



PHILIPPINE NATIONAL BANK

REVISED RPT POLICY MANUAL December 2018

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I. POLICY STATEMENT

The Board of Directors, Management and Staff of the Philippine National Bank, including Trust Banking Group and its Subsidiaries and Affiliates commit themselves 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 Code of Corporate Governance for PLCs; Securities Regulations Code; BSP's Enhanced Corporate Governance Guidelines for BSFIs; Guidelines in Strengthening Corporate Governance on Related Party Transactions (RPTs) of Banks; Guidelines on Related Party Transactions, Prudential Policy on Loans to DOSRI/Subsidiaries/Affiliates; Basel Core Principles (BCP) for Effective Banking Supervision No. 20 and other related laws and regulations.

The Bank recognizes that engaging in RPTs have economic benefits to individual entities and to the entire PNB Group. Related Party Transactions (RPTs) are generally allowed provided that these are done 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 in accordance with standard policies and processes; and in accordance with the 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.

II. OBJECTIVES

The RPT Policy Manual aims to:

1. Articulate clear policies on the handling of any RPT dealings with DOSRI and other related parties, for ensuring that existing laws, rules and regulations are complied with at all times;
2. Articulate acceptable and unacceptable activities and transactions as well as unethical conduct that could result or potentially result to conflict of interest and/or personal gain at the expense of the institution;
3. Ensure that bank exercises appropriate oversight and control over its RPTs while promoting transparency and disclosure, promotes objective judgment in decision making process, and protects minority shareholders by mitigating the risk of abuses arising from conflict of interest; and
4. Uphold good governance in handling RPTs by requiring that bank's dealings with any of its DOSRI and related parties is conducted in the regular course of business and upon terms not less favorable to the bank than those offered to others.

III. DEFINITION OF TERMS

For purposes of these policy guidelines, the following definitions shall apply:

1. **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; stockholders and 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 potential conflict with the interest of the Bank, hence, is identified as a related party.

Other Related parties are entities linked to the bank, directly or indirectly through any of the following:

- 1.1. 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;
 - 1.2. Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
 - 1.3. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Bank and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity; or
 - 1.4. 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.
2. **Close Family Members** shall refer to persons related to the Bank's DOS within the second 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.
3. **Corresponding Persons in Affiliated Companies** shall refer to the DOS of the affiliated companies and their close family members.

Affiliated companies are: (i) juridical/corporate related interests (RI); (ii) Bank's subsidiaries and affiliates; (iii) any party that bank exerts direct/indirect control over or that exerts direct/indirect control over the bank; and (iv) subsidiaries, affiliates and SPEs of (iii).

4. **Control of an enterprise exists when there is:**
- 4.1. Power over more than one-half of the voting rights by virtue of an agreement with other stockholder; or
 - 4.2. Power to govern the financial and operating policies of the enterprise under a statute or an agreement; or
 - 4.3. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
 - 4.4. Power to cast the majority votes at meetings of the board of directors or equivalent governing body; or
 - 4.5. 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 and will not nominate any candidate to serve on the board of directors or otherwise seek board representation;
 - Bank-Stockholder will have only limited contacts with Bank's Management that are customary for interested stockholders;
 - Bank-Stockholder will engage only in normal and customary transactions with the enterprise; and
 - Bank will not pledge the shares acquired to secure a loan with any institution.
5. **Related Party Transactions (RPTs)** shall refer 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:
- 5.1. On- and off-balance sheet credit exposures and claims and write-offs; - C
 - 5.2. Investments and/or subscriptions for debt/equity issuances; - C
 - 5.3. Consulting, professional, agency and other service arrangements/contracts; - NC

- 5.4. Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements); - NC
- 5.5. Construction arrangements/contracts; - NC
- 5.6. Lease arrangements/contracts; - NC
- 5.7. Trading and derivative transactions; - C
- 5.8. Borrowings, commitments, fund transfers and guarantees; - C
- 5.9. Sale, purchase or supply of any goods or materials; and - NC
- 5.10. Establishment of joint venture entities - C

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.

* C – Credit Related Transactions

** NC – Non-Credit Related Transactions

Sample of Bank Credit Related Transactions and Non-credit Related Transactions

Credit Related Transactions	Non-credit Related Transactions
1. Omnibus Lines	1. Lease Contracts
2. Domestic Bills Purchased Line (DBPL)	2. Outsourcing Arrangements
3. Import Letters of Credit (ILC)/Domestic Letters of Credit (DLC) Line	3. Arrangers Fees
4. Short and Long-term Loans	4. Engagement Fees
5. Pre-Settlement Risk (PSR) Line	5. Sale of fixed assets
6. Settlement Risk (SR) Line	6. Additional Equity Investments
7. Long-term Single Borrowing Limit (Trust)	7. Service Contracts/Consulting or Professional Fees
8. Short-term Single Borrowing Limit (Trust)	8. Renewal of Insurance
9. Counterparty Line	9. Increased authorized Capital
10. Case-to-case Short Term Loan	10. Purchase of Shares of Stock
11. Money Market Line	11. Cash Donations to Foundations
12. Renewal of Nostro Line	12. Trust Equity Issue Accreditation as investment outlet
13. Sell-down of Existing Term Loan	
14. Establishment of Revolving Credit Line (RCL) vs. Deposit	
15. Sale of loan portfolio & investments	
16. Sale of ROPA/SCRs	
17. Joint Venture	
18. Borrowings & Commitment	

6. **Directors** shall include

- 6.1. Directors who are named as such in the articles of incorporation;
- 6.2. Directors duly elected in subsequent meetings of the stockholders; and
- 6.3. Those elected to fill vacancies in the board of directors.

