



PHILIPPINE NATIONAL BANK

**CORPORATE GOVERNANCE MANUAL
May 2020**

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I. POLICY STATEMENT

The Bank acknowledges that corporate governance is a dynamic concept. 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 (the "Board"), Management and Staff of the Philippine National Bank (PNB) Group commit themselves to adhere to the highest principles of good corporate governance as embodied in the Bank's Amended Articles of Incorporation, Amended By-Laws, Code of Conduct and this Revised Corporate Governance Manual. The Bank subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business; dealing fairly with its clients, investors, stockholders, the communities affected by its environmental/social activities and various publics; 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 Management 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 are 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 with new laws and regulations and generally conform to the evolving global and regional standards and best practices.

Moreover, the Revised Corporate Governance Manual serves the as the Code of Conduct for the Board of Directors, prescribing appropriate norms of conduct and behavior expected to individual directors of PNB Group. It articulates the role and responsibilities as well as the scope of activities of the principal parties that directly and indirectly influence the corporate governance practices of the Bank enterprise-wide, primarily the Members of the Board, as well as constituting at a minimum, the Board Audit & Compliance Committee, Risk Oversight Committee and Corporate Governance and Sustainability Committee, as well as the Board Oversight RPT Committee, that directly engage in monitoring and controlling business risks.

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

II. OBJECTIVE

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

III. DEFINITION OF TERMS

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

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

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

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

4. **Close Family Members** – are persons related to the Bank’s Directors, Officers, and Stockholders (DOS) within the second (2nd) degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparent, grandchild, parent-in-law, son/daughter-in-law, brother/sister-in-law, grandparent-in-law, and grandchild-in-law of the Bank’s DOS.
5. **Conglomerate** – a group of corporations that has diversified business activities in varied industries, whereby the operations of such businesses are controlled and managed by a parent corporate entity.
6. **Control** of an enterprise exists when there is:
 - a) Power over more than one-half (1/2) of the voting rights by virtue of an agreement with other stockholders; or
 - b) Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
 - c) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
 - d) Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
 - e) Any other arrangement similar to any of the above.

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

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

- Shares owned or held are exclusively for investment purposes;
- Bank-Stockholder will not serve on the Board of Directors nor will nominate any candidate to serve on the Board of Directors or otherwise seek board representation;
- Bank-Stockholder will have only limited contacts with Bank Management that are customary for interested shareholders;

- Bank-Stockholder will engage only in normal and customary transactions with the enterprise; and
 - The Bank will not pledge the shares acquired to secure a loan with any institution.
7. **Corresponding Persons in Affiliated Companies** – shall refer to the DOS of the affiliated companies and their close family members.
 8. **Directors** shall include:
 - a) directors who are named as such in the Articles of Incorporation;
 - b) directors duly elected in subsequent meetings of the stockholders; and
 - c) those elected to fill vacancies in the board of directors.
 9. **Enterprise Risk Management** – a process, effected by the Board of Directors, management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the Bank, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of objectives.
 10. **Executive Director** – a director who has executive responsibility of day-to-day operations of a part or the whole of the Bank.
 11. **Independent Director** – a person who is independent of management and the controlling shareholder and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.
 12. **Majority stockholder or Majority shareholder** – a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of the Bank.
 13. **Non-Executive Director** – a director who has no executive responsibility and does not perform any work related to the operations of the corporation; or shall refer to those who are not part of day to day management of operations and shall include the independent directors. However, not all non-executive directors are considered independent directors.
 14. **Officers**
 - a) Shall include the Chief Executive Officer (CEO)^{1/}, executive vice president, first senior vice president, senior vice-president, first vice president, vice president, general manager, treasurer, secretary, trust officer and others mentioned as officers of the Bank, or those whose duties as such are defined in the By-Laws, or are generally known to be the officers of the Bank (or any of its branches and offices other than the head office) either through announcement, representation, publication or any kind of communication made by the Bank;
 - b) Directors whose duties include functions of management such as those ordinarily performed by regular office;
 - c) Members of a group or committee including sub-groups or subcommittees, whose duties include functions of management such as those ordinarily performed by regular officers, and are not purely recommendatory or advisory, shall likewise be considered as officers.
- ^{1/} Shall also refer to the President or any other title referring to the top management post in the Bank
15. **Parent** – a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries.
 16. **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 such person or group to elect at least one (1) member of the board of directors or a partnership where such majority stockholder is a partner.

17. Related Interest – shall refer to any of the following:

- a) Spouse or relative within the first (1st) degree of consanguinity or affinity, or relative by legal adoption, of a director, officer and stockholder of the Bank;
- b) Partnership of which a director, officer and stockholder of a Bank or his spouse or relative within the first (1st) degree of consanguinity or affinity, or relative by legal adoption, is a general partner;
- c) Co-owner with the director, officer, stockholder or his spouse or relative within the first (1st) degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;
- d) Corporation, association or firm of which any or a group of directors, officers, stockholders of the Bank and/or their spouses or relatives within the first (1st) 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;
- e) Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in items "b" and "c" above;
- f) Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the Bank or which controls majority interest of the Bank pursuant to Item "g" of Section 362 of the MORB;
- g) Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the Bank; and
- h) Non-governmental organizations (NGOs)/ Foundations that are engaged in retail microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers or related BSFIs.

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

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

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

22. **Related Party Transactions (RPTs)** – refers to transactions or dealings with related parties of the Bank, including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:
- On- and off-balance sheet credit exposures and claims and write-offs;
 - Investments and/or subscriptions for debt/equity issuances;
 - Consulting, professional, agency and other service arrangements/contracts;
 - Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
 - Construction arrangements/contracts;
 - Lease arrangements/contracts;
 - Trading and derivative transactions;
 - Borrowings, commitments, fund transfers and guarantees;
 - Sale, purchase or supply of any goods or materials; and
 - Establishment of joint venture entities

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

23. **Stockholders** – shall refer to any stockholder of record in the books of the Bank, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts, whose stockholdings in the Bank, individual and/or collectively with the stockholdings of:
- His spouse and/or relative within the first (1st) degree by consanguinity or affinity or legal adoption;
 - A partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; and
 - Corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than fifty percent (50%) of the total subscribed capital stock of such corporation, association or firm, amount to one percent (1%) or more of the total subscribed capital stock of the Bank.
24. **Subsidiary** – refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by parent Bank.
25. **Substantial Stockholder** – refer to a person, or group of persons whether natural or juridical, owning such number of shares that will allow such person or group to elect at least one (1) member of the board of directors of the Bank or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

IV. CORPORATE GOVERNANCE STRUCTURE

1. Board of Directors

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

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

1.1. Composition of the Board and Independent Directors

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

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

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

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

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

1.2. Board Diversity Policy

Board diversity is not an end of itself. Instead, it is a means to develop an enabling environment which allows the Bank to leverage on the diverse background and expertise of its individual directors, foster innovation, and achieve a balanced approach in making sound and objective board decision. As such, the Bank recognizes and welcomes diversity in the Board of Directors to enhance the quality of its performance.

In designing the Board's composition, diversity shall be considered from various aspects including but not limited to age, gender, ethnicity, cultural and educational background, skills, competence and knowledge. These variables shall be taken into account in the selection and nomination of candidates to the Board. The Board shall also strive to ensure that there is appropriate representation of women in the Board. Moreover, the Bank recognizes that both social diversity (e.g., gender, race/ethnicity, and age diversity) and professional diversity are both important for bringing diverse perspectives in order to arrive at thorough and intelligent decisions on matters that require the board's approval.

The directors shall assess the adequacy, appropriateness, and effectiveness of the Board Diversity Policy as part of the annual self-assessment on the performance of individual directors, board committees, and the board.

The board of directors shall regularly review the composition, representation, and diversity of the board and board-level committees with the end view of having a balanced and diversified

membership. Towards this end, a system and procedure for evaluation of the composition of the board and board-level committees shall be adopted which shall include, but not limited to, benchmarking against best practices in corporate governance and peer group analysis. The results of the assessment shall form part of the ongoing improvement of the Board's diversity efforts.

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

1.3.1. Powers/Corporate Powers of the Board of Directors

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

1.3.2. Specific Duties and Responsibilities of the Board of Directors

The Board of Directors is primarily responsible for defining the Bank's vision and mission. The Board should oversee the development of and approve business objectives and strategy, and monitor their implementation, in order to sustain the long-term viability and strength of the Bank. The Board of Directors has the fiduciary roles, responsibilities and accountabilities to the Bank and all its shareholders including minority shareholders. It shall approve and oversee the implementation of strategies to achieve corporate objectives.

1.3.2.1. The Board of Directors shall define the Bank's corporate culture and values. It shall establish a code of conduct and ethical standards in the Bank and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the board of directors shall:

- a. Approve a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the Bank as well as the corresponding disciplinary actions and sanctions.
- b. Consistently conduct the affairs of the Bank with a high degree of integrity and play a lead role in establishing the Bank's corporate culture and values. The Board of Directors shall establish, actively promote, and communicate a culture of strong governance in the Bank, through adopted policies and displayed practices.
- c. Oversee the integrity, independence, and effectiveness of Bank's policies and procedures for whistleblowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the Board of Directors or to any independent unit.

1.3.2.2. The Board of Directors shall be responsible for approving Bank's objectives and strategies and in overseeing management's implementation thereof. In this regard, the Board of Directors shall:

- a. Ensure that the Bank has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.

- b. Approve the Bank's strategic objectives and business plans. These shall take into account the Bank's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the Board of Directors shall establish a system for measuring performance against plans.
 - c. Actively engage in the affairs of the Bank and keep up with material changes in the Bank's business and regulatory environment as well as act in a timely manner to protect the long-term interests of the Bank.
 - d. Approve and oversee the implementation of policies governing major areas of the Bank's operations. The Board of Directors shall regularly review these policies, as well as evaluate control functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues.
- 1.3.2.3. The Board of Directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel. In this regard, the Board of Directors shall:
- a. Oversee selection of the CEO and other key personnel, including members of senior management and heads of control functions based on the application of fit and proper standards. Integrity, technical expertise, and experience in the Bank's business, either current or planned, shall be the key considerations in the selection process. Moreover, since mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the Bank.
 - b. Approve and oversee the implementation of performance standards as well as remuneration and other incentives policy. The policy should be consistent with the long-term strategic objectives and financial soundness of the Bank and should promote good performance, convey acceptable risk-taking behavior, and reinforce the Bank's operating and risk culture.
 - c. Oversee the performance of senior management and heads of control functions. In this regard, the Board of Directors shall:
 - i. Regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.
 - ii. Hold members of senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the Board of Directors' performance expectations. These expectations shall include adherence to the Bank's values, risk appetite and risk culture, under all circumstances.
 - iii. Meet regularly with senior management to engage in discussions, question, and critically review the reports and information provided by the latter.
 - d. Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the Board of Directors shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions.
 - e. Ensure that personnel's expertise and knowledge remain relevant. The Board of Directors shall provide its personnel with regular training opportunities as

part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibility.

- f. Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the Bank at all times, and that all transactions involving the pension fund are conducted at arm's length terms.

