

- 11.2.4. Carry out investment and other fiduciary activities in accordance with agreements with clients and parameters set by the Trust Committee as approved by the Board of Directors;
- 11.2.5. Report regularly to the Trust Committee on business performance and other matters requiring its attention;
- 11.2.6. Maintain adequate books, records and files for each trust or other fiduciary account and provide timely and regular disclosures to clients on the status of their accounts; and
- 11.2.7. Submit periodic reports to regulatory agencies on the conduct of the trust operations.

V. DEALINGS WITH RELATED PARTIES

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

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

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

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

1. Board and Senior Management Oversight

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

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

The Board Oversight RPT Committee (BORC) created in September 2013 governed by a Charter, assists the Board in performing its oversight functions for avoiding potential conflicts of interest of

- 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 results of his position in the Bank
 - 2.10.2. All Bank employees have a duty to ensure that no personal transaction will be in conflict with their corporate and customer responsibilities. Accordingly, PNB employees shall not buy or sell a security on the basis of knowledge:
 - Of a probable change in investment attitude and consequent action by the Bank with respect to that security;
 - That the Bank is effecting or proposes to effect transactions in the security or other transactions which may affect the price of the security to a material degree; or
 - That the Bank is contemplating a transaction of any kind that would have a material effect on a particular company or security.
 - 2.10.3. If actual or potential conflict of interest may arise on the part of the employee, he is obligated to disclose in writing to the Bank his participation, whether direct or indirect, in any endeavor which may constitute an actual or potential conflict of interest with that of the Bank and its subsidiaries or affiliates.
 - 2.10.4. Members of the board, stockholders, and management shall disclose to the board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the bank.
 - 2.10.5. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the bank.



CHARTER
BOARD OVERSIGHT RPT COMMITTEE (BORC)
June 2016

I. Mission

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

II. Composition of the Committee

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

III. Authority

The BORC has the authority to:

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

IV. Duties and Responsibilities

The Board Oversight RPT Committee shall:

1. Committee –

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

2. Committee Chairman –

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

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

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

V. Frequency of Meeting

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

VI. Secretariat

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

VII. Review of the Charter

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