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**PNB**

**Philippine National Bank**

**PNB**

**PSE Disclosure Form 17-18 - Other SEC Forms/Reports/Requirements**

<b>Form/Report Type</b>	2018 Corporate Governance Manual
<b>Report Period/Report Date</b>	May 30, 2018

**Description of the Disclosure**

We are pleased to furnish the Exchange a copy of the 2018 Corporate Governance Manual of the Bank.

We trust you will take note accordingly. Thank you.

**Filed on behalf by:**

<b>Name</b>	Maila Katrina Ilarde
<b>Designation</b>	Corporate Secretary

# COVER SHEET

FILE

AS096-005555

S.E.C. Registration Number

P H I L I P P I N E N A T I O N A L B A N K

Company's Full Name)

11 t h F l o o r P N B F i n a n c i a l C e n t e r

M a c a p a g a l B l v d . , P a s a y C i t y

M e t r o M a n i l a

(Business Address: No. Street City/Town/ Province)

ALICE Z. CORDERO  
Chief Compliance Officer  
Contact Person

573-4051  
Company Telephone Number

1 2 3 1  
Month Day  
Fiscal Year

2018 Corporate Governance Manual

FORM TYPE

April 24  
Month Day  
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total amount of Borrowings  
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

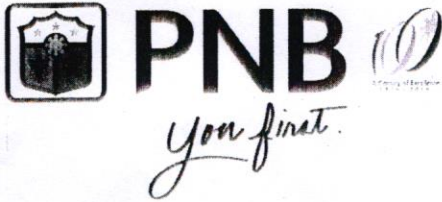
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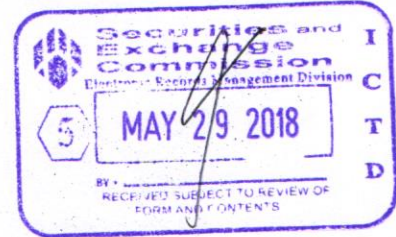


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May 29, 2018

**MS. RACHEL ESTHER J. GUMTANG-REMALANTE**

Officer-in-Charge (OIC)  
Corporate Governance and Finance Department  
Securities and Exchange Commission  
G/F Secretariat Building  
PICC Complex, Roxas Boulevard  
Pasay City, 1307



Dear Ms. Remalante:

We are pleased to submit to the Commission Philippine National Bank's revised 2018 Corporate Governance Manual, duly approved by its Board in its meeting on May 25, 2018.

The Manual was revised to incorporate among others, the following sections:

1. Retirement and Succession Planning for Directors, and
2. Board Advisors: Appointment & minimum qualifications

Thank you very much.

Very truly yours,

**FSVP ALICE Z. CORDERO**  
Chief Compliance Officer



## 2018 CORPORATE GOVERNANCE MANUAL

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**PHILIPPINE NATIONAL BANK**

**REVISED CORPORATE GOVERNANCE MANUAL  
May 2018**

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## **I. POLICY STATEMENT**

The Bank acknowledges that corporate governance is a dynamic concept. It is the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders. It provides direction for the promotion of a strong corporate governance culture and recognizes current best practices. It also strives to raise corporate governance standards to a level that is at par with global standards and ultimately contribute to the development of Philippine capital markets.

The Board of Directors, Management and Staff of the Philippine National Bank (PNB) Group commit themselves to adhere to the highest principles of good corporate governance as embodied in the Bank's Amended Articles of Incorporation, Amended By-Laws, Code of Conduct and this Revised Corporate Governance Manual. The Bank subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business; dealing fairly with its clients, investors, stockholders, the communities affected by its environmental/social activities and various public; professionalism among its Board of Directors, executives and employees in managing the Bank, its subsidiaries and affiliates; and respect for the laws and regulations of the countries affecting its businesses. Internally, it follows a philosophy of rational check and balances as well as a structured approach to its business operations.

The Board and Management believe that corporate governance is a critical component of sound strategic business management and will, therefore, undertake every effort necessary to create awareness within the organization to ensure that the principles of fairness, accountability and transparency are indispensable in conducting the day-to-day business of the Bank, its subsidiaries and affiliates. Furthermore, the Board and the Committee continue to review and strengthen the corporate governance policies to adopt consistency in the corporate governance framework in the Bank, its subsidiaries and affiliates.

The Bank's operations is managed through properly established organizational structure and adequate policies and procedures embodied in the manuals approved by the management committees, board committees and the board. These manuals are subject to periodic review and update to align and consistent with new laws and regulations and generally conform to the evolving global and regional standards and best practices. This Manual describes the role and responsibilities as well as the scope of activities of the principal parties that directly or indirectly influence the corporate governance practices of the Bank enterprise-wide, primarily the Members of the Board, the Chief Compliance Officer, the Chief Risk Officer, the Corporate Secretary, the Trust Officer, Internal and External Auditors, as well as constituting at a minimum, the Board Audit & Compliance, Risk Oversight and Corporate Governance/Nomination/Remuneration and Sustainability Committees, as well as the Board Oversight RPT Committee, that directly engage in monitoring and controlling business risks.

To further strengthen good corporate governance, the Board of Directors appointed the Chief Compliance Officer as the Corporate Governance Executive tasked to assist the Board and Corporate Governance/Nomination/Remuneration and Sustainability Committee in the discharge of their corporate governance oversight functions.

Also, the Board Oversight RPT Committee is created to assist the Board in performing its oversight functions in monitoring and ensuring transparency to eliminate potential conflict of interest of management, board members and shareholders. The Chief Compliance Officer is the Secretariat.

This Manual should be read in conjunction with the BSP, SEC and PSE significant regulations and guidelines, in strengthening good corporate governance and international best practices. Source of references and documents are listed under Part XVII of this Manual.

## **II. OBJECTIVE**

This Manual seeks to institutionalize the principles of good corporate governance in the entire PNB Group.

### III. DEFINITION OF TERMS

1. **Corporate Governance** – the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders. It is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and senior management accountable for ensuring ethical behavior – reconciling long-term customer satisfaction with shareholder value – to the benefit of all stakeholders and society.

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

2. **Board of Directors** – the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties.
3. **Affiliate** – shall refer to an entity linked directly or indirectly to the Bank by means of:
  - a) Ownership, control or power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa;
  - b) Interlocking directorship or officership, where the director or officer concerned owns; controls, or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity;
  - c) Common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the Bank and at least twenty percent (20%) of the outstanding voting stock of the entity;
  - d) Management contract or any arrangement granting power to the Bank to direct or cause the direction of management and policies of the entity; or
  - e) Permanent proxy or voting trusts in favor of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

In cases of credit exposures when the entity is linked to the lending bank both as DOSRI and as a subsidiary or affiliate, the DOSRI rules shall apply.

4. **Close Family Members** – are persons related to the Bank's Directors, Officers, and Stockholders (DOS) within the second (2<sup>nd</sup>) degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son/daughter-in-law, brother/sister-in-law, grandparent-in-law, and grandchild-in-law of the Bank's DOS.
5. **Complex Banks** – shall refer to universal/commercial banks (UBs/KBs). Nonetheless, a UB/KB may apply with the Bangko Sentral for a reclassification as simple or non-complex bank in order to avail of the reduced minimum requirement on the constitution of board committees. The Bangko Sentral may likewise declare Thrift Banks (TBs), Rural Banks (RBs) or Cooperative Banks (Coop Banks) as complex. Any TB, RB or Coop Bank having at least three (3) of the following characteristics shall be deemed a Complex Bank:
  - a) Total assets of at least P6 billion;
  - b) Extensive branch network;
  - c) Non-traditional financial products and services by virtue of special authorities (e.g., trust, quasi-banking derivatives licenses), as well as distinctive products like credit cards, remittance, trade-related services, contract-to-sell (CTS) financing, among other financial services;
  - d) Use of non-conventional business model, such as those using non-traditional delivery platform such as electronic platforms; and
  - e) Business strategy characterized by risk appetite that is aggressive and risk exposures which are increasing such as those with robust branch expansion programs or acquisition plans as determined by the Bangko Sentral.



6. **Conglomerate** – a group of corporations that has diversified business activities in varied industries, whereby the operations of such businesses are controlled and managed by a parent corporate entity.
7. **Control** of an enterprise exists when there is:
  - a) Power over more than one-half (1/2) of the voting rights by virtue of an agreement with other stockholder; or
  - b) Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
  - c) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
  - d) Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
  - e) Any other arrangement similar to any of the above.

Control is presumed to exist if there is ownership or holding, whether direct or indirect, of twenty percent (20%) or more of a class of voting shares of a company.

Should the Bank choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, the Bank shall submit a written commitment that:

- Shares owned or held are exclusively for investment purposes;
- Bank-Stockholder will not serve on the Board of Directors nor will nominate any candidate to serve on the Board of Directors or otherwise seek board representation;
- Bank-Stockholder will have only limited contacts with Bank Management that are customary for interested shareholders;
- Bank-Stockholder will engage only in normal and customary transactions with the enterprise; and
- The Bank will not pledge the shares acquired to secure a loan with any institution.

8. **Corresponding Persons in Affiliated Companies** – shall refer to the DOS of the affiliated companies and their close family members.
9. **Directors** shall include:
  - a) directors who are named as such in the Articles of Incorporation;
  - b) directors duly elected in subsequent meetings of the stockholders; and
  - c) those elected to fill vacancies in the board of directors.
10. **Enterprise Risk Management** – a process, effected by an entity's Board of Directors, management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives.
11. **Executive Director** – a director who has executive responsibility of day-to-day operations of a part or the whole of the organization.
12. **Independent Director** – a person who is independent of management and the controlling shareholder, and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.
13. **Internal Control** – a process designed and effected by the board of directors, senior management and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, and the organization's policies and procedures.
14. **Majority stockholder or Majority shareholder** – a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of the Bank.

15. **Management** – a group of executives given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation.
16. **Non-Executive Director** – a director who has no executive responsibility and does not perform any work related to the operations of the corporation; or shall refer to those who are not part of day to day management of operations and shall include the independent directors. However, not all non-executive directors are considered independent directors.
17. **Officers**
- Shall include the Chief Executive Officer (CEO)<sup>1</sup>, executive vice president, first senior vice president, senior vice-president, first 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;
  - Directors whose duties include functions of management such as those ordinarily performed by regular office
  - 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> Shall also refer to the President or any other title referring to the top management post in the Bank
18. **Parent** – a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries.
19. **Related Company** – means another company which is:
- Its parent or holding company;
  - Its subsidiary or affiliate; or
  - A corporation where a Bank or its majority stockholder own such number of shares that will allow/enable such person or group to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner.
20. **Related Interest** – shall refer to any of the following:
- Spouse or relative within the first (1<sup>st</sup>) degree of consanguinity or affinity, or relative by legal adoption, of a director, officer and stockholder of the Bank;
  - Partnership of which a director, officer and stockholder of a Bank or his spouse or relative within the first (1<sup>st</sup>) degree of consanguinity or affinity, or relative by legal adoption, is a general partner;
  - Co-owner with the director, officer, stockholder or his spouse or relative within the first (1<sup>st</sup>) degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;
  - Corporation, association or firm of which any or a group of directors, officers, stockholders of the Bank and/or their spouses or relatives within the first (1<sup>st</sup>) degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association or firm;
  - Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in items "28.2" and "28.4" above;
  - Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty-percent (20%) of the subscribed capital of a substantial stockholder of the Bank or which controls majority interest of the Bank pursuant to Subsec. X303.1g;
  - Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the Bank; and

- h) Non-governmental organizations (NGOs)/ Foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers or related BSFIs.

21. **Related Parties** – shall cover the Bank’s subsidiaries, as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the Bank exerts direct/indirect control over or that exerts direct/indirect control over the Bank; the Bank’s Directors, Officers, Shareholders, and their Related Interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interest may pose a potential conflict with the interest of the Bank.

The above definition shall also include direct or indirect linkages to a Bank identified as follows:

- a) Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa;
- b) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
- c) Common stockholders owning at least ten percent (10%) of the outstanding voting stocks of the Bank and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stocks of the borrowing entity; or
- d) Permanent proxy or voting trusts in favor of the Bank constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

22. **Related Party Transactions (RPTs)** – refers to transactions or dealings with related parties of the Bank, including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:

- a) On- and off-balance sheet credit exposures and claims and write-offs;
- b) Investments and/or subscriptions for debt/equity issuances;
- c) Consulting, professional, agency and other service arrangements/contracts;
- d) Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
- e) Construction arrangements/contracts;
- f) Lease arrangements/contracts;
- g) Trading and derivative transactions;
- h) Borrowings, commitments, fund transfers and guarantees;
- i) Sale, purchase or supply of any goods or materials; and
- j) Establishment of joint venture entities

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

23. **Risk Appetite Statement** – refer to the articulation in written form of the aggregate level and types of risk that a Bank is willing to accept, or to avoid, in order to achieve its business objectives. It includes qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate.

24. **Risk Governance Framework** – refer to the framework through which the board of directors and management establish the Bank’s strategy; articulate and monitor adherence to risk appetite and risk limits; and identify, measure, and manage risks.

25. **Risk limits** – refers to the allocation of the Bank’s risk appetite statement to: specific risk categories (e.g., credit, market, liquidity, operational); the business unit or platform level (e.g., retail, capital markets); lines of business or product level (e.g., concentration, value-at-risk (VaR), or other limits); and other levels, as appropriate.

26. **Stakeholders** – any individual, organization or society at large who can either affect and/or be affected by the company's strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.
27. **Stockholders** – shall refer to any stockholder of record in the books of the Bank, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts, whose stockholdings in the Bank, individual and/or collectively with the stockholdings of:
- a) His spouse and/or relative within the first (1<sup>st</sup>) degree by consanguinity or affinity or legal adoption;
  - b) A partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and
  - c) Corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association or firm, amount to one percent (1%) or more of the total subscribed capital stock of the Bank.
28. **Subsidiary** – refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by its parent corporation.
29. **Substantial Stockholder** – refer to a person, or group of persons whether natural or juridical, owning such number of shares that will allow such person or group to elect at least one (1) member of the board of directors of a bank or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

#### IV. CORPORATE GOVERNANCE STRUCTURE

##### 1. Board of Directors

Compliance with the highest standards in corporate governance principally starts with the Board of Directors which has the responsibility to foster the long-term success of the Bank, its subsidiaries and affiliates; and secure its sustained competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its shareholders and other stakeholders. The Board of Directors is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and 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 Bank, its subsidiaries and affiliates.

In the same manner, every employee of the PNB Group is expected to embrace the same degree of commitment to the desired level of corporate standards.

##### 1.1. Composition of the Board and Independent Directors

The Board should be composed of a majority of non-executive directors who possess the necessary qualifications with a collective working knowledge, experience or expertise that is relevant to the Bank's sector/industry to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances.

The Board should always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction.

It is represented by a combination of highly qualified business professionals, former bank presidents and senior officials affiliated with regulatory bodies and international organizations

with integrity, decade of experience and technical expertise in banking and finance. Furthermore, it is composed of individuals with distinct finance, marketing, audit, risk and legal competencies as well as business leaders with extensive knowledge and experience in different industries such as real estate, fast moving consumer goods and airline industry. This broad and collective range of expertise provides value in strengthening and upholding good corporate governance practices of the Bank.

The Board of Directors shall be composed of at least five (5), and a maximum of fifteen (15) members who are elected by the stockholders as provided for in the Articles of Incorporation and By-Laws pursuant to Sections 15 and 17 of R.A. No. 8791.

At least one-third (1/3) but not less than two (2) members of the Board shall be independent directors, whichever is higher. Any fractional result from applying the required minimum proportion, i.e. one-third (1/3), shall be rounded-up to the nearest whole number. The Bank conforms to have five (5) independent directors representing 33.33% or 33% of the Board.

To the extent practicable, the members of the board of directors shall be selected from a broad pool of qualified candidates. A sufficient number of qualified non-executive directors, who shall include independent directors, shall comprise at least majority of the Board of Directors to promote the independence of the board from the views of senior management, to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances.

## **1.2. Diversity in the Board of Directors**

The Bank recognizes and welcomes diversity in the Board of Directors. Diversity in the Board of Directors will be considered from various aspects including but not limited to age, gender, ethnicity, cultural and educational background, skills, competence and knowledge. The Board will also strive that there is appropriate representation of women in the Board.

## **1.3. Powers, Duties and Responsibilities of the Board of Directors**

### **1.3.1. Powers/Corporate Powers of the Board of Directors**

The corporate powers of an institution shall be exercised, its business conducted and all its resources controlled through 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, its subsidiaries and affiliates.

### **1.3.2. Specific Duties and Responsibilities of the Board of Directors**

The Board of Directors is primarily responsible for defining the Bank's vision and mission. The Board should oversee the development of and approve the company's business objectives and strategy, and monitor their implementation, in order to sustain the company's long-term viability and strength. The Board of Directors has the fiduciary roles, responsibilities and accountabilities to the Bank and all its shareholders including minority shareholders. It shall approve and oversee the implementation of strategies to achieve corporate objectives. It shall also approve and oversee the implementation of the risk governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework. The board of directors shall approve the selection of the CEO and key members of senior management and control functions and oversee their performance. The Board should oversee that an appropriate internal control system is in place, including setting up a mechanism for monitoring and managing potential conflicts of interest of Management, board members, and shareholders. The Board should also approve the Internal Audit Charter.

- 1.3.2.1. *The board of directors shall define the Bank's corporate culture and values.* It shall establish a code of conduct and ethical standards in the Bank and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the board of directors shall:
- a. Approve a code of conduct or code of ethics, which shall 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 Bank as well as the corresponding disciplinary actions and sanctions. The code of conduct shall explicitly provide that directors, officers, and all personnel are expected to conduct themselves ethically and perform their job with skill, due care, and diligence in addition to complying with laws, regulations, and company policies.
  - b. Consistently conduct the affairs of the Bank with a high degree of integrity and play a lead role in establishing the Bank's corporate culture and values. The board of directors shall establish, actively promote, and communicate a culture of strong governance in the Bank, through adopted policies and displayed practices. The board of directors shall ensure that the CEO and executive team champion the desired values and conduct, and that they face material consequences if there are persistent or high profile conduct and value breaches.
  - c. Oversee the integrity, independence, and effectiveness of Bank's policies and procedures for whistleblowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board 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 of directors itself. It shall prevent the use of the facilities of the Bank in the furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption.
- 1.3.2.2. *The board of directors shall be responsible for approving Bank's objectives and strategies and in overseeing management's implementation thereof.* In this regard, the board of directors shall:
- a. Ensure that the Bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.
  - b. Approve the Bank's strategic objectives and business plans. These shall take into account the Bank's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the board of directors shall establish a system for measuring performance against plans.
  - c. Actively engage in the affairs of the Bank and keep up with material changes in the Bank's business and regulatory environment as well as act in a timely manner to protect the long term interests of the Bank.
  - d. Approve and oversee the implementation of policies governing major areas of the Bank's operations. The board of directors shall regularly review these policies, as well as evaluate control 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.
- 1.3.2.3. *The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel.* In

this regard, the board of directors shall:

- a. Oversee selection of the CEO and other key personnel, including members of senior management and heads of control functions based on the application of fit and proper standards. Integrity, technical expertise, and experience in the Bank's business, either current or planned, shall be the key considerations in the selection process. Moreover, since mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the Bank.
- b. Approve and oversee the implementation of performance standards as well as remuneration and other incentives policy. The policy should be consistent with the long-term strategic objectives and financial soundness of the Bank and should promote good performance, convey acceptable risk-taking behavior, and reinforce the Bank's operating and risk culture.
- c. Oversee the performance of senior management and heads of control functions:
  - i. The board of directors shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.
  - ii. The board of directors shall hold members of senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the board of directors' performance expectations. These expectations shall include adherence to the Bank's values, risk appetite and risk culture, under all circumstances.
  - iii. The board of directors shall regularly meet with senior management to engage in discussions, question, and critically review the reports and information provided by the latter.
  - iv. Non-executive board members shall meet regularly, other than in meetings of the audit, risk oversight, corporate governance, and related party transactions committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.
- d. Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the board of directors shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions.
- e. Ensure that personnel's expertise and knowledge remain relevant. The board of directors shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibility.
- f. Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the Bank at all times, and that all transactions involving the pension fund are conducted at arm's length terms.

