



# PNB

## Office of the Corporate Secretary

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September 16, 2016

### PHILIPPINE DEALING & EXCHANGE CORPORATION

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Makati City

Attention: **Ms. Vina Vanessa S. Salonga**  
Head - Issuer Compliance and Disclosure Department

Dear Ms. Salonga:

We are pleased to furnish the Philippine Dealing and Exchange Corporation (PDEX) a copy of our disclosure to the Philippine Stock Exchange regarding the Bank's 2016 Revised Corporate Governance Manual.

We trust you will take note accordingly. Thank you.

Very truly yours,

**RUTH PAMELA TANGHAL**  
Assistant Corporate Secretary

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

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**Description of the Disclosure**

We are pleased to furnish the exchange with the Bank's 2016 Revised Corporate Governance Manual.

**Filed on behalf by:**

**Name** Ruth Pamela Tanghal  
**Designation** Assistant Corporate Secretary



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## SECURITIES AND EXCHANGE COMMISSION

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Company's Full Name)

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M e t r o M a n i l a

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**MAILA KATRINA Y. ILARDE**  
Corporate Secretary

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**2016 Revised Corporate Governance Manual**

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**Office of the Corporate Secretary**

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September 15, 2016

**MS. JUSTINA F. CALLANGAN**

Director

Corporation Finance Department

Securities and Exchange Commission

SEC Building, Edsa

Greenhills, Mandaluyong City

Dear Ms. Callangan:

We are pleased to furnish the Commission a copy of the 2016 Revised Corporate Governance Manual of the Philippine National Bank.

For your records. Thank you.

Very truly yours,

**MAILA KATRINA Y. ILARDE**  
Corporate Secretary



**PHILIPPINE NATIONAL BANK**

**REVISED CORPORATE GOVERNANCE MANUAL  
AUGUST 2016**

**TABLE OF CONTENTS**

I.	POLICY STATEMENT .....	1
II.	OBJECTIVE .....	2
III.	DEFINITION OF TERMS .....	2
IV.	CORPORATE GOVERNANCE STRUCTURE.....	6
1.	Board of Directors.....	6
1.1.	Composition of the Board and the Independent Directors .....	7
1.2.	General Principles .....	7
1.3.	Powers, Duties and Responsibilities of the Board of Directors .....	7
1.4.	Limitation on nationality of the members of the board of directors. ....	16
1.5.	Board Meetings and Quorum Requirement .....	16
2.	Directors .....	17
2.1.	Definition of Directors .....	17
2.2.	Qualifications of Directors .....	17
2.3.	Disqualifications of Directors .....	17
2.4.	Qualifications of Independent Directors .....	19
2.5.	Disqualification of Independent Directors.....	20
2.6.	Term Limits for Independent Directors .....	20
2.7.	Roles, Accountabilities and Deliverables of Independent Directors.....	20
2.8.	Specific Duties and Responsibilities of the Chairman of the Board: .....	20
2.9.	Specific Duties and Responsibilities of a Director.....	21
2.10.	Remuneration of Directors and Officers .....	22
3.	Board Committees.....	23
3.1.	Corporate Governance/Nomination/Remuneration Committee .....	23
3.2.	Board Audit and Compliance Committee (BACC).....	23
3.3.	Risk Oversight Committee (ROC) .....	24
3.4.	Executive Committee .....	24
3.5.	Trust Committee .....	24
3.6.	Board Oversight RPT Committee (BORC).....	25
3.7.	Board Oversight Committee - Domestic & Foreign Office/Subsidiaries .....	25
3.8.	Board IT Governance Committee.....	25

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4. Officers .....	25
5. The President .....	26
6. The Corporate Secretary .....	27
7. The Chief Compliance Officer (CCO).....	29
8. The External Auditor.....	29
9. The Internal Auditor .....	32
10. The Chief Risk Officer (CRO).....	33
11. The Trust Officer.....	34
V. DEALINGS WITH RELATED PARTIES.....	35
VI. CODE OF CONDUCT AND BUSINESS ETHICS.....	40
VII. SHAREHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTERESTS .....	41
VIII. CORPORATE GOVERNANCE ASSESSMENT AND MONITORING .....	43
IX. REPORTORIAL OR DISCLOSURE SYSTEM OF BANK'S CORPORATE GOVERNANCE .....	44
X. COMMUNICATION PROCESS .....	44
XI. TRAINING PROCESS.....	45
XII. PENALTIES FOR NON-COMPLIANCE WITH THE REVISED MANUAL .....	45
XIII. REFERENCES.....	45

## I. POLICY STATEMENT

The Bank acknowledges that corporate governance is a dynamic concept. It is a framework of rules, systems and processes in the organization that governs the performance of the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, creditors, government and community in which it operates. 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 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 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 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 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 XIII 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 framework of rules, systems and processes in the corporation that governs the performance of the Board of directors and Management of their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates.
2. Board of Directors – the governing body elected by the stockholders and exercises the corporate powers of a corporation conducts all its business and controls its properties.
3. Exchange – an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities.
4. Management – the body 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.
5. Independent Director – a person who, apart from his fees and shareholdings, is independent of management and 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.
6. Independence – means the exercise of independent judgment. A director should view each problem or 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. Corollary, he should support plans and ideas that he thinks will be beneficial to the Bank.
7. Executive Director – a director who is also the head of a department or unit of the corporation or performs any work related to its operation.
8. Non-Executive Director – a director who is not the head of a department or unit of the corporation nor performs any work related to its operation.
9. Non-audit work – the other services offered by an external auditor to a corporation that are not directly related and relevant to its statutory audit functions, such as, accounting, payroll, bookkeeping, reconciliation, computer project management, data processing, or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor.
10. Internal Control – the system established by the Board of Directors and Management for the accomplishment of the corporation's objectives, the efficient operation of its business, the reliability of its financial reporting, and faithful compliance with applicable laws, regulations and internal rules.
11. Internal Control System – the framework under which internal controls are developed and implemented (alone or in concert with other policies or procedures) to manage and control a particular risk or business activity, or combination of risks or business activities, to which the corporation is exposed.

12. Internal Audit – an independent and objective assurance activity designed to add value to and improve the corporation’s operations, and help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness or risk management, control and governance processes.
13. Internal Audit Department – a department or unit of the corporation and its consultants, if any, that provide independent and objective assurance services in order to add value to and improve the corporation’s operations.
14. Internal Auditor – the highest position in the corporation responsible for internal audit activities. If internal audit activities are performed by outside service providers, he is the person responsible for overseeing the service contract, the overall quality of these activities, and follow-up of engagement results.
15. Parent – a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries.
16. Subsidiary – 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.
17. Affiliate – shall refer to an entity linked directly or indirectly to a bank by means of:
  - 17.1. Ownership, control or power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa;
  - 17.2. Interlocking directorship or officership, where the concerned director or officer owns; controls,; or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;
  - 17.3. Common stockholders owning 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 borrowing entity;
  - 17.4. Management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the borrowing entity; or
  - 17.5. 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 where the borrowing entity is linked to the lending bank both as DOSRI and as a subsidiary or affiliate, the DOSRI rules shall apply.

#### 18. Officers

- 18.1. Whose duties are defined in the by-laws, or are generally known to be the officers of the bank;
- 18.2. Directors whose duty includes functions of management; and
- 18.3. Group or committee members, whose duties include functions of management such as those ordinarily performed by regular officers, and are not purely recommendatory or advisory.

Loans granted to non-officers/non-directors who later on became officers/directors of the bank may not be considered DOSRI loan. However, it is considered a DOSRI loan upon renewal or restructuring after the original maturity date.

19. Stockholders – those with stockholdings in the lending bank of at least one percent (1%) of the total subscribed capital stock. This can be computed individually and/or collectively with the stockholdings of: (i) his spouse and 1st degree relatives; (ii) a partnership; and (iii) a company where the stockholder, spouse and/or 1st degree relatives own more than fifty percent (50%) of the total subscribed capital stock.

20. Substantial or major shareholder – a person, whether natural or juridical, owning such number of shares that will allow him 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.
21. Majority stockholder or shareholder – a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a bank.
22. Related Interest – shall refer to any of the following:
  - 22.1 Spouse or relative within the first degree of consanguinity or affinity of a director, officer and stockholder;
  - 22.2 Partnership of which a director, officer and stockholder or his spouse or relative within the 1<sup>st</sup> degree of consanguinity or affinity is a general partner;
  - 22.3 Co-owner with the director, officer, stockholder or his spouse or relative within the 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 loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;
  - 22.4 Corporation, association or firm of which any or a group of directors, officers, stockholders of the lending bank and/or their spouses or relatives within the first 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;
  - 22.5 Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in items "22.2 and 22.4 above";
  - 22.6 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 lending bank or which controls majority interest of the bank;
  - 22.7 Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the lending bank; and
  - 22.8 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 banks.
23. Related Parties shall cover the Bank's subsidiaries as well as affiliates, as defined under Item 17 above 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, stockholders, and 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 interests may pose potential conflict with the interest of the Bank, hence, is identified as a related party.

Other Related Parties are entities linked to the bank, directly or indirectly through any of the following:

- 23.1 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;
- 23.2 Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
- 23.3 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

23.4 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.

24. Close Family Members are persons related to the Bank's directors, officers, and stockholders (DOS) within the second 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.