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

- a. Define appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed. In this regard, the Board of Directors shall:
 - i. Structure itself in a way, including in terms of size and frequency of meetings, so as to promote efficiency, critical discussion of issues, and thorough review of matters. The Board of Directors shall meet regularly to properly discharge its functions, and likewise have discussions on values, conduct, and behaviors.
 - ii. Create committees to increase efficiency and allow deeper focus in specific areas. The number and nature of board-level committees would depend on the size of the Bank and the board of directors, the Bank's complexity of operations, as well as the Board of Directors' long-term strategies and risk tolerance.
 - iii. Adopt policies aimed at ensuring that individual directors are able to commit to effectively discharge their responsibilities, which shall include policy on the number of directorship positions and/or other internal/external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the Bank's operations.
 - iv. Ensure that individual directors and shareholders are accurately and timely informed of a comprehensive and understandable assessment of the Bank's performance, financial condition, and risk exposures. Board of Directors shall always have reasonable access to any information about the Bank. The Board of Directors shall also ensure that adequate and appropriate information flows internally and to the public.
 - v. Assess at least annually its performance and effectiveness as a body, as well as its various committees, the CEO, the individual directors, and the Bank itself, which may be facilitated by the Corporate Governance & Sustainability Committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each director taking into account his or her performance in the Board and board-level committees.
 - vi. Maintain appropriate records (e.g., meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The Board of Directors shall also ensure that independent views in meetings of the Board shall be given full consideration and all such meetings shall be duly minuted.
 - vii. Align the internal policies and procedures of the Bank to local regulations issued by its regulators, globally recognized standards and international best practices.

- viii. Not seek any exemption from the application of a law, rule or regulation especially when it refers to a corporate governance issue. If an exemption was sought, the Bank shall disclose the reason for such action, as well as presents the specific steps being taken to finally comply with the applicable law, rule or regulation.
- b. Develop remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The Board of Directors shall ensure that the policy is consistent with the long-term interest of the Bank, does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities.
- c. Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.
- d. Conduct and maintain the affairs of the Bank within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound practice.
- e. Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities. The Board of Directors shall ensure that the Bank's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability.
- f. Oversee the development, approve, and monitor implementation of corporate governance policies. The Board of Directors shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.
- g. Approve an overarching policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged. In this regard, the Board of Directors shall:
- i. Approve all material RPTs, those that cross the materiality threshold, write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the Board of Directors. All final decisions of the Board of Directors on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders meetings and duly reflected in the minutes of Board of Directors and stockholders' meetings.
 - ii. Delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the Board of Directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the Board of Directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.
 - iii. Establish an effective system to:
 - Determine, identify and monitor related parties and RPTs;

- Continuously review and evaluate existing relationships between and among businesses and counterparties; and
 - Identify, measure, monitor and control risks arising from RPTs. The system should be able to define related parties' extent of relationship with the Bank; assess situations in which a nonrelated party (with whom a Bank has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulatory supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the BSP and audit functions for review. Any changes in the policies and procedures shall be approved by the Board of Directors.
- iv. Maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the Bank is well-insulated from any going concern issue of related parties.
- v. Oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The Board of Directors should ensure that senior management addresses legitimate issues on RPT that are raised. The Board of Directors should take responsibility for ensuring the staff who raise concerns are protected from detrimental treatment or reprisals.
- h. Define an appropriate corporate governance framework for group structures, which shall facilitate effective oversight over entities in the group. The Board of Directors of the parent Bank shall ensure consistent adoption of corporate governance policies and systems across the group. In this regard, the Board of Directors shall:
- i. Define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account nature and complexity of operations, size and the types of risks to which the Bank and its subsidiaries are exposed. The Board of Directors shall also establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements.
 - ii. Define the risk appetite for the group, which shall be linked to the process of determining the adequacy of capital of the group.
 - iii. Ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems.
 - iv. Define and approve policies and clear strategies for the establishment of new structures.
 - v. Understand the roles, relationships or interactions of each entity in the group with one another and with the parent Bank. The Board of Directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group's

capital, risk profile and funding under normal and contingent circumstances. It shall ensure that the group's corporate governance framework includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions.

- vi. Develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.
- vii. Mandate the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the Board.

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

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

1.3.2.6. The board of directors shall avoid anti-takeover measures or similar devices that may entrench ineffective management or the existing controlling shareholder group. In this regard, the board of directors shall:

- a. Comply with all applicable laws and regulations designed to protect the rights of all shareholders, including those holding minority interests;
- b. Ensure that the existing shareholder voting mechanism of the Bank respects the rights of shareholders and minority interests;

1.4. Nationality of Members of the Board of Directors

Non-Filipino citizens may become members of the board of directors of the Bank to the extent of the foreign participation in the equity of the Bank.

1.5. Board Meetings and Quorum Requirement

Board meetings are held every 4th Friday of the month. The schedule is set before the start of the financial year. The annual schedule of Board and committee meetings and the annual board calendar shall be issued by the Corporate Secretary every December for the forthcoming year.

The Corporate Secretary shall inform members of the Board of the agenda of their meetings and distribute materials for board meetings at least five business days before the scheduled meeting, 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.

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

1.5.1. Full Board of Directors Meetings

- 1.1 The Members of the Board shall attend and actively participate in all its regular and special meetings. Directors who cannot physically attend or vote at board meetings can participate and vote through remote communication such as videoconferencing, teleconferencing, or other alternative modes of communication that allow them reasonable opportunities to participate.

If a director intends to participate in a meeting through remote communication, he shall notify in advance the Corporate Secretary of his intention. The Corporate Secretary shall note such fact in the Minutes of the meeting.

A director shall actively participate in at least fifty percent (50%) and shall physically attend at least twenty-five percent (25%) of all meetings of the Board of Directors.

A director or trustee who participates through remote communication, shall be deemed present for the purpose of attaining quorum.

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

1.5.2. Board-level Committee Meetings

Board-level Committees shall meet as prescribed in their respective charters. Participation of committee members may likewise be in person or through modern technologies. The attendance and participation of members in committee meetings shall be considered in the assessment of continuing fitness and propriety of each director as member of board-level committees and the Board.

In accordance with the Bank's By-Laws, the Directors shall act as a Board, and the individual directors shall have no power to act as such. Majority of the total number of members in the

Board shall be necessary at all meetings to constitute a quorum for the transaction of any business and every decision of a majority of the quorum duly assembled as a Board shall be valid as a corporate act unless otherwise provided by law. A minority of the Board present at any regular or special meeting shall, in the absence of a quorum, adjourn to a later date, and shall not transact any business until a quorum has been secured.

1.6. Nomination and Election of Directors

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

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

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

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

All shareholders, including minority shareholders, who wish to recommend a person for election as a director of the Bank may submit a written notice of nomination to the Corporate Secretary. The written notice of nomination, duly signed by the nominating stockholder and the nominee, must clearly set out the names and contact information of both the nominating stockholder and the nominee, and must be supported by the biographical data of the nominee, including his or her relevant qualifications and experiences.

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

The nomination process is consistent with Section 132 MORB of the BSP and in accordance with the procedures for the nomination and election of independent directors set forth in Rule 38 of the Securities Regulation Code.

1.7. Retirement Policy for Directors

As a matter of policy, a Board member is expected to remain fit and proper for the position of a director for the duration of his term, in accordance with the requirements and qualifications set out in the Manual of Regulations for Banks (MORB). Towards this end, the Bank believes that adopting a fixed limit on director tenure is counterproductive as it may lead to retirement of qualified and well-seasoned directors.

The director has the burden to prove that he possesses all the minimum qualifications and none of the disqualifications set forth in this Manual. He shall continue to be mentally and physically fit to perform his responsibilities, manifested by his attendance and active participation during Board meetings, continuing training and education, and continued dialogue with other directors and key officers of the Bank, among others.

In the event a director no longer has the required fitness, he shall inform the Board of his intent to retire or refrain from seeking re-election.

A vacancy occurring in the Board as a result of retirement may be filled by the vote of at least a majority of the remaining directors.

The replacement director shall be elected no later than forty-five (45) days from the time the vacancy arose. He shall serve only for the unexpired term of the predecessor in office in accordance with the Revised Corporation Code.

2. Board of Advisors

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

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

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

3. Directors

3.1. Qualifications of Directors

A director shall have the following minimum qualifications:

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

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

An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Section 138 of the MORB. A director shall submit to the BSP the required certifications and other documentary proof of such qualifications using Appendix 101 of the MORB as guide within twenty (20) banking days from the date of election. Non-submission of complete documentary requirements or their equivalent within the prescribed period shall be construed as his failure to establish his qualifications for the position and results in his removal from the Board of Directors.

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

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

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

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

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

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

2.2. Disqualifications of Directors

Permanent Disqualification

The following are permanently disqualified to become a Director of the Bank:

- a. Persons who have been convicted by final judgment of a court for offenses involving dishonesty or breach of trust such as, but not limited to, stafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22 (Anti-Bouncing Check Law), violation of R.A. No. 3019 (Anti-Graft and Corrupt Practices Act), violation of R.A. No. 9150, as amended (Anti-Money Laundering Act), and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees);
- b. Persons who have been convicted by final judgment of a court or other tribunal for violation of securities and banking laws, rules and regulations;

- c. Persons who have been convicted by final judgment for cases filed against them for offenses under R.A. No. 3591, as amended (PDIC Charter);
- d. Persons who have been convicted by final judgment of a court for offenses which involves moral turpitude, or for offenses which they were sentenced to serve a term of imprisonment of more than six (6) years;
- e. Persons who have been judicially declared with finality as insolvent, spendthrift or incapacitated to contract
- f. Persons who were found to be culpable for the bank's closure, as determined by the Monetary Board;
- g. Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the BSP, where a penalty of removal from office is imposed, and which resolution of the Monetary Board has become final and executory; and
Persons found liable by any government agency/corporation, including government financial institution, for violation of any law, rule or regulation involving dishonesty, misconduct, or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affects their fitness and propriety as directors/officers, and which finding of said government institution has become final and executory;

Temporary Disqualification

The following shall be temporary disqualified to become a director:

- a. Persons who have shown unwillingness to settle their financial obligations, as evidenced by, but not limited to, the following circumstances:
 - the person has failed to satisfy any financial obligation that has been adjudicated by a court;
 - the person has filed for insolvency or suspension of payments that adversely affects his/her fitness and propriety as director, officer; or
 - a person who is delinquent in the payment of: an obligation with a bank where he/she is a director or officer; or at least two (2) obligations with other banks/FIs.

Financial obligations as herein contemplated shall include all borrowings obtained by:

- a) A person for his/her own account or where he/she acts as a guarantor, endorser or surety for loans;
- b) The spouse, except when incurred after legal separation of properties or when the property regime governing the spouses is absolute separation of properties or except when incurred prior to the marriage;
- c) Any debtor whose borrowings or loan proceeds were credited to the account of, or used for the benefit of, the person described under Item 'g' of this Section (Persons disqualified to become directors/officers);
- d) A partnership of which a person, or his/her spouse is the managing partner or a general partner owning a controlling interest in the partnership; and
- e) A corporation, association or firm wholly-owned or majority of the capital of which is owned by any or a group of individuals/entities mentioned in the immediately preceding items "(a)", "(b)" and "(d)".

They shall remain temporarily disqualified until the financial obligations have been settled or satisfied.