1.3.2.4. *The board of directors shall be responsible for approving and overseeing implementation of the Bank's corporate governance framework.* In this regard, the board of directors shall:

- a. Define appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed:
  - i. The board of directors shall structure itself in a way, including in terms of size and frequency of meetings, so as to promote efficiency, critical

- discussion of issues, and thorough review of matters. The board of directors shall meet regularly to properly discharge its functions, and likewise have discussions on values, conduct, and behaviors.
- ii. The board of directors shall create committees to increase efficiency and allow deeper focus in specific areas. The number and nature of board-level committees would depend on the size of the Bank and the board of directors, the Bank's complexity of operations, as well as the board of directors' long-term strategies and risk tolerance.
  - iii. The board of directors shall regularly review the structure, size and composition of the board of directors and board-level committees with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation of the structure, size and composition of the board of directors and board-level committees shall be adopted which shall include, but not limited to, benchmark and peer group analysis. The results of assessment shall form part of the ongoing improvement efforts of the board of directors.
  - iv. The board of directors shall adopt policies aimed at ensuring that the members of the board of directors are able to commit to effectively discharge their responsibilities, which shall include policy on the number of directorship positions and/or other internal/external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the Bank's operations.
  - v. The board of directors shall ensure that individual members of the board of directors and the shareholders are accurately and timely informed of a comprehensive and understandable assessment of the Bank's performance, financial condition, and risk exposures. All members of the board of directors shall have reasonable access to any information about the Bank at all times. The board of directors shall also ensure that adequate and appropriate information flows internally and to the public.
  - vi. The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the CEO, the individual directors, and the Bank itself, which may be facilitated by the corporate governance committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each board member taking into account his or her performance in the board of directors and board-level committees.
  - vii. The board of directors shall maintain appropriate records (e.g., meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The board of directors shall also ensure that independent views in meetings of the board of directors shall be given full consideration and all such meetings shall be duly minuted.
- b. Develop remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The board of directors shall ensure that the policy is consistent with the long-term interest of the Bank, does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities.
  - c. Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.
  - d. Conduct and maintain the affairs of the Bank within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound practice.
  - e. Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and



key activities. 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.

- f. Oversee the development, approve, and monitor implementation of corporate governance policies. The board of directors shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.
- g. Approve an overarching policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged. In this regard:
  - i. The board of directors shall approve all material RPTs, those that cross the materiality threshold, write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the board of directors. All final decisions of the board of directors on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders meetings and duly reflected in the minutes of board of directors and stockholders' meetings.
  - ii. The board of directors shall delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the board of directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.
  - iii. The board of directors shall establish an effective system to:
    - Determine, identify and monitor related parties and RPTs;
    - Continuously review and evaluate existing relationships between and among businesses and counterparties; and
    - Identify, measure, monitor and control risks arising from RPTs. The system should be able to define related parties' extent of relationship with the Bank; assess situations in which a nonrelated party (with whom a Bank has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulatory supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the BSP and audit functions for review. Any changes in the policies and procedures shall be approved by the Board of Directors.
  - iv. The Board of Directors shall maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the Bank is well-insulated from any going concern issue of related parties.

- v. The Board of Directors shall oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The board of directors should ensure that senior management addresses legitimate issues on RPT that are raised. The board of directors should take responsibility for ensuring the staff who raise concerns are protected from detrimental treatment or reprisals.
- h. Define an appropriate corporate governance framework for group structures, which shall facilitate effective oversight over entities in the group. The board of directors of the parent company shall ensure consistent adoption of corporate governance policies and systems across the group. In this regard:
  - i. The Board of Directors shall 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 of directors 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. The Board of Directors shall define the risk appetite for the group, which shall be linked to the process of determining the adequacy of capital of the group.
  - iii. The Board of Directors shall 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. The Board of Directors shall define and approve policies and clear strategies for the establishment of new structures.
  - v. The Board of Directors shall understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company. 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. The board of directors shall ensure that the group's corporate governance framework includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions.
  - vi. The Board of Directors shall develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.
  - vii. The Board of Directors shall 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 of directors approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board of directors.

1.3.2.5. *The board of directors shall be responsible for approving Bank's risk governance framework and overseeing management's implementation thereof.* In this regard, the board of directors shall:

- a. Define the Bank's risk appetite. In setting the risk appetite, the board of directors shall take into account the business environment, regulatory landscape, and the Bank's long term interests and ability to manage risk.

- b. Approve and oversee adherence to the risk appetite statement (RAS), risk policy, and risk limits.
- c. Oversee the development of, approve, and oversee the implementation of policies and procedures relating to the management of risks throughout the Bank.
- d. Define organizational responsibilities following the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions for the second line of defense, and the internal audit function for the third line of defense. In this regard:
  - i. The board of directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.
  - ii. The board of directors shall ensure that non-executive board members meet regularly, with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees, in the absence of senior management.
- e. The Board of Directors (BOD) shall primarily be responsible for defining the risk tolerance level, understanding the nature and degree of risks the bank will be exposed to, and ensuring that these risks are properly addressed. Moreover, the BOD, as part of its duties, shall approve and oversee the design and implementation of the social media strategy; related standards, policies and procedures; and means to ensure compliance with said standards and/or policies as well as applicable laws and regulations.

#### **1.4. Limitation on Nationality of Members of the Board of Directors**

Non-Filipino citizens may become members of the board of directors of the Bank to the extent of the foreign participation in the equity of the Bank. Provided, a majority of the directors must be residents of the Philippines.

#### **1.5. Board Meetings and Quorum Requirement**

In accordance with the Bank's By-Laws, meetings of the Board of Directors shall be only within the Philippines.

##### **1.5.1. Full Board of Directors Meetings**

The Members of the Board should attend and actively participate in all its regular and special meetings in person or 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 participate in the deliberations on matters taken up therein. Every member of the Board of Directors shall actively participate in at least fifty percent (50%) and shall physically attend at least twenty-five percent (25%) of all meetings of the board of directors every year.

The absence of a director in more than fifty percent (50%) of all regular and special meetings of the board of directors during his/her incumbency is a ground for disqualification in the succeeding election, unless the absence is due to illness, death in the immediate family, serious accident or other unforeseen or fortuitous events.

##### **1.5.2. Board-level Committee Meetings**

Board-level Committees shall meet as prescribed in their respective charters. Participation of committee members may likewise be in person or through modern

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

In accordance with the Bank's By-Laws, The Directors shall act as a Board, and the individual directors shall have no power to act as such. A majority of the directors shall be necessary at all meetings to constitute a quorum for the transaction of any business and every decision of a majority of the quorum duly assembled as a Board shall be valid as a corporate act unless otherwise provided by law. A minority of the Board present at any regular or special meeting shall, in the absence of a quorum, adjourn to a later date, and shall not transact any business until a quorum has been secured.

### **1.6. Nomination and Election of Directors**

The Corporate Governance/Nomination/Remuneration and Sustainability Committee (acting as the Bank's Nomination Committee) shall promulgate the guidelines or criteria to govern the conduct of the nomination; and also perform other duties as provided under the BSP rules and regulations. Nomination of the directors shall be conducted by the Committee prior to an Annual Stockholders' Meeting. All recommendations shall be signed by the nominating stockholder/s together with the acceptance and conformity by the would-be nominees. The Committee shall pre-screen the qualifications and prepare the final list of all candidates which shall contain all the information about the nominees.

The Committee determines whether the nominees are fit and proper and qualified to be elected as member of the Board. The Committee review and evaluation of the qualifications of all persons nominated to the Board, including whether candidates:

- a) Possess the knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in light of the Bank's business and risk profile;
- b) Have a record of integrity and good repute;
- c) Have sufficient time to carry out their responsibilities; and
- d) Have the ability to promote a smooth interaction between members of the Board.

The Committee may utilize the services of professional search firms or other external sources to search for qualified candidates to the Board.

Only nominees whose names appear on the final list of candidates shall be eligible for election. No other nominations shall be entertained after the final list of candidates shall have been prepared; and no further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting. The directors shall be elected by the stockholders entitled to vote during the annual meeting of stockholders and shall hold for one (1) year and until their successors are elected and qualified.

This nomination process is in compliance with Subsection X142.3 of the MORB of the BSP re: Qualifications of a Director and in accordance with the procedures for the nomination and election of independent directors set forth in Rule 38 of the Securities Regulation Code which was incorporated in the PNB By-Laws.

### **1.7. Retirement and Succession Planning for Directors**

The Board is responsible for ensuring and adopting an effective succession planning program for Directors to ensure growth and a continued increase in the shareholders' value. This includes adopting a policy on the retirement age for directors as part of management succession and to promote dynamism in the Bank. As part of the succession plan, the Board shall adopt a policy on retirement for Directors that will support to promote dynamism and avoid perpetuation in power.

## 2. Board of Advisors

The Bank may appoint Board Advisors with qualities that complement the existing Board of Directors and provide advisory support.

The Bank may capitalize on the following qualifications: vast work experience and the depth of exposures to the businesses and target markets of PNB and its Subsidiaries and Affiliates; work experiences related to banking and finance and Subject Matter Experts (SMEs) in other critical areas such as IT aligned with the long-term business objectives of the Bank, and stature in the business community, among others.

The Board Advisors are expected to provide advice on corporate governance, risk management and strategic direction, among others. As such, they may attend Board meetings & Board-level Committee meetings of PNB. Unlike the Board of Directors, the Board Advisors does not have authority to vote on corporate matters.

## 3. Directors

### 3.1. Qualifications of Directors

A director shall have the following minimum qualifications:

- a. Holder of at least one (1) share of stock of the Bank;
- b. He must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered:
  - integrity/probity, physical/mental fitness;
  - relevant education/financial literacy/trainings possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and
  - sufficiency of time to fully carry out responsibilities.

In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Subsection X150.1 of the MORB. A director shall submit to the BSP the required certifications and other documentary proof of such qualifications using the Appendix 98 (of BSP Cir. No. 969) as guide within twenty (20) banking days from the date of election. Non-submission of complete documentary requirements or their equivalent within the prescribed period shall be construed as his failure to establish his qualifications for the position and results in his removal from the board of directors.

The BSP shall also consider its own records in determining the qualifications of a director.

The members of the board of directors shall possess the foregoing qualifications in addition to those required or prescribed under R.A. No. 8791 and other applicable laws and regulations.

- c. He must have attended a seminar on corporate governance for board of directors. A director shall submit to the BSP a certification of compliance with the BSP-prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance:

The following persons are exempted from complying with the aforementioned requirement:

- Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance;
- Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board members; or
- Former Chief Justices and Associate Justices of the Philippine Supreme Court:

This exemption shall not apply to the annual training requirements for the members of the board of directors.

Members of the Board of Directors shall not be appointed as Corporate Secretary or Chief Compliance Officer.

### 3.2. Disqualifications of Directors

Grounds for Permanent Disqualification of a Director

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

The disqualification should also apply if:

- a) such person is the subject of an order of the SEC, BSP or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code,
  - b) Securities Regulation Code or any other law administered by the SEC or BSP; (b) such person has otherwise been restrained to engage in any activity involving securities and banking; or
  - c) such person is the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;
- c. Any person convicted by final judgment or order by a court, or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;

- a) Any person who has been adjudged by final judgment or order of the SEC, BSP, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law, rule, regulation or order administered by the SEC or BSP;
  - b) Any person judicially declared as insolvent;
  - c) Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated previously;
  - d) Conviction by final judgment of an offense punishable by imprisonment for more than six years, or a violation of the Corporation Code committed within five years prior to the date of his election or appointment; and
  - e) Other grounds as the SEC or BSP may provide.
- d. Grounds for Temporary Disqualification of a Director
- a) Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any 12-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification should apply for purposes of the succeeding election;
  - b) Dismissal or termination for cause as director of any publicly-listed company, public company, registered issuer of securities and holder of a secondary license from the Commission. The disqualification should be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;
  - c) If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with; and
  - d) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

### 3.3. Qualifications of Independent Directors

An Independent Director shall refer to a person who:

- a. Is not or was not a director, officer or employee of the Bank, its subsidiaries, affiliates or related interests during the past three (3) years counted from the date of his election/appointment
- b. Is not or was not a director, officer, or employee of the Bank's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;
- c. Is not an owner of more than two percent (2%) of the outstanding shares or 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;
- d. Is not a close family member of any director, officer or stockholder holding shares of stock sufficient to elect one (1) seat in the board of directors of the Bank or any of its related companies or of any of its substantial stockholders;
- e. 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;
- f. Is not or was not retained as professional adviser, consultant, agent or counsel of the Bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election;
- g. Is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the Bank 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;
- h. Was not appointed in the Bank, its subsidiaries, affiliates or related interests as Chairman "Emeritus", "Ex-Officio", Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;
  - i. Is not affiliated with any non-profit organization that receives significant funding from the Bank or any of its related companies or substantial shareholders; and
  - j. Is not employed as an executive officer of another company where any of the Bank's executives serve as directors.

### 3.4. Term Limits for Independent Directors (IDs)

- a. An Independent Director of the Bank may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the same Bank, but may continue to qualify for nomination and election as a regular/non-independent director; and the nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.
- b. In accordance with SEC rules, in the instance that a Bank wants to retain an independent director who has served for nine (9) years, the Board should provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.

### 3.5. Limit on Directorship of Non-Executive Directors

A non-executive director may concurrently serve as director of a maximum of five (5) publicly listed companies. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the non-executive director is concurrently serving as a director shall be separately considered in assessing compliance with this requirement.

### 3.6. Chairperson of the Board of Directors

#### a. Roles and Responsibilities of the Chairperson of the Board of Directors

The Chairperson of the board of directors shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. He shall:

- a) Ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- b) Ensure a sound decision making process;
- c) Encourage and promote critical discussion;
- d) Ensure that dissenting views can be expressed and discussed within the decision-making process;
- e) Ensure that members of the board of directors receives accurate, timely, and relevant information;
- f) Ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
- g) Ensure conduct of performance evaluation of the board of directors at least once a year.

#### b. Qualifications of the Chairperson of the Board of Directors

To promote checks and balances, the Chairperson of the Board of Directors shall be a Non-Executive Director or an Independent Director, and must not have served as CEO of the Bank within the past three (3) years. The positions of Chairperson and CEO shall not be held by one person. In exceptional cases where the position of Chairperson of the



board of directors and CEO is allowed to be held by one (1) person as approved by the Monetary Board, a Lead Independent Director shall be appointed.

The Board of Directors shall ensure that the Lead Independent Director functions in an environment that allows him/her to effectively challenge the CEO as circumstances may warrant. The Lead Independent Director shall perform a more enhanced function over the other Independent Directors and shall:

- a. Lead the Independent Directors at board of directors meetings in raising queries and pursuing matters; and
- b. Lead meetings of independent directors, without the presence of the executive directors.
- c. Serves as an intermediary between the Chairman and the other directors when necessary;
- d. Convenes and chairs meetings of the non-executive directors; and
- e. Contributes to the performance evaluation of the Chairman, as required.

### 3.7. Specific Duties and Responsibilities of Directors

The position of a 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 Members of the Board of Directors should exercise their "Duty of Care" and "Duty of Loyalty" to the Institution.

- 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 on a fully informed basis, honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the 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 Board of Directors, 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.
- j. To advise the Corporate Secretary of their shareholdings in the Bank within three (3) business days after a Director is appointed or any acquisition, disposal, or change in the shareholdings; and
- k. Must not deal in the Bank's securities during the period within which material non-public information is obtained and up to two (2) full trading days after the price-sensitive information is disclosed publicly.

The Office of the Corporate Secretary shall furnish all first-time Directors of the Bank with a copy of the specific duties and responsibilities of the Board of Directors and as an individual director prescribed under Subsections X143.1 and X143.2, upon election. The Bank must keep on file certification under oath of the Directors concerned that they have received copies of such specific duties and responsibilities and that they fully understand and accept the same.

The Bank must submit to the BSP, within twenty (20) banking days from date of election, a certification under oath of the Directors concerned that they have received copies of such general responsibility and specific duties and responsibilities and that they fully understand and accept the same.

### **3.8. Remuneration of Directors and Officers**

The PNB Group remuneration and structures are based on the internal Policy on Remuneration of Directors and Officers.

The Bank's Amended By-Laws provides that Directors shall receive such compensation for their services as may from time to time be fixed by the stockholders subject to the limitations set forth in Section 30 of the Corporation Code. Each director shall also be entitled to a reasonable per diem, as may be determined by the Board. The officers' salary or compensation elected or appointed by the Board of Directors shall be fixed by the Board.

The Board shall align the remuneration of key officers and board members with the long-term interests of the company. Further, no director shall participate in discussions or deliberations involving his own remuneration.

The Bank should provide a clear disclosure of its policies and procedure for setting Board and Executive remuneration, as well as the level and mix of the same in the Annual Corporate Governance Report (ACGR). The SEC Revised Code of Corporate Governance requires only a disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors and top four management officers during the preceding fiscal year.

#### 4. Board-Level Committees

The Board of Directors may delegate some of its functions, but not its responsibilities, to Board-Level Committees. In this regard, the Board of Directors shall:

- a. Approve, review, and update, at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures. Said documents shall articulate how the committee will report to the full board of directors, what is expected of the committee members, and tenure limits for serving on the committee. The Board of Directors shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.
- b. Appoint Members of the Committees taking into account the optimal mix of skills and experience to allow the board of directors, through the committees, to fully understand and objectively evaluate the relevant issues. In order to promote objectivity, the Board of Directors shall appoint Independent Directors and Non-Executive members of the board of directors to the greatest extent possible. 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, Related Party Transactions committees, without prior approval of the Monetary Board.
- c. 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.
- d. Constitute, at a minimum, the following committees:
  - (i) Audit Committee;
  - (ii) Risk Oversight Committee, and
  - (iii) Corporate Governance Committee

The Board of Directors shall discuss risk management and corporate governance matters in the meetings of the board of directors, with the views of the independent directors duly considered and minuted.

UBs/KBs that are part of a conglomerate shall also constitute a RPT Committee.

All established committees should be required to have Committee Charters stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources and other relevant information. The Charters should provide the standards for evaluating the performance of the Committees. It should also be fully disclosed on the Bank's website.

Currently, the Bank has eight (8) Committees as follows: Corporate Governance/Nomination/Remuneration and Sustainability Committee, Board Audit and Compliance Committee, Risk Oversight Committee, Board Oversight RPT Committee, Executive Committee, Trust Committee, Board IT Governance Committee and Board Policy and Strategy Committee.

#### **4.1. Corporate Governance/Nomination/Remuneration and Sustainability Committee**

The complete composition and functions of the Corporate Governance/Nomination/Remuneration and Sustainability Committee are contained in its Amended Charter (Annex "A").

#### **4.2. Board Audit and Compliance Committee (BACC)**

The complete composition and functions of the Board Audit and Compliance Committee are contained in its Amended Charter (Annex "B").

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

The complete composition and functions of the Risk Oversight Committee are contained in its Amended Charter (Annex "C").

#### **4.4. Board Oversight RPT Committee (BORC)**

The complete composition and functions of the Board Oversight RPT Committee (BORC) are contained in its Amended Charter (Annex "D").

#### **4.5. Executive Committee (EXCOM)**

The Executive Committee has to perform the functions and duties as the Board may delegate. The composition, powers and responsibilities of the Executive Committee are contained in its Charter (Annex "E").

#### **4.6. Trust Committee**

The composition and functions of the Trust Committee are contained in its Amended Charter (Annex "F").

#### **4.7. Board IT Governance Committee (BITGC)**

The composition and functions of the Board IT Governance Committee are contained in its Amended Charter (Annex "G").

#### **4.8. Board Policy and Strategy Committee (BPSC)**

The composition and functions of the Board Policy and Strategy Committee are contained in its Amended Charter (Annex "H").

### **5. Officers**

#### **5.1. Qualifications of an Officer**

An officer must be fit and proper for the position he is being appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered: integrity/probity, education/training, and possession of competencies relevant to the function such as knowledge and experience, skills and diligence.

In assessing an officer's integrity/probity, consideration shall be given to the officer's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An appointed officer has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Subsection X150.2. An officer shall submit to the BSP the required certifications and other documentary proof of such qualifications using Appendix 98 as guide within twenty (20) banking days from the date of meeting of the board of directors in which the officer is appointed/promoted. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position and results to his/her removal therefrom.

The BSP shall also consider its own records in determining the qualifications of an officer.

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

## 5.2. Duties and Responsibilities of Officers

- a. *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.
- b. *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.
- c. *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.
- d. *To promote and strengthen check and balances system 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.
- e. Senior Officers (VPs and up) shall advise the Corporate Secretary of their shareholdings in the Bank within three (3) trading days after an Officer is appointed or any acquisition, disposal, or change in the shareholdings; and
- f. Senior Officers (VPs and up) must not deal in the Bank's securities during the period within which material non-public information is obtained and up to two full trading days after the price-sensitive information is disclosed publicly.