25. Corresponding Persons in Affiliated Companies are the DOS of the affiliated companies and their 2<sup>nd</sup> degree relatives.

Affiliated companies are: (i) corporate related interests (RI); (ii) Bank's subsidiaries and affiliates; (iii) any party that bank exerts direct/indirect control over or that exerts direct/indirect control over the bank; and (iv) subsidiaries, affiliates and SPEs of (iii).

26. Control of an enterprise exists when there is:

26.1 Power over more than 50% of the voting rights by virtue of an agreement with other stockholder; or

26.2 Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or

26.3 Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or

26.4 Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or

26.5 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 20% or more of a class of voting shares of a company.

Requisites for Bank to overcome the rebuttable presumption of control over an enterprise: (a) provide facts sufficient to show that there is no control; and (b) submit a written commitment stating the following:

- Shares are exclusively for investment purposes;
- FI-Stockholder will not serve on the Board nor will nominate any candidate to the Board;
- FI-Stockholder will have limited contacts with Management;
- FI-Stockholder will engage only in normal and customary transactions with the enterprise; and
- FI will not pledge the shares acquired

27. Related Company - means another company which is: (a) its parent or holding company; (b) its subsidiary or affiliate; or (c) a corporation where a bank or its majority stockholder own such number of shares that will allow/enable him to elect at least one (1) member of the board of directors.

28. 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:

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

29. Significant Transactions - refer to dealings of significant transaction size or those that could pose potential impact and material risk on the operations of the Bank or regulatory compliance and as such, would require board approval based on the bank's internal policies or as provided under the existing regulations. These significant transactions are disclosed in the audited financial statements, the annual report and in the disclosure reports submitted to the regulators.
30. Significant Influence – is the power to participate in the financial and operating policy decisions of the company but do not have control nor has joint control of those policy decisions. Significant influence exists when there is:
- 30.1. Representation on the board of directors or equivalent governing body of the investee;
  - 30.2. Participation in policy-making processes, including participation in decisions about dividends or other distribution;
  - 30.3. Material transactions between the entity and its investee;
  - 30.4. Interchange of managerial personnel; or
  - 30.5. Provision of essential technical information
31. Conflict of Interest - is a breach of an obligation to the bank that has an effect or intention of advancing one's own interest or the interest of others that is grossly disadvantageous to the interest or potentially harmful to the Bank.

#### **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.

The Bank welcomes diversity in the Board of Directors. 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. There is no limit or restriction on the membership of the Board on account of age, gender, nationality or race.)

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

The Board shall be composed of at least five (5), but not more than fifteen (15) members who are elected by the stockholders as provided for in the Articles of Incorporation and By-Laws.

The members of the board of directors shall be selected from a broad pool of qualified candidates.

A sufficient number of qualified non-executive members shall be elected to promote the independence of the board from the views of senior management. For this purpose, non-executive members of the board of directors shall refer to those who are not part of the day-to-day management of banking operations and shall include the independent directors.

The Bank conforms to have five (5) independent directors representing 33.33% or 34% of the Board, beyond the 20% requirement defined by law. Any fractional result from applying the required minimum proportion shall be rounded-up to the nearest whole number.

### 1.2. General Principles

1.2.1. The Board is primarily accountable to the stockholders. It should provide them with a balanced/fair and comprehensible assessment of the PNB Group performance, position and prospects on a quarterly basis, including interim and other reports on matters that could adversely affect its business, as well as reports to regulators that are required by law;

1.2.2. The principle of fairness refers to the protection of the rights of all shareholders, treatment in share purchases, issuance of reports to all and by and large the specific policies on the treatment of stakeholders;

1.2.3. Transparency refers to the adherence to the disclosure standards on the issuance of periodic reports regarding material information and the over-all performance of management. It also covers the standards used both by the internal and external auditors in reporting their audit findings; and

1.2.4. In accepting memberships in other corporate boards, the members of the Board of Directors of PNB Group shall always be guided by the basic consideration of how much time they can effectively discharge their duties in PNB Group as well as in the other corporate boards.

1.2.5. The board of directors and management should have an effective oversight on the bank's disclosure practices, i.e., accurate, clear and presented in a manner that shareholders, depositors, other relevant stakeholders and market participants can understand easily; and

1.2.6. The responsibilities of the board of directors and management are in no way diminished by the existence of a system for the supervision of the bank by BSP or by a requirement for the bank's financial statements to be audited by an external auditor.

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

#### 1.3.1. Powers of the Board of Directors

The corporate powers of a bank shall be exercised, its business conducted and all its property controlled and held, by its board of directors. The powers of the board of directors as conferred by law are original and cannot be revoked by the stockholders. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the bank, its subsidiaries and affiliates.

### 1.3.2. General Responsibilities of the Board of Directors

- 1.3.2.1. The Board is mandated to take final responsibility for exercising oversight function over management, while taking a long-term view in securing the Bank's sustainability through due observance of fairness, transparency, and accountability under a corporate regime underpinned by ethics and social responsibility;
- 1.3.2.2. The board of directors is primarily responsible for approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the board of directors is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day-to-day affairs of the institution. The Board through the President and CEO and/or the designated Responsible Senior Officer/s shall monitor the day-to-day affairs of the subsidiaries/affiliates;
- 1.3.2.3. The Board shall formulate the Bank's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor Management's performance of PNB Group; and
- 1.3.2.4. It shall be the Board's responsibility to foster the long-term success of the bank, its subsidiaries and affiliates, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives, for the best interest of PNB Group, its stockholders and other stakeholders, i.e., its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large.

### 1.3.3. Internal Control Responsibilities of the Board

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

The board of directors shall be ultimately responsible for ensuring that senior management establishes and maintains an adequate, effective and efficient internal control framework commensurate with the size, risk profile and complexity of operations of the bank. It shall also ensure that the internal audit function has an appropriate stature and authority within the bank and is provided with adequate resources to enable it to effectively carry out its assignments with objectivity.

The board of directors shall, on a periodic basis:

- 1.3.3.1. conduct discussions with management on the effectiveness of the internal control system;

- 1.3.3.2. review evaluations made by the audit committee on the assessment of effectiveness of internal control made by management, internal auditors and external auditors;
- 1.3.3.3. ensure that management has promptly followed up on recommendations and concerns expressed by auditors and supervisory authorities on internal control weaknesses; and
- 1.3.3.4. review and approve the remuneration of the head and personnel of the internal audit function. Said remuneration shall be in accordance with the bank's remuneration policies and practices and shall be structured in such a way that these do not create conflicts of interest or compromise independence and objectivity.

The board of directors may likewise commission an assessment team outside of the organization to conduct an independent quality assurance review of the internal audit function at least every (five) years.

The minimum internal control mechanisms for the performance of the Board's oversight responsibility may include:

- Definition of the duties and responsibilities of the CEO of the bank, its subsidiaries and affiliates, who is ultimately accountable in the organizational and operational controls;
- Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO;
- Evaluation of proposed senior management appointments;
- Selection and appointment of qualified and competent management officers; and
- Review of the PNB Group human resource policies, conflict of interest situations, compensation program for employees, and management succession plan.

#### 1.3.4. Specific Duties and Responsibilities of the Board of Directors

To ensure high standards of best practices for the Bank, its subsidiaries and affiliates, its stockholders and other stakeholders, the Board should conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

- 1.3.4.1. To approve and monitor the implementation of strategic objectives. Consistent with the bank's strategic objectives, business plans shall be established for the bank including its trust operations, international operations, and subsidiaries and affiliates, and initiatives thereto shall be implemented with clearly defined responsibilities and accountabilities. These shall take into account the PNB Group long term financial interests, its level of risk tolerance and its ability to manage risks effectively. The board shall establish a system for measuring performance against plans through regular monitoring and reviews, with corrective action taken as needed.

The Board shall likewise ensure that the PNB Group has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.



The Board shall review and approve the budget prepared by Management as well as the revisions thereto and shall monitor actual performance against the budget.

- 1.3.4.2. To approve and oversee the implementation of policies governing major areas of operations enterprisewide. The board shall approve policies on all major business activities and accordingly define the bank's level of risk tolerance in respect of business activities. A mechanism to ensure compliance with said policies shall also be provided. The board shall set out matters and authorities reserved to it for decision, which include, among others major capital expenditures, equity investments and divestments. The board shall also establish the limits of the discretionary powers of each officer, committee, sub-committee and such other groups for purposes of lending, investing or any other financial undertaking that exposes PNB Group to significant risks;
- 1.3.4.3. To approve and oversee the implementation of risk management policies. The board of directors shall be responsible for defining the bank's level of risk tolerance and for the approval and oversight of the implementation of policies and procedures relating to the management of risks throughout PNB Group;
- 1.3.4.4. Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Bank, its trust operations and international operations, as well as subsidiaries and affiliates to anticipate and prepare for possible threats to its operational and financial viability;
- 1.3.4.5. Adopt and maintain adequate risk management policy. The risk management policy shall include:
  - 1.3.4.5.1. a comprehensive risk management approach;
  - 1.3.4.5.2. a detailed structure of limits, guidelines and other parameters used to govern risk-taking;
  - 1.3.4.5.3. a clear delineation of lines of responsibilities for managing risk;
  - 1.3.4.5.4. an adequate system for measuring risk; and
  - 1.3.4.5.5. the effective internal controls and a comprehensive risk-reporting process.
- 1.3.4.6. To oversee selection and performance of senior management. It is the primary responsibility of the board of directors to appoint competent, professional, honest, and highly-motivated management team at all times; adopt an effective succession planning program for management; monitor and assess the performance of the management team based on established performance standards that are consistent with the bank's strategic objectives, and conduct regular review of PNB Group policies with the management team:
  - 1.3.4.6.1. The Board of Directors shall apply fit and proper standards on key personnel. Integrity, technical expertise and experience in the institution's business, either current or planned, shall be the key considerations in the selection process. The board of directors shall replace members of senior management, when necessary, and have in place an appropriate plan of succession;
  - 1.3.4.6.2. The Board of Directors shall regularly monitor the actions of senior management and ensure that these are consistent with the policies that it has approved. It shall put in place formal performance standards to be able to effectively assess the performance of senior management;

1.3.4.6.3. The Board of Directors shall regularly meet with senior management to engage in discussions, question and critically review the reports and information provided by the latter. The Board of Directors shall set the frequency of meeting with senior management taking into account the size, complexity of operations and risk profile of the bank, its subsidiaries and affiliates; and

1.3.4.6.4. The Board of Directors shall regularly review policies, internal controls and self-assessment functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues.

