

- 2.8.7 DOS and their 2<sup>nd</sup> degree relatives of the affiliated companies (Nos. 2.8.3, 2.8.5, 2.8.6 above, and corporate related interests); and
- 2.8.8 Any person/juridical entity that has interest which may pose potential conflict with the interest of the bank. This pertains to Board-identified related parties which do not fall among those enumerated but whose transactions with the bank also pose conflict of interest situations, such as exposures with significant economic dependence.

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

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

**2.10. Conflict of Interest arising from RPTs**

- 2.10.1. Directors must avoid conflicts or potential conflicts of interest. Conflict of interest occurs or arises when:
  - An individual's private or related interests interfere in any way, or are perceived to interfere, with the interests of the Bank as a whole.
  - A Director takes actions or has interests that may make it difficult for him to preserve his objectivity and carry out his tasks effectively
  - A Director, or a member of his family, receives improper personal benefits as a result of his position in the Bank
- 2.10.2. All Bank employees have a duty to ensure that no personal transaction will be in conflict with their corporate and customer responsibilities. Accordingly, PNB employees shall not buy or sell a security on the basis of knowledge:
  - Of a probable change in investment attitude and consequent action by the Bank with respect to that security;
  - That the Bank is effecting or proposes to effect transactions in the security or other transactions which may affect the price of the security to a material degree; or
  - That the Bank is contemplating a transaction of any kind that would have a material effect on a particular company or security.
- 2.10.3. If actual or potential conflict of interest may arise on the part of the employee, he is obligated to disclose in writing to the Bank his participation, whether direct or indirect, in any endeavor which may constitute an actual or potential conflict of interest with that of the Bank and its subsidiaries or affiliates.
- 2.10.4. Members of the board, stockholders, and management shall disclose to the board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the bank.
- 2.10.5. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the bank.

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

#### 2.11. Whistleblower Policy

Bank employees are encouraged to report internally any suspected or actual commission of theft/fraud, violation of ethical standard, law, rule or regulation and/or any misconduct by its directors, officers or staff consistent with the board approved corporate values and codes of conduct and in accordance with the existing board approved Whistleblower Policy.

### 3. Monitoring and Assessment

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

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

### 4. MIS and Reporting

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

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

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

- 4.3. Disclosure in the Annual Report of the (i) policies and procedures for managing RPTs, including managing of conflicts of interest or potential conflicts of interest; (ii) responsibility of RPT