## 6. The President

The Chief Executive of the Bank shall be the President. He shall be the overall-in-charge for the management of the business and affairs of the Bank governed by the strategic direction and risk appetite approved by the board of directors. He shall be primarily accountable to the board of directors in championing the desired conduct and behavior, implementing strategies, and in promoting the long-term interest of the Bank.

The President of the Bank shall, among other powers and duties inherent in his office, execute and administer the policies, measures, orders and resolutions approved by the Board of Directors, and direct and supervise the operations and administration of the Bank. Particularly, he shall have the power and duty:

- a. Determines the corporation's strategic direction and formulates and implements its strategic plan on the direction of the business;
- b. Communicates and implements the corporation's vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same;
- c. Oversees the operations of the corporation and manages human and financial resources in accordance with the strategic plan;
- d. Has a good working knowledge of the corporation's industry and market and keeps up-to-date with its core business purpose;
- e. Directs, evaluates and guides the work of the key officers of the corporation;
- f. Manages the corporation's resources prudently and ensures a proper balance of the same;
- g. Provides the Board with timely information and interfaces between the Board and the employees;
- h. Builds the corporate culture and motivates the employees of the corporation; and
- i. Serves as the link between internal operations and external stakeholders.
- j. To execute all contracts and to enter into all authorized transactions in behalf of the Bank;
- k. To exercise, as Chief Executive Officer (CEO), the power of supervision and control over decisions or actions of subordinate officers and all other powers that may be granted by the Board;
- l. To recommend to the Board the appointment, promotion or removal of all officers of the Bank with the rank of at least Vice President or its equivalent;
- m. To appoint, promote or remove employees and officers of the Bank, except those who are to be appointed or removed by the Board of Directors;
- n. To transfer, assign and reassign officers and personnel of the Bank in the interest of the service;
- o. To report periodically to the Board of Directors on the operations of the Bank;
- p. To submit annually a report on the result of the operations of the Bank to the stockholders of the Bank;
- q. To delegate any of his powers, duties and functions to any official of the Bank, with the approval of the Board of Directors.

## 7. The Corporate Secretary

The Corporate Secretary, who should be a Filipino citizen and a resident of the Philippines, is an officer of the Bank. Precision, transparency and thoroughness in performance are expected of him; He/She must possess appropriate administrative and interpersonal skills, and if he is not the general counsel, then he must have some legal skills. He/She must also have a working knowledge of the operations of the Bank;

The Corporate Secretary should be a separate individual from the Compliance Officer. The Corporate Secretary should not be a member of the Board of Directors and should annually attend training on corporate governance.

### 7.1. Duties and Responsibilities of the Corporate Secretary

The Corporate Secretary is primarily responsible to the corporation and its shareholders, and not to the Chairman or President of the Company.

Among others, he has the following duties and responsibilities:

- 7.1.1. Assists the Board and the board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its committees to set agendas for those meetings;

- 7.1.2. Informs members of the Board, in accordance with the Amended By-Laws, of the agenda of their meetings at least five working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- 7.1.3. Works fairly and objectively with the Board, Management, stockholders and contributes to the flow of information between the Board and management, the Board and its committees, and the Board and its stakeholders, including shareholders;
- 7.1.4. Attend all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
- 7.1.5. Oversee the drafting of the by-laws and ensures that they conform with regulatory requirements;
- 7.1.6. Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the corporation, and advises the Board and the Chairman on all relevant issues as they arise;
- 7.1.7. Advises on the establishment of board committees and their terms of reference;
- 7.1.8. Safe keeps and preserves the integrity of the Minutes of the meetings of the Board and its committees, as well as the other official records of the corporation;
- 7.1.9. Prepares the Agenda for the Board and Executive Committee meetings and also assists the directors in attending seminars and trainings;
- 7.1.10. Furnish all Directors with a copy of the general responsibilities and specific duties and responsibilities of the Board of Directors prescribed under MORB Subsec. X141.3 (b and c), as well as the specific duties and responsibilities of a Director under X141.3 (d), at the time of their election. Copies of the acknowledgement and certification by the Directors shall be submitted to the appropriate supervisory and examining department of SES-BSP within twenty (20) business days from the date of election.
- 7.1.11. The appointment of the Compliance Officer shall be immediately disclosed to the Securities and Exchange Commission on SEC Form 17-C by the Office of the Corporate Secretary;
  - a. Keep a list of the Bank's stockholders, their proxies and their stockholdings, maintain the stock transfer book/s and keep track of all outstanding certificates in the manner required by law and regulations;
  - b. Ascertain the identity and citizenship of the transferee, voting trustee, or proxy of voting shares of stock of the bank, and require them to submit or disclose such documents and information relative to their stockholdings or any voting trust arrangements thereto;
  - c. Require the transferee, voting trustee, proxy of voting shares of stock to disclose all information with respect to persons related to them within the fourth degree of consanguinity or affinity where they have controlling interest, and the extent thereof;
  - d. Require the transferee or recipient of voting shares of stock to execute an affidavit (sample format shown in Appendix 4 of the BSP MORB) stating, among other things, that the transferee or recipient of voting shares of stock is a bona fide owner of the said shares of stock, and that he/she acknowledges full awareness of (a) the prohibition against ownership of voting shares of stock in excess of the ceilings and/or (b) the requirement for prior Monetary Board approval for transactions

resulting to significant ownership of voting shares of stock of a bank by any person, as provided in Subsec. X126.2 of the MORB and such other rules and regulations of the regulatory agencies, as may be amended from time to time;

- e. Promptly inform stockholders (a) who have reached any of the ceilings prescribed by laws/BSP regulations of their ineligibility to own or control more than applicable ceiling or (b) who would own voting shares of stock requiring prior Monetary Board approval;
- f. Disclose the ultimate beneficial owners of bank shares held in the name of Philippine Central Depository (PCD) Nominee Corporation in the annual (or quarterly whenever changes occur) report on Consolidated List of Stockholders and their Stockholdings (BSP 7-16-11), which report shall be made under oath by the corporate secretary;
- g. Submit financial statements, list of certain stockholders together with their stockholdings, as well as such other reports as prescribed/ required by the regulatory agencies;
- h. Disclose any material transactions, events and information as required under the rules and regulations of the regulatory agencies; and
- i. Perform such other duties as are necessary or incidental to his office and those that may from time to time be required by the Board, as well as by the rules and regulations of the regulatory agencies; and

7.1.12. Perform required administrative functions;

7.1.13. Perform such other duties and responsibilities as may be provided by the Securities and Exchange Commission.

## **8. The Chief Compliance Officer (CCO)**

To ensure adherence to corporate principles and best practices, the Bank shall appoint a full-time Chief Compliance Officer, who shall hold the position of at least Vice President or its equivalent with adequate stature and authority in the Bank. He/She shall have direct reporting responsibilities to the Board Audit and Compliance Committee (BACC) thru the Chairman of the Committee. The Compliance Officer should not be a member of the Board of Directors and should annually attend training on corporate governance.

The bio-data with ID picture of the proposed CCO, together with the documentary requirements prescribed in *Appendix 98* shall be submitted to the appropriate Department of the SES.

### **8.1. Duties and Responsibilities of the Chief Compliance Officer (CCO)**

Among others, he/she has the following duties and responsibilities:

- a. Ensures proper onboarding of new directors (i.e., orientation on the company's business, charter, articles of incorporation and by-laws, among others);
- b. Monitors, reviews, evaluates and ensures the compliance by the Bank, its officers and directors with the relevant laws, the Code of Corporate Governance for PLCs, rules and regulations and all governance issuances of regulatory agencies.
- c. Reports the matter to the Board thru the BACC If any violations are found and recommends the imposition of appropriate disciplinary action to prevent a repetition of the violation. The CCO shall likewise refer the matter to the Administrative Board or the Corporate Governance/Nomination/Remuneration and Sustainability Committee, as the case maybe,



- to determine the administrative liability and imposition of penalty, if any, against the responsible parties in accordance with the Bank's Code of Conduct;
- d. Ensures the integrity and accuracy of all documentary submissions to regulators;
  - e. Appears before the Securities and Exchange Commission when summoned in relation to the Bank's compliance with the Code of Corporate Governance for PLCs;
  - f. Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
  - g. Identifies possible areas of compliance issues and works towards the resolution of the same;
  - h. Ensures the attendance of board members and key officers to relevant trainings;
  - i. In charge in monitoring the Bank's compliance with the provisions and requirements of the Corporate Governance Manual and relevant banking rules and regulations as well as keeping the Directors updated regarding any related statutory changes;
  - j. Performs such other duties and responsibilities as may be provided by the SEC; and
  - k. In accordance with Subsection X180.4 of the MORB, the CCO shall also perform the following duties:
    - a) The CCO is the lead senior officer for purposes of administering the compliance program and interacting with the BSP on compliance-related issues.
    - b) Oversee the design of an appropriate compliance system, promote its effective implementation and address breaches that may arise.
    - c) The CCO shall be responsible for ensuring the integrity and accuracy of all documentary submissions to BSP; and
    - d) Manage the Bank's compliance program;

## 9. The External Auditor

- 9.1. An External Auditor shall ensure the establishment and maintenance of an environment of good corporate governance as reflected in the financial records and reports of the Bank;

The Board, after consultations with the Board Audit and Compliance Committee, shall recommend to the stockholders an External Auditor duly accredited by SEC;

The External Auditor as appointed by the stockholders shall undertake an independent audit of the Bank, and shall provide an objective assurance regarding the manner under which the financial statements are prepared and presented to the stockholders;

- 9.2. The External Auditor of the Bank shall not at the same time provide internal audit services to the Bank. Non-audit work may be given to the External Auditor provided it does not conflict with his duties as an independent auditor or does not pose a threat to his independence. The Bank shall disclose in the Annual Report the nature of non-audit related services performed by external auditors;
- 9.3. If the External Auditor resigns, is dismissed or ceases to perform his services, the reason/s and the date of effectivity of such action shall be reported in the Bank's annual and current reports. The report shall include a discussion of any disagreement between him and the bank on accounting principles or practices, financial statement disclosures or audit procedures which the former auditor and the Bank failed to resolve satisfactorily;

- 9.4. If the External Auditor believes that any statements made in the Bank's annual report, information statement or any report filed with the SEC or any regulatory body during the period of his engagement is incorrect or incomplete, he shall properly present his views in said reports;
- 9.5. The Bank's External Auditor shall be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the corporation, should be changed with the same frequency;
- 9.6. Form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework based on an evaluation of the conclusions drawn from the audit evidence obtained; and express that opinion clearly through a written report that also describes the basis for the opinion;
- 9.7. The External Auditor shall identify and assess the risks of material misstatement in the bank's financial statements, taking into consideration the bank's operations, control environment and its components as well as the bank's financial reporting systems. The assessment shall also take into account qualitative aspects of the bank's accounting practices, including indicators of possible biases in management's judgments. The External Auditor should, likewise, assess and communicate to the Board Audit and Compliance Committee the results of its assessment on the capability of bank management, the strength of the bank's control environment, and the adequacy of the bank's accounting/information systems to comply with financial and prudential reporting responsibilities;
- 9.8. The External Auditor shall conclude whether it has obtained reasonable assurance that the financial statements, as a whole, are free from material misstatement, whether due to fraud or error. That conclusion shall include an evaluation of the following:
  - a. Whether sufficient appropriate audit evidence has been obtained;
  - b. Whether uncorrected misstatements are material, individually or in aggregate; and
  - c. Compliance with the applicable framework.

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

- 9.9. The External Auditor shall evaluate the requirements of the applicable financial reporting framework:
  - a. The financial statements adequately disclose the significant accounting policies selected and applied;
  - b. The accounting policies selected and applied are appropriate and consistent with the applicable financial reporting framework;
  - c. The accounting estimates made by management are reasonable;
  - d. The methodologies, assumptions and valuation practices including provisioning for loan losses are appropriate and consistent with the applicable financial reporting framework;
  - e. The information presented in the financial statements are relevant, reliable, comparable and understandable;
  - f. The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
  - g. The terminologies used in the financial statements, including the title of each financial statement, are appropriate.
- 9.10. In carrying out the audit of a bank's financial statements, the external auditor recognizes that the bank has characteristics that generally distinguish them from most other business enterprises, and which the external auditor takes into account in assessing the level of inherent risk:

- a. The BSP requires external auditors to assess bank's compliance with certain BSP rules and regulations as prescribed under the existing regulations. In this respect, the BSP requires external auditors to directly report to the BSP material breaches in said rules and regulations such as but not limited to capital adequacy ratio and loans and other risk assets review and classification. While the provisioning requirements under the prescribed financial reporting framework and BSP rules and regulations may differ, external auditors are expected to look into the soundness of the assumptions and methodologies used under both regimes. In addition, external auditors should also look into the adequacy and propriety of documentation of significant differences between the valuations used for financial reporting purposes and for regulatory purposes;
  - b. External auditors should also assess the adequacy and propriety of disclosures on related party transactions. The external auditors should exercise sound judgment on whether mere compliance with disclosure requirements prescribed under the applicable financial reporting framework already provide sufficient information to make a conclusion on whether the transactions are done at arm's length terms;
- 9.11. While the external auditor has the sole responsibility for the audit report and for determining the nature, timing and extent of audit procedures, much of the work of internal auditing can be useful to the external auditor in the audit of the financial statements. The external auditor, therefore, as part of the audit assesses the internal audit function insofar as the external auditor believes that it will be relevant in determining the nature, timing and extent of the external audit procedures;
- 9.12. Judgment permeates the external auditor's work. The auditor uses professional judgment in areas such as:
- a. Assessing inherent and control risk and the risk of material misstatement due to fraud or error;
  - b. Deciding upon the nature, timing and extent of the audit procedures;
  - c. Evaluating the results of those procedures; and
  - d. Assessing the reasonableness of the judgments and estimates made by management in preparing the financial statements.
- 9.13. External audits performed in accordance with auditing and ethics standards are an important element in enhancing market confidence. This is particularly the case with respect to valuations of financial instruments, including disclosures about the valuation methodologies, and the extent of off-balance sheet risks to which bank is exposed. Auditors play an important role in encouraging consistent and meaningful disclosures about valuation processes;
- 9.14. The external auditor should maintain an attitude of professional skepticism throughout the planning and performance of the audit, recognizing that circumstances may exist that cause the financial statements to be materially misstated. Specific areas where professional skepticism is particularly important include, among others, fair value measurements, related party relationships and transactions, going concern assessments, and in auditing significant unusual or highly complex transactions.
- The external auditor should consider the supervisory issues raised by the BSP especially in its assessment of the going concern assumption, particularly in the evaluation of the liquidity and solvency of the bank;
- 9.15. The external auditor should promote a two-way communication with those charged with the governance of the bank. The subject of the communication may include the following:
- a. The responsibilities of the external auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
  - b. Information relevant to the external audit; and

- c. Timely observation arising from the external audit that is significant and relevant to the bank's financial reporting process, including inappropriate accounting treatment that may result in tax violation.
- 9.16. The external auditor should document its discussion with the bank's board of directors and the Board Audit and Compliance Committee. Where there are differences between BSP regulations and the applicable financial reporting framework, as when there is more than one option allowed, discussions on the treatment adopted in the financial statements should be duly minuted. The external auditors are nonetheless, expected to recommend compliance with BSP-prescribed accounting treatment particularly when such is likewise acceptable under the applicable financial reporting framework;
  - 9.17. The external auditor is expected to charge only reasonable audit fees. In determining reasonable fees the following may be considered:
    - a. Expected hours needed to complete the scope of work envisioned in the audit plan;
    - b. Complexity of the activities and structure of the bank;
    - c. Level of internal audit assistance;
    - d. Level of fees being charged by other audit firms; and
    - e. Quality of audit services.

The external auditor ensures that the audit fees will be set at an amount that will not in any way compromise the quality of the audit.

- 9.18. The external audit team is expected to be composed of members whose collective skills and competence are commensurate with the size and complexity of operations of the bank.

## 10. The Internal Auditor

- 10.1. The Head of the internal audit function must have an unassailable integrity, relevant education/experience/training, and has an understanding of the risk exposures of the bank, as well as competence to audit all areas of its operations. He must also possess the following qualifications:
  - a. The Head of the internal audit function must be a Certified Public Accountant (CPA) or a Certified Internal Auditor (CIA) and must have at least five (5) year experiences in the regular internal or external audit as auditor-in-charge, senior auditor or audit manager. He must possess the knowledge, skills, and other competencies to examine all areas in which the institution operates. Professional competence as well as continuing training and education shall be required.
- 10.2. Duties and responsibilities of the head of the internal audit function or the Chief Audit Executive:
  - a. To demonstrate appropriate leadership and have the necessary skills to fulfill his responsibilities for maintaining the unit's independence and objectivity;
  - b. To be accountable to the board of directors or audit committee on all matters related to the performance of its mandate as provided in the internal audit charter.
  - c. To ensure that the internal audit function complies with sound internal auditing standards such as the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics.
  - d. To develop an audit plan based on robust risk assessment, including inputs from the board of directors, audit committee and senior management and ensure that such plan is

- comprehensive, adequately covers regulatory matters and approved by the audit committee.
- e. To ensure that the internal audit function has adequate human resources with sufficient qualifications and skills necessary to accomplish its mandate.
  - f. Periodically reviews the internal audit charter and presents it to senior management and the Board Audit Committee for approval;
  - g. Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals;
  - h. Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval;
  - i. Spearheads the performance of the internal audit activity to ensure it adds value to the organization;
  - j. Reports periodically to the Board Audit and Compliance Committee on the internal audit activity's performance relative to its plan; and
  - k. Presents findings and recommendations to the Audit Committee and gives advice to senior management and the Board on how to improve internal processes.
- 10.3. The Bank shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which its Board, senior management, and stockholders shall be provided with objective assurance and consulting services that its key organizational and procedural controls are effective, appropriate, and complied with;
- 10.4. The Bank shall have in place an effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the bank for the benefit of all stockholders and other stakeholders;
- 10.5. The Corporate Governance/Nomination/Remuneration and Sustainability Committee shall be responsible for the endorsement to the Board the approval of the appointment of the Chief Audit Executive/Internal Auditor as recommended by the Board Audit and Compliance Committee;
- 10.6. The Chief Audit Executive/Internal Auditor shall render to the Board and Board Audit and Compliance Committee and senior management an annual report on the internal audit department's activities, purpose, authority, responsibility and performance relative to audit plans and strategies approved by the Board Audit and Compliance Committee;
- 10.7. The minimum internal control mechanisms for management's operational responsibility shall center on the CEO, being ultimately accountable for the Bank's organizational and procedural controls; and
- 10.8. The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of the business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.

## 11. The Chief Risk Officer (CRO)

- 11.1. The Bank shall appoint a Chief Risk Officer (CRO), or any equivalent position, which 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, the CRO reports directly to the Risk Oversight Committee without any impediment;
- 11.2. The CRO shall have sufficient stature, authority and seniority within the bank. This will be assessed based on the ability of the CRO to influence decisions that affect the bank's exposure to risk. The CRO shall have the ability, without compromising his independence, to engage in discussions with the board of directors, chief executive officer and other senior management on key risk issues and to access such information as he deems necessary to form his or her judgment. The CRO shall meet with the board of directors/risk oversight committee on a regular basis and such meetings shall be duly minuted and adequately documented;
- 11.3. 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 SES of the BSP within five (5) days from the time it has been approved by the board of directors;
- 11.4. Risk management function involves the following activities, among others:
  - a. Defining a risk management strategy;
  - b. Identifying and analyzing key risks exposure relating to economic, environmental, social and governance (EESG) factors and the achievement of the organization's strategic objectives;
  - c. Evaluating and categorizing each identified risk using the company's predefined risk categories and parameters;
  - d. Establishing a risk register with clearly defined, prioritized and residual risks;
  - e. Developing a risk mitigation plan for the most important risks to the company, as defined by the risk management strategy
  - f. Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Board Risk Oversight Committee; and
  - g. Monitoring and evaluating the effectiveness of the organization's risk management processes.

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.

- 11.5. The Chief Risk Officer has the following functions, among others:
  - a. Supervises the entire enterprise risk management (ERM) process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;
  - b. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board Risk Oversight Committee;
  - c. Collaborates with the CEO in updating and making recommendations to the Board Risk Oversight Committee;
  - d. Suggests ERM policies and related guidance, as may be needed; and
  - e. Provides insights on the following:
    - Risk management processes are performing as intended;
    - Risk measures reported are continuously reviewed by risk owners for effectiveness; and
    - Established risk policies and procedures are being complied with.