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

1.3.4.7. To consistently conduct the affairs of the bank, its subsidiaries and affiliates with a high degree of integrity. The board of directors shall lead in establishing the tone of good governance from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior for itself, the senior management and other employees.

The Board of Directors shall:

1.3.4.7.1. Articulate clear policies on the handling of any transaction with DOSRI and other related parties ensuring that there is effective compliance with existing laws, rules and regulations at all times and no stockholder is unduly disadvantaged. In this regard, the Board of Directors shall define "related party transaction", which is expected to cover a wider definition than DOSRI under existing regulations and a broader spectrum of transactions (i.e., not limited to credit exposures), such that relevant transactions that could pose material risk or potential abuse to the bank and its stakeholders are captured;

1.3.4.7.2. Require the bank's stockholders to confirm by majority vote, in the annual stockholders' meeting, the bank's significant transactions with its DOSRI and other related parties;

1.3.4.7.3. Articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the institution, or unethical conduct;

1.3.4.7.4. Articulate policies that will prevent the use of the facilities of the bank, its subsidiaries and affiliates in furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting, money laundering, fraud, bribery or corruption;

1.3.4.7.5. Explicitly discourage the taking of excessive risks as defined by internal policies and establish an employees' compensation scheme effectively aligned with prudent risk taking. The compensation scheme shall be adjusted for all types of risk and sensitive to the time horizon of risk. Further, the grant of compensation in forms other than cash shall be consistent with the overall risk alignment of the bank. The Board of Directors shall regularly monitor and review the compensation scheme to ensure that it operates and achieves the objectives as intended;

- 1.3.4.7.6. Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the bank at all times. Further, the Board of Directors shall ensure that all transactions involving the pension fund are conducted at arm's length terms;
  - 1.3.4.7.7. Allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the Board of Directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or the Board itself; and
  - 1.3.4.7.8. Articulate policies in communicating corporate values, codes of conduct and other standards in the PNB Group as well as the means to confidentially report concerns or violations to an appropriate body.
- 1.3.4.8. To define appropriate governance policies and practices for the PNB Group and for its own work and to establish means to ensure that such are followed and periodically reviewed for ongoing improvement. The board of directors, through policies and its own practices, shall establish and actively promote, communicate and recognize sound governance principles and practices to reflect a culture of strong governance in the PNB Group as seen by both internal and external stakeholders:
- 1.3.4.8.1. Ensure that the bank's organizational structure facilitates effective decision making and good governance, e.g., clear definition and delineation of the lines of responsibility and accountability, especially between the roles of the Chairman of the Board of Directors and President/Chief Executive Officer;
  - 1.3.4.8.2. Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities;
  - 1.3.4.8.3. Structure in terms of size, frequency of meetings and the use of committees, to promote efficiency, critical discussion of issues and thorough review of matters; meet regularly to properly discharge its functions; ensure independent views in board meetings are given full consideration;
  - 1.3.4.8.4. Conduct and maintain the affairs of the institution within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations; ensure effective compliance with the latter as well as prudential reporting obligations;
  - 1.3.4.8.5. Assess at least annually its performance and effectiveness as a body, as well as its various committees, the chief executive officer, the individual directors, and the bank itself; regularly review the composition of the board in view of having a balanced membership; and
  - 1.3.4.8.6. Ensure that individual members of the board and the shareholders are accurately and timely informed.

- 1.3.4.9. To constitute committees to increase efficiency and allow deeper focus in specific areas. The Board of Directors shall create committees to assist the Board in the performance of its duties and responsibilities, the number and nature of which would depend on the size of the bank and the board, the complexity of operations, long-term strategies and risk tolerance level of the bank:
- 1.3.4.9.1. The board of directors shall approve, review and update at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures;
  - 1.3.4.9.2. The board of directors shall appoint members of the committees taking into account the optimal mix of skills and experience to allow the members to fully understand, be critical and objectively evaluate the issues. In order to promote objectivity, the board of directors, shall appoint independent directors and non-executive members of the board to the greatest extent possible while ensuring that such mix will not impair the collective skills, experience, and effectiveness of the committees. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight and Corporate Governance/Nomination Committees, without prior approval of the Monetary Board; and
  - 1.3.4.9.3. The board of directors shall ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.
- 1.3.4.10. To effectively utilize the work conducted by the internal audit, risk management and compliance functions and the external auditors. The board of directors shall recognize and acknowledge the importance of the assessment of the independent, competent and qualified internal and external auditors as well as the risk and compliance officers in ensuring the safety and soundness of the operations of a bank on a going-concern basis and communicate the same through-out the bank. Further, non-executive board members shall meet regularly, other than in meetings of the audit and risk oversight committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions;
- 1.3.4.11. In group structures, the board of directors of the parent bank shall have the overall responsibility for defining an appropriate corporate governance framework that shall contribute to the effective oversight over entities in the group. Towards this end, the board of directors of the parent bank shall ensure consistent adoption of corporate governance policies and systems across the group and shall carry-out the duties and responsibilities:

- 1.3.4.11.1. Define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group; 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; and policies include the commitment from the entities in the group to meet all governance requirements;
- 1.3.4.11.2. Define the level of risk tolerance for the group, which shall be linked to the process of determining the adequacy of capital of the group;
- 1.3.4.11.3. Ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems;
- 1.3.4.11.4. Establish a system for monitoring compliance of each entity in the group with all applicable policies, practices and systems;
- 1.3.4.11.5. Define and approve policies and clear strategies for the establishment of new structures;
- 1.3.4.11.6. Understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company bank; and 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;
- 1.3.4.11.7. Develop sound and effective systems for generation and sharing of information within the group, management of risk and effective supervision of the group;
- 1.3.4.11.8. Require risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board; and
- 1.3.4.11.9. Disclose all entities in the group, (e.g., owned directly or indirectly by the bank and/or its subsidiaries/affiliates including special purpose entities (SPEs), and other entities that the bank exerts control over or those that exert control over the bank, or those that are related to the bank and/or its subsidiaries/affiliates either through common ownership/directorship/officership) as well as all significant transactions between entities in the group involving any BSP regulated entity.
- 1.3.4.12. Implement a process for the selection of Directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies;
- 1.3.4.13. Ensure the PNB Group faithful compliance with all applicable laws, regulations and best business practices;

- 1.3.4.14. Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the PNB Group;
- 1.3.4.15. Identify the stakeholders in the community in which the PNB Group operates or which are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them;
- 1.3.4.16. Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the PNB Group internal control system in order to maintain its adequacy and effectiveness;
- 1.3.4.17. Formulate and implement policies and procedures that will ensure the integrity and transparency of related party transactions between and among the bank and its joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the board;
- 1.3.4.18. Establish and maintain an alternative dispute resolution system in the PNB Group that can amicably settle conflicts or differences between the Bank, its subsidiaries and affiliates and its stockholders; and third parties, including the regulatory authorities;
- 1.3.4.19. Meet at such times or frequency as may be needed. The minutes of such meetings should be duly recorded. Independent views during board meetings should be encouraged and given due consideration;
- 1.3.4.20. Keep the activities and decisions of the board within its authority under the Amended Articles of Incorporation and Amended By-Laws, and in accordance with existing laws, rules and regulations; and
- 1.3.4.21. Appoint a Compliance Officer who shall have the rank of at least a Vice President.
- 1.3.4.22. Adequate governance structures and control processes related to the different activities of the bank are established and complied with, including:
  - 1.3.4.22.1. Systems that accurately identify and measure all material risks and adequately monitor and control these risks;
  - 1.3.4.22.2. Adequate internal controls, organizational structures and accounting procedures leading to a suitable control environment aimed at meeting the bank's prescribed corporate strategy, performance, information system and compliance objectives;
  - 1.3.4.22.3. The evaluation of the quality of assets and their proper recognition and measurement; and
  - 1.3.4.22.4. Requirements on the gathering and disclosure of material and relevant information on financial accounts including related party transactions.
- 1.3.4.23. Adequate governance structures and control processes for areas of exposures that may pose significant risk to the bank such as fair value measurement and financial instruments. The board's oversight responsibilities for the bank's use of fair value accounting include:

- 1.3.4.23.1. Review and approve written policies related to fair valuations;
  - 1.3.4.23.2. Continuing review of significant valuation model performance for issues escalated for resolution and all significant changes to valuation policies;
  - 1.3.4.23.3. Ensure adequate resources are devoted to the valuation process;
  - 1.3.4.23.4. Articulate the bank's tolerance for exposures subject to valuation uncertainty and monitoring compliance with the board's overall policy settings at an aggregate firm wide level;
  - 1.3.4.23.5. Ensure independence in the valuation process between risk taking and control units;
  - 1.3.4.23.6. Ensure appropriate internal and external audit coverage of fair valuations and related processes and controls;
  - 1.3.4.23.7. Ensure consistent application of accounting standards and disclosures within the applicable accounting framework;
  - 1.3.4.23.8. Ensure the identification of significant differences, if any, between accounting and risk management measurements and their proper documentation and monitoring; and
  - 1.3.4.23.9. Ensure adequate documentation of significant differences between the valuations used for financial reporting and regulatory purposes.
  - 1.3.4.24. Establish appropriate management information systems; and
  - 1.3.4.25. Protect the interests of stakeholders adequately.
- 1.4. Limitation on nationality of the 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, pursuant to Section 23 of the Corporation Code of the Philippines a majority of the directors must be residents of the Philippines.