- b. Persons involved in the closure of banks pending their clearance by the Monetary Board;
- c. Persons confirmed by the Monetary Board to have committed acts or omissions, which include failure to observe/discharge their duties and responsibilities prescribed under existing regulations, that:

- caused undue injury or disadvantage to the bank through manifest partiality, evident bad faith or gross inexcusable negligence;
 - caused or may have caused material loss or damage to the bank, its depositors, creditors, investors, stockholders, to the BSP or to the public in general; or
 - exposed the safety, stability, liquidity or solvency of the bank to abnormal risk or danger;
- d. Persons found to have been involved in any irregularity/violation which constitutes a just cause for dismissal/termination as defined under the Labor Code of the Philippines, as amended, regardless of any action taken by the bank;
 - e. Persons certified by, or in the official files of, foreign financial regulatory authorities, financial intelligence units, or similar agencies or authorities of foreign countries, as charged with commission of, or having committed, irregularities or violations of any law, rule or regulation, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his/her duties;
 - f. Persons, other than those covered under item "h" of this Section (Persons disqualified to become directors/officers), who after conduct of investigation by domestic financial or commercial regulatory authorities, financial intelligence units, or similar agencies or authorities such as the Securities and Exchange Commission (SEC), Anti-Money Laundering Council (AMLC), or the Philippine Deposit Insurance Corporation (PDIC), have complaints filed against them by the afore cited authorities/units/agencies pending before a court of law or quasi-judicial body, or convicted by said court or quasi-judicial body but whose conviction has not become final and executory, for offenses involving violation of laws, rules and regulations, which may adversely affect the fitness and propriety of the person or the ability to effectively discharge his/her duties;
 - g. Persons with cases pending before a court or other tribunal, or those convicted by said court or tribunal but whose conviction has not become final and executory, for offenses involving:
 - a) dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery malversation, swindling, theft, robbery, falsification, bribery, violation of B.P. Blg. 22 (Anti-Bouncing Check Law), violation of R.A. No. 3019 (Anti-Graft and Corrupt Practices Act), violation of R.A. No. 9160, as amended (Anti-Money Laundering Act), and prohibited acts and transactions under Section 7 of R.A. No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees); or
 - b) violation of securities and banking laws, rules and regulations;
 - h. Persons who have been convicted by a court for an offense involving moral turpitude, and persons who have been sentenced to serve a term of imprisonment of more than six (6) years for other crimes but whose conviction has not yet become final and executory;
 - i. Persons with pending cases for offenses under R.A. No. 3591, as amended (PDIC Charter), or those who have been convicted for said cases but whose conviction has not yet become final and executory;
 - j. Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the BSP, where a penalty of removal from office is imposed, and which resolution of the Monetary Board is on appeal, unless execution or enforcement thereof is restrained by the appellate court
 - k. Persons against whom a formal charge has been filed or who are found liable by any government agency/corporation, including government financial institution, for violation of any law, rule or regulation involving dishonesty, misconduct or any other grave or less grave offense classified under the Revised Administrative Code or Civil Service rules that adversely affects their fitness and propriety as directors/officers, and which finding of said government institution is on appeal, unless execution or enforcement thereof is restrained by the appellate court; and

Persons found by the Monetary Board to be administratively liable for violation of laws, rules and regulations implemented by the BSP, where a penalty of suspension from office or fine is imposed,

unless the finding is on appeal and the execution of enforcement thereof is restrained by the appellate court.

2.3. Qualifications of Independent Directors

An Independent Director shall refer to a person who:

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

2.4. Term Limits for Independent Directors (IDs)

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

2.5. Limit on Directorship of Non-Executive Directors

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

2.6. Chairperson of the Board of Directors

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

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

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

b. Qualifications of the Chairperson of the Board of Directors

To promote checks and balances, the Chairperson of the Board of Directors shall be a Non-Executive Director or an Independent Director and must not have served as CEO of the Bank within the past three (3) years. The positions of Chairperson and CEO shall not be held by one person. In exceptional cases where the position of Chairperson of the Board of Directors and CEO is allowed to be held by one (1) person as approved by the Monetary Board, a Lead Independent Director shall be appointed.

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

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

2.7. Specific Duties and Responsibilities of Directors

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The position of a Director is a position of trust. A Director assumes certain responsibilities to different constituencies or stakeholders, i.e., the Bank itself, its stockholders, depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The Board of Directors should exercise their "Duty of Care" and "Duty of Loyalty" to the Bank.

- a. To remain fit and proper for the position for the duration of his term. A director is expected to remain fit and proper for the position for the duration of his term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that the bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training.
- b. To conduct fair business transactions with the Bank and to ensure that personal interest does not bias board decisions. Directors should, whenever possible, avoid situations that would give rise to a conflict of interest. If transactions with the Bank cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the Bank than those offered to others. The basic principle to be observed is that a director should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that would compromise his impartiality.
- c. To act on a fully informed basis, honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public. A director must always act in good faith, with care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interests of other stakeholders.
- d. To devote time and attention necessary to properly discharge their duties and responsibilities. Directors should devote sufficient time to familiarize themselves with the business of the Bank. They must be constantly aware of the Bank's condition and be knowledgeable enough to contribute meaningfully to the board's work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the Bank, he should neither accept his nomination nor run for election as member of the board.
- e. To act judiciously. Before deciding on any matter brought before the Board of Directors, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.
- f. To contribute significantly to the decision-making process of the Board. Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such board.
- g. To exercise independent judgment. A director should view each problem/situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state

his position. He should not be afraid to take a position even though it might be unpopular. Corollarily, he should support plans and ideas that he thinks will be beneficial to the Bank. A director should always ensure that the Bank has no shareholder agreements, by-laws provisions, or other arrangements that constrain his ability to vote independently.

- h. To have a working knowledge of the statutory and regulatory requirements affecting the Bank, including the content of its articles of incorporation and by-laws, the requirements of the Bangko Sentral and where applicable, the requirements of other regulatory agencies. A Director should also keep himself informed of the industry developments and business trends in order to safeguard the Bank's competitiveness.
- i. To observe confidentiality. Directors must observe the confidentiality of non-public information acquired by reason of their position as Directors. They may not disclose said information to any other person without the authority of the Board.
- j. To advise the Corporate Secretary of their shareholdings in the Bank within three (3) business days after a Director is appointed or any acquisition, disposal, or change in the shareholdings. In this regard, all directors and officers shall disclose and report to the Bank any dealings in the Bank's shares within three (3) business days; and
- k. Must not deal in the Bank's securities during the period within which material non-public information is obtained and up to two (2) full trading days after the price-sensitive information is disclosed publicly.

The Corporate Secretary shall furnish first-time Directors of the Bank with a copy of the specific duties and responsibilities of the Board of Directors and individual directors prescribed under Section 132, upon election. The Bank must keep on file certification under oath of the Directors concerned that they have received copies of such specific duties and responsibilities and that they fully understand and accept the same.

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

2.8. Remuneration of Directors and Officers

The remuneration 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 29 of the Revised Corporation Code. Each director shall also be entitled to a reasonable per diem, as may be determined by the Board. The officers' salary or compensation elected or appointed by the Board of Directors shall be fixed by the Board.

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

The Bank should provide a clear disclosure of its policies and procedures for setting Board and Executive remuneration, as well as the level and mix of the same in the Integrated Annual Corporate Governance Report (I-ACGR). The SEC Revised Code of Corporate Governance

requires only a disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors and top four management officers during the preceding fiscal year.

3. Board-Level Committees

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

- a. Approve, review, and update, at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working procedures. Said documents shall articulate how the committee will report to the Board of Directors, what is expected of the committee members, and tenure limits for serving on the committee. The Board of Directors shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective consistent with the Bank's Board Diversity Policy.
- b. Appoint members of the committees taking into account the optimal mix of skills and experience to allow the Board of Directors, through the committees, to fully understand and objectively evaluate the relevant issues. In order to promote objectivity, the Board of Directors shall appoint Independent Directors and Non-Executive members of the Board to the greatest extent possible.
- c. Ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed, and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.

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

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

1.1. Corporate Governance and Sustainability Committee

The composition, authority, functions, duties and responsibilities of the Corporate Governance and Sustainability Committee are contained in its Amended Charter (Annex "A").

1.2. Board Audit and Compliance Committee (BACC)

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

1.3. Risk Oversight Committee (ROC)

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

1.4. Board Oversight RPT Committee (BORC)

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

1.5. Executive Committee (EXCOM)

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

1.6. Trust Committee

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

1.7. Board IT Governance Committee (BITGC)

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

1.8. Board Policy and Strategy Committee (BPSC)

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

1. Officers

1.1. Qualifications of an Officer

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

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

An appointed officer has the burden to prove that he/she possesses all the foregoing minimum qualifications and none of the cases mentioned under Section 138 of the MORB. An officer shall submit to the BSP the required certifications and other documentary proof of such qualifications using Appendix 101 of the MORB as guide within twenty (20) banking days from the date of appointment. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position and results to his/her removal therefrom.

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

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

4. Duties and Responsibilities of Officers

- a. To set the tone of good governance from the top. Officers shall promote good governance practices within the Bank by ensuring that policies on governance as approved by the Board of Directors are consistently adopted across the bank.
- b. To oversee the day-to-day management of the Bank. Officers shall ensure that Bank's activities and operations are consistent with the defined 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.
- c. To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency. Officers shall establish measurable standards, initiatives and specific responsibilities and accountabilities for each personnel. The officers shall oversee the performance of these delegated duties and responsibilities and shall ultimately be responsible to the Board of Directors for the performance of the Bank.
- d. To promote and strengthen check and balances system in the Bank. 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 risk management functions.
- e. Senior officers, holding a rank of at least Vice President, shall advise the Corporate Secretary of their shareholdings in the Bank within three (3) trading days after the date of appointment or any acquisition, disposal, or change in the shareholdings of the officer concerned; and
- f. Senior officers, or officers holding a rank of at least Vice President, 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.

4.1. Persons prohibited to become officers

- a. The spouses or relatives within the second degree of consanguinity or affinity holding officership positions across the following functional categories within a bank:
 1. Decision making and senior management function, e.g., president, chief executive officer (CEO), chief operating officer (COO), general manager, and chief financial officer (CFO);
 2. Treasury function, e.g., treasurer or treasury head;
 3. Recordkeeping and financial reporting functions, e.g., controller and chief accountant
 4. Safekeeping of assets, e.g., chief cashier;
 5. Risk management function, e.g., chief risk officer;
 6. Compliance function, e.g., chief compliance officer; and
 7. Internal audit function, e.g., chief audit executive.

The spouse or a relative within the second degree of consanguinity or affinity of any person holding the position of manager, cashier, or accountant of a branch or branch-lite unit of a bank or their respective equivalent positions is prohibited from holding or being appointed to any of said positions in the same branch or branch-lite unit.

- b. Any appointive or elective official, whether full time or part time, except in cases where such service is incidental to the financial assistance provided by the government or government-owned or -controlled corporations (GOCCs) or in cases allowed under existing laws.

5. The President

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

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

- a. Determine the Bank's strategic direction and formulate & implement its strategic plan on the direction of the business;
- b. Communicate and implement the Bank's vision, mission, values and overall strategy and promote any organization or stakeholder change in relation to the same;
- c. Oversee the operations of the Bank and manage human and financial resources in accordance with the strategic plan;
- d. Maintain a good working knowledge of the banking industry and market and keeps up to date with its core business purpose;
- e. Direct, evaluate and guide the work of the key officers of the Bank;
- f. Manage the Bank's resources prudently and ensure a proper balance of the same;
- g. Provide the Board with timely information and interface between the Board and the employees;
- h. Build the corporate culture and motivate the employees of the Bank;
- i. Serve as the link between internal operations and external stakeholders;
- j. Execute all contracts and to enter into all authorized transactions in behalf of the Bank;
- k. Exercise the power of supervision and control over decisions or actions of subordinate officers and all other powers that may be granted by the Board;
- l. Recommend to the Board the appointment, promotion or removal of all officers of the Bank with the rank of at least Vice President;
- m. Appoint, promote or remove employees and officers of the Bank, except those who are to be appointed or removed by the Board of Directors;
- n. Transfer, assign and reassign officers and personnel of the Bank in the interest of the service;
- o. Report periodically to the Board of Directors on the operations of the Bank;
- p. Submit annually a report on the result of the operations of the Bank to the stockholders of the Bank; and
- q. 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

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/her. He/she must possess appropriate administrative and interpersonal skills, and if he is not the general counsel, then he must have some legal skills. He/she must also have a working knowledge of the operations of the Bank.