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

## 12. The Trust Officer

### 12.1. Qualifications

The Trust Officer who shall be appointed shall possess any of the following:

- a. At least five (5) years of actual experience in trust operations;
- b. At least three (3) years of actual experience in trust operations and must have completed 90 training hours in trust, other fiduciary business, or investment management activities acceptable to the BSP or completed a relevant global or local professional certification program;
- c. At least five (5) years actual experience as an officer of a bank and must have completed at least 90 training hours in trust, other fiduciary business, or investment management activities acceptable to the BSP or completed a relevant global or local professional certification program; and
- d. He must be fit and proper to discharge his function as Trust Officer with proven integrity/probity, physical/mental fitness, competence, relevant education/ financial literacy/training, diligence and knowledge/experience.

### 12.2. Responsibilities

The management of day-to-day fiduciary activities shall be vested in the Trust Officer. In this regard, the Trust Officer shall:

- a. Ensure adherence to the basic standards in the administration of trust, other fiduciary and investment management accounts;
- 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 accounts; and
- g. Submit periodic reports to regulatory agencies on the conduct of the trust operations.

## V. DEALINGS WITH RELATED PARTIES

The Related Party Transaction (RPT) policy guidelines are formulated in accordance with the requirements of the SEC Revised Code of Corporate Governance; BSP Manual of Regulations for Banks (MORB), specifically BSP Guidelines in Strengthening Corporate Governance on Related Party Transactions (RPTs) of Banks; BSP Guidelines on Related Party Transactions; and Prudential Policy on Loans to DOSRI/Subsidiaries/Affiliates, as well as Basel Core Principles (BCP) for Effective Banking Supervision No. 20 and other related laws and regulations.

The Board of Directors, Management and employees of PNB Group commit themselves to adopt and adhere to the RPT Policy Guidelines. The Bank recognizes that engaging in RPTs have economic benefits to individual entities and to the entire PNB Group. RPTs are generally allowed provided that these are conducted on an arm's length basis; monitors these transactions; take appropriate steps to control or mitigate the risks; and write-off of exposures to related parties is in accordance with standard policies and processes; and board approved RPT policy guidelines. As such, RPTs shall be conducted in the regular course of business (fair process) and not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances (fair terms).

The Board, through the Board Oversight RPT Committee (BORC), exercises appropriate oversight in the implementation of the control systems for managing RPT exposures; ensures that RPTs handled in sound and prudent manner, with integrity, and in compliance with the board approved RPT Policy Guidelines/Manual; sets an example in complying with supervisory expectations, and practicing good governance for the best interest of the bank and its depositors, creditors, fiduciary clients, and other stakeholders.

The RPT policy framework has five (5) elements, i.e., Board and Senior Management Oversight; Policies and Procedures; Monitoring & Assessment; MIS & Reporting; and Training:

#### 1. Board and Senior Management Oversight

The Board of Directors shall have the overall responsibility for ensuring that transactions with related parties are handled in a sound and prudent manner with a high degree of integrity; for exercising sound and objective judgment; and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders of the bank.

Senior Management shall implement appropriate controls to effectively manage and monitor RPTs and ensure compliance with the board approved RPT policy guidelines, as well as regulatory requirements. It shall also conduct periodic review and update of the inventory of related parties covered by RPT policy and ensure that dealings with RPTs are conducted on an arm's length basis at all times.

The Board Oversight RPT Committee (BORC) created in September 2013 governed by a Charter, assists the Board in performing its oversight functions for avoiding potential conflicts of interest of shareholders, board members, management, and other stakeholders of PNB Group. The Committee is composed of at least three (3) members of the board of directors, two (2) of whom are independent directors, including the chairperson. The Chief Compliance Officer and Chief Audit Executive should sit as non-voting members in the Committee.

The BORC oversees the evaluation of RPT that present the risk of potential abuse; processes and approvals are conducted at arm's length basis; exercise sound and objective judgment for the best interest of the bank; and review/endorse RPT to the board for approval/notation.

#### 2. Policies and Procedures

2.1. As dealings of the bank on RPTs cannot be avoided, it should be conducted in the regular course of business; and not undertaken on more favorable economic terms, e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances.

2.2. The Bank's existing board approved policies and procedures on DOSRI which conforms with the BSP Manual of Regulations for Banks (MORB) shall be consistently observed for loans, other credit accommodations or guarantees granted by the bank to any of its subsidiaries and affiliates, as well as Directors, Officers, Shareholders and Related Interests (DOSRI).

2.3. The members of the board, stockholders, and management shall disclose to the board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matters affecting the bank. Directors and officers involved in possible conflict of interests shall disassociate from participating in the decision making process and abstain in the discussion, approval and management of such transaction or matters affecting the bank. The Board Oversight RPT Committee may inform the Corporate Governance/Nomination/Remuneration and Sustainability Committee of the directors/officers' actual/potential conflicts of interest with the Bank, as necessary.

2.4. Heads of Office may incorporate in their existing policy manuals a specific section on Related Party Transactions (RPTs) and/or dealings with the related parties, as necessary. The revised manuals should be approved by the Board.



2.5. In order to prevent abuses arising from exposures to related parties on the covered transactions; and to address conflict of interest, the Bank has a policy in place that its exposures to related parties/companies and individuals must be an arm's length basis; these exposures are effectively monitored; appropriate steps are taken to control or mitigate the risks; and write-offs of such exposures are made according to standard policies and processes. These essential elements of RPT regulations are as follows:

2.5.1. On arm's length basis

Dealings of a bank with any of its DOSRI and related parties should be in the regular course of business and upon terms not less favorable to the bank than those terms and services offered to others (fair process), i.e., price, commissions, interest rates, fees, tenor, collateral requirement. Further, it should not undertake on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances (fair terms).

All transactions entered by bank to DOSRI and related parties should be fair, within terms similarly offered to unrelated 3rd party regular clients, and entered into for the best interest of the bank. The price mechanism may include, but not limited to, acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.

2.5.2. Exposures effectively monitored

Business Units of the bank are required to document all lending and credit accommodations to DOSRI and related parties; and record keeping must be in place. The Bank submits periodic reports on DOSRI and RPT exposures and compliance with the DOSRI ceilings/limits with the BSP. The mandatory periodic regulatory reporting requirement, as well as regular reporting to the board of the RPT exposures to related parties will form part of the monitoring system that the bank shall establish.

2.5.3. Appropriate steps are taken to control or mitigate the risks

Relevant DOSRI and RPT policies and procedures issued by BSP are considered as steps for the bank to control or mitigate risk exposures from RPT lending and credit accommodations. Policy that addresses the requirement includes DOSRI loan limits/ceilings and definition, procedural requirements, covered transactions, loans to subsidiaries and affiliates, and policy covering approved fringe benefit plan.

2.5.4. Write-offs are made according to existing standard policies and processes.

Write-offs are allowed pursuant to Bank existing policy and only after securing prior approvals from the bank's board of directors and from the Monetary Board

2.6. Ensures that individual and aggregate exposures to related parties are within prudent levels consistent with the existing prudential limits and internal limits.

2.7. Covered Related Party Transactions (RPTs):

Related Party Transactions are transactions or dealings with related parties of the Bank, including its trust department, regardless of whether there is a consideration. These cover all types of transactions both on-and off-balance sheet, and regardless of which side of the transaction/deal the bank is acting. These shall include, but not limited to the following:

2.7.1. Credit exposures and claims and write-offs;

2.7.2. Investments and/or subscriptions for debt/equity issuances;

- 2.7.3. Consulting, professional, agency and other service arrangements/contracts;
- 2.7.4. Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
- 2.7.5. Construction arrangements/contracts;
- 2.7.6. Lease arrangements/contracts;
- 2.7.7. Trading and derivative transactions;
- 2.7.8. Borrowings, commitments, fund transfers and guarantees;
- 2.7.9. Sale, purchase or supply of any goods or materials; and
- 2.7.10. Establishment of joint venture entities

RPTs include outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

## 2.8. Covered Related Parties:

- 2.8.1 Directors, Officers, Stockholders and Related Interests (DOSRI), (RI limited to 1<sup>st</sup> degree relatives). For officers of the bank and its related parties, it is limited to the rank of at least Vice President;
- 2.8.2 Close family members of Bank's DOS (up to 2<sup>nd</sup> degree relatives);
- 2.8.3 Bank's subsidiaries and affiliates;
- 2.8.4 Other related parties/entities linked directly or indirectly to the bank;
- 2.8.5 Any party that the bank exerts direct/indirect control over (downstream relationship); or that exerts direct/indirect control over the bank (Upstream relationship);
- 2.8.6 Subsidiaries, affiliates and SPEs of 1.5;
- 2.8.7 DOS and their 2<sup>nd</sup> degree relatives of the affiliated companies (Nos. 2.8.3, 2.8.5, 2.8.6 above, and corporate related interests); and
- 2.8.8 Any person/juridical entity that has interest which may pose potential conflict with the interest of the bank. This pertains to Board-identified related parties which do not fall among those enumerated but whose transactions with the bank also pose conflict of interest situations, such as exposures with significant economic dependence.

## 2.9. Internal limits/ceilings for individual and aggregate exposures to related parties:

- 2.9.1. The provisions of MORB on the regulatory limits/ceilings shall be observed as internal limits/ceilings for individual and aggregate exposures to DOSRI, subsidiaries and affiliates.
- 2.9.2. The Bank shall adopt RPT limit/ceiling based on the type of transaction that shall be endorsed by the appropriate Management/Board Committees for the review, approval and/or notation by the Board Oversight RPT Committee (BORC).
- 2.9.3. Transactions that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall be subjected to RPT policy requirements. The prospective treatment should, however, be without prejudice to supervisory actions that BSP may enforce for transactions noted that may not have been conducted on an arm's length basis.

## 2.10. Conflict of Interest arising from RPTs

- 2.10.1. Directors must avoid conflicts or potential conflicts of interest. Conflict of interest occurs or arises when:
  - An individual's private or related interests interfere in any way, or are perceived to interfere, with the interests of the Bank as a whole.
  - A Director takes actions or has interests that may make it difficult for him to preserve his objectivity and carry out his tasks effectively

- A Director, or a member of his family, receives improper personal benefits as a result of his position in the Bank

2.10.2. All Bank employees have a duty to ensure that no personal transaction will be in conflict with their corporate and customer responsibilities. Accordingly, PNB employees shall not buy or sell a security on the basis of knowledge:

- Of a probable change in investment attitude and consequent action by the Bank with respect to that security;
- That the Bank is effecting or proposes to effect transactions in the security or other transactions which may affect the price of the security to a material degree; or
- That the Bank is contemplating a transaction of any kind that would have a material effect on a particular company or security.

2.10.3. If actual or potential conflict of interest may arise on the part of the employee, he is obligated to disclose in writing to the Bank his participation, whether direct or indirect, in any endeavor which may constitute an actual or potential conflict of interest with that of the Bank and its subsidiaries or affiliates.

2.10.4. Members of the board, stockholders, and management shall disclose to the board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the bank.

2.10.5. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the bank.

2.10.6. Any query about a Director or a bank employee's actual or potential conflict of interest arising from RPTs with the Bank should be brought promptly to the attention of the Board Oversight RPT Committee and the Corporate Governance/Nomination/Remuneration and Sustainability Committee. These committees shall evaluate the situation and determine an appropriate course of action, including whether consideration or action by the full Board is necessary. Directors involved in any conflict of interest or potential conflict of interest shall disassociate from participating in any decision related thereto.

## 2.11. Whistleblower Policy

Bank employees are encouraged to report internally any suspected or actual commission of theft/fraud, corrupt practices such as, but not limited to, bribery, fraud, extortion, collusion, conflict of interest and money laundering, violation of ethical standard, law, rule or regulation and/or any misconduct by its directors, officers or staff consistent with the board approved corporate values and codes of conduct and in accordance with the existing board approved Whistleblower Policy.

## 3. Monitoring and Assessment

Assessment and monitoring of reporting and internal controls on transparency of RPTs shall be conducted by independent groups who directly report to the Board through the Board Audit and

Compliance Committee:

3.1. The Internal Audit Group shall conduct a periodic formal review of the effectiveness of the Bank's system and internal controls governing RPTs to assess consistency with the board-approved policies and procedures. The results of the audit shall be directly reported to the Board Audit and Compliance Committee (BACC).

3.2. The Global Compliance Group shall ensure that the Bank complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. It shall aid in the review of the Bank's transactions and identify any potential RPT that would

require review by the Board or BORC. It shall ensure that the RPT policy is kept updated and is properly implemented throughout the Bank.

4. MIS and Reporting

In addition to the required reports on DOSRI and transactions with subsidiaries and affiliates under existing regulations, disclosures and submission of the following regulatory reports shall likewise be complied with:

- 4.1. The Bank shall report all entities in its conglomerate structure and shall likewise disclose beneficial owners of shareholdings that are in the name of PCD Nominee Corporation. The report shall be submitted to the BSP within 30 calendar days after the end of every calendar year.
- 4.2. The Bank shall submit a report on material exposures to related parties, which shall include the material RPTs of the Bank with its non-bank financial subsidiaries and affiliates within 20 calendar days after the end of the reference quarter starting with the quarter ending March 31, 2016. Hence, BSP supervised non-bank financial subsidiaries and affiliates of the bank are expected to report their material RPTs to parent bank for consolidation and reporting to BSP.

However for lease contracts and other similar contracts with recurring payment transactions, these shall be reported once which is upon approval of said transaction by the board of directors.

- 4.3. Disclosure in the Annual Report of the (i) policies and procedures for managing RPTs, including managing of conflicts of interest or potential conflicts of interest; (ii) responsibility of RPT Committee; and (iii) nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments coming from material RPTs.
- 4.4. Material RPTs approved by the Board, including the nature, terms, conditions, original and outstanding individual and aggregate balances, justification, other unusual or infrequently occurring transactions and other details must be clearly disclosed during stockholders meeting and duly reflected in the minutes of the board and stockholders' meetings. The material or significant RPTs reviewed and approved during the year should be disclosed in its Annual Corporate Governance Report.

5. Training

The RPT policy guidelines are included in the Compliance Awareness Training Programs regularly conducted by the Global Compliance Group to all employees of PNB Group.

**VI. CONFIRMATION OF ELECTION/APPOINTMENT OF DIRECTORS/OFFICERS**

**1. Confirming Authority**

The election/appointment of directors/officers shall be subject to confirmation by the following:

Confirming Authority	Position level
<p><b>a. Monetary Board</b></p>	<p>Directors and CEO of UBs and KBs, including their subsidiary banks, QBs, trust corporations<sup>1/</sup>, and non-bank financial institutions (NBFIs) with trust authority; of stand-alone Islamic Banks, TBs, RBs and Coop Banks, QBs and NBFIs with trust authority with total assets of at least P10.0 billion; and of trust corporations with assets under management of at least P10.0 billion</p>

<b>b. SES Committee</b>	Directors and CEO of stand-alone Islamic Banks, TB, RBs, coop Banks, QBs, and NBFIs with trust authority with total assets of less than P10.0 billion; and of trust corporations <sup>1/</sup> with assets under management of less than P10.0 billion
	Treasurer and heads of internal audit, risk management and compliance functions, and other officers with rank of senior vice president and above (or equivalent ranks) of UBs and KBs and their subsidiary banks and quasi-banks, trust corporations, and NBFIs with trust authority; of stand-alone Islamic Banks, TBs, RBs, Coop Banks, QBs and NBFIs with trust authority; and of trust corporations
	Trust officer regardless of rank of banks/QBs/NBFIs as provided in Subsec. X406.10

<sup>1/</sup> As defined under Subsec. 4102T.1 of MORNBFI-T

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

The election/appointment of abovementioned directors/officers shall be deemed to have been confirmed by the BSP, if after sixty (60) banking days from receipt of the complete required reports, the appropriate supervising department of the SES does not advise the BSFI concerned against said election/appointment.

However, the confirmation by the Monetary Board/SES Committee of the election/appointment to above-mentioned position levels shall not be required in the following cases:

- a. Re-election of a director (as a director) in the same BSFI or election of the same director in another bank, QB, trust corporation, and NBFIs with trust authority within a banking group;
- b. Re-election of an independent director (as an independent director or not) in the same BSFI or election of the same director (as an independent director or not) in another bank, QB, trust corporation, and NBFIs with trust authority within a banking group; and
- c. Promotion of an officer, other than to that which requires (a) prior Monetary Board approval, or (b) a different set of minimum qualifications, or (c) a different level of confirming authority as provided in the first paragraph hereof, in the same bank or appointment/transfer to another bank, QB, trust corporation, and NBFIs with trust authority within a banking group:

Provided, That the director/officer concerned has been previously confirmed by the Monetary Board, or if previously confirmed by the SES Committee, his/her re-election/promotion/transfer requires the same level of confirming authority as provided in the first paragraph hereof: Provided, further, That said director/officer has had continuous service within the same Bank or Banking Group. This exemption shall apply to directors/officers confirmed by the Monetary Board/SES Committee starting 01 January 2011.

The appointment of officers below the rank of Senior Vice President (SVP) other than the Treasurer, trust officer, and heads of internal audit, risk management, and compliance functions regardless of rank shall be subject neither to Monetary Board approval nor BSP confirmation.

The term "Banking Group" shall refer to the parent bank and its subsidiary banks, QBs, trust entities, and other NBFIs other than stand-alone and trust corporations as well as other banks, QBs, trust entities, and other NBFIs other than stand-alone and trust corporations over which the parent bank has the power to exercise "control" as defined in Subsec. X141.1.

The required certifications and other documentary proof of qualifications for the confirmation of the election/appointment of directors/officers, and approval of the appointment of compliance officers of banks/QBs/NBFI with trust authority/trust corporations are shown in Appendix 98. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position.

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

## VII. BIO-DATA OF DIRECTORS AND OFFICERS

1. The Bank shall submit to the appropriate department of the SES a bio-data with ID picture of their (1) Directors and Officers who are subject to confirmation under MORB Subsection X148.1, or (2) Officers below the rank of SVP requiring a different set of minimum qualifications, upon every election/re-election/appointment/promotion in a prescribed form and for first time Directors/Officers within a particular Bank/Banking Group whose election/appointment requires Monetary Board/SES Committee confirmation, the duly notarized authorization form per Appendix 76, within twenty (20) banking days from the date of election/re-election of the directors/meeting of the board of directors in which the officers are appointed/promoted, in accordance with MORB Appendix 6.

The bio-data shall be updated and submitted in cases of change of name due to change in civil status and change of residential address, within twenty (20) banking days from the date the change occurred, and in cases of requests for prior Monetary Board approval of interlocks.

For other officers below the rank of SVP other than the Treasurer, Trust officer, and heads of internal audit, risk management, and compliance functions regardless of rank, the Bank shall not be required to submit their bio-data to the BSP.

2. The bank shall, however, keep a complete record of the bio-data of all its directors and officers and shall maintain a system of updating said records which shall be made available during on-site examination or when required by the BSP for submission for off-site verification.
3. Banks shall also submit to the appropriate department of the SES, a duly notarized list of the incumbent members of the board of directors and officers (President or equivalent rank, down the line, format attached as Appendix 98b), within twenty (20) banking days from the annual election of the board of directors as provided in the bank's by-laws, in accordance with MORB Appendix 6.
4. If after evaluation, the appropriate department of the SES shall find grounds for disqualification, the director/officer so elected/re-elected/appointed/promoted may be recommended for removal from office even if he/she has assumed the position to which he/she was elected/re-elected/appointed/promoted pursuant to Section 16 of R.A. No. 8791.

In the case of the independent directors, the bio-data shall be accompanied by a certification under oath from the director concerned that he is an independent director as defined under Subsec. X141.1g.

## VIII. INTERLOCKING DIRECTORSHIPS AND/OR OFFICERSHIPS AND CONCURRENT DIRECTORSHIP

In order to safeguard against the excessive concentration of economic power, unfair competitive advantage or conflict of interest situations to the detriment of others through the exercise by the same person or group of persons of undue influence over the policymaking and/or management functions of similar FIs while at the same time allowing banks, QBs and non-bank financial institutions (NBFIs) without quasi-banking functions to benefit from organizational synergy or economies of scale and effective sharing of managerial and technical expertise, the following regulations shall govern

interlocking directorships and/or officerships within the financial system consisting of banks, QBs and NBFIs.