#### 1.5. Board Meetings and Quorum Requirement

The Members of the Board should attend its regular and special meetings in person or through teleconferencing or video conferencing as long as the director who is taking part in said meetings can actively participate in the deliberations on matters taken up therein.

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 assemble as 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.

To promote transparency, the Board may require the presence of at least one (1) independent director in all its meetings.

## 2. Directors

### 2.1. Definition of Directors

- 2.1.1 Directors who are named as such in the Articles of Incorporation;
- 2.1.2 Directors duly elected in subsequent meetings of the stockholders; and
- 2.1.3 Those elected to fill vacancies in the board of directors.

Chairman Emeritus and the members of the Board of Advisers cannot be considered as directors. However, they may be considered as stockholders or related interest, i.e., spouse or first degree relative, partner, co-owner, or interlocking officer/director, as the case may be. As such, Chairman Emeritus and Board Advisers shall be classified as a related party as defined in the RPT policy.

### 2.2. Qualifications of Directors

- 2.2.1. Holder of at least one (1) share of stock of the Bank;
- 2.2.2. He shall be at least a college graduate or have at least five (5) year-experience in business to substitute for such formal education;
- 2.2.3. He shall be at least twenty-five (25) years old at the time of his election or appointment;
- 2.2.4. He must have attended a special seminar on corporate governance for board of Directors conducted or accredited by the BSP or SEC: Provided, That incumbent Directors must attend said seminar within a period of six (6) months from date of election;
- 2.2.5. He must be fit and proper for the position of a director of the bank, proven to possess integrity/probity, physical and mental fitness, relevant education/financial literacy/training, knowledge and experience, diligence and independence of mind, and sufficiency of time to fully carry out responsibilities.
- 2.2.6. He shall be assiduous in his work habits;
- 2.2.7. Practical understanding of the business of the Bank; and
- 2.2.8. Membership in good standing in relevant industry, business or professional organizations.

An elected director has the burden to prove that he/she possesses all the foregoing minimum qualifications and none of the disqualifications by submitting the documentary requirements per regulatory guidelines.

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 existing applicable laws and regulations.

### 2.3. Disqualifications of Directors

#### 2.3.1. Permanent Disqualification

- 2.3.1.1. Any person convicted by final judgment or order of 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;

- 2.3.1.2. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC 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 shall also apply if such person is currently the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, the Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP, or has otherwise been restrained from engaging in any activity involving securities and banking; or such person is currently 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;

- 2.3.1.3. Any person convicted by final judgment or order by a competent court or administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- 2.3.1.4. Any person who has been adjudged by final judgment or order of the SEC, or by a competent court or administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or Bangko Sentral ng Pilipinas (BSP), or any of their rules, regulations or orders;
- 2.3.1.5. Any person earlier elected as Independent Director of the Bank who becomes an officer, employee or consultant of the Bank;
- 2.3.1.6. 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 in sub-paragraphs (2.3.1.1) to (2.3.1.5) above;
- 2.3.1.7. Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment; and
- 2.3.1.8. Any person judicially declared to be insolvent.

#### 2.3.2. Temporary Disqualification

- 2.3.2.1. Refusal to fully disclose the extent of his business interests or any material information as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists;

- 2.3.2.2. Absence or non-participation for whatever reason/s for more than fifty percent (50%) of all regular and special meetings of the Board of Directors during his incumbency, or any twelve (12)-month period during said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. This disqualification applies for purposes of the succeeding election;
- 2.3.2.3. Dismissal or termination for cause as Director of any corporation covered by the Corporation Code. This disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;
- 2.3.2.4. If the beneficial equity ownership of an Independent Director in the corporation or its subsidiaries and affiliates exceeds two (2) percent of its subscribed capital stock. This disqualification shall be lifted if the limit is later complied with; and
- 2.3.2.5. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

A temporarily disqualified Director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.

#### 2.4. Qualifications of Independent Directors

An Independent Director shall refer to a person who:

- 2.4.1. Is not or has not been, an officer or employee of the bank, its subsidiaries/affiliates or related companies during the past three (3) years counted from the date of election;
- 2.4.2. Not a director or officer of the related companies of the bank's majority stockholders;
- 2.4.3. Is not a stockholder with shares of stock sufficient to elect one seat in the board of directors of the bank, or in any of its related companies or of its majority corporate shareholders;
- 2.4.4. Is not a relative, legitimate or common-law of any director, officer or majority shareholder of the bank or any of its related companies. Relatives refer to the spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, brother-/sister-in-law;
- 2.4.5. Is not acting as a nominee or representative of any director or substantial shareholder of the Bank, or any of its related companies;
- 2.4.6. Is not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; is independent of management and free from any business or other relationship;
- 2.4.7. Does not engage or has not engaged, whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with the bank or any of its related companies or substantial shareholders, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment;
- 2.4.8. A regular director who resigns or whose term ends on the day of the election shall only qualify for nomination and election as an Independent Director after a 2-year "cooling-off period"; and

- 2.4.9. Persons appointed as Chairman “Emeritus”, Ex-Officio” Directors/Officers or Members of any Executive Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities shall be subject to a one-year “cooling-off period” prior to his qualification as an Independent Director.
- 2.5. Disqualification of Independent Directors
- 2.5.1. Securities broker-dealer disqualifies from sitting as an Independent Director of listed companies and registered issuers of securities. Securities broker-dealer shall refer to any person holding any office of trust and responsibility in a broker-dealer firm which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, associated person or salesman, and an authorized clerk of the broker or dealer.
- 2.6. Term Limits for Independent Directors (IDs)
- 2.6.1. The Bank is compliant with BSP Circular No. 749, Series of 2012 and SEC Memorandum Circular No. 9, Series of 2011, SEC Advisory dated March 31, 2016 and BSP CL-2016-073 dated August 24, 2016.
- 2.6.2. IDs elected in 2012 may be re-elected in 2017 until 2021 (4 consecutive years), without the two (2)-year cooling-off period, if there are no suitable replacements, subject to prior written notice and justification to the SEC.
- 2.6.3. Under normal circumstances, the Independent Director (ID) can be elected to only five (5) companies of the conglomerate, parent bank and its subsidiaries and affiliates;
- 2.6.4. Independent Director of a bank may serve as such for a total of five consecutive years, opt to undergo a “cooling off” period of two (2) years and after which, an ID can be re-elected and serve for another five (5) consecutive years.
- 2.6.5. IDs shall be perpetually barred from being elected as such after serving for ten (10) years and the two year cooling off period or after serving nine consecutive years.
- 2.7. Roles, Accountabilities and Deliverables of Independent Directors
- Recognizing the importance of the role of (IDs), the Board has elected the independent directors to act as Chairman of the Board and various Board committees.
- In the various board committees, the independent directors play an active role in the formulation of the business strategies and priorities of the Bank, its subsidiaries and affiliates.
- 2.8. Specific Duties and Responsibilities of the Chairman of the Board:
- 2.8.1. To call, convene and preside over all meetings of the Board of Directors whenever he may deem it necessary, either on his own initiative, or upon the request of the President, or two members of the Board; and the stockholders in accordance with the Amended By-Laws;
- 2.8.2. Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors;
- 2.8.3. To provide leadership in the board of directors. The chairperson of the board shall ensure effective functioning of the board, including maintaining a relationship of trust with board members;

- 2.8.4. To ensure that the board takes an informed decision. The chairperson of the board shall ensure a sound decision making process and he should encourage and promote critical discussions and ensure that dissenting views can be expressed and discussed within the decision-making process;
  - 2.8.5. Maintain qualitative and timely lines of communication and information between the Board and Management;
  - 2.8.6. Assist in ensuring compliance with the PNB Group guidelines on corporate governance; and
  - 2.8.7. To perform such other functions as are assigned to him by law or by the Board of Directors.
- 2.9. Specific Duties and Responsibilities of a Director

A Director's office is one of trust and confidence. A Director should act in the best interest of the Bank, its subsidiaries and affiliates in a manner characterized by transparency, accountability and fairness. He should also exercise leadership, prudence and integrity in directing the PNB Group towards sustained stability and progress.