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

6.1. Duties and Responsibilities of the Corporate Secretary

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

Among others, he has the following duties and responsibilities:

- 6.1.1. Assists the Board and the board committees in the conduct of their meetings, including preparing and issuing an annual schedule of Board and committee meetings and the annual board calendar every December for the forthcoming year, and assisting the chairs of the Board and its committees to set agendas for those meetings;
- 6.1.2. Informs members of the Board of the agenda of their meetings and distributes materials for board meetings at least five business days before the scheduled meeting, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- 6.1.3. Ensures that suitable equipment and facilities are available for the conduct of meeting by remote communication
- 6.1.4. Works fairly and objectively with the Board, Management, stockholders and contributes to the flow of information between the Board and management, between the Board and its committees, and between the Board and its stakeholders, including shareholders;
- 6.1.5. Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
- 6.1.6. Oversees the drafting of the by-laws and ensures that they conform with regulatory requirements;
- 6.1.7. Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the Bank, and advises the Board and the Chairman on all relevant issues as they arise;
- 6.1.8. Advises on the establishment of board committees and their terms of reference;
- 6.1.9. Safe keeps and preserves the integrity of the Minutes of the meetings of the Board and its committees, as well as the other official records of the Bank;
- 6.1.10. Prepares the Agenda for the Board and Executive Committee meetings and also assists the directors in attending seminars and trainings;
- 6.1.11. Ensures full documentation of questions, clarifications, and explanations raised and/or asked by any Director during Board and Committee meetings. These shall be documented in the Minutes Books and shall be made available for examination during office hours at the his/her office upon request;
- 6.1.12. Maintains and implements an effective, secure, and efficient voting system during the Annual Stockholders' Meeting or any special meeting;
- 6.1.13. Furnishes all Directors with a copy of the general responsibilities and specific duties and responsibilities of the Board of Directors as set forth under Section 133 of the MORB,

as well as the specific duties and responsibilities of a Director as set forth under Section 132, at the time of their election. Copies of the acknowledgement and certification by the Directors shall be submitted to the appropriate supervisory and examining department of SES-BSP within twenty (20) business days from the date of election.

- 6.1.14. Disclose the appointment of the Compliance Officer to the Securities and Exchange Commission on SEC Form 17-C;
- 6.1.15. 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
 - a. 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;
 - b. 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;
 - c. Require the transferee, voting trustee, proxy of voting shares of stock to disclose all information with respect to persons related to them within the fourth degree of consanguinity or affinity where they have controlling interest, and the extent thereof;
 - d. Require the transferee or recipient of voting shares of stock to execute an affidavit (sample format shown in Appendix 4 of the BSP MORB) stating, among other things, that the transferee or recipient of voting shares of stock is a bona fide owner of the said shares of stock, and that he/she acknowledges full awareness of (a) the prohibition against ownership of voting shares of stock in excess of the ceilings and/or (b) the requirement for prior Monetary Board approval for transactions resulting to significant ownership of voting shares of stock of a bank by any person, as provided in Section 122 of the MORB and such other rules and regulations of the regulatory agencies, as may be amended from time to time;
 - e. Promptly inform stockholders (a) who have reached any of the ceilings prescribed by laws/BSP regulations of their ineligibility to own or control more than applicable ceiling or (b) who would own voting shares of stock requiring prior Monetary Board approval;
 - f. Disclose the ultimate beneficial owners of bank shares held in the name of Philippine Central Depository (PCD) Nominee Corporation in the annual (or quarterly whenever changes occur) report on Consolidated List of Stockholders and their Stockholdings (BSP 7-16-11), which report shall be made under oath by the corporate secretary;
 - g. Submit financial statements, list of certain stockholders together with their stockholdings, as well as such other reports as prescribed/ required by the regulatory agencies;
 - h. Disclose any material transactions, events and information as required under the rules and regulations of the regulatory agencies; and
 - i. Perform such other duties as are necessary or incidental to his office and those that may from time to time be required by the Board, as well as by the rules and regulations of the regulatory agencies; and
- 6.1.16. Perform required administrative functions;
- 6.1.17. Perform such other duties and responsibilities as may be provided by the Securities and Exchange Commission.

7. The Chief Compliance Officer (CCO)

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

The biodata with ID picture of the proposed CCO, together with the documentary requirements prescribed in Appendix 98 shall be submitted to the appropriate Department of the BSP Financial Supervision Sector.

7.1. Duties and Responsibilities of the Chief Compliance Officer (CCO)

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

- a. Ensures proper onboarding of new directors (i.e., orientation on the Bank's business, charter, articles of incorporation and by-laws, among others);
- b. Monitors, reviews, evaluates and ensures the compliance by the Bank, its officers and directors with the relevant laws, the Code of Corporate Governance for PLCs, rules and regulations and all governance issuances of regulatory agencies;
- c. Reports to the Board thru the Board Audit and Compliance Committee if any violations are found and recommends the imposition of appropriate disciplinary action to prevent a repetition of the violation. He/she shall likewise refer the matter to the Administrative Board or the Corporate Governance and Sustainability Committee, as the case maybe, to determine the administrative liability and imposition of penalty, if any, against the responsible parties in accordance with the Bank's Code of Conduct;
- d. Ensures the integrity and accuracy of all documentary submissions to regulators;
- e. Appears before the Securities and Exchange Commission when summoned in relation to the Bank's compliance with the Code of Corporate Governance for PLCs;
- f. Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
- g. Identifies possible areas of compliance issues and works towards the resolution of the same;
- h. Ensures attendance of board members and key officers to relevant trainings;
- i. In charge in monitoring the Bank's compliance with the provisions and requirements of the Corporate Governance Manual and relevant rules and regulations as well as keeping the Directors updated regarding any related statutory changes;
- j. Performs such other duties and responsibilities as may be provided by the SEC; and
- k. In accordance with Section 161 of the MORB, he/she shall also perform the following duties:
 - a) Act as the lead senior officer for purposes of administering the compliance program and interacting with the BSP on compliance-related issues;
 - b) Oversee the design of an appropriate compliance system, promote its effective implementation and address breaches that may arise;
 - c) Ensure the integrity and accuracy of all documentary submissions to BSP; and

- d) Manage the Bank's compliance program.

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 consulting 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. The Bank shall disclose in the Annual Report the nature of non-audit related services performed by external auditors;
- 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 External Auditor shall 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;
- 8.6. 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 management, the strength of the control environment, and the adequacy of the accounting/information systems to comply with financial and prudential reporting responsibilities;
- 8.7. 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:
- Whether sufficient appropriate audit evidence has been obtained;
 - Whether uncorrected misstatements are material, individually or in aggregate; and
 - 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.

- 8.8. The External Auditor shall evaluate the requirements of the applicable financial reporting framework:
- a. The financial statements adequately disclose the significant accounting policies selected and applied;
 - b. The accounting policies selected and applied are appropriate and consistent with the applicable financial reporting framework;
 - c. The accounting estimates made by management are reasonable;
 - d. The methodologies, assumptions and valuation practices including provisioning for loan losses are appropriate and consistent with the applicable financial reporting framework;
 - e. The information presented in the financial statements are relevant, reliable, comparable and understandable;
 - f. The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
 - g. The terminologies used in the financial statements, including the title of each financial statement, are appropriate.
- 8.9. In carrying out the audit of the Bank's financial statements, the external auditor recognizes that the Bank has characteristics that generally distinguish them from most other business enterprises, and which the external auditor takes into account in assessing the level of inherent risk:
- a. The BSP requires external auditors to assess compliance with 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, loans and other risk assets review and classification. While the provisioning requirements under the prescribed financial reporting framework and BSP rules and regulations may differ, external auditors are expected to look into the soundness of the assumptions and methodologies used under both regimes. In addition, external auditors should also look into the adequacy and propriety of documentation of significant differences between the valuations used for financial reporting purposes and for regulatory purposes;
 - b. External auditors should also assess the adequacy and propriety of disclosures on related party transactions. The external auditors should exercise sound judgment on whether mere compliance with disclosure requirements prescribed under the applicable financial reporting framework already provide sufficient information to make a conclusion on whether the transactions are done at arm's length terms;
- 8.10. 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, 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;
- 8.11. Judgment permeates the external auditor's work. The auditor uses professional judgment in areas such as:

- a. Assessing inherent and control risk and the risk of material misstatement due to fraud or error;
 - b. Deciding upon the nature, timing and extent of the audit procedures;
 - c. Evaluating the results of those procedures; and
 - d. Assessing the reasonableness of the judgments and estimates made by management in preparing the financial statements.
- 8.12. External audits performed in accordance with auditing and ethics standards are 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;
- 8.13. 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;

- 8.14. The external auditor should promote a two-way communication with those charged with the governance of the Bank. The subject of the communication may include the following:
- a. The responsibilities of the external auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
 - b. Information relevant to the external audit; and
 - c. Timely observation arising from the external audit that is significant and relevant to the Bank's financial reporting process, including inappropriate accounting treatment that may result in tax violation.
- 8.15. 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 auditor is, nonetheless, expected to recommend compliance with BSP-prescribed accounting treatment particularly when such is likewise acceptable under the applicable financial reporting framework;
- 8.16. The external auditor is expected to charge only reasonable audit fees. In determining reasonable fees, the following may be considered:
- a. Expected hours needed to complete the scope of work envisioned in the audit plan;
 - b. Complexity of the activities and structure of the Bank;
 - c. Level of internal audit assistance;
 - d. Level of fees being charged by other audit firms; and
 - e. Quality of audit services.

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

- 8.17. 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.
- 8.18. The external auditor shall be rotated after every five (5) years of engagement. A two-year cooling off period shall be observed in the re-engagement of the same signing partner or individual auditor.