### 1. Interlocking Directorships

- 1.1. Except as may be authorized by the Monetary Board or as otherwise provided hereunder, there shall be no concurrent directorships between banks or between a bank and a QB or an NBFI.
- 2.1. Without the need for prior approval of the Monetary Board, concurrent directorships between entities not involving an investment house shall be allowed in the following cases:
  - a. Banks not belonging to the same category: Provided, That not more than one (1) bank shall have quasi-banking functions;
  - b. A bank and an NBFI;
  - c. A bank without quasi-banking functions and a QB; and
  - d. A bank and one (1) or more of its subsidiary bank/s, QB/s and NBFI/s. For purposes of the foregoing, a husband and his wife shall be considered as one (1) person.

### 2. Interlocking Directorships and Officerships

In order to prevent any conflict of interest resulting from the exercise of directorship coupled with the reinforcing influence of an officer's decision-making and implementing powers, the following rules shall be observed:

- a. Except as may be authorized by the Monetary Board or as otherwise provided hereunder, there shall be no concurrent directorship and officership between banks or between a bank and a QB or an NBFI; and
- b. Without the need for prior approval of the Monetary Board, concurrent directorship and officership between a bank and one (1) or more of its subsidiary bank/ s, QB/s and NBFI/s, other than investment house/s, shall be allowed.

### 3. Interlocking Officerships

As a general rule, there shall be no concurrent officerships between banks or, between a bank and a QB or a NBFI<sup>1/</sup>.

<sup>1/</sup> *BSFI officer, who concurrently held officership position or other positions that caused them to be involved in the daily microfinance operations of related NGOs/ foundations, were given up to 30 September 2011 to relinquish such officer position.*

However, subject to prior approval of the Monetary Board, concurrent officerships, may be allowed in the following cases:

- a. Between a bank and not more than two (2) of its subsidiary bank/s, QB/s, and NBFI/s, other than investment house/s; or
- b. Between a bank and not more than two (2) of its subsidiary QB/s and NBFI/s; or
- c. Between two (2) banks, or between a bank and a QB or an NBFI, other than an investment house: Provided, That at least twenty percent (20%) of the equity of each of the banks, QBs or NBFIs is owned by a holding company or a bank/QB and the interlocking arrangement is necessary for the holding company or the bank/QB to provide technical expertise or managerial assistance to its subsidiaries/affiliates.

Aforementioned concurrent officerships may be allowed, subject to the following conditions:

- 1) that the positions do not involve any functional conflict of interests;
- 2) that any officer holding the positions of president, chief executive officer, chief operating officer or chief financial officer or their equivalent may not be concurrently appointed to any of said positions or their equivalent;
- 3) that the officer involved, or his spouse or any of his relatives within the first degree of consanguinity or affinity or by legal adoption, or a corporation, association or firm wholly- or majority-owned or controlled by such officer or his relatives enumerated above, does not

- own in his/its own capacity more than twenty percent (20%) of the subscribed capital stock of the entities in which the bank has equity investments; and
- 4) that where any of the positions involved is held on full-time basis, adequate justification shall be submitted to the Monetary Board; or
- d. Concurrent officership positions in the same capacity which do not involve management functions, i.e., internal auditor, corporate secretary, assistant corporate secretary and security officer, between a bank and one or more of its subsidiary QB/s and NBFIs, or between bank/s, QB/s and NBFIs, other than investment house/s: Provided, That at least twenty percent (20%) of the equity of each of the banks, QBs and NBFIs is owned by a holding company or by any of the banks/QBs within the group.
  - e. Concurrent officership positions as corporate secretary or assistant corporate secretary between bank/s, QB/s and NBFIs, other than investment house/s, outside of those covered under Item "c(4)" of this Section: Provided, That proof of disclosure to and consent from all of the involved FIs, on the concurrent officership positions, shall be submitted to the BSP.

#### 4. Concurrent Directorship

A director should notify the Board where he/she is an incumbent director before accepting a directorship in another company.

### IX. CODE OF CONDUCT AND BUSINESS ETHICS

The Bank shall consistently adopt the policies and procedures on the Code of Conduct, Corporate Governance Manual and relevant policies in business ethics affecting directors, senior management and employees. The provisions of the Code of Conduct shall apply to all employees of the Bank including its overseas branches/offices and foreign/domestic subsidiaries.

1. Code of Conduct Manual - is constituted to prescribe a moral code for PNB employees which would not only instill discipline among them but would yield higher productivity at the workplace and enhance and safeguard the corporate image of the Bank. While this Code defines the offenses as well as the corresponding disciplinary measures that may be imposed, its overall intent is more of prevention of the infraction rather than the administration of disciplinary measures. This Code defines and provides the standards of conduct expected of all employees and enumerates the acts or omissions prejudicial to the interest of the Bank. (Ref. Bd. Res. No. 05/09-22-17 and GEN. Cir. 0451/17 dated September 29, 2017);
2. Corporate Governance Manual - the Bank adheres to the highest principle of good corporate governance as provided for in its Amended By-Laws and embodied in the Corporate Governance Manual. In accordance with the provisions of the manual, the Bank subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business; dealing fairly with its clients, investors, stockholders, related parties, the communities affected by the bank's activities and its various publics; professionalism among its Board of Directors, Executives and other employees of the bank in managing the company, its subsidiaries and affiliates; and respect for the laws and regulations of the countries affecting its businesses;
3. Personal Investment Policy - set forth prudent standards of behavior for all employees when conducting their personal investment transactions. This policy provides minimum standards and specifies investment practices which are either prohibited or subject to special constraints. The employees may make investments for their personal accounts as long as these transactions are consistent with laws and regulations, and the personal investment policy of the bank. These investments should not involve or appear to involve a conflict of interest with the activities of PNB or its customers. Employee investment decisions must be based solely on publicly available information, and should be oriented toward long term investment rather than short term speculation.



4. As a general policy, all employees are prohibited from purchasing or selling any PNB securities if they possess material no-public information about PNB that if known by the public might influence the price of PNB securities. Employees may not purchase or sell PNB options or execute a short sale of PNB security unless the transaction is effected as a bona-fide hedge (Ref. Bd. Res. No. 02/04-24-09 and GEN Cir. No. 1-874/2013 dated May 16, 2013);
5. Policy on Soliciting and/or Receiving Gifts - the Bank recognizes that maintaining good relationships with clients often require the exchange of gifts as tokens of appreciation. However, employees are expected to observe discretion and prudence in receiving gifts or donations whether in cash or in kind and other form of hospitality. Soliciting gifts/donations/sponsorship whether in cash or in kind from clients, suppliers, and other business-related parties is strictly prohibited. As a general rule, receiving gifts/donations/ sponsorship/financial assistance whether in cash or in kind from clients, suppliers, and other business – related parties is strictly prohibited. Thus, gifts offered must be politely declined EXCEPT on special occasions (i.e., Christmas, New Year, Birthday, Anniversary, Wedding, and the like) when giving of gifts is clearly not meant to influence business transactions. On said occasions, employees may accept gifts subject to the guidelines provided under Bd. Res. No. 11/06-29-17 and GEN. Cir. No. 0424/17 dated July 14, 2017;
6. Whistleblower Policy - it is the policy of the bank to encourage employees to report internally any suspected or actual commission of theft/fraud, corrupt practices such as, but not limited to, bribery, fraud, extortion, collusion, conflict of interest and money laundering, violation of ethical standard, law, rule or regulation and/or any misconduct by its directors, officers or staff in accordance with the PNB Whistleblower Policy. The policy protects the employee/whistleblower against retaliation, discrimination, harassment or adverse personnel action, for reporting in good faith a suspected or actual violation (Ref. Bd. Res. No. 03/02-24-17 and GEN Cir. No. 0393/17 dated March 02, 2017).

The above mentioned code and policies aim to instill among the Bank directors and its employees a commitment and dedication to the virtues of honesty and integrity, with a high sense of prudence, responsibility and efficiency in the conduct of their duties.

As required, each bank director and employee accomplishes an Acknowledgement Receipt certifying therein that he/she has been furnished with copies of the above mentioned manuals and policies; that he/she has fully read and understood the provisions embodied therein; and that he/she promises to abide with the rules/regulations of the said manuals and policies.

Any failure to abide with the above mentioned manuals and policies must be reported to the immediate supervisor and/or Head of Office concerned to the Human Resource Group (HRG) and/or Corporate Governance Committee. A designated committee may subsequently validate/evaluate the report to determine if any sanction or disciplinary action should be taken against the erring employee or director.

## **X. SHAREHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTERESTS**

The Bank recognizes that the most cogent proof of good corporate governance is visible to the eyes of its investors. Therefore, the following provisions are issued for the guidance of all internal and external parties concerned, as governance covenant between the Bank and all its investors:

### **1. Rights and Protection of Investors/Minority Interests**

The Board shall be committed to respect the following rights of the stockholders:

#### **1.1 Right to vote on all matters that require their consent or approval**

- a. Shareholders shall have the right to elect, remove and replace Directors and vote on certain corporate acts in accordance with the Corporation Code;
- b. Cumulative voting shall be used in the election of Directors; and

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

#### 1.2 Right to inspect corporate books and records

All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.

#### 1.3 Right to Information

- a. The Shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the Directors and officers and certain other matters such as their holdings of the Bank's shares, dealings with the Bank, relationships among Directors and key officers, and the aggregate compensation of Directors and officers;
- b. The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes; and
- c. The minority shareholders shall have access to any information relating to matters for which Management is accountable;

#### 1.4 Appraisal Right

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

- a. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- b. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code;
- c. In case of merger or consolidation;
- d. A stockholder is likewise given an appraisal right in cases where a corporation decides to invest its funds in another corporation or business; and
- e. The stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right.

#### 1.5 Absence of Pre-emptive right to stock issuances of the corporation.

The stockholders shall have no pre-emptive right to subscribe to any new or additional issuance of shares by the Bank, regardless of the class of shares, and whether the same is issued from the Bank's unissued capital stock or in support of an increase in capital.

#### 1.6 Right to dividends

Dividends shall be declared and paid out of the surplus profits of the Bank at such times and in such amounts as the Board of Directors may determine in accordance with the provisions of law and regulations of BSP, SEC and financial regulatory requirements.

- 1.7 It shall be the duty of the Directors to promote shareholder rights, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for any violation of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The Directors shall pave the way for the

electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

All complaints from stockholders should be satisfactorily handled and processed.

2. The Board shall encourage active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information, i.e. date, location, meeting agenda and its rationale and explanation, at least 28 days before the meeting; and by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day. In addition, the Minutes of the Annual and Special Shareholders' Meeting shall be available on the bank website within five (5) business days from the end of the meeting.
3. The Board should establish and maintain an alternative dispute mechanism in the PNB Group to resolve intra-corporate disputes in an amicable and effective manner.

## XI. CORPORATE GOVERNANCE ASSESSMENT AND MONITORING

Good corporate governance is the foundation of safe and sound banking operations. It is a reflection of the collective values and competence of the board of directors and senior management team, as well as quality and effective implementation of the bank's corporate governance standards and practices.

Evaluation of the quality of governance should focus more on the effective implementation of the governance standards and principles by putting greater weight on the practices and performance of the board of directors and senior management team.

The Board established an evaluation system such as the Performance Evaluation Form to determine and measure its compliance with the corporate governance standards and principles. Any violation thereof shall subject the responsible director, officer or employee to the penalty provided under Part XII of this Manual.

There are two (2) sets of Evaluation Forms that will assess the bank's corporate governance practices, using the five (5) point rating scale, with 5 being the highest rating:

1. Director's Performance Evaluation Form (Annex I)

The directors' self-assessment on the Director's Individual Qualitative Performance; the Board and Board Committees shall reflect the collective values, performance and competence of the board of directors on corporate governance standards and principles.

The Chairman, individual members of the Board and Committees shall conduct an annual self-assessment in order to evaluate the performance for the previous year. The assessment should be supported by an external facilitator every three (3) years. The performance of the President/CEO, on the other hand, is evaluated by the Board of Directors.

After the Directors' self-assessment, the results are discussed and noted by the Corporate Governance/Nomination/Remuneration and Sustainability Committee before submission to the Board for notation.

2. Management Component Rating Form (Annex J)

The Directors' self-assessment on the four (4) management component factors, such as: Governance Landscape; Fitness and propriety of the Board and Management; Risk Governance; Controls and Independent Oversight shall reflect the quality and effective implementation of the Bank's corporate governance practices.

The five (5) point rating scale is described as follows:

Rating	Description
<b>5 - STRONG</b>	<b><u>EXCEED</u></b> what is considered necessary given the size, risk profile and complexity of operations of the bank. Deficiencies/ weaknesses are considered minor and insignificant.
<b>4 - SATISFACTORY</b>	<b><u>MEET</u></b> what is considered necessary given the size, risk profile and complexity of operations of the bank. Deficiencies/ weaknesses may exist but do not affect the overall quality of governance in a bank.
<b>3 - LESS THAN SATISFACTORY</b>	<b><u>DO NOT MEET</u></b> what is considered necessary given the size, risk profile and complexity of operations of the bank. However, the Board and Management are committed to correct the situation in a timely manner.
<b>2 - DEFICIENT</b>	<b><u>DEFICIENT</u></b> in a material way, to meet what is considered necessary given the size, risk profile and complexity of operations of the bank. The ability of the Board and Management to correct the situation in a timely manner is doubtful.
<b>1 - CRITICALLY DEFICIENT</b>	<b><u>CRITICALLY DEFICIENT</u></b> to meet what is considered necessary given the size, risk profile and complexity of operations of the bank. The deficiencies/weaknesses pose an imminent threat to the safety and soundness of the bank.

- 2.1 The rating shall not be based on the average ratings assigned instead; judgment should be exercised on how much weight should be given to a particular factor based on the distinct circumstances. Identify the issues that are of greatest supervisory concern and in synthesizing how these have affected the quality of governance in the bank;
- 2.2 Apart from assigning a rating, it should come up with specific applicable action recommendations commensurate with the issues identified and the resulting assessment on the quality of governance;

**XII. REPORTORIAL OR DISCLOSURE SYSTEM OF BANK’S CORPORATE GOVERNANCE**

The reports or disclosures required under this revised Manual shall be prepared and submitted to the SEC/PSE/BSP by the responsible office/officer;

1. The Bank shall comply with the submission of reports to the regulatory agencies disclosing all entities in the group structure through conglomerate map/organizational structure where a bank belongs, as well as significant transactions between entities in the conglomerate;
2. The Bank shall submit all necessary reports that may be prescribed by the regulatory bodies/agencies in accordance with existing regulations covering related party transactions among entities within the PNB Group and entities belonging to the conglomerate;
3. The Bank shall disclose in the Annual Report the nature of non-audit related services performed by external auditors;
4. All material information about the Bank which could adversely affect its viability or the interest of its stockholders and other stakeholders shall be publicly disclosed to the regulatory in a full, fair accurate and timely manner. An independent party, appointed by the Board, shall evaluate the fairness of the transaction price on the acquisition or disposal of assets;

Such information shall include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management. The Company shall not selectively disclose material non-public information except to:

- A person who is bound by duty to maintain trust and confidence to the Company such as but not limited to its auditors, legal counsels, investment bankers, financial advisers; and
  - A person who agrees in writing to maintain in strict confidence the disclosed material information and will not take advantage of it for his personal gain;
5. All disclosed information shall be released via the approved stock exchange procedure for company announcements as well as through the annual report; and
  6. The Board is primarily accountable to the stockholders. The Board shall ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders to give a fair and complete picture of the Bank's financial condition, results and business operations. The Board shall commit at all times to fully disclose material information dealings for the interest of the stakeholders. It shall cause the filing of all required information through the Philippine Stock Exchange (PSE) and submission to the Commission for the interest of the Bank's stockholders and other stakeholders.
  7. The Board shall fully disclose all relevant and material information on individual board members and key executives to evaluate their experience and qualifications, and assess any potential conflicts that might affect their judgment.
  8. The company's corporate governance policies, programs and procedures should be contained in its Manual on Corporate Governance, which should be submitted to the regulators and posted on the company's website.
  9. The Bank's website is the channel for the comprehensive and cost-efficient communication with its stakeholders and other interested users. It includes media and analysts' briefings to ensure the timely and accurate dissemination of public, material, and relevant information to its shareholders and other investors.

### **XIII. COMMUNICATION PROCESS**

1. This Revised Manual shall be available for inspection by any stockholder of the Bank at reasonable hours on business days;
2. All Directors, executives and division and department heads are tasked to ensure the thorough dissemination of this Revised Manual to all employees and related third parties, and to likewise enjoin compliance in the process; and
3. Board approved Revised Corporate Governance Manual can be accessed at the I-Comply and Knowledge Base at the Bank's intranet/Cybermag.

### **XIV. TRAINING PROCESS**

#### **1. ORIENTATION AND EDUCATION PROGRAM**

PNB believes that continuing education and training is important for Board of Directors and key officers of the Bank. Training and education can be in various forms: classroom training, modular workshops, formal and informal sessions, home-study program, on-the-job, e-seminars, webinars and other ways of learning. Board of Directors are provided with orientation and education program both internal and external to aid in the execution of their functions.

##### **1.1. Internal Training and Education**

As early as the selection process of the Board and during the fit and proper review of the Corporate Governance/Nomination/ Remuneration and Sustainability Committee, the credibility and work experience of the shortlisted candidates are considered and aligned with the

requirements of the Bank. Members of the Committee provide an overview of the directorship function and an orientation of the banking operation.

The Bank, through the Corporate Secretary's Office furnishes all of its directors with a copy of the duties and responsibilities of the Board of Directors. Each director is required to acknowledge receipt of the copies of such and certify that they fully understand the same.

Moreover, the President also talks to the new Director and discuss the PNB requirements including the membership to Board-level Committee where the Director can maximize technical expertise, experience and network. Also, the new Director, to be abreast and have a good grasp of PNB banking operations, sits as observer in various Board-level Committees and also meets with business units and control functions periodically.

### **1.2. External Training and Education**

All key officers and members of the Board are required to attend, at least once a year, a program on corporate governance, conducted by training providers accredited by SEC or BSP. The Bank also adopts the requirement that first-time directors shall attend corporate governance training for at least eight (8) hours, while the annual continuing training shall be for at least four (4) hours. A director shall, within a period of six (6) months from date of election, is required to attend a seminar on corporate governance conducted by a private or government institute duly accredited by the BSP and SEC.

## **XV. PENALTIES FOR NON-COMPLIANCE WITH THE REVISED MANUAL**

1. To strictly observe and implement the provisions of this Revised Manual, the following penalties shall be imposed, after notice and hearing, on the company's directors, officers and staff, in case of violation of any of the provisions of this Revised Manual:
  - a. In case of first violation, the subject person shall be reprimanded;
  - b. Suspension from office shall be imposed in case of a second violation. The duration of which shall depend on the gravity of the violation; and
  - c. For the third violation, the maximum penalty of removal from office shall be imposed.
2. A fine of not more than Pesos: Two Hundred Thousand (P200,000) shall be imposed by the SEC for every year of violation of the Code of Corporate Governance, without prejudice to other sanctions that the Commission may be authorized to imposed under the law.

## **XVI. CORPORATE SOCIAL RESPONSIBILITY**

The Bank intends to be a good and responsible corporate citizen that contributes to the country's sustainable development, respects the interests and promotes the wellbeing of its various stakeholders, and creates value in everything it does.

For PNB, social responsibility is a commitment that begins with the exercise of sound and fair corporate practices. At the same time, social responsibility is a commitment that is shared by every employee of the Bank.

The Bank plays an active role in nation-building through its Corporate Social Responsibility (CSR) initiatives. The Bank continues to reach out to communities through social philanthropic activities focusing on education, social development, and environmental protection.

The measurement and evaluation of the real impact of PNB's CSR Programs shall be pursued as a means of ensuring that the Bank is living up to its expectations.

For this purpose, a quarterly report shall be submitted to the Bank’s Corporate Governance Committee on the progress and status of the Bank’s CSR programs, the donations and projects undertaken for the reference quarter including any CSR initiative conceptualized/initiated by employees.

All CSR activities for the year are consolidated and reported in Corporate Social Responsibility section of the Annual Report and may be posted on the Bank’s website. For purpose of enhanced disclosure or transparency, the Bank will also include in the Annual Report non-financial and sustainability information, such as EESG (economic, environmental, social and governance).