A Director should observe the following norms of conduct:

- 2.9.1. 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, its subsidiaries and affiliates are engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training;
- 2.9.2. To conduct fair business transactions with the bank, its subsidiaries and affiliates and to ensure that personal interest or that of his colleagues 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.

If an actual or potential conflict of interest may arise on the part of a Director, he should fully and immediately disclose it and should not participate in the decision-making process. A Director who has a continuing material conflict of interest should seriously consider resigning from his position.
- 2.9.3. To act honestly and in good faith with loyalty and in the best interest of the PNB Group, 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;

- 2.9.4. To devote time and attention necessary to properly discharge their duties and responsibilities. Directors should devote sufficient time to familiarize themselves with the PNB Group business. They must be constantly aware of the PNB Group 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;
- 2.9.5. To act judiciously after thorough consideration of all aspect of each matter for resolution. 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;
- 2.9.6. 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;
- 2.9.7. To exercise independent judgment. A director should view each problem or 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. Corollary, he should support plans and ideas that he thinks will be beneficial to the Bank, its subsidiaries and affiliates;
- 2.9.8. To have a working knowledge of the statutory and regulatory requirements affecting the Bank, including the contents of its Amended Articles of Incorporation and Amended By-Laws, the requirements of the BSP, SEC 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 bank's competitiveness;
- 2.9.9. To observe confidentiality. Directors must observe the confidentiality of non-public information acquired by reason of their position as directors. Director should not reveal confidential information to unauthorized persons without the authority of the Board;
- 2.9.10. To advise the Corporate Secretary of their shareholdings in the Bank within three (3) trading days after a Director is appointed or any acquisition, disposal, or change in the shareholdings; and
- 2.9.11. 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.

## 2.10. 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.

### 3. Board Committees

To aid in complying with the principles of good corporate governance, the Board of Directors shall constitute, at a minimum, the following Committees:

#### 3.1. Corporate Governance/Nomination/Remuneration Committee

The composition and functions of the Corporate Governance/Nomination/Remuneration Committee of the Board of Directors are contained in its Amended Charter (Annex "A"). This charter was originally approved by the Board of Directors of the Bank on January 28, 2005.

The functions and responsibilities of the Human Resource and Nomination Committees of the Board shall be absorbed by the Corporate Governance/Nomination/Remuneration Committee.

It shall pre-screen and shortlist all candidates nominated to become a member of the Board of Directors in accordance with the qualifications and disqualifications. The Committee determines whether the nominees are fit and proper and qualified to be elected as member of the Board. The nominee will then be recommended for election by the Board and/or stockholders during the Annual Stockholders' Meeting.

3.1.1. The Committee shall consider the following guidelines in the determination of the number of Directorships in the Board:

- 3.1.1.1. The nature of the business of the corporations of which he is a Director;
- 3.1.1.2. Age of the Director;
- 3.1.1.3. Number of Directorship/active membership and officership in other corporations or organizations;
- 3.1.1.4. Possess all the required minimum qualifications and none of the disqualifications;
- 3.1.1.5. Possible conflict of interest

In general, the optimum number shall be related to the capacity of a Director to perform his duties diligently.

3.1.2. In consultation with the executive or management committee/s, re-define the role, duties and responsibilities of the Chief Executive Officer by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.

3.1.3. The Chief Executive Officer and other executive Directors shall submit themselves to a low indicative limit on membership in other corporate Boards. The same low limit shall apply to independent, non-executive Directors who serve as full-time executives in other corporations. In any case, the capacity of Directors to serve with diligence shall not be compromised; and

3.1.4. 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;

#### 3.2. Board Audit and Compliance Committee (BACC)

The composition and functions of the Board Audit & Compliance Committee (BACC) are contained in its Amended Charter (Annex "B"). The charter was originally approved by the Board of Directors of the Bank on January 28, 2005.

### 3.3. Risk Oversight Committee (ROC)

The composition and functions of the Risk Oversight Committee are contained in its Amended Charter (Annex “C”). The charter was originally approved by the Board of Directors of the Bank under BR No. 4 dated December 17, 2004.

### 3.4. Executive Committee

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 “D”).

### 3.5. Trust Committee

3.5.1. The Trust Committee, shall be composed of at least five (5) members including:

3.5.1.1. The President or any Senior Officer of the Bank;

3.5.1.2. The Trust Officer and Head of Trust Banking Group; and

3.5.1.3. The remaining Committee members, including the Chairperson, may be any of the following:

3.5.1.3.1. 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

3.5.1.3.2. Those considered as qualified “Independent Professionals” (as defined under Section 3 of BSP Circular No 766).

A Qualified Independent Professional shall refer to a person who:

- Is not a director/officer/employee of the bank during the last twelve (12) months counted from the date of committee membership;
- Is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any executive director or those involved in the day to day management of the bank’s operations or officer of the bank; and
- Is not engaged or does not engage in any transactions with the Bank/NBFI whether by himself or with other persons or through a firm of which he is a partner, other than transactions which are conducted at arms-length and could not materially interfere with or influence the exercise of his judgment.

An Independent Professional may be appointed as a Trust Committee member of other Banks/NBFIs that belong to the same financial conglomerate.

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

3.5.2. The Board of Directors shall duly note in the minutes the Trust Committee members and designate the Chairman thereof who shall be among the directors.

3.5.3. The functions of the Trust Committee are contained in its Amended Charter (Annex “E”).

3.5.4. The Trust 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:

- 3.5.4.1. The Formulation of specific policies with regard to:
  - 3.5.4.1.1. Correlation of the Trust Banking Group with other departments of the Bank;
  - 3.5.4.1.2. Personnel;
  - 3.5.4.1.3. Cost and charges;
  - 3.5.4.1.4. Kinds of business to be accepted;
  - 3.5.4.1.5. Trust business development; and
  - 3.5.4.1.6. Work with other banks and/or financial institutions;
- 3.5.4.2. The acceptance and closing of trust and other fiduciary accounts;
- 3.5.4.3. The initial review of assets placed under the custody of the Trust Banking Group as trustee or fiduciary;
- 3.5.4.4. The investment, reinvestment and disposition of funds or property;
- 3.5.4.5. The review and approval of transactions between trust and/or fiduciary accounts; and
- 3.5.4.6. The review of trust and other fiduciary accounts at least once every twelve (12) 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.

#### 3.6. Board Oversight RPT Committee (BORC)

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

#### 3.7. Board Oversight Committee - Domestic & Foreign Office/Subsidiaries

The composition and functions of the Board Oversight Committee - Domestic & Foreign Office/Subsidiaries are contained in its Amended Charter (Annex "G").

#### 3.8. Board IT Governance Committee

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

### 4. Officers

#### 4.1. Qualifications of an Officer

- 4.1.1. He shall be at least twenty-one (21) years of age.
- 4.1.2. He shall be at least a college graduate or have at least five (5) year experiences in banking or trust operations or related activities or in a field related to his position and responsibilities, or have undergone training in banking or trust operations acceptable to the BSP.
- 4.1.3. He must be fit and proper for the position he is being proposed/appointed to. He must possess integrity/probity, education/training, and possession of competencies relevant to the function such as knowledge and experience, skill and diligence.



An appointed officer has the burden to prove that he/she possesses all the foregoing minimum qualifications and none of the disqualifications by submitting the documentary requirements listed in Appendix 6.

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.

#### 4.2. Duties and Responsibilities of Officers

- 4.2.1. To set the tone of good governance from the top. Bank officers shall promote the good governance practices within the bank by ensuring that policies on governance as approved by the board of directors are consistently adopted across the bank;
- 4.2.2. To oversee the day-to-day management of the bank. Bank officers shall ensure that bank's activities and operations are consistent with the bank's strategic objectives, risk strategy, corporate values and policies as approved by the board of directors. They shall establish a bank-wide management system characterized by strategically aligned and mutually reinforcing performance standards across the bank.
- 4.2.3. To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency. Bank officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each bank personnel. Bank officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the board of directors for the performance of the bank;
- 4.2.4. To promote and strengthen checks and balances systems in the bank. Bank officers shall promote sound internal controls and avoid activities that shall compromise the effective dispense of their functions. Further, they shall ensure that they give due recognition to the importance of the internal audit, compliance and external audit functions;
- 4.2.5. 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
- 4.2.6. 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.

