to protect stakeholders right and ensure that stakeholders have access to relevant, sufficient and reliable information on a timely and regular basis to be able to exercise their rights. Stakeholders should have access to legal redress in the event their rights are violated.
64. SB Corporation shall communicate with investors, stakeholders, and the public at large on its policies and provide information on its effective implementation.
65. SB Corporation shall develop an internal codes of ethics that would give clear and detailed guidance as to the expected conduct of all employees and disciplinary measures for non-compliance therewith. The internal code of ethics shall include guidance on procurement processes, as well as develop specific mechanisms protecting and encouraging stakeholders and particularly employees, to report on illegal or unethical conduct by corporate officers.

## **VII . DISCLOCURE AND TRANSPARENCY**

### **1. Financial Reporting**

66. All material information shall be fully disclosed in SB Corporation's Annual Report, subject to SB Corporation's policies and relevant laws, rules and regulations. Such information shall include, among others, financial operating performance, Board changes, changes in capitalization and amendments to the SB Corporation's Charter.
67. SB Corporation shall prepare the consolidated financial statements and the condensed set of financial statements contained in the half-yearly financial report

in accordance with International Financial Reporting Standards (IFRS), as adopted by the Philippines. Annual financial reports shall be published at the latest four months after the end of the reporting period, half-yearly financial reports at the latest two months after the end of the reporting period, and shall be publicly available for at least five years. The Board shall approve the release of the annual financial statements, which approval shall be accompanied by a statement confirming the truth and fairness of the financial statements similar to a Statement of Management Responsibility.

68. SB Corporation shall present an adequate analysis in the consolidated management report on the course of business and shall describe the essential financial and non-financial risks and uncertainties the company is exposed to as well as the most important features of the internal control system and of the risk management system with respect to the accounting process.
69. SB Corporation shall describe the main risk management instruments used with respect to non-financial risks in the consolidated management report.

## **2. Audit of the Financial Statements**

70. The audit of the financial position of SB Corporation shall be conducted in accordance with applicable government accounting and auditing principles, rules and regulations.
71. In addition to the statutory auditor's report and the obligation to make a statement, the auditor shall submit a management letter to the management pointing out the weaknesses of the enterprise. The management letter shall be brought to the notice of the Chairperson of the Board. The Chairperson shall be responsible for ensuring that the management letter is dealt with by the audit committee and reported on to the Board.
72. In addition, the auditor shall make an assessment of the effectiveness of the company's risk management based on the information and documents presented and shall report the findings to the management. This report shall also be brought to the notice of the chairperson of the Board. The chairperson shall be responsible for ensuring that the report is dealt with by the audit committee and reported on to the supervisory board.

## **VIII. ACCOUNTABILITY**

73. The Board shall provide the National Government, through the Department of Trade and Industry, with a balanced and understandable assessment of SB Corporation's performance, position and prospects. The Management shall be primarily accountable to the Board in providing a balanced and understandable assessment of SB Corporation's performance, position and prospects on a semestral basis.

## **IX. COMMUNICATION**

74. All Directors, Officers and Supervisors of SB Corporation shall ensure the thorough dissemination of this Code to all employees and related third parties, and to likewise enjoin compliance in the process.
75. An adequate number of printed copies of this Code must be reproduced and distributed with a minimum of at least one (1) hard copy of this Code per department.

#### **X. TRAINING**

76. Funds shall be allocated for the conduct of an orientation program or workshop to implement this Code, and for the continued education and training of all employees to ensure compliance with this Code.
77. Each Director is enjoined to attend a seminar on corporate governance which shall be conducted by a duly recognized private or government institute.

#### **XI. MONITORING AND ASSESSMENT**

78. Each Committee shall report regularly to the Board.
79. The CGC with the assistance of the Office of the Chief Compliance Officer (OCCO) shall establish an evaluation system to determine and measure compliance with this Code. The adoption of such performance evaluation system shall be approved by the Board.
80. This Code shall be subject to periodic review as determined by the Board.

#### **XII. PENALTIES FOR NON-COMPLIANCE WITH THE CODE**

81. The CGC shall, upon recommendation of the OCCO, be responsible for determining violations and recommend the probable imposable penalty for violations or non-compliance to the Board. The Board shall make the final decision on the imposable penalty for all violations.

#### **XIII. EFFECTIVITY**

82. The Code shall be applicable, binding and shall have full force and effect on the Board of Directors and senior officers of SB Corporation to be effective immediately after approval by the Board of Directors and circulation to all concerned.