

- 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.

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

2.11. Whistleblower Policy

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

3. Monitoring and Assessment

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

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

4. MIS and Reporting

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

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

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

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

Committee; and (iii) nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments coming from material RPTs.

- 4.4. Material RPTs approved by the Board, including the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details must be clearly disclosed during stockholders meeting and duly reflected in the minutes of the board and stockholders' meetings.

5. Training

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

VI. CODE OF CONDUCT AND BUSINESS ETHICS

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

1. Code of Conduct Manual - is constituted to prescribe a moral code for PNB Group employees which would not only instill discipline among them but would yield higher productivity at the workplace and enhance and safeguard the corporate image of the PNB Group. While this Code defines the offenses as well as the corresponding disciplinary measures that may be imposed, its overall intent is more of prevention of the infraction rather than the administration of disciplinary measures. This Code defines and provides the standards of conduct expected of all employees and enumerates the actions or omissions prejudicial to the interest of the PNB Group (Ref. Bd. Res. No. 01/04-26-13 and GEN. Cir. 1-873/2013 dated May 16, 2013);
2. Corporate Governance Manual - the bank adheres to the highest principle of good corporate governance as provided for in its Amended By-Laws and embodied in the Corporate Governance Manual. In accordance with the provisions of the manual, the bank subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business; dealing fairly with its clients, investors, stockholders, related parties, the communities affected by the bank's activities and its various publics; professionalism among its Board of Directors, executive and other employees of the bank in managing the company, its subsidiaries and affiliates; and respect for the laws and regulations of the countries affecting its businesses;
3. Personal Investment Policy - set forth prudent standards of behavior for all employees when conducting their personal investment transactions. This policy provides minimum standards and specifies investment practices which are either prohibited or subject to special constraints. The employees may make investments for their personal accounts as long as these transactions are consistent with laws and regulations, and the personal investment policy of the bank. These investments should not involve or appear to involve a conflict of interest with the activities of PNB or its customers. Employee investment decisions must be based solely on publicly available information, and should be oriented toward long term investment rather than short term speculation.
4. As a general policy, all employees are prohibited from purchasing or selling any PNB securities if they possess material no-public information about PNB that if known by the public might influence the price of PNB securities. Employees may not purchase or sell PNB options or execute a short sale of PNB security unless the transaction is effected as a bona-fide hedge (Ref. Bd. Res. No. 02/04-24-09 and GEN Cir. No. 1-874/2013 dated May 16, 2013);
5. Policy on Soliciting and/or Receiving Gifts - the Bank recognizes that maintaining good relationships with clients, suppliers, and other business-related parties often require the exchange of gifts as tokens of appreciation. However, all employees are expected to observe, discretion and prudence in receiving gifts or donations whether in cash or in kind and other form of hospitality. Soliciting

gifts/donations/sponsorship whether in cash or in kind from clients, suppliers, and other business-related parties is strictly prohibited. However, employees may be allowed to receive gifts/donations/sponsorship/financial assistance whether in cash or in kind from clients, suppliers, and other business-related parties, subject to the conditions provided under Bd. Res. No. 03/03-21-13 and GEN. Cir. No. 1-866/2013 dated April 10, 2013;

6. **Whistleblower Policy** - it is the policy of the bank to encourage employees to report internally any suspected or actual commission of theft/fraud, violation of ethical standard, law, rule or regulation and/or any misconduct by its directors, officers or staff in accordance with the PNB Whistleblower Policy. The policy protects the employee/whistleblower against retaliation, discrimination, harassment or adverse personnel action, for reporting in good faith a suspected or actual violation (Ref. Bd. Res. No. 05/03-21-13 and GEN Cir. No. 1-868/2013 dated April 12, 2013).

The above mentioned code and policies aim to instill among the Bank directors and its employees a commitment and dedication to the virtues of honesty and integrity, with a high sense of prudence, responsibility and efficiency in the conduct of their duties.

As required, each bank director and employee accomplishes an Acknowledgement Receipt certifying therein that he/she has been furnished with copies of the above mentioned manuals and policies; that he/she has fully read and understood the provisions embodied therein; and that he/she promises to abide with the rules/regulations of the said manuals and policies.

Any failure to abide with the above mentioned manuals and policies must be reported to the immediate supervisor and/or Head of Office concerned to the Human Resource Group (HRG) and/or Corporate Governance Committee. A designated committee may subsequently validate/evaluate the report to determine if any sanction or disciplinary action should be taken against the erring employee or director.

VII. SHAREHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTERESTS

The Bank recognizes that the most cogent proof of good corporate governance is visible to the eyes of its investors. Therefore, the following provisions are issued for the guidance of all internal and external parties concerned, as governance covenant between the Bank and all its investors:

1. Rights and Protection of Investors/Minority Interests

The Board shall be committed to respect the following rights of the stockholders:

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

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

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

1.1.3 A Director shall not be removed without cause if it will deny minority shareholders representation in the Board.

1.2 Right to inspect corporate books and records

All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.

1.3 Right to Information

1.3.1. The Shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the Directors and officers and certain other

matters such as their holdings of the Bank's shares, dealings with the Bank, relationships among Directors and key officers, and the aggregate compensation of Directors and officers;

1.3.2. The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes; and

1.3.3. The minority shareholders shall have access to any information relating to matters for which Management is accountable;

1.4 Appraisal Right

The shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:

1.4.1. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

1.4.2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code;

1.4.3. In case of merger or consolidation;

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

1.4.5. The stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right.

1.5 Absence of Pre-emptive right to stock issuances of the corporation.

The stockholders shall have no pre-emptive right to subscribe to any new or additional issuance of shares by the Bank, regardless of the class of shares, and whether the same is issued from the Bank's unissued capital stock or in support of an increase in capital.

1.6 Right to dividends

Dividends shall be declared and paid out of the surplus profits of the Bank at such times and in such amounts as the Board of Directors may determine in accordance with the provisions of law and regulations of BSP, SEC and financial regulatory requirements.

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

All complaints from stockholders should be satisfactorily handled and processed.