**XVII. REFERENCES**

1. Amended By-Laws and Articles of Incorporation;
2. Securities and Exchange Commission (SEC) Regulations; and

Reference No.	Subject
MC 16, s2006	Disqualification of a Securities Broker-Dealers as an Independent Director
MC 2, s2015	Additional Guidelines on Corporate Governance training Programs and Lectures (Parts VI & VII Superseded by Memo Cir. 19 dated Nov. 22, 2016)
SEC – Philippine Corporate Governance Blueprint 2015, Building a Stronger Corporate Governance Framework	
MC 19, s2016	Code of Corporate Governance for PLCs
MC 4, s2017	Term Limit of Independent Directors

3. Bangko Sentral Ng Pilipinas (BSP) Regulations;

Reference No.	Subject
Cir. 749 dated Feb. 27, 2012	Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions, as amended
Cir. 766 dated Aug. 17, 2012	Guidelines in Strengthening Corporate Governance and Risk Management Practices on Trust, Other Fiduciary Business, and Investment Management Activities
Memo No. M-2013-002 dated Jan. 11, 2013	Guidelines in Assessing the Quality of Corporate Governance in BSP-Supervised Financial Institutions
Cir. No. 793 dated Apr. 8, 2013	Amendment to Align the Familial Restrictions Applicable to “Independent Director” with the Existing Provision of the Securities Regulation Code
Cir. No. 808 dated Aug. 22, 2013	Guidelines on Information Technology Risk Management for All Banks and Other BSP Supervised Institutions
Memo No. M-2014-011 dated Mar. 14, 2014	BSP’s Expectations for an Effective External Audit Function
April 25, 2014	BSP Materials on Risk Concentration and RPT Seminar
Cir. No. 871 dated Mar. 5, 2015	Internal Control and Internal Audit
Cir. No. 887 dated Oct. 7, 2015	Further Amendments to the Regulations on the Approval/Confirmation of the Election/Appointment of Directors/Officers
Cir. No. 889 dated Nov. 2, 2015	Treasury Activities of BSP-BSFIs and Amendments to the Qualifications of Directors and Officers
Cir. No. 895 dated Dec. 14, 2015	Guidelines on Related Party Transactions (RPTs)
Cir. No. 914 dated June 23, 2016	Amendments to Prudential Policy on Loans, Other Credit Accommodations, and Guarantees Granted to DOSRI, Subsidiaries and Affiliates
June 30, 2017	Manual of Regulations for Banks (MORB)
Cir. No. 949 dated Mar. 15, 2017	Guidelines on Social Media Risk Management
Cir. 969 dated Aug. 22, 2017	Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions

The PNB Group Code of Conduct as amended/approved by the Board is hereby adopted as an integral part of this Manual.

All business processes and practices being performed within any department or business unit of the Bank, its subsidiaries and affiliates that are inconsistent with this Revised Manual shall be superseded.



**CHARTER  
CORPORATE GOVERNANCE/NOMINATION/  
REMUNERATION AND SUSTAINABILITY COMMITTEE  
November 2017**

**I. Corporate Governance defined –**

Corporate governance is the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders. It is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and Senior Management accountable for ensuring ethical behavior, reconciling long-term customer satisfaction with shareholder value to the benefit of all stakeholders and society. Its purpose is to maximize the organization's long-term success, creating sustainable value for its shareholders, stakeholders and the nation.

**II. The Corporate Governance/Nomination/Remuneration and Sustainability Committee**

The Corporate Governance/Nomination/Remuneration and Sustainability Committee is created and/or revised pursuant to SEC Memorandum Circular 19 dated November 22, 2016, Code of Corporate of Corporate Governance for Publicly Listed Companies (PLCs); BSP Circular 456 dated October 4, 2004, Constitute Board Committees; BSP Circular 749 dated February 27, 2012, Strengthening Corporate Governance; and BSP Circular 969, Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions. This is to align existing regulations with international best practices and standards that promote good corporate governance such as the "Principles for Enhancing Corporate Governance", to assist the Board of Directors in fulfilling its corporate governance responsibilities; and ensure the Board's effectiveness and due observance of corporate governance principles and guidelines.

**III. Composition of the Committee**

- a) The Committee shall be composed of at least three (3) members of the board of directors, all of whom shall be Independent Directors (IDs), including the Chairman. They shall be entitled to the payment of the usual per diems given to members of the Committees created by the Board.
- b) The Committee shall invite resource persons in any of its meetings to render a report, clarify and provide guidance to the Committee on any relevant issue the Committee is confronted with.
- c) The presence of the majority of the members of the committee shall constitute a quorum; but the vote of the majority of the quorum which in no case be less than 2 members is required to approve any act in all the meetings of the committee.

**IV. Duties and Functions**

The Corporate Governance/Remuneration/Nomination and Sustainability Committee is tasked to assist the Board in the performance of its corporate governance responsibilities, including the functions of the Nomination and Remuneration Committee, ensuring compliance with and proper observance of corporate governance principles and practices. The Committee has the following duties and functions:



## 1. Corporate Governance

- Oversees the implementation of the corporate governance framework and periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the bank's size, complexity and business strategy, as well as its business and regulatory environments;
- Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;
- Oversee the periodic performance evaluation of the Board, its committees, and senior management; conduct an annual self-evaluation of the committee's performance; and review/evaluate the annual self-assessment of the directors, board and committees prior to Board approval/notation;
- Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;
- Proposes and plans relevant trainings for the members of the Board; and recommends continuing education/training programs for directors, assignment of tasks/projects to board committees, succession plan for the board members and senior officers;
- Adopt internal guidelines that will determine the number of directorships of its members that can hold in other corporations and address the competing time commitments that are faced when directors of the Bank serve on multiple boards;
- Review and formulate policies to strengthen provisions on conflict of interest, salaries and benefits, promotion and career advancement of personnel concerned in line with the existing professional development program and succession plan for the Board and Senior Management; and
- To receive and evaluate complaints regarding conflict of interest situations.

## 2. Nomination and Qualifications of Board Members and Senior Management

- Oversee the nomination process for members of the board of directors and for positions appointed by the board of directors; define the general profile of board members and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the board;
- Ensure that the Bank shall have at least one-third (1/3) but not less than two(2) members of the board shall be Independent Directors (IDs), and that any fractional result from applying the required minimum proportion, shall be rounded-up to the nearest whole number;
- 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;
- Pre-screen and shortlist all candidates nominated to become a member of the board of directors in accordance with the qualifications and disqualifications; and
- Develop a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired; and

### **3. Remuneration of Directors/Officers**

- Oversee the design and implementation of the remuneration and other incentives policy of the directors and officers;
- Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of Senior Management and other key personnel ensuring that compensation is consistent with the Bank's culture, financial capacity, business strategy and control environment;
- Designate the amount of remuneration and fringe benefits, which shall be at a sufficient level to attract and retain directors and officers who are needed to run the Bank successfully;
- Disallow any director to decide his or her own remuneration; and
- Provide in the Bank's annual reports, information and proxy statements a clear, concise and understandable disclosure of the aggregate compensation of its executive officers for the previous fiscal year and the ensuing year; and

### **4. Committee Chairman**

Generally, the powers and duties of the Chairman of the Committee are as follows:

- To convene the members of the Committee whenever he deems it necessary, either on his own initiative, or upon the request of the members of the Committee, at least once every quarter;
- To preside over all the Committee meetings;
- To maintain efficient lines of communication and information between the Board and Management; and
- To perform such other functions as provided by law or as may be assigned to him by the Board of Directors.

### **V. Frequency Meeting**

The Committee shall hold a meeting at such time and place as it considers appropriate, provided that a meeting shall be held at least every quarter.

### **VI. Secretariat**

The administrative requirements of the Committee shall be handled by a Secretariat to be designated by the Committee.

### **VII. Review of the Charter**

The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes for approval of the Board of Directors.



## BOARD AUDIT AND COMPLIANCE COMMITTEE CHARTER November 2017

### I. OVERALL PURPOSE

The Board Audit and Compliance Committee (BACC) of the Philippine National Bank (“PNB”) is a standing committee of the Board of Directors (“Board”).

The purpose of the Committee is to:

1. Assist the Board in the performance of its oversight responsibility relating to financial reporting process, systems of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations;
2. Provide oversight functions over internal and external auditors and ensure that the internal and external auditors act independently from each other;
3. Provide oversight over compliance functions and/or oversee the compliance program;
4. The annual independent audit of PNB’s financial statements, the engagement of the External Auditors and the evaluation of the External Auditor’s qualifications, independence and performance;
5. The compliance by PNB with legal and regulatory requirements, including PNB’s disclosure controls and procedures
6. The fulfillment of the other responsibilities set out herein.

While the Committee has the responsibilities and powers as set forth in this Charter, it is not the duty of the BACC to determine that PNB’s financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of Management and the External Auditors.

### II. MEMBERSHIP

The Board Audit and Compliance Committee shall be composed of at least three (3) Board members, who shall all be non-executive directors, must have accounting, auditing or related financial management expertise, two (2) of whom shall be independent directors, including the Chairman and another non-executive director with audit experience. The members of the BACC and the Committee Chair shall be appointed by the Board. The Chairman of the Board Audit and Compliance Committee should not be the Chairman of the Board or any other Board Level Committee.

The presence of the majority of the members of the Committee less 1 member shall constitute a quorum; but the vote of the majority of the quorum which in no case is less than 2 members is required to approve any act in all the meetings of the Committee.

When there is a lack of quorum due to the absence of other members, an alternate member from among the Board Members may be appointed to attend a particular meeting and automatically sit as a voting member.

Subject to Section 35 of the Corporation Code, the Board of Directors shall have the power, at any time, to change, to increase or decrease the membership of the Board Audit and Compliance Committee or to fill vacancies therein, and to determine from time to time, by resolution, the number of members to constitute a quorum.

The Committee shall designate a Secretariat that will handle the administrative requirements of the Committee.

### **III. MEETINGS**

The Committee shall hold a meeting at such time and place as it considers appropriate, provided that a meeting shall be held at least four (4) times a year. Special meetings maybe convened as necessary.

The Committee shall invite resource persons in any of its meetings to render a report, clarify and provide guidance to the Committee on any relevant issue the Committee is confronted with.

### **IV. AUTHORITY**

Investigate significant issues/concerns raised. The BACC shall have explicit authority to investigate any matter within its terms and 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 Committee shall have the sole authority to select, evaluate, appoint, dismiss, replace and re-appoint the External Auditors (subject to stockholder ratification) based on fair and transparent criteria such as (i) core values, culture and high regard for excellence in audit quality; (ii) technical competence and expertise of auditing staff; (iii) independence; (iv) effectiveness of the audit process; and (v) reliability and relevance of the external auditor's reports. The BACC shall set compensation of the external auditor in relation to the scope of its duties and approve in advance all audit engagement fees and terms and all audit related, and tax compliance engagements with the External Auditors. It may recommend to the Board of Directors to grant the President or his designate authority to negotiate and finalize the terms and conditions of the audit engagement as well as the audit fees, and sign, execute and deliver the corresponding contract and all non-audit engagement with the External Auditors subject to the confirmation/approval of the BACC members.

The BACC shall have the authority, to the extent it deems necessary or appropriate, to retain special legal, accounting, or other consultants to advise the Committee. The Bank shall provide funding, as determined by the BACC, for payment of compensation to the External Auditors and to any advisors employed by the Board Audit and Compliance Committee.

The BACC may form and delegate authority to subcommittees, comprised of one or more members of the Committee, as necessary or appropriate. Each subcommittee shall have the full power and authority of the BACC.

The BACC 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.

Establish a whistleblowing The BACC shall 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.

## **V. DUTIES AND RESPONSIBILITIES**

The Board Audit and Compliance Committee shall have the following duties and responsibilities:

### **1. On Financial Statements:**

- Review the quarterly, semi-annual, annual and any periodic financial statement signed by the CEO and CFO prior to submission to the Board, with particular focus on the following:
  - Any change/s in accounting policies and practices
  - Major judgmental areas
  - Significant adjustments
  - Going concern assumptions
  - Compliance with accounting standards
  - Compliance with tax, legal, and stock exchange requirements
- Establish a system that addresses, in a timely and effective manner any findings or fraud or error on the financial statements.

### **2. Oversight of the Bank's External Auditors:**

- Review/approve the Audit Program of the External Auditors prior to any audit undertaking, the scope among which includes the nature, coverage, expenses of the audit, and ensure proper coordination if more than one audit firm and/or internal independent review/external examination is involved in the activity to secure proper coverage and minimize duplication of efforts.
- Review and approve the engagement contract and ensure that the scope of audit likewise cover areas specifically prescribed by the Bangko Sentral ng Pilipinas (BSP and other regulators.
- Evaluate and determine non-audit work/services by External Auditor and keep under review the non-audit fees paid to the External Auditor both in relation to their significance to the auditor and in relation of the Bank's total expenditure on consultancy and whether provision of non audit services is compatible with maintaining the External Auditor's independence. The non-audit work should be disclosed in the annual report.
- Ensure that the external auditor/auditing firm shall be changed or the lead or concurring partner shall be rotated every five years or earlier. The rotation of the lead and concurring partner shall have an interval of at least 2 years.
- Review and discuss with management and the External Auditors the annual audited financial statements and disclosures and matters such as, but not limited to, accounting policies and practices, management letter, significant disagreement with management.
- Regularly review and monitor the External Auditor's technical competence, independence, objectivity and overall effectiveness of the External Audit process;
- Establish a system of reporting where the External Auditor can communicate directly to the Audit Committee on a timely basis;

- Continually engage the External Auditor on matters concerning audit quality;
- If the External Auditor resigns or communicates an intention to resign, the Audit Committee should follow up on the reasons/explanations giving rise to such resignation and consider whether it needs to take any action in response to those reasons.
- Closely coordinate with the External Auditor during all phases of the external audit engagement, as follows:
  - Discuss and agree to the terms of the engagement letter issued by the external auditor prior to the approval of the engagement. Where relevant, the engagement letter should reflect changes in circumstances relevant to the external audit;
  - Obtain an understanding of the scope and audit approach which shall be adopted by the external auditor for purposes of meeting the bank's financial reporting requirements;
  - Ascertain and take steps to address the major areas of concern identified by the external auditor during the course of its audit. These issues may cover significant accounting estimates, valuation methodologies and accounting policies adopted;
  - Review management representation letters before these are transmitted to the External Auditor to ensure that items in the letter are complete and appropriate;
  - Assess the extent of cooperation provided by the bank's management during the conduct of the external audit; and
  - Understand and duly assess the External Auditor's opinion regarding the capability of the bank's management and the adequacy of accounting/information systems to comply with financial and prudential reporting responsibilities.
- Maintain effective communication channels with the external auditor through regular and structured dialogues in the course of the external audit by focusing on the key accounting or auditing issues that, in the external auditor's judgment, give rise to a greater risk of material misstatement of the financial reports, as well as other external audit concerns of the Audit Committee. Internal and external auditors should be allowed and encouraged to attend the meetings of the Committee. During regular meetings, matters that may be raised include audit findings that would impact on the bank's compliance with regulatory requirements, disclosures and other accounting concerns.

### **3. Oversight of the Bank's Internal Auditor**

- Responsible for the establishment of the Internal Audit Group and the appointment, re-appointment and replacement of the Chief Audit Executive (who will report directly to the BACC functionally) and the Deputy Chief Audit Executive. The responsibility of the BACC shall include the annual performance review of the CAE, accepting the resignation and/or dismissal subject to due process.
- Recommend for the approval of the Board of directors the annual remuneration of the CAE and the Deputy Chief Audit Executive.
- Review, evaluate and approve the Annual Audit Plan to include the audit scope, frequency and prioritization of high risk business units/entities as well as approve any significant change to the Annual Internal Audit Plan.

- Ensure that the Internal Audit Group has adequate resources in terms of manpower, budget and training to effectively fulfill its independent duties in the expedient implementation of the Annual Audit Plan.
- Review and approve audit reports to the extent that BACC Chairman may issue directives to Senior Management to develop and implement the necessary corrective actions in a timely manner and/or require submission of a Project Plan to address promptly any significant weaknesses in internal controls, non-compliance with corporate policies and standards, potential violations to laws and regulations and recommendations by Internal Audit Group to align the bank with global or industry best practices.
- Review and evaluate the adequacy of the work performed by the CAE and Internal Audit Group.
- Review discoveries of fraud and violations of laws and regulations as raised by the Internal Audit Group.
- Ensure that the Internal Audit Group maintains an open communication with Senior Management, the BACC, External Auditors, and regulators.

The Committee shall ensure that the internal auditors shall have free and full access to all the Bank'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 auditing examinations, performing work, and communicating results.

#### **4. Oversight of the Bank's Chief Compliance Officer**

- Review and approve the Global Compliance Organizational Structure including the appointment of the Compliance Officers/Compliance Designates across all business units and recommend appointment of the designated Compliance Officers to the respective Board of the subsidiaries and affiliates.
- Evaluate and recommend to the Board the appointment of the Chief Compliance Officer who shall report directly to the Chairman of the Board through the BACC.
- Review and approve the Annual Compliance Program/Plan submitted by the Chief Compliance Officer and significant amendments to the Annual Compliance Plan including accomplishments vs. the approved Compliance Plan every January.
- Oversee the Board approved Compliance Programs across all businesses and ensure compliance recommendations are addressed by the President/ CEO and Senior Management and/or the respective Board of the bank subsidiaries/affiliates on a timely basis.
- Oversee the AML Compliance Framework through the Global Compliance Group to ensure effective senior management oversight, coordination, monitoring and escalation of significant weaknesses in AML policies and procedures and potential violations with AML implementing rules and regulations issued by the resident country regulators of the Parent Bank and its subsidiaries and affiliates.
- Review and approve AML Compliance Testing Review reports to the extent that the BACC Chairman may issue directives to the President/CEO, Senior Management and notify the respective Board of the subsidiaries and affiliates to implement corrective actions or provide

Project Plans primarily to address significant weaknesses in AML Compliance by Parent Bank and its subsidiaries and affiliates.

## **VI. OTHER DUTIES AND RESPONSIBILITIES**

1. Monitor and evaluate the adequacy and effectiveness of the Bank's internal control system including financial reporting control and information technology security.
2. Receive and review reports of internal and external auditors, compliance and regulatory agencies, where applicable and ensure that Management is taking appropriate corrective actions, in a timely manner.
3. Conduct self-assessment of the performance of the Parent Bank. BACC as a whole, as well as the individual performance of each Committee member annually. The results of the self-assessment shall be validated by the Board Corporate Governance Committee and endorsed to the Board for approval. The entire assessment process should be documented and should form part of the records of the Bank that may be examined by the regulators from time to time.
4. Review and evaluate the self-assessment of the performance of the Audit and Compliance Committees of the Bank subsidiaries and affiliates to ensure that the respective Audit and Compliance Committee policies and activities are aligned with the Parent Bank.
5. Review and assess the adequacy of this Charter annually and recommend any proposed changes for approval of the Board of Directors.
6. Establish effective audit programs that cover IT risk exposures throughout the Bank, risk-focused, promote sound IT controls, ensure the timely resolution of audit deficiencies and period reporting to the Board on the effectiveness of the Bank's IT risk management, internal controls, and IT governance.





**CHARTER  
RISK OVERSIGHT COMMITTEE (ROC)  
March 2018**

**I. Mission**

The PNB Board Risk Oversight Committee is created by the PNB Board of Directors to assist the board to oversee the risk profile and approves the risk management framework of PNB and its related allied subsidiaries and affiliates. It is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management.

**II. Composition of the Committee**

- a) The Committee shall be composed of at least three (3) members of the Board of Directors, **majority of whom shall be Independent Directors, including the Chairperson. The Chairperson shall not be the Chairperson of the Board of Directors, or any other board-level committee.**

The members shall possess a range of expertise as well as adequate knowledge of the bank's risk exposures. They should also meet the requirements of the Securities and Exchange Commission (SEC), the Bangko Sentral ng Pilipinas (BSP) and other applicable laws and regulations.

- b) Regular resource persons shall be composed of the President, the Chief Operating Officer, the Sector Heads, Chief Audit Executive, Chief Compliance Officer, Chief Technology Officer, the Chief Legal Counsel (during discussions where legal risks are concerned or as necessary), Chief Risk Officer, and concerned bank officers who have first-hand knowledge or expertise in the scheduled agenda of the ROC meeting.
- c) The presence of the majority of the members of the committee less 1 member shall constitute a quorum; but the vote of the majority of the quorum which in no case is less than 2 members is required to approve any act in all the meetings of the committee.
- d) When there is a lack of quorum due to the absence of other members, an alternate member from among the Board Members may be appointed to attend a particular meeting and automatically sit as a voting member.
- e) Subject to Section 35 of the Corporation Code, the Board of Directors shall have the power, at any time, to change, to increase or decrease the membership of Board Risk Oversight Committee or to fill vacancies therein, and to determine from time to time, by resolution, the number of members to constitute a quorum.