9. The Internal Auditor

- 9.1. The Bank shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which its Board, senior management, and stockholders shall be provided with objective assurance and consulting services that its key organizational and procedural controls are effective, appropriate, and complied with;
- 9.2. 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;
- 9.3. The Corporate Governance and Sustainability Committee shall be responsible for the endorsement to the Board the approval of the appointment of the Chief Audit Executive/Internal Auditor as recommended by the Board Audit and Compliance Committee;
- 9.4. The Internal Auditor shall render to the Board and Board Audit and Compliance Committee and senior management an annual report on the Internal Audit Group's activities, purpose, authority, responsibility and performance relative to audit plans and strategies approved by the Board Audit and Compliance Committee;
- 9.5. The Internal Auditor must have an unassailable integrity, relevant education/experience/training, and has an understanding of the risk exposures of the Bank, as well as competence to audit all areas of its operations. He must also possess the following qualifications:
 - a. 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.
- 9.6. Duties and responsibilities of the head of the Internal Audit Group or the Chief Audit Executive, include:
 - a. Demonstrate appropriate leadership and have the necessary skills to fulfill his responsibilities for maintaining the unit's independence and objectivity;
 - b. Be accountable to the Board of Directors and to the Board Audit and Compliance Committee on all matters related to the performance of its mandate as provided in the internal audit charter;

- c. Ensure that the internal audit function complies with sound internal auditing standards such as the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics;
 - d. Develop an audit plan based on robust risk assessment, including inputs from the Board of Directors, Board Audit and Compliance Committee and senior management and ensure that such plan is comprehensive, adequately covers regulatory matters and approved by the Committee;
 - e. To ensure that the Internal Audit Group has adequate human resources with sufficient qualifications and skills necessary to accomplish its mandate;
 - f. Periodically reviews the internal audit charter and presents it to senior management and the Board Audit and Compliance Committee for approval;
 - g. Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the goals and objectives of the Bank;
 - h. Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Board Audit and Compliance Committee for review and approval;
 - i. Spearheads the performance of the internal audit activity to ensure it adds value to the organization;
 - j. Reports periodically to the Board Audit and Compliance Committee on the internal audit activity's performance relative to its plan; and
 - k. Presents findings and recommendations to the Board Audit and Compliance Committee and gives advice to senior management and the Board on how to improve internal processes.
- 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), which shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions. This independence shall always be displayed in practice 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/she deems necessary to form his or her judgment. The CRO shall meet with the Board of Directors and the 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 Financial Supervision Sector of the BSP within five (5) days from the time it has been approved by the Board of Directors;
- 10.4. Risk management function involves the following activities, among others:
 - a. Defining a risk management strategy;
 - b. Identifying and analyzing key risks exposure relating to economic, environmental, social and governance (EESG) factors and the achievement of the Bank's strategic objectives;
 - c. Evaluating and categorizing each identified risk using the Bank's predefined risk categories and parameters;
 - d. Establishing a risk register with clearly defined, prioritized and residual risks;
 - e. Developing a risk mitigation plan for the most important risks to the Bank, as defined by the risk management strategy;
 - f. Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Risk Oversight Committee; and
 - g. Monitoring and evaluating the effectiveness of the Bank's risk management processes.
- 10.5. 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. Risk management personnel shall continually receive internal and external trainings and seminars to aid them in the effective performance of their risk management functions. They shall have the ability and willingness to challenge business lines regarding all aspects of risk arising from the Bank's activities. The Bank shall also engage accredited external service providers on specific areas that require higher level of expertise and includes conducting workshops for bank personnel.
- 10.6. The Chief Risk Officer has the following functions, among others:
 - a. Supervises the entire enterprise risk management (ERM) process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;
 - b. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Risk Oversight Committee;
 - c. Collaborates with the CEO in updating and making recommendations to the Risk Oversight Committee;
 - d. Suggests ERM policies and related guidance, as may be needed; and
 - e. Provides insights on the following:
 - Risk management processes are performing as intended;
 - Risk measures reported are continuously reviewed by risk owners for effectiveness; and
 - Established risk policies and procedures are being complied with.

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

11. The Trust Officer

11.1. Qualifications

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

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

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:

- a. Ensure adherence to the basic standards in the administration of trust, other fiduciary and investment management accounts;
- b. Develop and implement relevant policies and procedures on fiduciary activities;
- c. Observe sound risk management practices and maintain necessary controls to protect assets under custody and held in trust or other fiduciary capacity;
- d. Carry out investment and other fiduciary activities in accordance with agreements with clients and parameters set by the Trust Committee as approved by the Board of Directors;
- e. Report regularly to the Trust Committee on business performance and other matters requiring its attention;
- f. Maintain adequate books, records and files for each trust or other fiduciary account and provide timely and regular disclosures to clients on the status of their accounts; and
- g. Submit periodic reports to regulatory agencies on the conduct of the trust operations.

V. DEALINGS WITH RELATED PARTIES

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

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

The Board, through the Board Oversight RPT Committee (BORC), exercises appropriate oversight in the implementation of the control systems for managing RPT exposures; ensures that RPTs are handled in sound and prudent manner, with integrity, and in compliance with the board approved RPT Policy 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:

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

The BORC oversees the evaluation of RPTs 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 or notation.

2. Policies and Procedures

2.1. Since RPTs with the Bank 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 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 and Sustainability Committee of the directors'/officers' actual/potential conflicts of interest with the Bank, as necessary.

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

- 2.5. In order to prevent abuses arising from exposures to related parties on the covered transactions; and to address conflict of interest, the Bank has a policy in place that its exposures to related parties must be at 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. Arm's length basis

Dealings of the 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. 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's 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); related interests shall be limited to 1st degree relatives only. For officers of the Bank and its related parties, it shall be limited to the rank of at least Vice President;
- 2.8.2 Close family members of Bank's DOS, up to 2nd 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 2nd degree relatives of the affiliated companies (Nos. 2.8.3, 2.8.5, 2.8.6 above, and corporate related interests); and
- 2.8.8 Any person/juridical entity that has interest which may pose potential conflict with the interest of the Bank. This pertains to Board-identified related parties which do not fall among those enumerated but whose transactions with the bank also pose conflict of interest situations, such as exposures with significant economic dependence.

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

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

2.10. Conflict of Interest arising from RPTs

2.10.1. Directors must avoid conflicts or potential conflicts of interest. Conflict of interest occurs or arises when:

- An individual's private or related interests interfere in any way, or are perceived to interfere, with the interests of the Bank as a whole.
- A director takes actions or has interests that may make it difficult for him to preserve his objectivity and carry out his tasks effectively
- A director, or a member of his family, receives improper personal benefits as a result of his position in the Bank

2.10.2. All employees have a duty to ensure that no personal transaction will conflict with their corporate and customer responsibilities. Accordingly, PNB employees shall not buy or sell a security based on 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 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 and Sustainability Committee. These committees shall evaluate the situation and determine an appropriate course of action, including whether consideration or action by the full Board is necessary. Directors involved in any conflict of interest or potential conflict of interest shall disassociate from participating in any decision related thereto.

2.11. Whistleblower Policy

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

3. Monitoring and Assessment

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

- 3.1. The Internal Audit Group shall conduct a periodic formal review of the effectiveness of the Bank's system and internal controls governing RPTs to assess consistency with the board-approved policies and procedures. The results of the audit shall be directly reported to the Board Audit and Compliance Committee (BACC).
- 3.2. The Global Compliance Group shall ensure that the Bank complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. It shall aid in the review of the Bank's transactions and identify any potential RPT that would require review by the Board or BORC. It shall ensure that the RPT policy is kept updated and is properly implemented throughout the Bank.

4. MIS and Reporting

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

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

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

- 4.3. Disclosure in the Annual Report of the (i) description of the Bank's overarching policies and procedures for managing related party transactions (RPT) as defined under Section 135 of the MORB, including managing of conflicts of interest or potential conflicts of interest; and responsibility of the Board Oversight RPT Committee; (ii) conglomerate structure; and (iii) details of material RPTs as defined under Section 135 of the MORB, including the nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments.
- 4.4. All legal acts, resolutions and proceedings of the Board of Directors, including approvals on the related party transactions endorsed by the Board Oversight RPT Committee, shall be included in the agenda of the Annual Stockholders' Meeting for ratification of the stockholders.
- 4.5. Material RPTs approved by the Board, including the nature, terms, conditions, original and outstanding individual and aggregate balances, justification, other unusual or infrequently occurring transactions and other details must be clearly disclosed during stockholders meeting and duly reflected in the minutes of the Board and stockholders' meetings. The material or significant RPTs reviewed and approved during the year should be disclosed in its Integrated Annual Corporate Governance Report.

5. Training

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

VI. INTERLOCKING DIRECTORSHIPS AND/OR OFFICERSHIPS AND CONCURRENT DIRECTORSHIP

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

1. Interlocking Directorships

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

2. Interlocking Directorships and Officerships

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

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

3. Interlocking Officerships

As a general rule, there shall be no concurrent officerships between banks or, between a bank and a QB or a NBFI^{1/}.

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

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

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

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

- 1) that the positions do not involve any functional conflict of interests;
 - 2) that any officer holding the positions of president, chief executive officer, chief operating officer or chief financial officer or their equivalent may not be concurrently appointed to any of said positions or their equivalent;
 - 3) that the officer involved, or his spouse or any of his relatives within the first degree of consanguinity or affinity or by legal adoption, or a corporation, association or firm wholly- or majority-owned or controlled by such officer or his relatives enumerated above, does not own in his/its own capacity more than twenty percent (20%) of the subscribed capital stock of the entities in which the bank has equity investments; and
 - 4) that where any of the positions involved is held on full-time basis, adequate justification shall be submitted to the Monetary Board; or
- d. Concurrent officership positions in the same capacity which do not involve management functions, i.e., internal auditor, corporate secretary, assistant corporate secretary and security officer, between a bank and one or more of its subsidiary QB/s and NBFIs, or between bank/s, QB/s and NBFIs, other than investment house/s: Provided, That at least twenty percent (20%) of the equity of each of the banks, QBs and NBFIs is owned by a holding company or by any of the banks/QBs within the group.
 - e. Concurrent officership positions as corporate secretary or assistant corporate secretary between bank/s, QB/s and NBFIs, other than investment house/s, outside of those covered under Item "c(4)" of this Section: Provided, That proof of disclosure to and consent from all of the involved FIs, on the concurrent officership positions, shall be submitted to the BSP.

4. Concurrent Directorship

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

VII. CODE OF CONDUCT AND BUSINESS ETHICS

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

1. Code of Conduct Manual – is constituted to prescribe a moral code for PNB employees which would not only instill discipline among them but would yield higher productivity at the workplace and enhance and safeguard the corporate image of the Bank. While this Code defines the offenses as well as the corresponding disciplinary measures that may be imposed, its overall intent is more of prevention of the infraction rather than the administration of disciplinary measures. This Code defines and provides the standards of conduct expected of all employees and enumerates the acts or omissions prejudicial to the interest of the Bank. The Code of Conduct shall apply to the Bank's regular/permanent and

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probationary officers and staff in the Head Office and domestic branches/offices, including regular/probationary/temporary officers and staff in overseas branches/subsidiaries.

2. Personal Investment Policy – sets 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.
3. 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 bonafide hedge.
4. Insider Trading Policy – directors, management, and employees considered as “insiders” (i.e., their functions in the Bank give them access to material information about the issuer or the security that is not generally available to the public) are prohibited from engaging in the following activities:
 - 1.1 Selling or buying a security of PNB or another company while in possession of material information with respect to the issuer or the security that is not generally available to the public, unless: a) the employee proves that the information was not gained from such relationship or b) if the other party selling to or buying from the employee (or his agent) is identified, the employee proves:
 - i. that he disclosed the information to the other party; or
 - ii. that he had reason to believe the other party otherwise is also in possession of the information
 - 1.2 Communicating material nonpublic information about the issuer or the security to any person, who by virtue of the communication, gives the person access to material information about the issuer or the security that is not generally available to the public, where the employee communicating the information knows or has reason to believe that such person will likely buy or sell a security of the issuer while in possession of such information;
 - 1.3 Selling or buying a security of the issuer, that are sought or to be sought by a tender offer that has commenced or about to commence, if he knows or has reason to believe that the information is nonpublic and has been acquired directly or indirectly from the tender offeror;
 - 1.4 Communicating material nonpublic information relating to a tender offer to any person where such communication is likely to result in a violation of No. 3 above; and
 - 1.5 For purposes of this policy, the term material nonpublic information shall refer to information that has not been generally disclosed to the public and would likely affect the market price of the security after being disseminated to the public and the lapse of a reasonable time for the market to absorb the information; or information that would be considered by a reasonable person important under the circumstances in determining his course of action whether to buy, sell or hold a security.
5. Policy on Soliciting and/or Receiving Gifts – the Bank recognizes that maintaining good relationships with clients often require the exchange of gifts as tokens of appreciation. However, employees are expected to observe discretion and prudence in receiving gifts or donations whether in cash or in kind

and other form of hospitality. Soliciting gifts/donations/sponsorship whether in cash or in kind from clients, suppliers, and other business-related parties is strictly prohibited. As a general rule, receiving gifts/donations/ sponsorship/financial assistance whether in cash or in kind from clients, suppliers, and other business-related parties is strictly prohibited. Thus, gifts offered must be politely declined except on special occasions (i.e., Christmas, New Year, Birthday, Anniversary, etc.) when giving of gifts is clearly not meant to influence business transactions. On said occasions, employees may accept gifts subject to the guidelines provided under Bd. Res. No. 11/06-29-17 and GEN. Cir. No. 0424/17 dated July 14, 2017.

