

MESSAGE FROM THE BOARD OVERSIGHT RPT COMMITTEE CHAIRMAN



FEDERICO C. PASCUAL
DIRECTOR

RELATED PARTY TRANSACTION

The PNB Group commits to adopt and adhere with the Policy Guidelines on Related Party Transactions (RPTs). These guidelines were formulated in accordance with the requirements of the SEC Revised Code of Corporate Governance; BSP Guidelines on Related Party Transactions; Basel Core Principles for Effective Banking Supervision No. 20 and other related laws and regulations.

The Bank recognizes that transactions between and among related parties create financial, commercial and economic benefits to individual institutions and to the entire PNB Group. Related Party Transactions (RPTs) are allowed provided that these are done on an arm's length basis and in accordance with the board approved RPT policy guidelines. As such, RPTs shall be entered in the normal course of business and upon terms not less favorable to the bank than those terms and services offered to others or any unrelated third party or non-affiliate.

The Board, through the Board Oversight RPT Committee (BORC), exercises appropriate oversight in the implementation of the control systems for managing RPT exposures as these may potentially lead to abuses that are disadvantageous to the bank and its depositors, creditors, fiduciary clients and other stakeholders. 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 for compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders of the Bank.

Since 2013, PNB had the Board Oversight RPT Committee, governed by a charter, to assist the Board in performing its oversight functions for monitoring and managing potential conflicts of interest involving shareholders, board members, management and other stakeholders of PNB Group. The Committee is composed of at least five members of the board of director, three of whom shall be independent directors, including the chairperson, and two non-voting members, the Chief Compliance Officer and the Chief Audit Executive, as resource persons.

The Board Oversight RPT Committee's authority is to oversee the evaluation of material Related Party Transactions that will be endorsed to the Board, 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. The Committee reviews/approves RPT policy guidelines; ensure that laws, rules and regulations, accounting standards and global practices are complied with; and effectively implement the Bank's RPT policy guidelines. Directors that may be involved in potential conflict shall disassociate from participating in any decision related thereto.

The Board approved RPT Policy Framework contains the Board and Senior Management Oversight; Policies and Procedures; Training Program, MIS & Reporting; and Assessment & Monitoring. This has been disseminated to all employees of the bank and posted at the I-Comply web-page of the Bank's intranet made available and accessible 24/7 to all employees of PNB Group for guidance

In 2015, the PNB RPT Policy Framework was revised to strengthen critical areas:

- Expanded the Board Oversight RPT Committee oversight functions over the Bank's subsidiaries and affiliates, covering the review of their RPTs already approved by their respective boards.
- Redefined the materiality threshold for credit facility and non-credit RPTs based on the ICAAP materiality threshold level and 2-year historical data on the normal transactional amount of RPTs, respectively.

- Rationalized the process limiting the covered officers to the rank of at least Vice President and its relatives up to 4th degree level, considering their level of authority to influence management decision.
- Ensured assessment and monitoring of reporting and internal controls on the transparency of RPTs are conducted by independent groups, Internal Audit and Global Compliance Groups, who directly report to the Board thru the Board Audit and Compliance Committee.
- Developed the RPT database system as a reservoir of RPTs already approved and endorsed by the Board Oversight RPT Committee to the Board translated to the convenience of generating RPT reports for periodic reporting to the Board and regulators.
- Embedded RPT Compliance Awareness Training Program organized by the Global Compliance Group among officers and employees of the Bank and its subsidiaries/affiliates. The Bank has engaged the Institute of Corporate Directors to conduct a workshop providing recent developments in Corporate Governance and RPT global practices. The workshop was participated in by the Board of Directors and Key Officers of parent bank PNB and its subsidiaries/affiliates.

The robust RPT Framework of the Bank is demonstrated by the full support from the Board of Directors and the employees of PNB Group that are committed to adhere and comply with international best practices.

FEDERICO C. PASCUAL
Board Oversight RPT Committee Chairman