**III. Authority**

ROC has the authority to:

1. Direct management to submit regular reports on current risk exposures on credit, market, interest rate, liquidity, operational, legal, compliance, strategic, reputation, technology and other risks as well as to address such risks;

2. Approve or endorse for aboard approval the proposed risk policies and procedures; and
3. Access to all bank's records and any officer or employee of the bank, as it deems necessary.

*Note: Management is responsible for the preparation, presentation and integrity of information and all matters presented to the ROC. Likewise, management is responsible for implementing and maintaining the risk policies set by ROC to identify, assess, measure, manage and control risks.*

**IV. BSP Mandated Functions**

1. Identify and evaluate exposures - ROC 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 (high probability) and are costly when they happen (high severity);
2. Develop Risk Management Strategies – ROC 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;
3. Oversee the implementation of the risk management plan – ROC shall conduct regular discussions on the bank’s risk current exposures based on regular management reports and assess how the concerned units of offices reduced these risks; and
4. Review and revise the plan as needed – ROC shall evaluate the risk management plan to ensure its continued relevancy, comprehensiveness, and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood or harm or loss.
5. To determine the Bank’s risk appetite and set limits on risk taking activities of the Bank.

**V. Duties and Responsibilities**

<b>Risk Category</b>	<b>Duties and Responsibilities</b>	<b>Support Office</b>
Operational Risk	1. Approve the basic structure of the framework for managing operational risk (i.e. arising from process, system, people, and external events), which includes legal risk.	Operations & Information Technology Security Division, RMG
Legal Risk	2. Mandated to be aware of the major aspects of the Bank’s operational & legal risks, it shall: <ul style="list-style-type: none"> <li>▪ Review, on continuing basis, operational &amp; legal risk exposures and loss events by major business lines; and</li> <li>▪ Oversee the effective resolution, management and control of the Bank’s operational &amp; legal risks.</li> </ul> 3. Assume an oversight role thru the Chief Risk Officer and Chief Audit Executive with respect to Management’s responsibility for maintaining and implementing effective policies and procedures for managing operational risk in all of the Bank’s products, activities, processes and	

	systems; and thru the Chief Legal Counsel with respect to legal risk.	
<b>Risk Category</b>	<b>Duties and Responsibilities</b>	<b>Support Office</b>
Strategic Risk and Financial Risk	<p>Assume an oversight role thru the Head of Corporate Planning Division in monitoring the compatibility of the Bank's strategic goals, business strategies developed, resources deployed and quality of implementation.</p> <p>Review &amp; discuss with Management the performance vs. target of major business units. ROC may request Management for an explanation on unfavorable variances and direct management to change certain policies and strategies.</p> <p>Assess how the Bank generates income and analyze the sensitivity of the Bank's earnings given a set of business conditions.</p>	Corporate Planning Division (this is reported under the Management Profitability Report on a quarterly basis under the joint Corporate Governance Committee, Executive Committee and Risk Oversight Committee)
Reputation Risk	Assume an oversight role thru the Service Quality Officer in ensuring the abundance of caution in dealing with customers and the community; as well as the Bank's responsiveness in addressing negative public opinion.	Service Quality Group & Corporate Marketing & Communications Division
Technology Risk	<p>Have the knowledge and skills necessary to understand and effectively manage technology-related risks.</p> <p>Ensure that:</p> <ol style="list-style-type: none"> <li>An effective technology planning process exists,</li> <li>Technology is implemented properly with appropriate controls, and</li> <li>Measurement &amp; monitoring efforts effectively identify ways to manage risk exposure.</li> </ol> <p>Review, recommend for Board approval, and monitor technology projects that may have a significant impact on the bank's operations, earnings or capital.</p> <p>Establish clearly defined measurement objectives and conduct periodic reviews to ensure that goals and standards established by management are met.</p>	Operations & Information Technology Security Division, RMG together with IT Governance Management Committee.
Compliance Risk	Assume an oversight role thru the Compliance Officer with respect to compliance with laws, rules, regulations, prescribed practices, internal policies and procedures or ethical standards.	Compliance Division (this is prescribed under the Board Audit & Compliance Committee monthly)
Trust Risk	Assumes the oversight role for the identification, measurement, monitoring and control of operations of the Trust Banking Group. This is a specialized function that is distinct from Trust Banking Operations.	Trust Credit & Risk Unit, RMG

Risk Category	Duties and Responsibilities	Support Office
Credit Risk	Oversee the bank wide management of the credit risk internal in the entire portfolio and ensure the adequacy of provisions.  Ensure that the following sound and best practices in credit risk management are in place and conduct periodic review of the same.  1. Policy & Infrastructure; 2. Sound Credit Granting Process; 3. System for Administration & Monitoring of Exposure; 4. Portfolio Management; 5. Credit Review; 6. Review the adequacy of valuation reserves; 7. Work out system for managing problem credits; and	Credit Risk & Basel Implementation Division, RMG
Market Risk  Interest Rate Risk  Liquidity Risk	1. Recommended for Board approval market risk policies and risk limits for all trading and balance sheet-related market risks and for investment securities activities;  2. Approve the methodology, models and assumptions used to measure market and interest rate risks; and  3. Review compliance with established limits.	Market and ALM Division, RMG
Sovereign or Country Risk	Govern the broad risk categories including political, convertibility, and cross border risks associated with businesses and products abroad.	IBG/FID
Others	Perform such other functions as may be mandated by the Board and regulatory bodies relevant to risk management.	Risk Management Group

## VI. Frequency of Meeting

The ROC shall conduct regular meetings at least monthly, to discuss current risks exposures based on Management reports. Further, it may hold special meetings as it deems necessary.

ROC shall report regularly to the Board of Directors the Bank's over-all risk exposure, actions taken to reduce the risks, and recommend further action or plans as necessary.

## VII. Secretariat

The Risk Management Group (RMG) shall act as the Secretariat of the ROC who shall maintain the minutes of the ROC meetings and other records of the Committee and ensure that ROC directives are being complied.

ROC shall ensure that the RMC Secretariat (i.e. RMG) has adequate resources at its disposal to effectively discharge its functions.

## VII. Review of the Charter



Charter of Risk Oversight Committee (ROC)

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ROC shall review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.



**CHARTER**  
**BOARD OVERSIGHT RPT COMMITTEE (BORC)**  
**March 2018**

**I. Mission**

The Board Oversight RPT Committee (BORC) is created, governed by a charter, to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest of shareholders, board members, management, and other stakeholders.

**II. Composition of the Committee**

1. The Board Oversight RPT Committee shall be composed of at least three (3) *Non-Executive Directors*, two (2) of whom shall be independent directors, including the Chairperson. In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction. The Chief Compliance Officer **and** Chief Audit Executive **should sit as Non-Voting Members** in the committee.
2. The Committee may invite any officer to provide management reports, to clarify matters and give information on relevant issues of the Committee and/or invite independent experts to offer professional advice to the Committee on the fairness of the transactions, as needed.
3. The presence of the majority of the members of the committee less 1 member shall constitute a quorum; but the vote of the majority of the quorum which in no case is less than 2 members is required to approve any act in all the meetings of the committee.
4. When there is a lack of quorum due to the absence of other members, an alternate member from among the Board Members may be appointed to attend a particular meeting and automatically sit as a voting member provided the alternate is an independent director or non-executive director.
5. Subject to Section 35 of the Corporation Code, the Board of Directors shall have the power, at any time, to change, to increase or decrease the membership of the Board Oversight RPT Committee (BORC) or to fill vacancies therein, and to determine from time to time, by resolution, the number of members to constitute a quorum.

**III. Authority**

The BORC has the authority to:

1. Oversee the evaluation of related party transactions that present the risk of potential abuse and ensure that rules and regulations are considered to properly and effectively implement the bank's RPT policy guidelines;
2. Exercise sound and objective judgment on the related party transactions for the best interest of the bank and that the processes and approvals are conducted at arm's length basis; and
3. RPTs that are considered material based on Bank's internal policies shall be endorsed by the BORC to the Board for approval and/or notation.

#### IV. Duties and Responsibilities

The Board Oversight RPT Committee shall:

1. Committee –

- a) Review and approve policy guidelines and implementing procedures in handling RPTs by ensuring effective compliance with existing laws, rules and regulations, accounting standards and global best practices.
- b) Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified; RPTs are monitored; and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured.
- c) Evaluate all material RPTs to ensure that these are conducted in the normal course of business; not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances, and that no corporate or business resources of the bank are misappropriated or misapplied; and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the BORC shall take into account the following:
  - Related party's relationship to the bank and interest in the transaction;
  - Material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  - Benefits to the bank of the proposed RPT;
  - Availability of other sources of comparable products or services; and
  - Assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances.
- d) Report to the Board on a regular basis the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
- e) Oversee the periodic independent review or audit of transactions with related parties, including write-off of exposures.
- f) Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.
- g) Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Bank's RPT exposures, and policies on conflicts of interest or potential conflicts of interest.

2. Committee Chairman –

- To call, convene and preside over all the committee meetings;
- Provide leadership to ensure effective functioning of the committee; and
- Ensure a sound decision making process

3. Committee Resource Persons: Any Officer and/or Independent Experts shall:

- Present Management Reports and clarify matters; and
- Provide information relevant to the decision making.

**V. Frequency of Meeting**

The BORC shall conduct monthly meeting or whenever necessary to properly discharge its functions.

**VI. Secretariat**

The Chief Compliance Officer acts as the Committee Secretariat to handle the administrative requirements of the Committee.

**VII. Review of the Charter**

The Committee shall review and assess the adequacy of this Charter periodically and recommend any proposed changes for approval of the Board of Directors.





**CHARTER  
EXECUTIVE COMMITTEE (EXCOM)  
February 2018**

**I. Mission/Purpose**

- The purpose of the Committee is to review, discuss, note, approve and/or endorse to Board:
  - management proposals on credit facilities; investment in financial assets; and borrowings and capital raising, updates and reports on credit, transactional, administrative and other matters;
  - policies, procedures, and manuals of products and services other than personnel policies, as proposed/initiated by Management; and
- Provide oversight and focus on specific areas to ensure long term viability of the Domestic and Foreign Offices/Subsidiaries consistent with the Parent Bank strategic goals.

**II. Composition of the Committee**

1. The Committee shall be composed of at least six (6) voting members, including the President of the Bank.
2. The Committee may invite resource persons in any of its meetings to render a report, clarify and provide guidance to the Committee of any relevant issue the Committee may be confronted with.
3. The presence of a majority of the voting members of the Committee less 1 member shall constitute a quorum; but the vote of the majority of the quorum which in no case is less than 2 members is required to approve any act in all the meetings of the Committee.
4. The presence of independent directors shall be as non-voting members of EXCOM and as nonvoting members shall not be considered in determining a quorum.
5. When there is a lack of quorum due to the absence of other members, an alternate member from among the Board Members may be appointed to attend a particular meeting and automatically sit as a voting member.
6. Subject to Section 35 of the Corporation Code, the Board of Directors shall have the power, at any time, to change, to increase or decrease the membership of the Executive Committee or to fill vacancies therein, and to determine from time to time, by resolution, the number of members to constitute a quorum.

**III. Powers and Responsibilities:**

**1. Functions**

The Committee shall perform the functions and duties as the Board may delegate.

**2. Approval of Loans**

The Committee shall exercise its authority to endorse or approve loan recommendations from the Corporate Banking Group (CBG), Commercial Banking Group (ComBG), Retail Banking Group (RBG), and Consumer Finance Group (CFG), endorsed by Senior Management Committee/s.

The unanimous vote of all members present is required; otherwise the credit proposal under consideration shall be elevated to the Board for final decision.

All credit transactions approved by the Committee shall be submitted to the Board for notation.

**3. Investment in Financial Assets; Borrowings and Capital Raising**

To evaluate, approve and endorse for Board approval investments in bonds, shares of stock or other financial assets; any borrowings, issuance of capital market instruments and bonds, capital allocation and necessary equity raising exercise.

**4. Problem Accounts, Past Due & Other Items under Litigation**

To approve restructuring, payment plan, compromise settlement or write-off of past due, problematic and remedial accounts.

**5. Branch Establishment, Relocation, Renovation, Closure**

To endorse for the approval of the Board the establishment, relocation, renovation or closure of domestic and overseas branches/offices including the approval of the needed budget.

**6. Real and Other Properties Acquired**

To act on proposal for the lease, sale, disposal and any matter pertaining to Real and Other Properties Acquired (ROPAs).

**7. Expense, Fines & Penalties**

To approve disbursements for expenses, fines and penalties.

**8. Implementation of Mergers & Acquisitions**

To propose mergers and acquisitions and provide the budget thereof for Board approval.

**9. Acquisition of Real/Personal Property**

To approve the purchase of real & personal property, divestiture or disposal of assets.

**10. Risk Management**

To involve in the pre-evaluation of the Bank's risk appetite for setting limits on risk taking activities.

**IV. Chairman**

Generally, the powers and duties of the Chairman of the Committee are as follows:

1. To convene the members of the Committee whenever he deems it necessary, either on his own initiative, or upon the request of the members of the Committee.
2. To preside over all the Committee meetings.
3. To maintain efficient lines of communications and information between the Board and Management.
4. To perform such other functions as provided by law or as may be assigned to him by the Board of Directors.

The Committee members may appoint among themselves, a Vice Chairman who shall preside over the meeting of the EXCOM in the absence of the Chairman.

**V. Frequency of Meeting**

The Committee may regularly meet every week at a time set by its members or the Board. The Chairman or any two members of the Committee may call for special meetings if deemed necessary.

All acts and resolutions of the Committee shall be recorded in a minute book and shall be submitted to the Board of Directors at the Board meeting following the adoption by the Committee of such resolutions.

**VI. Secretariat**

The administrative requirements of the Committee shall be handled by the Office of the Corporate Secretary.

**VII. Review of the Charter**

The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes for approval thru the Corporate Governance Committee, of the Board of Directors.



**CHARTER  
TRUST COMMITTEE  
November 2017**

**I. Mission**

PNB Trust Banking Group shall form its Trust Committee, a special committee which reports directly to the Board of Directors and is primarily responsible for overseeing the fiduciary activities of the Bank.

**II. Composition of the Committee**

a) The Trust Committee shall be composed of at least five (5) members including the following:

- The President or any Senior Officer of the Bank;
- The Trust Officer and Head of Trust Banking Group; and
- The remaining Committee members, including the Chairperson, may be any of the following:
  - Non-Executive Directors or Independent Directors (as defined under Subsection X141.1 and 141.2 of MORB, respectively), who are both not part of the Audit Committee; or
  - Those considered as qualified “Independent Professionals” (as defined under Section 3 of BSP Circular 766).

In case of more than five (5) Trust Committee memberships, majority shall be composed of qualified Non-Executive members.

- b) The resource persons in the Committee meetings shall be composed of the Trust Division Head, Trust Legal Officer, Trust Compliance Officer and Trust Risk Officer, to render a report, clarify and provide guidance to the committee on any relevant issue the committee is confronted with.
- c) The presence of the majority of the members of the committee less 1 member shall constitute a quorum; but the vote of the majority of the quorum which in no case is less than 2 members is required to approve any act in all the meetings of the committee.
- d) When there is a lack of quorum due to the absence of other members, an alternate member from among the Board Members may be appointed to attend a particular meeting and automatically sit as a voting member provided the alternate member shall be:
- Non-Executive Directors or Independent Directors (as defined under Subsection X141.1 and 141.2 of MORB, respectively), who are both not part of the Audit Committee; or
  - Those considered as qualified “Independent Professionals” (as defined under Section 3 of BSP Circular 766).
- e) Subject to Section 35 of the Corporation Code, the Board of Directors shall have the power, at any time, to change, to increase or decrease the membership of the Trust Committee or to fill vacancies therein, and to determine from time to time, by resolution, the number of members to constitute a quorum.

### III. Authority of the Committee

The Committee shall act within the sphere of authority as may be provided in the Amended By-laws and/or as may be delegated by the Board of Directors, such as but not limited to the following:

- a) The formulation of specific policies with regard to:
  - Correlation of the Trust Banking Group with other departments of the bank;
  - Personnel;
  - Cost and charges;
  - Kinds of business to be accepted;
  - Trust business development; and
  - Work with other banks and/or financial institutions
- b) The acceptance and closing of trust and other fiduciary accounts;
- c) The initial review of assets placed under the custody of the Trust Banking Group as trustee or fiduciary;
- d) The investment, re-investment and disposition of funds or property;
- e) The review and approval of transactions between trust and/or fiduciary accounts; and
- f) The review of trust and other fiduciary accounts at least once every twelve months to determine the advisability of retaining or disposing of the trust or fiduciary assets, and/or whether the accounts are being managed in accordance with the instruments creating the trust or other fiduciary relationship.

### IV. Duties and Responsibilities

#### a) Trust Committee

1. Ensure that fiduciary activities are conducted in accordance with applicable laws, rules and regulations, and prudent practices;
2. 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;
3. Oversee the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities;
4. Adopt an appropriate organizational structure/staffing pattern and operating budgets that shall enable the Trust Banking Group to effectively carry out its functions;
5. Oversee and evaluate performance of the Trust Officer; and
6. Report regularly to the Board of Directors on matters arising from fiduciary activities.

#### b) Board of Directors

The responsibilities of the Board of Directors (BOD) in relation to Trust activities of the Bank shall be those set forth under subsections X141.3 of the MORB (Powers/Responsibilities and Duties of

Directors). The BOD shall ensure an appropriate degree of independence between the activities of the Bank proper and its Trust Banking Group.

**c) The Trust Officer as the Trust Banking Group Head**

The Management of the day-to-day fiduciary activities shall be vested in the Trust Officer. In this regard, the Trust Officer shall:

1. Ensure adherence to the Basic Standards in the Administration of Trust, Other Fiduciary and Investment Management Accounts pursuant to Appendix 83 of the MORB;
2. Develop and implement relevant policies and procedures on fiduciary activities;
3. Observe sound risk management practices and maintain necessary controls to protect assets under custody and held in trust or other fiduciary capacity;
4. 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;
5. Report regularly to the Trust Committee on business performance and other matters requiring its attention;
6. 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 accounts; and
7. Submit periodic reports to regulatory agencies on the conduct of Trust operations.

**V. Frequency of Meetings**

Conduct regular meetings at least once every quarter, or more frequently as necessary, depending on the size and complexity of the fiduciary business.

**VI. Secretariat**

The administrative requirements of the Committee shall be handled by the Trust Legal Officer as the Secretariat designated by the Committee. The Committee shall designate a Secretariat in the absence of the Trust Legal Officer.

**VII. Review of the Charter**

The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes for approval of the Board of Directors.



**CHARTER**  
**BOARD IT GOVERNANCE COMMITTEE (ITGC)**  
**November 2017**

**I. Mission**

The Board IT Governance Committee (ITGC) is created to assist the Board in performing its oversight functions in reviewing, approving and monitoring the IT Risk Management Framework and IT Strategic Plan of the PNB Group.

**II. Composition of the Committee**

- a) The Board IT Governance Committee shall be composed of at least three (3) regular members of the board of directors. The Chairman of the Committee shall be a Non-Executive Director and to be appointed by the Board.
- b) The Committee shall invite Senior Management Group Heads of both the Business and Support Groups to provide management reports, to clarify information on relevant issues of the Committee and/or invite consultants to provide professional and/or technical advice to the Committee.
- c) The presence of the majority of the members of the committee less 1 member shall constitute a quorum; but the vote of the majority of the quorum which in no case is less than 2 members is required to approve any act in all the meetings of the committee.
- d) When there is a lack of quorum due to the absence of other members, an alternate member from among the Board Members may be appointed to attend a particular meeting and automatically sit as a voting member.
- e) Subject to Section 35 of the Corporation Code, the Board of Directors shall have the power, at any time, to change, to increase or decrease the membership of the IT Corporate Governance Committee or to fill vacancies therein, and to determine from time to time, by resolution, the number of members to constitute a quorum.

**III. Authority**

The ITGC has the authority to:

1. Oversee the development of the long-term and short-term Enterprise IT Strategic Plans.
2. Ensure that IT laws; IT regulatory guidelines and IT corporate standards are considered in the proper and effective implementation of IT risk management policies and procedures.
3. Endorse IT policies to the Board for approval.
4. Review new projects that require any IT hardware, software, maintenance support and services, and endorse the needed budget for final approval by the Board.
5. Review and approve the renewal of IT contracts that are part of the overall IT budget.