6. Policy on Intellectual Property Rights - the principles of fairness, accountability and transparency shall be observed in all aspects of the Bank's operations and business. This commitment to fairness stems from the Bank's aspiration to maintain its reputation as a fair & honest financial institution and comply with existing regulations governing intellectual property rights. This obligation includes respecting the intellectual property rights of our suppliers, customers, vendors, and other third-party service providers.
 - 7.1 The Bank shall establish guidelines designed to supervise and monitor in the acquisition and outsourcing of software developments to ensure adherence to the Information Security Policy. As such, whenever software development is outsourced, the Bank considers various factors including, but not limited to, licensing/maintenance agreements, codes ownership and intellectual property rights. The Bank shall take steps to ensure compliance by all employees to their information security responsibilities. Further, employees, contractors and third-party personnel shall sign a formal undertaking regarding the intellectual property rights of works to be undertaken by them during the term of their employment or contract with the Bank.
 - 7.2 All intellectual property rights of works done by personnel of the Bank as part of their normal or other duties are owned by the Bank.
 - 7.3 In compliance with BSP Circular 808 and related regulations, the Bank shall establish and implement the Information Asset Management Policy to mitigate risks associated with virus attacks, hacking incidents, and fraudulent activities/communications. The Bank shall ensure the consistent and effective implementation of the acceptable and unacceptable use of Bank's computers and system and shall provide guidelines in relation thereof.
 - 7.4 The Bank does not condone the use of unlicensed software for any Bank transactions and communications. As such, the Bank shall take steps to ensure that only legitimate softwares and systems installed in all bank-owned computers are legally acquired.

The above-mentioned code and policies aim to instill among the 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 director and employee accomplishes an Acknowledgement Receipt certifying therein that he/she has been furnished with copies of the above-mentioned manuals and policies; he/she has fully read and understood the provisions embodied therein; and 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, Head of Office concerned, Human Resource Group (HRG) and/or Corporate Governance and Sustainability 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.

VIII. 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 call the meeting

- a. The annual meeting of the stockholders shall be held at the principal office of the Bank or any other place within Metro Manila as may be determined by the majority of the Board of Directors, on the last Tuesday of April of each year unless such day is a legal holiday, in which case, the next business day shall be the meeting day for the particular year.
- b. Special meetings of the stockholders may be called on the demand in writing of the stockholders owning a majority of the voting stock of the Bank.
- c. The call for special meeting shall be made at least fifteen (15) days in advance and shall specify the time, place and purpose of the meeting and no business other than that specified in the call shall be transacted at such special meeting.
- d. Shareholders may submit a proposal for consideration or agenda item at the Annual Stockholders' meeting or any special meeting.

1.2 Right to vote on all matters that require their consent or approval

- a. All shareholders, including minority shareholders, shall have the right to nominate, elect, remove and replace Directors and vote on certain corporate acts in accordance with the Revised Corporation Code;
- b. All shareholders, including minority shareholders, who wish to recommend a person for election as a director of the Bank may submit a written notice of nomination to the Corporate Secretary. The written notice of nomination, duly signed by the nominating stockholder and the nominee, must clearly set out the names and contact information of both the nominating stockholder and the nominee, and must be supported by the biographical data of the nominee, including his or her relevant qualifications and experiences.
- c. Cumulative voting shall be used in the election of Directors; and
- d. A Director shall not be removed without cause if it will deny minority shareholders representation in the Board.

1.3 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 Revised Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.

1.4 Right to Information

- a. The Shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the Directors and officers and certain other matters such as their holdings of the Bank's shares, dealings with the Bank, relationships among Directors and key officers, and the aggregate compensation of Directors and officers;

- b. The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes; and
- c. The minority shareholders shall have access to any information relating to matters for which Management is accountable.

1.5 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 81 of the Revised Corporation Code of the Philippines, under any of the following circumstances:

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

1.6 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.

1.7 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.

1.8 It shall be the duty of the Directors to promote shareholder rights, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for any violation of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The Directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

All complaints from stockholders should be satisfactorily handled and processed.

2. The Board shall encourage active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information, i.e. date, location, meeting agenda and its rationale and explanation, at least 28 days before the meeting; and by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day.

3. The Board shall ensure ongoing promotion of the integrity of voting and election process. Towards this end, the Board shall appoint an independent party to count and validate the votes taken at the Annual Shareholders' Meeting.
4. The Board shall establish effective shareholder voting mechanism as it may deem necessary and appropriate to protect minority shareholders against actions of controlling shareholders.
5. The Board shall ensure that all shareholders of the same class are treated equally with respect to voting rights, subscription rights and transfer rights.
6. The Board shall establish and maintain an alternative dispute mechanism in the PNB Group to resolve intra-corporate disputes in an amicable and effective manner.
7. The Bank has designated contact numbers/persons that cater to specific concerns and inquiries of the stockholders before and beyond the Annual Stockholders' Meeting (ASM). The Bank also has a designated assistance desk at the Corporate Secretary's Office to accommodate concerns and other requests of the stockholders.

IX. 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, Board Advisors 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, Board Advisors and Senior Management Team.

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

The performance evaluation of Directors & Board Advisors is validated by the Bangko Sentral ng Pilipinas and the external auditor annually.

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

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

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

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

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

2. Management Component Rating Form (Annex J)

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

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

Rating	Description
5 - STRONG	EXCEED what is considered necessary given the size, risk profile and complexity of operations of the bank. Deficiencies/ weaknesses are considered minor and insignificant.
4 - SATISFACTORY	MEET 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.
3 - LESS THAN SATISFACTORY	DO NOT MEET 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.
2 - DEFICIENT	DEFICIENT 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.
1 - CRITICALLY DEFICIENT	CRITICALLY DEFICIENT 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;

X. REPORTORIAL OR DISCLOSURE SYSTEM OF BANK’S CORPORATE GOVERNANCE

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

- 1. The Bank shall comply with the submission of reports to the regulatory agencies disclosing all entities in the group structure through conglomerate map/organizational structure where a bank belongs, as well as significant transactions between entities in the conglomerate;
- 2. The Bank shall submit all necessary reports that may be prescribed by the regulatory bodies/agencies in accordance with existing regulations covering related party transactions among entities within the PNB Group and entities belonging to the conglomerate;

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3. The Bank shall disclose in the Annual Report the nature of non-audit related services performed by external auditors;
4. The Bank shall disclose the existence, justification and details on shareholder agreements, voting trust agreements, confidentiality agreements, and such other agreements that may impact on the control, ownership, and strategic direction of the company.
5. All material information about the Bank which could adversely affect its viability or the interest of its stockholders and other stakeholders shall be publicly disclosed to the regulatory in a full, fair accurate and timely manner. An independent party, appointed by the Board, shall evaluate the fairness of the transaction price on the acquisition or disposal of assets;

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

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

XI. COMMUNICATION PROCESS

1. The Corporate Governance Manual shall be available for inspection by any stockholder of the Bank at reasonable hours on business days;

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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. The Corporate Governance Manual can be accessed at the I-Comply and Knowledge Base at the Bank's intranet: Cybermag.

XII. TRAINING PROCESS

1. ORIENTATION AND EDUCATION PROGRAM

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

1.1. Internal Training and Education

As early as the selection process of the Board and during the fit and proper review of the Corporate Governance and Sustainability Committee, the credibility and work experience of the shortlisted candidates are considered and aligned with the requirements of the Bank. Members of the Committee provide an overview of the directorship function and an orientation of the banking operation.

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

Moreover, the President also shall orient first-time directors and discuss the membership to Board-level Committees where the Director can maximize technical expertise, experience and network. First-time directors shall also sit as observer in various Board-level Committees and control functions periodically to be abreast and have a good grasp of PNB banking operations.

1.2. External Training and Education

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

XIII. PENALTIES FOR NON-COMPLIANCE WITH THE REVISED MANUAL

1. To strictly observe and implement the provisions of this Revised Corporate Governance Manual, the following penalties shall be imposed, after notice and hearing, on the Bank's directors, officers and staff, in case of violation of any of the provisions of the Manual:
 - a. In case of first violation, the subject person shall be reprimanded;
 - b. Suspension from office shall be imposed in case of a second violation. The duration of which shall depend on the gravity of the violation; and

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- c. For the third violation, the maximum penalty of removal from office shall be imposed.
- 2. A fine of not more than Two Hundred Thousand (P200,000) Pesos shall be imposed by the SEC for every year of violation of the Code of Corporate Governance, without prejudice to other sanctions that the Commission may be authorized to imposed under the law.

XIV. SUSTAINABILITY

The Bank intends to be a good and responsible corporate citizen that contributes to the country’s sustainable development, respects the interests and promotes the wellbeing of its various stakeholders, and creates value in everything it does. The Bank’s capacity to sustain its business is contingent on the quality of its human capital, the condition of its physical resources, the viability of the businesses that it supports, and its relationships with the communities.

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

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

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

The Board of Directors shall establish a clear & focused policy on disclosure of non-financial information emphasizing on management of economic, environmental, social & governance (EESG) issues, which underpin sustainability. In compliance with SEC Memorandum Circular No. 4, Series of 2019, the Board shall also ensure consistent adherence to an internationally recognized sustainability reporting framework, such as the Global Reporting Initiative (GRI), which enables the Bank to disclose, measure and monitor its contributions towards achieving universal targets of sustainability.