#### 5. The President

- 5.1. The Chief Executive of the Bank shall be the President who shall be elected by the Board of Directors from among its members.
- 5.2. 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:
  - 5.2.1. To execute all contracts and to enter into all authorized transactions in behalf of the Bank;
  - 5.2.2. To exercise, as Chief Executive Officer, the power of supervision and control over decisions or actions of subordinate officers and all other powers that may be granted by the Board;

- 5.2.3. 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;
  - 5.2.4. 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;
  - 5.2.5. To transfer, assign and reassign officers and personnel of the Bank in the interest of the service;
  - 5.2.6. To report periodically to the Board of Directors on the operations of the Bank;
  - 5.2.7. To submit annually a report on the result of the operations of the Bank to the stockholders of the Bank; and
  - 5.2.8. To delegate any of his powers, duties and functions to any official of the Bank, with the approval of the Board of Directors.
6. The Corporate Secretary
- 6.1. 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;
  - 6.2. He must possess appropriate administrative and interpersonal skills, and if he is not the general counsel, then he must have some legal skills. He must also have a working knowledge of the operations of the Bank;
  - 6.3. Duties and Responsibilities of the Corporate Secretary
    - 6.3.1. Notify parties concerned of any Stockholders and Board meetings;
    - 6.3.2. Inform the members of the Board, in accordance with the Amended By-Laws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
    - 6.3.3. Attend all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him from doing so;
    - 6.3.4. Ensure that all Board procedures, rules and regulations are strictly followed by the members;
    - 6.3.5. Provide proper assistance to the Members of the Board during all Board and Stockholders' meetings while they are in the performance of their duties and responsibilities under the law and the By-Laws;
    - 6.3.6. Be responsible for the safekeeping and preservation of the integrity of the Minutes of the meetings, as well as the other official records pertaining to the duties and responsibilities of the Office of the Corporate Secretary;
    - 6.3.7. Prepares the Agenda for the Board and Executive Committee meetings and also assists the directors in attending seminars and trainings;
    - 6.3.8. 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 ten (10) business days after the date of election.

- 6.3.9. The appointment of the Compliance Officer shall be immediately disclosed to the Securities and Exchange Commission on SEC Form 17-C;
- 6.3.10. 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:
  - 6.3.10.1. 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;
  - 6.3.10.2. 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;
  - 6.3.10.3. Require the transferee or recipient of voting shares of stock to execute an affidavit (sample format shown in Appendix 4 of the Bangko Sentral ng Pilipinas 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;
  - 6.3.10.4. 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;
  - 6.3.10.5. 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;
  - 6.3.10.6. Submit financial statements, list of certain stockholders together with their stockholdings, as well as such other reports as prescribed/ required by the regulatory agencies;
  - 6.3.10.7. Disclose any material transactions, events and information as required under the rules and regulations of the regulatory agencies; and
  - 6.3.10.8. 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;
- 6.3.11. Exhibit loyalty to the mission, vision and objectives of the Bank; and
- 6.3.12. Work fairly and objectively with the Board, Management, stockholders and other stakeholders.

## 7. The Chief Compliance Officer (CCO)

- 7.1. To ensure adherence to corporate principles and best practices, there shall be a designated Compliance Officer who shall hold the position of at least a Vice President or its equivalent. He shall have direct reporting responsibilities to the Chairman of the Board thru the Board Audit and Compliance Committee (BACC).
- 7.2. He shall perform the following duties:
  - 7.2.1. Monitor compliance by the Bank with the provisions and requirements of this Revised Manual and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board thru the BACC and recommend the adoption of measures to prevent a repetition of the violation. The Compliance Officer shall likewise refer the matter to the Administrative Board or the Corporate Governance/Nomination/Remuneration 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;
  - 7.2.2. Appear before the Securities and Exchange Commission when summoned in relation to the Bank's compliance with this Revised Manual;
  - 7.2.3. Oversee the design of an appropriate compliance system, promote its effective implementation and address breaches that may arise. The CCO shall be responsible for ensuring the integrity and accuracy of all documentary submissions to BSP;
  - 7.2.4. Provide appropriate guidance and direction to the bank on the development, implementation and maintenance of the compliance program; and
  - 7.2.5. In charge in monitoring the bank 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.

## 8. The External Auditor

- 8.1. 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;
- 8.2. 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;
- 8.3. 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;
- 8.4. 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;

- 8.5. 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;
- 8.6. 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;
- 8.7. 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;
- 8.8. 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:
  - 8.8.1. Whether sufficient appropriate audit evidence has been obtained;
  - 8.8.2. Whether uncorrected misstatements are material, individually or in aggregate; and
  - 8.8.3. 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.

- 8.9. The External Auditor shall evaluate the requirements of the applicable financial reporting framework:
  - 8.9.1. The financial statements adequately disclose the significant accounting policies selected and applied;
  - 8.9.2. The accounting policies selected and applied are appropriate and consistent with the applicable financial reporting framework;
  - 8.9.3. The accounting estimates made by management are reasonable;
  - 8.9.4. The methodologies, assumptions and valuation practices including provisioning for loan losses are appropriate and consistent with the applicable financial reporting framework;
  - 8.9.5. The information presented in the financial statements are relevant, reliable, comparable and understandable;
  - 8.9.6. 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
  - 8.9.7. The terminologies used in the financial statements, including the title of each financial statement, are appropriate.

- 8.10. 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:
- 8.10.1. 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;
  - 8.10.2. 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;
- 8.11. 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;
- 8.12. Judgment permeates the external auditor's work. The auditor uses professional judgment in areas such as:
- 8.12.1. Assessing inherent and control risk and the risk of material misstatement due to fraud or error;
  - 8.12.2. Deciding upon the nature, timing and extent of the audit procedures;
  - 8.12.3. Evaluating the results of those procedures; and
  - 8.12.4. Assessing the reasonableness of the judgments and estimates made by management in preparing the financial statements.
- 8.13. 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;
- 8.14. 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;
- 8.15. 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:

- 8.15.1. 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;
  - 8.15.2. Information relevant to the external audit; and
  - 8.15.3. 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.
- 8.16. 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;
- 8.17. The external auditor is expected to charge only reasonable audit fees. In determining reasonable fees the following may be considered:
- 8.17.1. Expected hours needed to complete the scope of work envisioned in the audit plan;
  - 8.17.2. Complexity of the activities and structure of the bank;
  - 8.17.3. Level of internal audit assistance;
  - 8.17.4. Level of fees being charged by other audit firms; and
  - 8.17.5. 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.
- 8.18. 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.

## 9. The Internal Auditor

- 9.1. 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:
  - 9.1.1. 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.
- 9.2. Duties and responsibilities of the head of the internal audit function or the Chief Audit Executive:
  - 9.2.1. To demonstrate appropriate leadership and have the necessary skills to fulfill his responsibilities for maintaining the unit's independence and objectivity;
  - 9.2.2. 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.
  - 9.2.3. 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.

- 9.2.4. 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.
    - 9.2.5. To ensure that the internal audit function has adequate human resources with sufficient qualifications and skills necessary to accomplish its mandate.
  - 9.3. 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 reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with;
  - 9.4. 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;
  - 9.5. The Corporate Governance/Nomination/Remuneration 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;
  - 9.6. 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;
  - 9.7. 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
  - 9.8. 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.
10. The Chief Risk Officer (CRO)
  - 10.1. 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;
  - 10.2. 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;
  - 10.3. 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 Bangko Sentral ng Pilipinas within five (5) days from the time it has been approved by the board of directors;



#### 10.4. General Responsibilities of Risk Management

- 10.4.1. identifying the key risk exposures and assessing and measuring the extent of risk exposures of the bank and its trust operations;
- 10.4.2. monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the bank's internal capital adequacy assessment on an on-going basis;
- 10.4.3. monitoring and assessing decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- 10.4.4. reporting on a regular basis to senior management and to the board of directors of the results of assessment and monitoring.

Risk management personnel shall possess sufficient experience and qualifications, including knowledge on the banking business, the developments in the market, industry and product lines, as well as mastery of risk disciplines. They shall have the ability and willingness to challenge business lines regarding all aspects of risk arising from the bank's activities.

#### 11. The Trust Officer

##### 11.1. Qualifications

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

- 11.1.1. At least five (5) years of actual experience in trust operations;
- 11.1.2. 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;
- 11.1.3. 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
- 11.1.4. 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.

##### 11.2. Responsibilities

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

- 11.2.1. Ensure adherence to the basic standards in the administration of trust, other fiduciary and investment management accounts;
- 11.2.2. Develop and implement relevant policies and procedures on fiduciary activities;
- 11.2.3. Observe sound risk management practices and maintain necessary controls to protect assets under custody and held in trust or other fiduciary capacity;

- 11.2.4. 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;
- 11.2.5. Report regularly to the Trust Committee on business performance and other matters requiring its attention;
- 11.2.6. 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
- 11.2.7. 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 are 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 or Chief Audit Executive may sit as resource persons 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 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 results 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 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, 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 and other details must be clearly disclosed during stockholders meeting and duly reflected in the minutes of the board and stockholders' meetings.

## 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. 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 Group 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 PNB Group. 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 actions or omissions prejudicial to the interest of the PNB Group (Ref. Bd. Res. No. 01/04-26-13 and GEN. Cir. 1-873/2013 dated May 16, 2013);
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, executive 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, suppliers, and other business-related parties often require the exchange of gifts as tokens of appreciation. However, all 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. However, employees may be allowed to receive gifts/donations/sponsorship/financial assistance whether in cash or in kind from clients, suppliers, and other business-related parties, subject to the conditions provided under Bd. Res. No. 03/03-21-13 and GEN. Cir. No. 1-866/2013 dated April 10, 2013;

6. Whistleblower Policy - it is the policy of the bank to encourage employees to report internally any suspected or actual commission of theft/fraud, 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. 05/03-21-13 and GEN Cir. No. 1-868/2013 dated April 12, 2013).

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.

## **VII. 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**

1.1.1 Shareholders shall have the right to elect, remove and replace Directors and vote on certain corporate acts in accordance with the Corporation Code;

1.1.2 Cumulative voting shall be used in the election of Directors; and

1.1.3 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**

1.3.1. 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;

1.3.2. 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

1.3.3. 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:

1.4.1. 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;

1.4.2. 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;

1.4.3. In case of merger or consolidation;

1.4.4. A stockholder is likewise given an appraisal right in cases where a corporation decides to invest its funds in another corporation or business; and

1.4.5. 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.