#### IV. Duties and Responsibilities

The Board IT Governance Committee:

a) Committee –

- Has oversight of the IT Risk Management System.
- Review and endorse for approval of the Board the Enterprise IT Strategic Plans of the Parent Bank, its subsidiaries and affiliates.
- Evaluate and endorse for approval of the Board the IT Organizational Structure of the PNB Parent Bank and related entities belonging to the PNB Group - foreign branches, domestic and foreign subsidiaries and affiliates.
- Review and endorse for approval of the Board the IT Risk Assessment of the PNB Group and its member entities.
- Review and endorse for approval of the Board the IT Policies and ensuring adherence to existing laws, rules and regulations, and global best practices;
- Review and inform the Board in a timely manner critical IT Projects and approve necessary IT budgets (within Php5.0M limit) to support business plans and priorities.

*\*\*\* Items beyond Php5.0 Million shall be endorsed to the Executive Committee for approval.*

- Oversee that IT Project proposals are consistent with the overall IT Strategic Plans.
- Monitor the IT Group performance, IT Projects and in-sourcing and out-sourcing activities of IT functions and services provided to related entities.
- Review and monitor significant IT concerns and corrective actions arising from regulatory examinations, internal audits and external reviews.

b) Committee Chairman

- To call, convene and preside over all the committee meetings;
- Provide leadership to ensure effective functioning of the committee; and
- Ensure a sound decision making process

c) Committee Resource Persons: Senior Officers &/or IT Consultants shall:

- Present Management Reports and clarify matters; and
- Provide information relevant to the decision making.

Presence of resource persons will be upon invitation of the Chairman.

#### V. Frequency of Meeting

The ITGC shall conduct monthly meetings or whenever necessary to properly discharge its functions, keep minutes of its actions and report thereon to the Board of Directors.



**VI. Secretariat**

The IT Group Head shall act as the Committee Secretariat to handle the administrative requirements of the Committee.

**VII. Review of the Charter**

The Committee shall review and assess the adequacy of this Charter annually and recommends any proposed changes for approval of the Board of Directors.



**CHARTER  
BOARD STRATEGY & POLICY COMMITTEE (BSPC)**

**I. Mission/Purpose**

The Board Strategy & Policy Committee (BSPC) shall be the governing board committee to exercise authority and to delegate to management the implementation of the board approved strategic plans and policies.

**II. Composition of the Committee**

1. The Committee shall be composed of at least seven (7) members.
2. The Committee may invite resource persons in any of its meetings to render a report, clarify and provide guidance to the Committee in respect of any relevant issue which the Committee may be presented with.
3. The presence of a majority of the BSPC members will constitute a quorum, and a majority or the quorum present is required for a valid decision.

**III. Powers and Responsibilities:**

**1. Policies, Procedures, and Manuals of Products and Services**

- To review, evaluate, approve and/or endorse for Board approval new products, amendments to products, marketing programs, and policies, procedures and manuals pertaining thereto.
- To review, evaluate, approve and/or endorse for Board approval such policies which are not subject to the reviewing/approving/endorsing authority of other Board Committees of the Bank.

**2. Strategic Plans, Forecast, Annual Budget**

- To evaluate and endorse for Board approval Annual Strategic Forecasts, Plans and Budget.

**3. Monthly Review of Financial Performance and Business Models**

- To review, evaluate, approve and/or endorse for Board approval the monthly report on the Bank's financial performance and ensure its alignment with approved business plans and strategies.

**4. Oversight on Capital Planning**

- To review, evaluate, approve and/or endorse for board approval the Bank's capital planning, risk assessment, policies and procedures and provide oversight on the adoption and implementation of the Bank's board-approved ICAAP program.
- To review, evaluate, approve and/or endorse for board approval request for capital allocation, corporate guarantee and business propositions from the parent company.

## **5. Oversight on Domestic and Foreign Offices/Subsidiaries**

- To provide oversight on the business plans, initiatives, risk and regulatory compliance; and review the strategic objectives and business priorities, direction, overall plans, result areas that relates to the thrusts and programs of the Bank.
  - To provide oversight on the formulation of policy guidelines and procedures on oversight; and review periodically the actual performance of the subsidiaries versus approved quantitative and qualitative plans; conduct periodic financial performance and management profitability reviews and be informed of market and economic developments of subsidiaries.
6. The BSPC shall likewise perform such other functions and duties as the Board may delegate from time to time.

## **IV. Chairman**

Generally, the powers and duties of the Chairman of the Committee are as follows:

1. To convene the members of the Committee whenever he deems it necessary, either on his own initiative, or upon the request of at least two (2) members of the Committee.
2. To preside over all the Committee meetings.
3. To perform such other functions as may be assigned to him by the Board of Directors.

## **V. Frequency of Meeting**

The BSPC may regularly meet at least once a month at a time set by its members. The Chairman or any two members of the committee may call for special meetings as deemed necessary.

All acts and resolutions of the BSPC shall be recorded in a minute book, which shall be submitted to the Board of Directors for confirmation.

## **VI. Secretariat**

The administrative requirements of the Committee shall be handled by the Office of the Corporate Secretary.

## **VII. Review of the Charter**

The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes for Board approval through the Corporate Governance Committee.

Indicate the Rating for each question using the five point rating scale (1 to 5) with "5" being the highest rating:

<b>PART I - Questions on DIRECTOR's INDIVIDUAL Qualitative Performance</b>	<b>Rating</b>				
	<b>5 Strong</b>	<b>4 Satisfactory</b>	<b>3 Less Than Satisfactory</b>	<b>2 Deficient</b>	<b>1 Critically Deficient</b>
1. Am I fully aware that my duty of loyalty to the bank demands that I always act with honesty, in good faith, and avoid conflicts of interest to the extent that my primary loyalty as a member of the Board is to the bank, as a whole, an institution with several shareholders as well as other stakeholders?					
2. Do I observe confidentiality, engage in responsible disclosures and actively participate in Board meetings and related activities?					
3. Do I take use of training opportunities on corporate governance to enhance my performance as a director?					
4. Am I able to draw the line between Board and Management responsibilities, by not getting involved in management and operational issues, and exercising diligent oversight on operations?					
5. Do I insist on the high quality standards of risk management, corporate governance and compliance in the services rendered by the internal and external auditors as well as pursue strict adherence to the bank's Code of Conduct and the Corporate Governance Manual?					
<b>PART II - Questions to the BOARD</b>					
<b>A. Questions on the collective performance of the Board</b>					
1. Does the Board set the Bank's corporate philosophy and its mission and vision statement and require the periodic update?					
2. Does the Board spend adequate time in overseeing the Implementation of strategic objectives, risk strategies and corporate values?					
3. Does the Board establish business plans taking into account the Bank's long term financial interests and risk capacity; and regularly monitor corporate performance vs. the strategic and business plans, and vs. annual financial objectives and operating plans/targets?					
4. Does the Board appoint competent and qualified management team, monitor its performance and adopt an effective succession planning program and likewise appoint independent directors in committees to carry out various critical responsibilities?					
5. Does the Board establish good governance by setting the Code of Conduct, and other behavioral standards for the board, management and employees; and articulate acceptable and unacceptable activities that could potentially result in conflict of interest or unethical conduct?					
<b>B. Questions for THE CHAIRMAN</b>					
1. Did I perform my duties and responsibilities expected of me as Chairman of the Board in accordance with the requirements in the corporate governance policies?					
2. Did I preside in Board meetings in such a way that will balance the pursuit of corporate strategic objectives and long term operational sustainability of the business?					
3. Did I encourage and give due consideration to independent views on matters being discussed in the Board meetings?					
4. Did I ensure effective functioning of the Board including maintaining a relationship of trust among Board members?					
5. Did I provide leadership in maintaining qualitative and effective lines of communication and timely information between the Board and management?					



<b>B. Questions on Members of the Committee</b> <i>(Rating Scale 1 to 5 - 5 being the highest)</i>	CGC	EXCOM	ROC	BACC	BORC	TRUST	BOC-DFOS	BITGC
4. Do I, as a member of this Committee, observe confidentiality and exercise responsible disclosures?								
5. Am I able to draw the line between Board and Management responsibilities, by not getting involved in management and operational issues, and exercising diligent oversight on operations?								
<b>C. Specific Questions for Board Committees</b> <span style="float: right;"><i>(Rating Scale 1 to 5 - 5 being the highest)</i></span>								
<b>C.1. Corporate Governance/Nomination/Remuneration Committee (CGC) - Chairman</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>			
1. Does the Committee conduct performance evaluation, nomination, remuneration in accordance with corporate governance procedures?								
2. Does the Manual on Corporate Governance clearly indicate the main responsibility of the Committee Chairman as being focused on the commitment of the bank to good corporate governance?								
3. Does the Committee meeting exhibit good corporate governance practices of transparency and accountability?								
4. Does the Committee assess the effectiveness of the processes and procedures adopted by the Committee in the election or replacement of directors?								
5. Does the Committee observe the highest standard in good corporate governance & embrace principles and guidelines aligned with existing regulations and international best practices?								
<b>C.2. Executive Committee (EXCOM) - Member</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>			
1. Does the Committee review, discuss, note, endorse and/or approve Management pre-clearances, recommendations, proposals updates and management reports on credit?								
2. Does the Committee provide the bank the flexibility to respond to time-sensitive matters as well as facilitate the approval of certain corporate actions within the authority limits determined by the Board?								
3. Does the committee exercise its authority to endorse or approve loan recommendations for Corporate Banking Group, Commercial Banking Group, Retail Banking Group and Consumer Finance Group in accordance with the authority/limits set by the Board?								
4. Does the committee thoroughly review and act on a timely manner in approving and endorsing to the Board business transactions recommended by management?								
5. Does the committee consider referring business transactions and other matters to appropriate committees, as required or as needed?								
<b>C.3. Risk Oversight Committee (ROC) - Member</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>			
1. Does the Committee develop risk management strategies for managing and controlling risks and evaluate the risk management plan to ensure its continuing relevance, comprehensiveness and effectiveness?								
2. Does the Committee effectively oversees the implementation of the risk management plan and evaluates management actions to reduce or mitigate risks?								
3. Does the Committee regularly report to the Board on the Bank's overall risk profile, risk assessment and recommended actions to mitigate risks?								
4. Does the Committee adequately oversee the risk management framework including the processes and authorities/limits observed by management to ensure that management approvals are within limits set by the Board?								
5. Does the Committee oversee the timely implementation of corrective actions by management for breaches in limits or lapses in Board approved policy guidelines & procedures manuals?								
<b>C.4. Board Audit and Compliance Committee (BACC) - Member</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>			
1. Is the committee being chaired by Independent Director (ID) and is composed mostly of IDs?								
2. Does the Committee monitor and evaluate the adequacy & effectiveness of the Bank's internal control system, including financial reporting control & information technology security; and provide oversight on the functions of internal & external auditors & compliance officers?								
3. Does the Committee review the financial statements prior to submission to the Board with due care & attention, asking for actionable points that demand consideration & decisions by the Board?								

<b>C.4. Board Audit and Compliance Committee (BACC) - Member</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
4. Does the Committee regularly review and monitor the external auditor's competence, independence and objectivity to ensure overall effectiveness of the external audit process and approve the audit program of the external auditors prior to audit undertakings?					
5. Does the Committee review and approve the adequacy of the scope of work being performed by the Internal Audit Group and Global Compliance Group?					
<b>C.5. Board Oversight RPT Committee (BORC) - Member</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1. Is the committee being chaired by Independent Director (ID) and is composed mostly of IDs?					
2. Does the Committee monitor and evaluate the adequacy & effectiveness of the Bank's internal control system, including financial reporting control & information technology security; and provide oversight on the functions of internal & external auditors & compliance officers?					
3. Does the Committee review the financial statements prior to submission to the Board with due care & attention, asking for actionable points that demand consideration & decisions by the Board?					
4. Does the Committee regularly review and monitor the external auditor's competence, independence and objectivity to ensure overall effectiveness of the external audit process and approve the audit program of the external auditors prior to audit undertakings?					
5. Does the Committee review and approve the adequacy of the scope of work being performed by the Internal Audit Group and Global Compliance Group?					
<b>C.6. Trust Committee (TRUST) - Member</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1. Does the Committee oversee trust and other fiduciary activities within the sphere of authority as provided in the by-laws and/or delegated by the Board of Directors?					
2. Does the Committee ensure that fiduciary activities are conducted in accordance with applicable laws, regulations and prudent practices?					
3. Does the Committee oversee the implementation of the risk management framework and internal controls are in place relative to the fiduciary activities?					
4. Does the Committee submit regularly reports to the Board on matters arising from fiduciary activities?					
5. Does the Committee review and approve the organizational structure and operating budget to enable Trust Banking Group to effectively carry out its functions?					
<b>C.7. Board Oversight Committee - Domestic &amp; Foreign Offices/Subsidiaries -Member</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1. Does the Committee effectively oversee the strategic/business plans, marketing & product programs to ensure profitable operations and long-term viability of the entities consistent with the bank's strategic goals?					
2. Does the Committee effectively oversee the risk management, internal controls, overall operations and regulatory compliance of the domestic entities and overseas offices?					
3. Does the Committee review thoroughly the financial performance and the reports on management profitability reviews of the domestic and foreign entities?					
4. Does the Committee review and evaluate key officers recommended to be hired and/or appointed for the foreign offices as well as nominated to positions requiring the appointment of the respective members of the Board?					
5. Does the Committee review and evaluate the business models/licenses, operations policies and procedures manuals, IT systems and developments, major marketing tie-ups of the entities?					
<b>C.8. Board IT Governance Committee (BITGC) - Member</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1. Does the Committee effectively oversee the development of the short-term and long-term IT strategic plans and endorses approval of the annual IT Strategic Plan to the Board?					
2. Does the Committee review and approve IT Project proposals that are consistent with the overall IT Strategic Plan?					
3. Does the Committee ensure the effective implementation of the IT framework enterprise wide and monitor actions taken by management to strengthen the compliance with regulatory requirements?					
4. Does the Committee evaluate and approve the IT organizational structure/functions and the corresponding budget requirements?					
5. Does the Committee conduct on a regular basis IT risk assessment for Parent Bank and across all entities of the PNB Group?					

<b>Record of Actual Attendance of Board Committee Meetings: (To be provided/certified by the Corporate Secretary's Office)</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
For the year 2016, (Name of Director) participated in the following committees:  1. CGC : ___ out of the total ___ meetings 2. EXCOM : ___ out of the total ___ meetings 3. ROC : ___ out of the total ___ meetings 4. BACC : ___ out of the total ___ meetings 5. BORC : ___ out of the total ___ meetings 6. TRUST : ___ out of the total ___ meetings 7. BOC-DFOS : ___ out of the total ___ meetings 8. BITGC : ___ out of the total ___ meetings					
<b>OVERALL RATING</b> <i>(Note: It should not be based on the arithmetic average of the assigned ratings. Judgment should be exercised on how much weight should be given to a particular question)</i>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>

\_\_\_\_\_  
**(NAME OF DIRECTOR)**  
**Signature Over Printed Name**

\_\_\_\_\_  
**Date**

The five point rating scale is described as follows:

5 – Strong	The quality of corporate governance practices <b>EXCEEDS</b> what is prescribed under the existing regulations. Deficiencies/weaknesses are considered to be minor and insignificant.
4 - Satisfactory	The quality of corporate governance practices <b>MEETS</b> what is prescribed under the existing regulations. Deficiencies/weaknesses may exist but these do not affect the overall quality of governance in a bank.
3 - Less than Satisfactory	The quality of corporate governance practices <b>DOES NOT MEET</b> what is prescribed under the existing regulations. The Board and Management are committed to correct the situation in a timely manner.
2 – Deficient	The quality of corporate governance practices is <b>DEFICIENT</b> in a material way, to meet what is prescribed under the existing regulations. The ability of the Board and Management to correct the situation in a timely manner is doubtful.
1 – Critically Deficient	The quality of corporate governance practices is <b>CRITICALLY DEFICIENT</b> to meet what is prescribed under the existing regulations. The deficiencies/weaknesses pose an imminent threat to the safety and soundness of the bank.

Reference: BSP Memorandum No. M-2013-002 dated January 11, 2013



**PHILIPPINE NATIONAL BANK**

## ASSESSMENT OF THE QUALITY OF THE BANK'S CORPORATE GOVERNANCE

## MANAGEMENT COMPONENT RATING CHECKLIST

For the Year 2017

Indicate the Management Rating for each factor using the five point rating scale (1 to 5) – 5 being the highest rating

MANAGEMENT RATING FACTOR	Rating Scale					Action Recommendations w/Issues Identified
	5	4	3	2	1	
<b>I. GOVERNANCE LANDSCAPE</b>						
a) Corporate Structure						
➢ Board-approved organizational structure						
➢ Clearly defines reporting lines and scope of accountability						
➢ Reflects the independence of control function						
➢ Indicates the actual operating framework						
➢ Involves periodic update and review						
b) Attitude Towards Regulators						
➢ Maintaining a constructive working relationship with regulatory/supervisory agencies						
➢ Espousing a cooperative stance toward the regulator						
c) Responsiveness to Complaints/Concerns						
➢ Establishing a system and maintaining database for complaints/concerns received						
➢ Reporting of "serious cases" to the Board						
d) Risk Consciousness of Employees						
➢ Results from an effective cascade of the overall objectives and strategies of the organization						
➢ Reflects the level of employees' awareness of the impact of their special function in achieving the overall goal of the bank and the extent to which they are aware of the specific risks arising from the processes they are involved in						
e) Ethical Culture						
➢ Develops out of the bearing of the Board to implement the policies, which is reflected in its performance and decisions						
➢ Involves evaluation on how management attends to instances of whistle-blowing						
f) Transparency Practices						
➢ Reflect Board and Management's recognition of their accountability to the different stakeholders						
➢ Quality of public disclosures may be assessed through amount and accuracy reflected in: <ul style="list-style-type: none"> <li>• Audited Financial Statements</li> <li>• Annual Reports</li> <li>• Bank's Websites</li> </ul>						
<b>II. RISK GOVERNANCE</b>						
➢ Effectiveness and extent of Board oversight over the bank risk management from strategic goal setting to addressing the weaknesses/deficiencies noted						
➢ Reflects the extent to which board approval is required for policies, methodologies and limits for managing risk exposures						
➢ Covers the assessment of the adequacy of resources and performance of the risk management unit/function						

MANAGEMENT RATING FACTOR	Rating Scale (5 being the highest)					Action Recommendations w/Issues Identified
	5	4	3	2	1	
<b>III. FITNESS AND PROPRIETY OF BOARD AND MANAGEMENT</b>						
1. Characteristics and propriety of the composition of the Board and Management. The Board should						
➤ have a comprehensive appreciation of the risk exposure of the Bank						
➤ assess its performance as a collective body and performance of its committees						
➤ approve and regularly review the compensation policies of the bank						
➤ select CEO and members of the management team						
<b>IV. CONTROLS AND INDEPENDENT OVERSIGHT</b>						
1. Effectiveness of the oversight of Board of Directors over internal controls and independent oversight bodies. The Board should:						
➤ Appoint heads of internal audit, compliance and risk management units and select the external auditor						
➤ Regularly review the independence and effectiveness of control functions						
<b>OVERALL COMPONENT RATING FOR MANAGEMENT*</b>						

*\* It should not be based on the arithmetic average of the ratings assigned to the 4 factors. Judgment should be exercised on how much weight should be given to a particular factor.*

The five point rating scale for the Management Component Rating is described as follows:

5 - Strong	The four factors that characterize the quality of governance <b>EXCEED</b> what is prescribed under the existing regulations considering the size, risk profile and complexity of bank operations. Deficiencies/weaknesses are considered to be minor and insignificant.
4 - Satisfactory	The four factors that characterize the quality of governance <b>MEET</b> what is prescribed under the existing regulations considering the size, risk profile and complexity of bank operations. Deficiencies/weaknesses may exist but these do not affect the overall quality of governance in a bank.
3 - Less than Satisfactory	The four factors that characterize the quality of governance <b>DO NOT MEET</b> what is prescribed under the existing regulations considering the size, risk profile and complexity of bank operations. The Board and Management are committed to correct the situation in a timely manner.
2 - Deficient	The four factors that characterize the quality of governance are <b>DEFICIENT</b> in a material way, to meet what is prescribed under the existing regulations considering the size, risk profile and complexity of bank operations. The ability of the Board and Management to correct the situation in a timely manner is doubtful.
1 – Critically Deficient	The four factors that characterize the quality of governance are <b>CRITICALLY DEFICIENT</b> to meet what is prescribed under the existing regulations considering the size, risk profile and complexity of bank operations. The deficiencies/weaknesses pose an imminent threat to the safety and soundness of the bank.

\_\_\_\_\_  
Signature Over Printed Name

\_\_\_\_\_  
Date