XV. REFERENCES

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

Reference No.	Subject
MC 16, s2006	Disqualification of a Securities Broker-Dealers as an Independent Director
MC 2, s2015	Additional Guidelines on Corporate Governance training Programs and Lectures (Parts VI & VII Superseded by Memo Cir. 19 dated Nov. 22, 2016)
SEC – Philippine Corporate Governance Blueprint 2015, Building a Stronger Corporate Governance Framework	
MC 19, s2016	Code of Corporate Governance for PLCs
MC 4, s2017	Term Limit of Independent Directors
MC 7, s2018	Amendment to Rule 38.2.7 of the 2015 IRR of the Securities Regulation Code
MC 8, s2018	1. Shareholders' Approval on Any Change in Bank's External Auditor; 2. Audit Committee Composed Entirely all Board Members

MC 4, 2019	Sustainability Reporting Guidelines for Publicly Listed Companies
MC 6, 2020	Guidelines on the Attendance and Participation of Directors, Trustees, Stockholders, Members, and other persons of Corporations in Regular and Special Meetings through Teleconferencing, Video Conferencing and other Remote or Electronic Means of Communication

3. Bangko Sentral Ng Pilipinas (BSP) Regulations;

Reference No.	Subject
Cir. 749 dated Feb. 27, 2012	Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions, as amended
Cir. 766 dated Aug. 17, 2012	Guidelines in Strengthening Corporate Governance and Risk Management Practices on Trust, Other Fiduciary Business, and Investment Management Activities
Memo No. M-2013-002 dated Jan. 11, 2013	Guidelines in Assessing the Quality of Corporate Governance in BSP-Supervised Financial Institutions
Cir. No. 793 dated Apr. 8, 2013	Amendment to Align the Familial Restrictions Applicable to "Independent Director" with the Existing Provision of the Securities Regulation Code
Cir. No. 808 dated Aug. 22, 2013	Guidelines on Information Technology Risk Management for All Banks and Other BSP Supervised Institutions
Memo No. M-2014-011 dated Mar. 14, 2014	BSP's Expectations for an Effective External Audit Function
April 25, 2014	BSP Materials on Risk Concentration and RPT Seminar
Cir. No. 871 dated Mar. 5, 2015	Internal Control and Internal Audit
Cir. No. 887 dated Oct. 7, 2015	Further Amendments to the Regulations on the Approval/Confirmation of the Election/Appointment of Directors/Officers
Cir. No. 889 dated Nov. 2, 2015	Treasury Activities of BSP-BSFIs and Amendments to the Qualifications of Directors and Officers
Cir. No. 895 dated Dec. 14, 2015	Guidelines on Related Party Transactions (RPTs)
Cir. No. 914 dated June 23, 2016	Amendments to Prudential Policy on Loans, Other Credit Accommodations, and Guarantees Granted to DOSRI, Subsidiaries and Affiliates
Cir. No. 949 dated Mar. 15, 2017	Guidelines on Social Media Risk Management
Cir. 969 dated Aug. 22, 2017	Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions
Cir. 1028 dated Dec. 19, 2018	Manual of Regulations for Banks (MORB) - Dec. 2017
Cir. 1076 dated Nov. 28, 2019	Amendments to the Regulations on the Disqualifications and Watchlisting of Directors/Officers



**CHARTER
CORPORATE GOVERNANCE AND SUSTAINABILITY COMMITTEE
May 2020**

I. Corporate Governance defined –

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

II. The Corporate Governance and Sustainability Committee

The Corporate Governance and Sustainability Committee is created and revised pursuant to:

- BSP Circular 456: Specific Duties and Responsibilities of the Board of Directors dated October 4, 2004; BSP Circular 749: Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions dated February 27, 2012;
- SEC Memorandum Circular 19: Code of Corporate of Corporate Governance for Publicly Listed Companies (PLCs) dated November 22, 2016;
- BSP Circular 969: Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions dated August 22, 2017; and
- SEC Memorandum Circular 4: Sustainability Reporting Guidelines for Publicly-Listed Companies
- BSP Circular 1085: Sustainable Finance Framework

This is to align existing regulations with international best practices and standards that promote good corporate governance, assist the Board of Directors in fulfilling its corporate governance responsibilities, and ensure the Board's effectiveness and due observance of corporate governance principles and guidelines.

III. Composition of the Committee

- a) The Committee shall be composed of at least three (3) members of the board of directors, all of whom shall be Independent Directors (IDs), including the Chairman. They shall be entitled to the payment of the usual per diems given to members of the Committees created by the Board.
- b) The Committee shall invite resource persons in any of its meetings to render a report, clarify and provide guidance to the Committee on any relevant issue the Committee is confronted with.

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

IV. Duties and Functions

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

1. Corporate Governance

- Oversees the design and implementation of the corporate governance framework periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the Bank's size, complexity and business strategy, as well as its business and regulatory environments;
- Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;
- Oversees the periodic performance evaluation of the Board, its committees, and senior management; conduct an annual self-evaluation of the Committee's performance; and review/evaluate the annual self-assessment of the directors, board and committees prior to Board approval/notation;
- Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;
- Proposes and plans relevant trainings for the members of the Board; and recommends continuing education/training programs for directors, assignment of tasks/projects to board committees, succession plan for the board members and senior officers;
- Adopts 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;
- Reviews and formulates policies to strengthen provisions on conflict of interest, salaries and benefits, promotion and career advancement of personnel concerned in line with the existing professional development program and succession plan for the Board and Senior Management;
- Receives and evaluates complaints regarding conflict of interest situations;
- Establishes policies, programs & procedures that encourage Bank's employees to actively participate in the realization of goals & governance; and

2. Nomination, Election and Qualifications of Directors and Senior Management

- Oversees the nomination & election process for members of the board of directors and for positions appointed by the board of directors; define the general profile of board members

and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the board;

- Ensures that the Bank shall have at least one-third (1/3) but not less than two (2) members of the board shall be Independent Directors (IDs), and that any fractional result from applying the required minimum proportion, shall be rounded-up to the nearest whole number;
- Reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors;
- Pre-screens and shortlists all candidates nominated to become a member of the board of directors in accordance with the qualifications and disqualifications; and
- Develops 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 and Officers

- Oversees the design and implementation of the remuneration and other incentives policy of the directors and officers;
- Establishes 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;
- Designates 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;
- Disallows any director to determine his or her own remuneration and ensures that no director shall participate in discussions or deliberations involving his own remuneration; and
- Provides 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.

4. Sustainability

- Ensures that the Bank has clear & focused policy on disclosure of non-financial information emphasizing on management of economic, environmental, social & governance (EESG) issues, which underpin sustainability;
- Responsible in all dealings where the Bank operates & plays an active role in nation-building through its CSR initiatives;
- Ensures adherence to an internationally recognized sustainability reporting framework, such as the Global Reporting Initiative (GRI), which enables the Bank to disclose, measure and monitor its contributions towards achieving universal targets of sustainability;
- Oversees the consistent implementation of the Bank's corporate social responsibility framework, with the following strategic thrusts: financial literacy & education, environmental protection, and philanthropic initiatives;

- Assesses the Bank's sustainability performance across various benchmarks, including economic, social and environmental performance indicators;
- Ensures that sustainability objectives and policies are clearly communicated across the institution, and to its investors, clients, and other stakeholders; and
- Assists the Board in adopting and overseeing an effective organizational structure to ensure attainment and continuing relevance of the Bank's sustainability objectives

5. 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 month;
- To preside over all the Committee meetings;
- To maintain efficient lines of communication and information between the Board and Management; and
- To perform such other functions as provided by law or as may be assigned to him by the Board of Directors.

V. Frequency Meeting

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

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.



**CHARTER
BOARD AUDIT AND COMPLIANCE COMMITTEE
MARCH 2020**

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 by providing independent advice and guidance on the adequacy of organization's initiatives relating to values and ethics, governance structure, risk management, internal control framework, financial reporting process, audit process and monitoring of compliance with applicable laws, rules and regulations;
2. Provide oversight functions over internal, external auditors and other provider of assurance and ensure that the internal, external auditors and other provider of assurance act independently from each other;
3. Provide oversight over compliance functions and/or oversee the compliance program;
4. The annual independent audit of PNB's financial statements, the engagement of the External Auditors and the evaluation of the External Auditor's qualifications, independence and performance;
5. The compliance by PNB with legal and regulatory requirements, including PNB's disclosure controls and procedures;
6. The fulfillment of the other responsibilities set out herein.

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

II. MEMBERSHIP

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

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 be 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 and ensure maintain appropriate records (e.g. minutes of meeting or summary of matters reviewed and decisions taken) of their deliberations and decisions. Special meetings maybe convened as necessary.

The Audit Committee will schedule, and hold if necessary, a private session with the Chief Executive Officer (CEO), the Chief Financial Officer (CF), the CAE, external assurance providers, and with any other officials that the Audit Committee may deem appropriate at each of its meetings

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 Audit Committee Charter set out the authority of the Audit Committee to carry out the responsibilities established by the Board as articulated within the Audit Committee Charter.

In discharging its responsibilities, the Audit Committee will have unrestricted access to members of management, employees, and relevant information it consider necessary to discharge its duties. The Committee also will have unrestricted access to records, data and reports. If access to requested document is denied due to legal or confidentiality reasons, the Audit Committee and/or CAE will follow a prescribed, board approved mechanism for resolution of the matter.

Investigate significant issues/concerns raised. The BACC shall have explicit authority to investigate any matter within its terms and reference, full access to and cooperation by Management and full discretion to invite any Director or Executive Officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions.

The Committee shall have the sole authority to select, evaluate, appoint, dismiss, replace and re-appoint the External Auditors (subject to stockholder ratification) based on fair and transparent criteria such as (I) core values, culture and high regard for excellence in audit quality; (ii) technical competence and expertise of auditing staff; (iii) independence; (iv) effectiveness of the audit process; and (v) reliability and relevance of the external auditor's reports. The BACC shall set compensation of the external auditor in relation to the scope of its duties and approve in advance all audit engagement fees and terms and all audit related, and tax compliance engagements with the External Auditors. It may recommend to the

Board of Directors to grant the President or his designate authority to negotiate and finalize the terms and conditions of the audit engagement as well as the audit fees, and sign, execute and deliver the corresponding contract and all non-audit engagement with the External Auditors subject to the confirmation/approval of the BACC members.

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

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

The BACC shall ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually.

Establish a whistleblowing mechanism. 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:

- Recommends to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Security and Exchange Commission (SEC), who undertakes an independent audit of the corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the shareholders
- Review/approve the Audit Program of the External Auditors prior to any audit undertaking, the scope among which includes the nature, coverage, expenses of the audit, and ensure proper coordination if more than one audit firm and/or internal independent review/external examination is involved in the activity to secure proper coverage and minimize duplication of efforts.

- Review and approve the engagement contract and ensure that the scope of audit likewise cover areas specifically prescribed by the Bangko Sentral ng Pilipinas (BSP) and other regulators.
- Evaluate and determine non-audit work/services by External Auditor and keep under review the non-audit fees paid to the External Auditor both in relation to their significance to the auditor and in relation of the Bank's total expenditure on consultancy and whether provision of non-audit services is compatible with maintaining the External Auditor's independence. The non-audit work should be disclosed in the Annual Report and Annual Corporate Governance 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.
- Periodic review and monitor the External Auditor's independence, objectivity and overall effectiveness of the External Audit process;
- Review and monitor the External Auditor's suitability and effectiveness on an annual basis;
- 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.
- The Committee shall ensure that the External Auditors maintains their independence and unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions taking into consideration relevant Philippine professional and regulatory requirements

3. Oversight of the Bank's Internal Auditor

- Responsible for the establishment of the Internal Audit Group and to recommend 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 as well as his qualifications, and grounds for appointment and removal. The responsibility of the BACC shall include the annual performance review of the CAE, accepting the resignation and/or dismissal subject to due process.
- Approve the terms and conditions for outsourcing internal audit services, if applicable
- Recommend for the approval of the Board of Directors the annual remuneration of the CAE and the Deputy Chief Audit Executive.
- Recommends the approval of Internal Audit (IA) Charter, which formally defines the responsibilities, power, and authority of the IA as well oversee the implementation of IA Charter
- 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 and ensure that the audit scope covers the review of the effectiveness of the BSFI's internal controls, including financial, operational and compliance controls, and risk management system
- Ensuring that the internal audit comply with sound internal auditing standards such as the Institute of Internal Auditors' International Standard 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
- 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. Ensure periodic assessment of the internal control system is conducted to identify the weaknesses and evaluate its robustness considering the Bank's risk profile and strategic direction of the Bank.
3. Commission an assessment team outside of the organization to conduct an independent quality assurance review of the internal audit function at least every five (5) years.