## VIII. 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.

Members of the Board conduct a self-assessment in order to evaluate the performance for the previous year. The performance of the President/CEO, on the other hand, is evaluated by the Board of Directors.

After the Directors' self-evaluation, the results of the assessment are discussed and noted by the Corporate Governance/Nomination/Remuneration 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>EXCEED</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>MEET</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>DO NOT MEET</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>DEFICIENT</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>CRITICALLY DEFICIENT</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;

## **IX. REPORTORIAL OR DISCLOSURE SYSTEM OF BANK'S CORPORATE GOVERNANCE**

1. The reports or disclosures required under this revised Manual shall be prepared and submitted to the SEC/PSE/BSP by the responsible office/officer;
2. 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;
3. 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;
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 timely manner;

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 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.

## **X. 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.

## **XI. TRAINING PROCESS**

1. 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 that are duly accredited by the Securities and Exchange Commission (SEC) or Bangko Sentral ng Pilipinas (BSP);
2. A Director shall, before his assumption of office or within a period of six (6) months from date of election, is required to attend a seminar on corporate governance which shall be conducted by a private or government institute duly accredited by the BSP and SEC.
3. If necessary, funds shall be allocated by the CFO or its equivalent officer for the purpose of conducting an orientation program or workshop to effectively implement this Revised Manual. The Bank's Training Office shall include in its annual budget the cost of conducting such orientation or workshop for this purpose.

## **XII. 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:
  - 1.1 In case of first violation, the subject person shall be reprimanded;
  - 1.2 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
  - 1.3 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 impose under the law.

## **XIII. REFERENCES**

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

Reference No.	Subject
Memo Circular No. 2 Series of 2002	Code of Corporate Governance
Memo Circular No. 16 Series of 2006	Disqualification of a Securities Broker-Dealers as an Independent Director
Memo Circular No. 6 Series of 2009	Revised Code of Corporate Governance
Memo Circular No. 9	Qualifications of an Independent Director

Series of 2009	
Memo Circular No. 9 Series of 2011	Term Limits of Independent Directors
Memo Circular No. 5 Series of 2013	Annual Corporate Governance Report (ACGR)
Memo Circular No. 20 Series of 2013	All Members of the Board of Directors and Key Officers of Publicly Listed Companies to Attend Corporate Governance Trainings only with SEC Accredited Training Providers
Memo Circular No. 9 Series of 2014	Amendment to the Revised Code of Corporate Governance
SEC – Philippine Corporate Governance Blueprint 2015, Building a Stronger Corporate Governance Framework	

3. Bangko Sentral Ng Pilipinas (BSP) Regulations;

Reference No.	Subject
Circular No. 749 dated Feb. 27, 2012	Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions, as amended
Circular No. 766 dated August 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 January 11, 2013	Guidelines in Assessing the Quality of Corporate Governance in BSP-Supervised Financial Institutions
Circular No. 793 dated April 8, 2013	Amendment to Align the Familial Restrictions Applicable to “Independent Director” with the Existing Provision of the Securities Regulation Code
Circular No. 808 dated August 22, 2013	Guidelines on Information Technology Risk Management for All Banks and Other BSP Supervised Institutions
Memo No. M-2014-011 dated March 14, 2014	BSP’s Expectations for an Effective External Audit Function
April 25, 2014	BSP Materials on Risk Concentration and RPT Seminar
Circular No. 871 dated Mar 5, 2015	Internal Control and Internal Audit
Circular No. 887 dated Oct. 7, 2015	Further Amendments to the Regulations on the Approval/Confirmation of the Election/Appointment of Directors/Officers
Circular No. 889 dated Nov. 2, 2015	Treasury Activities of BSP-BSFIs and Amendments to the Qualifications of Directors and Officers
Circular No. 895 dated Dec. 14, 2015	Guidelines on Related Party Transactions (RPTs)
December 31, 2015	Manual of Regulations for Banks (MORB)
Circular No. 914 dated June 23, 2016	Amendments to Prudential Policy on Loans, Other Credit Accommodations, and Guarantees Granted to DOSRI, Subsidiaries and Affiliates

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 COMMITTEE  
June 2016**

**I. Corporate Governance defined –**

Corporate governance refers to that “set of relationships *between* an institution’s management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the institution are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the Board and Management to pursue objectives that are in the best interest of the institution its various stakeholders. It should facilitate effective monitoring thereby encouraging institutions to use resources more efficiently. More briefly, it is the system by which businesses are directed and implemented by the institution’s board of directors. (Source: Organization for Economic Co-operation and Development)

Corporate governance is the framework of rules, systems and processes in the corporation that governs the performance of the Board of Directors and Management of their respective duties and responsibilities to the stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates. (Source: SEC Memorandum Circular No. 9 dated May 6, 2014).

It is a form of organization of power and its control which gives the Board of Directors and informing shareholders a larger role. Specifically in:

1. Establishing strategic objectives and a set of corporate values that are communicated throughout the institution;
2. Setting and enforcing clear lines of responsibility and accountability throughout the Bank;
3. Ensuring that Board members are qualified for their positions, have a clear understanding of their role in corporate governance and are not subject to undue influence from Management or outside concerns;
4. Effectively utilizing the work conducted by internal and external auditors, in recognition of the important control function they provide;
5. Ensuring that compensation approaches are consistent with the Bank’s ethical values, objectives, strategy and control environment; and
6. Conducting corporate governance in a transparent manner.

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

The Corporate Governance/Nomination/Remuneration Committee is created pursuant and compliance to SEC Memorandum Circular No. 6, S.2009, Revised Code of Corporate Governance; BSP Circular 456 dated October 4, 2004, Constitute Board Committees; and BSP Circular No. 749 dated February 27, 2012, Strengthening Corporate Governance to align existing regulations with international best practices 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 have a minimum of at least five (5) members of the board of directors, inclusive of the President and two (2) independent directors. The Chairman shall be an independent director. 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 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 Corporate Governance/Nomination/Remuneration Committee or to fill vacancies therein, and to determine from time to time, by resolution, the number of members to constitute a quorum.

### IV. Duties and Responsibilities

#### 1. Corporate Governance

- Oversee the periodic performance evaluation of the Board and its committees and executive 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;
- Decide the manner by which the Board's performance may be evaluated, as well as whether or not a director is able to and has been adequately carrying out his/her duties as director bearing in mind the director's contribution and performance (e.g., competence, candor, attendance, preparedness and participation);
- Make recommendations to the Board the continuing education of directors, assignment to board committees, succession plans for the board members and senior officers, and their remuneration commensurate with corporate and individual performance (Ref: BSP Cir. 749);
- 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;
- Formulate such policies regarding the continuing education of directors, assignment to Board Committees, succession plan for the Board members and senior officers, and their remuneration commensurate with corporate and individual performance;
- 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 Senior Management; and
- To receive and evaluate complaints regarding conflict of interest situations.

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

- 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;
- Assess the effectiveness of the board's processes and procedures in the election or replacement of directors (Ref: SEC Memo Cir No. 6, S. 2009);
- Ensure that the Bank shall have at least two (2) Independent Directors (IDs) or such IDs shall constitute at least twenty percent (20%) of the members of the Board, and that any fractional result from applying the required minimum proportion, shall be rounded-up to the nearest whole number (Ref: BSP Cir. 749);
- Pre-screen and shortlist all candidates nominated to become a member of the board of directors in accordance with the qualifications and disqualifications;
- 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**

- 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.

The functions and responsibilities of the Human Resource and Nomination Committees of the Board shall be absorbed by the Corporate Governance/Nomination/Remuneration Committee.

## **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.

#### **5. The Committee Vice Chairman**

The Committee Vice Chairman shall preside over the meeting of the Corporate Governance/Nomination/Remuneration Committee in the absence of the Chairman.

#### **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**

### **June 2016**

#### **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 preferably have accounting and finance background, 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 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**

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 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.

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.
- 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)  
June 2016**

**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 with at least one (1) independent director as Chairman and two (2) non-executive directors.

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.

**V. Duties and Responsibilities**

Risk Category	Duties and Responsibilities	Support Office
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> <ul style="list-style-type: none"> <li>a) An effective technology planning process exists,</li> <li>b) Technology is implemented properly with appropriate controls, and</li> <li>c) Measurement &amp; monitoring efforts effectively identify ways to manage risk exposure.</li> </ul> <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; and 7. Work out system for managing problem credits.	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
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

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



**CHARTER  
EXECUTIVE COMMITTEE (EXCOM)  
June 2016**

**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.

**II. Composition of the Committee**

1. The Committee shall be composed of at least five (5) 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 non-voting 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. Policies, Procedures, and Manuals of Products and Services**

To review, evaluate, approve and/or endorse for Board approval policies, procedures and manuals of products and services to be offered to the Bank's domestic and overseas market.

#### **11. Risk Management**

To determine the risk appetite and set limits on risk taking activities.

#### **12. Strategic Plans, Forecast, Annual Budget**

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

#### **13. Periodic review of Financial Performance vs. Targets**

In coordination with the Board Audit & Compliance committee, conduct monthly/quarterly/periodic reviews of financial reports.

#### **14. Periodic review of ICAAP**

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 ICAPP program.

**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  
June 2016**

**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 OVERSIGHT RPT COMMITTEE (BORC)  
June 2016**

**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) members of the Board of Directors, two (2) of whom shall be independent directors, including the Chairperson. The Chief Compliance Officer or Chief Audit Executive may sit as resource persons 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, accounting standards 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  
BOARD OVERSIGHT COMMITTEE –  
DOMESTIC AND FOREIGN OFFICES/SUBSIDIARIES  
June 2016**

**I. Mission**

The Board Oversight Committee – Domestic and Foreign Offices/Subsidiaries (BOC) is created by the Board of Directors to provide the required oversight on the domestic and foreign offices/subsidiaries to ensure their profitable operations and long-term viability consistent with the bank's strategic goals.

**II. Composition of the Committee**

The Committee shall have at least three (3) regular members of the Board of Directors.

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.

The Committee may invite Senior Management Group Heads as Resource Person in any of its meetings to present management reports, clarify matters and provide necessary information on the regular agenda and/or relevant issues of the Committee, as needed.

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 Oversight Committee - Domestic and Foreign Offices/Subsidiaries or to fill vacancies therein, and to determine from time to time, by resolution, the number of members to constitute a quorum.

The Secretariats to handle the administrative requirements of the Committee are as follows:

- Foreign Offices/Subsidiaries - Global Filipino Banking Group Head
- Domestic Subsidiaries - Domestic Subsidiaries & Affiliates Division Head

**Resource Persons:** Senior Management Group Head (as needed)

<b>Senior Management Member</b>	<b>Primary Area of Responsibility</b>
Global Filipino Banking Group Head and Domestic Subsidiaries & Affiliates Division Head	Business Strategy/Marketing Plans, Product Programs, Marketing Tie-up Programs, Distribution Channels
Controllership Group Head	Business Financials, Equity Investments, Consolidated Books
Treasury Group Head	Balance sheet, liquidity, investments, fx management
Retail Banking Group Head	Domestic Branch Banking beneficiary account opening, servicing, retail banking products and services
Institutional Banking Group Head	Corporate Lending, corporate loan portfolios
Consumer Finance Group Head	Consumer Loan Product Programs, In-sourced loan processing, account maintenance, collections
Human Resources Group Head	Personnel policies, hiring, training, promotions

Information Technology Group Head	IT Infrastructure: Hardware/Software IT support/in-sourced systems, systems development
Corporate Planning Group Head	Actual vs. Budget/Plan Performance, ICAAP Stress Testing
Global Operations Group Head	Outsourcing/In-sourcing Arrangements, Operations Oversight
Risk Management Group Head	Risk Management Oversight, ICAAP/RCSA Programs
Global Compliance Group Head	Regulatory, franchise, corporate governance, MCA tracking
Internal Audit Group Head	Internal Audit Reviews, in-sourcing of internal audit functions
Legal Group Head	Legal advisory, foreclosures, litigations
Remedial & Credit Management Group Head	Credit policies and procedures, remedial management

**III. Duties and Responsibilities:**

1. To provide oversight on the business plans, initiatives, operations, risk and regulatory compliance of the domestic subsidiaries and foreign offices to include foreign branches, subsidiaries, marketing desk offices and representative office;
2. To review the strategic objectives and business priorities, direction, overall plans as well as key result areas set by the domestic subsidiaries and foreign offices as it relates to the thrusts and programs of the Bank. This will include the evaluation of the Bank's Short Term, Medium Term and Long Term Strategic Plans and the key activities.
3. To supervise the formulation of policy guidelines and procedures to ensure the quality of compliance and risk management of the different business legal vehicles by focusing on key risk areas that require direction by the Board and implementation of timely effective corrective actions.
4. To review periodically the actual performance of the domestic subsidiaries in relation to its approved quantitative and qualitative plans; conduct periodic financial performance and management profitability reviews and be informed of market and economic developments of the foreign office/subsidiary, in coordination with the respective entity Board of Directors, other Board Committees and Senior Management Group Heads that provide oversight support to the foreign offices;
5. To review business models/licenses, product programs, operations policy and procedures manuals, IT systems and developments, major marketing tie-ups/programs of the foreign offices; and
6. To review and evaluate qualification of key officers recommended to be hired or appointed for the foreign offices as well as those nominated to positions requiring the appointment of their Board of Directors.

**IV. Meeting: Frequency, Agenda, Date and Venue**

The BOC shall meet at least monthly with a regular agenda.

**V. Charter Review**

The BOC shall review and assess the adequacy of this Charter periodically and recommend changes for the approval of the Board through the endorsement of the Corporate Governance/Nomination/Remuneration Committee.



**CHARTER**  
**BOARD IT GOVERNANCE COMMITTEE (ITGC)**  
**June 2016**

**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.

**PHILIPPINE NATIONAL BANK****DIRECTOR'S PERFORMANCE EVALUATION FORM**

For the year \_\_\_\_\_

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

<b>PART I - Questions on DIRECTOR's INDIVIDUAL Qualitative Performance (To be answered by ALL)</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 (To be answered by ALL)</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?					



**PART III - Questions on THE BOARD COMMITTEE**  
*(Answer in the column specific to Committee/s wherein one is Committee Chairman or member )*

	Rating Scale 1 to 5 (5 being the highest)							
<b>A. General Questions on Board Committee</b>	CGC	EXCOM	ROC	BACC	TRUST	BOC-DFOS	BORC	ITGC
1. Does the Committee encourage accurate and timely disclosure on all material matters pertaining to the bank through regular meetings/discussions?								
2. Does the Committee regularly monitor corporate performance vs. the strategic and business plans, and vs. annual financial objectives and operating plans/targets as well as risk management?								
3. Does the Committee members participate in the performance evaluation system in place to assess the effectively, including evaluation of Committee performance itself?								
4. Does the Committee consider the individual expertise of the Director to be an effective member to carry out various critical responsibilities?								
5. Does the Committee meet regularly in accordance with the prescribed frequency of meetings per the Committee Charter?								

**B. Questions on Members of the Committee**

1. Am I fully aware that my primary loyalty as a member of the Committee is to the bank, as a whole, an institution with several shareholders as well as other stakeholders?								
2. Am I fully aware that, as member of the Committee, my duty of loyalty to the bank demands that I always act with honesty, in good faith, and avoid conflicts of interest?								
3. Do I actively participate in Committee meetings and related activities?								
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?								

*Legend:*

CGC – Corporate Governance Committee	TRUST – Trust Committee
EXCOM – Executive Committee	BOC – Board Oversight Committee – Domestic & Foreign Offices/Subs.
ROC – Risk Oversight Committee	BORC – Board Oversight RPT Committee
BACC – Board Audit & Compliance Committee	BITGC – Board IT Governance Committee

**C. Specific Questions for Board Committees**  
*(Answer questions that pertain to the performance of your Committee) - (Rating Scale 1 to 5 (5 being the highest))*

<b>C.1. Corporate Governance/Nomination/Remuneration Committee (CGC)</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 and embrace principles and guidelines aligned with existing regulations and international best practices?					
<b>C.2. Executive Committee</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)</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 and procedures manuals?					

<b>C.4. Board Audit and Compliance Committee (BACC)</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1. Is the committee being chaired by an independent director and is composed mostly of independent directors?					
2. Does the Committee monitor and evaluate the adequacy and effectiveness of the Bank's internal control system, including financial reporting control and information technology security; and provide oversight on the functions of internal and external auditors and compliance officers?					
3. Does the Committee review the financial statements prior to submission to the Board with due care and attention, asking for actionable points that demand consideration and 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.5. Trust Committee</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.6. Board Oversight Committee – Domestic &amp; Foreign Offices/Subsidiaries</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.7. Board Oversight RPT Committee (BORC)</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1. Does the Committee conduct periodic review and approval of RPT policy guidelines and procedures that are aligned with laws, rules and regulations, accounting standards and consistent with international best practices and ensure timely changes in policies and procedures to address recent regulatory requirements?					
2. Does the Committee exercise sound and objective judgment in the comprehensive review of the related party transactions and ensure that processes and approvals are conducted at arm's length basis?					
3. Does the Committee oversee the implementation of the RPT Framework enterprise wide and review actions taken by management to ensure compliance with Board approved RPT policies and procedures?					
4. Does the Committee ensure timely and consistent reporting of related party transactions to the Board?					
5. Does the Committee ensure bank compliance with disclosure and reporting of significant RPTs?					
<b>C.8 Board IT Governance Committee (ITGC)</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>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>Record of Actual Attendance of Board Committee Meetings: (To be provided/certified by the Corporate Secretary's Office)</b>					
For the year _____, Director _____ participated in the following committees: <ol style="list-style-type: none"> <li>1. CGC : _____ out of the total _____ meetings</li> <li>2. EXCOM : _____ out of the total _____ meetings</li> <li>3. ROC : _____ out of the total _____ meetings</li> <li>4. BACC : _____ out of the total _____ meetings</li> <li>5. TRUST : _____ out of the total _____ meetings</li> <li>6. BOC-DFOS : _____ out of the total _____ meetings</li> <li>7. BORC : _____ out of the total _____ meetings</li> <li>8. ITGC : _____ out of the total _____ meetings</li> </ol>					

\_\_\_\_\_  
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 \_\_\_\_\_

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