4. 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.
5. 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.
6. 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.
7. Review and assess the adequacy of this Charter annually and recommend any proposed changes for approval of the Board of Directors.
8. 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
APRIL 2019**

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 approve the risk management framework of PNB and its related allied subsidiaries and affiliates. It is mandated to set risk appetite, approve frameworks, policies, plans, programs 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 six (6) members of the Board of Directors, **majority of whom shall be Independent Directors including the Chairperson. The Chairperson shall not be the Chairperson of the Board of Directors, or any other board-level committee.**

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

- b) Regular resource persons shall be composed of the President, the Head of Operations, the Sector Heads, Chief Audit Executive, Chief Compliance Office, 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 members of the committee shall constitute a quorum; and the vote of the majority of the quorum 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 Corporate Code, the Board of Directors shall have the power, at any time, to change, to increase or decrease the membership of the 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 board approval the proposed risk policies and procedures, frameworks, plans and programs; 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 (BSP Cir. 969 – Enhanced Corporate Governance Guidelines)

The committee shall advise the board of directors on the bank's overall current and future risk appetite, oversee senior management adherence to the risk appetite statement, and report on the state of risk culture of the bank. The committee shall:

1. **Oversee the risk management framework** – The committee shall oversee the enterprise risk management framework and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.
2. **Oversee adherence to risk appetite** – The committee shall ensure that the current and emerging risk exposures are consistent with the bank's strategic direction and overall risk appetite. It shall assess the overall status of the adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.
3. **Oversee the risk management function** – The committee shall be responsible for the appointment/selection, remuneration, and dismissal of the Chief Risk Officer (CRO). It shall also ensure that the risk management function has adequate resources and effectively oversees the risk-taking activities of the bank.

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.	Operational Risk Management 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"> ▪ Review, on continuing basis, operational & legal risk exposures and loss events by major business line; and ▪ Oversee the effective resolution, management and control of the Bank's operational & legal risks. 	

	<p>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.</p>	
<p>Strategic Risk and Financial risk</p>	<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 & 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> <p>Oversight on the monitoring of capital and liquidity ratios (e.g. Capital Adequacy Ratio, Leverage Ratio, Liquidity Coverage Ratio, Net Stable Funding Ratio) with reference to internal and regulatory limits.</p>	<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</p>
<p>Reputational Risk</p>	<p>Assume an oversight role thru the Service Quality Division and Social Media Department in ensuring caution in dealing with customers and the community; as well as the Bank's responsiveness in addressing negative public opinion including monitoring of public perception of the Bank via any available means.</p>	<p>Service Quality Division & Social Media Department</p>
<p>Technology Risk</p>	<p>Have the knowledge and skills necessary to understand and effectively manage technology related risks.</p> <p>Ensure that:</p> <ol style="list-style-type: none"> An effective technology planning process exists, Technology is implemented properly with appropriate controls, and Measurement & monitoring efforts effectively identify ways to manage risk exposure. 	<p>Operational Risk Management Division, Information Security & Technology Security Risk Division, RMG together with IT Governance Management Committee.</p>

	<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>	
Information Security / Cyber Security	<ul style="list-style-type: none"> • Oversee the development, implementation and maintenance of the Information Security Program, making Senior Management accountable for its action. • Review and endorse for approval to the BOD the ESSP and ISP as well as information security policies including the resources needed to implement the ESSP and ISP. • Monitor and ensure that the enterprise security initiatives sustain and extend the Enterprise's strategies and objectives. • Provide guidance and recommendations on information security matters whenever necessary. 	Information Security Group, Operational Risk Management Division, Information Security and Technology Risk Division, RMG
Compliance Risk	Assume an oversight role thru the Compliance Office with respect to compliance with laws, rules, regulations, prescribed practices, internal policies and procedures or ethical standards	Global Compliance Group (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 Risk Division, RMG
Credit risk	<p>Oversee the bank-wide management of the credit risk internal in the entire portfolio and ensure the adequacy of provisions.</p> <p>Ensure that the following sound and best practices in credit risk management are in place and conduct periodic review of the same.</p> <ol style="list-style-type: none"> 1. Policy & Infrastructure; 2. Sound Credit Granting Process; 3. System for Administration & Monitoring of Exposure; 4. Portfolio Management; 5. Credit Review; 6. Review the adequacy of valuation reserves; 7. Work out system for managing problem credits; and 	Credit Risk Division, RMG

Market Risk	1. Recommend 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
Interest Rate Risk		
Liquidity Risk		
Sovereign or Country Risk	Govern the broad risk categories including political convertibility, and cross border risks associated with business and products abroad.	IBG/FID
Data Privacy Risk	Assist the Board in data privacy strategies and shall also ensure that relevant policies and plan for a data privacy management system are developed by management. Actively support data privacy within the bank through clear direction, demonstrated commitment, explicit assignment and acknowledgment of data privacy responsibilities.	Data Privacy Management Division, Risk Management Group
Consumer Protection Risk	Shall assist the Board in setting consumer protection risk strategy policies, to include metrics of consumer risk tolerance and appetite levels. ROC shall ensure that relevant policies and plan for a consumer protection risk management are developed and implemented by management.	Data Privacy Management Division, Operational Risk Division, Risk Management Group
Others	Perform such other functions as may be mandated by the Board and regulatory bodies relevant to risk management.	Risk Management Group

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 actions or plans as necessary.

VI. 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
BOARD OVERSIGHT RPT COMMITTEE
MAY 2019**

- **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.

- **Composition of the Committee**

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

- **Authority**

The BORC has the authority to:

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

- **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. For Business Units' Operations Manuals and its amendments with specific section on RPT shall be reviewed/approved by the appropriate management/ Board committees and confirmed by the Board. The Manuals will likewise be presented to the BORC for notation.
- 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 nonrelated 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. In the event that there are critical issues on RPTs, such findings either from IAG, Compliance Testing Review Division, External auditors, and examination results shall be presented to BORC.
- 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.

- **Frequency of Meeting**

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

- **Secretariat**

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

- **Review of the Charter**

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



CHARTER EXECUTIVE COMMITTEE (EXCOM)

- **Mission/Purpose**

The purpose of the Committee is to review, discuss, note, approve and/or endorse to the Board the management proposals on credit facilities; updates and reports on credit, transactional, administrative and other matters.

- **Composition of the Committee**

1. The Committee shall be composed of at least six (6) regular directors, 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 members of the Committee shall constitute a quorum. The unanimous vote of all the members present at the meeting shall be required to approve any act in all the meetings of the Committee, otherwise the proposal under consideration shall be elevated to the Board for approval. For referendum approvals, the approval of a majority of the members shall be required.
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.
5. Subject to Section 34 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.

- **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.

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. Acquisition of Real/Personal Property

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

• **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.

• **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.

• **Secretariat**

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

• **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
May 2020**

- **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.

- **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 Heads, 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 by the Board of Directors, 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 34 of the Revised Corporation Code of the Philippines, 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.

- **Authority of the Committee Trust 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.

- **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 Trust Committee

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.

- **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 in time and place or manner as it deemed appropriate. The Chairman or any member with the concurrence of the Chairman may call for special meetings as deemed necessary.

- **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.

- **Review of the Charter**

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



**CHARTER
BOARD IT GOVERNANCE COMMITTEE
August 2019**

I. Mission

The Board IT Governance Committee (BITGC) is created to assist the Board in performing its oversight functions in reviewing, approving and monitoring the Information Technology (IT) strategic plan, IT Investments in support of the strategic plan, IT risks, IT operating performance, IT organization, IT policy and guidelines

II. Composition of the Committee

- a) The 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 Support Groups to provide management reports, to clarify information on relevant issues of the Committee and/or technical advice to the Committee.
- c) The presence of the majority of the members of the committee less one member shall constitute a quorum; but the vote of the majority of the quorum which in no case is less than two 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 Board IT 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 BITGC has the authority to:

- Oversee the development of the long-term and short-term IT strategic plans.
- Review and approve IT projects within the approving limit stated in the Manual on Signing Authority for unbudgeted operating and capital expenses.
- Endorse for the Board of Directors approval IT projects beyond the committee's approval limit.
- Review and endorse for approval of the Board the IT policies and guidelines.

IV. Duties and Responsibilities

The Board IT Governance Committee:

a) Committee –

- Evaluate and endorse for approval of the Board the IT organizational structure to support 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 strategic plan of the parent bank that supports the business and enterprise information security strategies.
- Monitor the IT group performance, IT projects and in-sourcing and out-sourcing activities of IT functions and services provided to related entities.
- Ensure that IT policies and guidelines are in compliance with the regulatory rules and regulations including IT risk and information security requirements.
- Review and monitor significant IT concerns and corrective actions arising from regulatory examinations, internal audits and external reviews.
- Direct and oversee the monitoring

b) Committee Chairman –

- To call, convene and preside over all the committee meetings;
- Ensure that the meeting runs smoothly, remain orderly and works at achieving a consensus in the board decisions; and
- Ensure that the board is effective in its task in setting and implementing the company's direction and strategy.

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

- Provide information and opinion that is relevant in the decision making.

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

V. Frequency of Meeting

The Committee shall conduct monthly meetings or whenever necessary to properly discharge its functions.

VI. Secretariat

The IT Group Head shall act as the Committee Secretariat to handle the administration requirements of the Committee. A designated IT personnel shall prepare and keep minutes of its actions and report thereon to the Board of Directors.

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.

The Committee shall review of the effectiveness of the committee in the performance of their duties and responsibilities to achieve their mission.



CHARTER BOARD STRATEGY & POLICY COMMITTEE (BSPC)

- **Mission/Purpose**

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

- **Composition of the Committee**

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

- **Powers and Responsibilities:**

1. Policies, Procedures, and Manuals of Products and Services
 - To review, evaluate, approve and/or endorse for Board approval new products, amendments to products, marketing programs, and policies, procedures and manuals pertaining thereto.
 - To review, evaluate, approve and/or endorse for Board approval such policies which are not subject to the reviewing/approving/endorsing authority of other Board Committees of the Bank.
2. Strategic Plans, Forecast, Annual Budget
 - To evaluate and endorse for Board approval Annual Strategic Forecasts, Plans and Budget.
3. Monthly Review of Financial Performance and Business Models
 - To review, evaluate, approve and/or endorse for Board approval the monthly report on the Bank's financial performance and ensure its alignment with approved business plans and strategies.
4. Oversight on Capital Planning
 - To review, evaluate, approve and/or endorse for board approval the Bank's capital planning, risk assessment, policies and procedures and provide oversight on the adoption and implementation of the Bank's board-approved ICAAP program.
 - To review, evaluate, approve and/or endorse for board approval request for capital allocation, corporate guarantee and business propositions from the parent company.

5. Oversight on Domestic and Foreign Offices/Subsidiaries

- To provide oversight on the business plans, initiatives, risk and regulatory compliance; and review the strategic objectives and business priorities, direction, overall plans, result areas that relates to the thrusts and programs of the Bank.
- To provide oversight on the formulation of policy guidelines and procedures on oversight; and review periodically the actual performance of the subsidiaries versus approved quantitative and qualitative plans; conduct periodic financial performance and management profitability reviews and be informed of market and economic developments of subsidiaries.

6. The BSPC shall likewise perform such other functions and duties as the Board may delegate from time to time.

• **Chairman**

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

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

• **Frequency of Meeting**

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

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

• **Secretariat**

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

• **Review of the Charter**

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