Chairman Emeritus and the members of the Board of Advisers cannot be considered as directors. However, they may be considered as related party.

7. **Officers**

- 7.1. Shall include the Chief Executive Officer (CEO)^{1/}, executive vice president, senior vice president, vice president, general manager, treasurer, secretary, trust officer & others mentioned as officers of the Bank, or
- 7.2. 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,
- 7.3. Directors whose duty includes functions of management; and
- 7.4. Group of committee members, whose duties included functions of management such as those ordinarily performed by regular officers, and are not purely recommendatory or advisory.

^{1/} shall also refer to the President or any other title referring to the top management post in the Bank

Loans granted to non-officers/non-directors who later on became officers/directors of the bank may not be considered DOSRI loan. However, it is considered a DOSRI loan upon renewal or restructuring after the original maturity date.

8. **Stockholders** – 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: (1) his spouse and/or relative within the 1st degree by consanguinity or affinity or legal adoption; (2) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a General partner; and (3) corporation, association or firm of which the stockholder and/or his spouse and/or the aforementioned relatives own more than 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.
9. **Substantial Stockholder** – 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 a bank or who is directly or indirectly the registered or beneficial owner of more than 10% of any class of its equity security.
10. **Related Interest** – shall refer to any of the following:
 - 10.1. Spouse or relative within the 1st degree of consanguinity or affinity, **or** relative by legal adoption, of a Director, Officer and Stockholder (DOS);
 - 10.2. Partnership of which a Director, Officer and Stockholder (DOS) or his spouse or relative within the 1st degree of consanguinity or affinity, or relative by legal adoption is a general partner;
 - 10.3. Co-owner with the Director, Officer, Stockholder (DOS) or his spouse or relative within the 1st degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged, or assigned to secure loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;
 - 10.4. Corporation, association or firm of which any or a group of Directors, Officers, stockholders (DOS) of the Bank and/or their spouses or relatives within the 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;
 - 10.5. Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in items "10.2" and "10.4" above;
 - 10.6. 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;
 - 10.7. Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the Bank;
 - 10.8. 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 banks.
11. **Parent** – a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries.
12. **Subsidiary** – 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 its parent corporation.
13. **Affiliate** – shall refer to an entity linked directly or indirectly to the Bank by means of:
 - 13.1. Ownership, control or power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa;

- 13.2. Interlocking directorship or officership, where the director or officer concerned owns; controls, or has the power to vote, at least twenty percent (20%) of the outstanding voting stock of the entity;
 - 13.3. 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**;
 - 13.4. Management contract or any arrangement granting power to the Bank to direct or cause the direction of management and policies **of the entity**; or
 - 13.5. Permanent proxy or voting trusts in favor of the Bank constituting at least twenty percent (20%) of the outstanding voting stock **of the entity**, or vice versa.
- In cases where the borrowing entity is linked to the lending bank both as DOSRI and as a subsidiary or affiliate, the DOSRI rules shall apply.
14. **Related Parties with Economic Interdependencies** - Economic interdependency refers to a situation where counterparties are reliant on each other, such that if one of the counterparties experiences financial problems in repaying its obligations, the creditworthiness of the other(s) would also likely deteriorate:
 - 14.1. When 50% or more of one borrower's receipts or gross expenditures (on an annual basis) is derived from the transactions with the other borrowing entity;
 - 14.2. When one (1) borrower has guaranteed the facilities/credit accommodations of another borrower or is liable by other means; or
 - 14.3. When two (2) or more borrowers have a single source of repayment and, in the event of the common source's default, an alternative source cannot be found, except for those transactions arising from the National Government and its instrumentalities (e.g., DPWH and DepEd)
 15. **Significant Influence** – is the power to participate in the financial and operating policy decisions of the company but do not have control nor has joint control of those policy decisions. Significant influence exists when there is:
 - 15.1. Representation on the board of directors or equivalent governing body of the investee;
 - 15.2. Participation in policy-making processes, including participation in decisions about dividends or other distribution;
 - 15.3. Material transactions between the entity and its investee;
 - 15.4. Interchange of managerial personnel; or
 - 15.5. Provision of essential technical information
 16. **Related Company** - shall refer to another company which is:
 - 16.1. Its parent or holding company;
 - 16.2. Its subsidiary or affiliate; or
 - 16.3. 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. **Majority stockholder or shareholder** – a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a bank.
 18. **Significant Transactions** - refer to dealings of significant transaction size or those that could pose potential impact and material risk on the operations of the Bank or regulatory compliance and as such, would require board approval based on the bank's internal policies or as provided under the existing regulations. These significant transactions are disclosed in the audited financial statements, the annual report and in the disclosure reports submitted to the regulators.
 19. **Conflict of Interest** - is a breach of an obligation to the bank that has an effect or intention of advancing one's own interest or the interest of others that is grossly disadvantageous to the interest or potentially harmful to the Bank.

IV. BOARD AND SENIOR MANAGEMENT OVERSIGHT

In the ordinary course of business, the Bank has loans, other credit accommodations and guarantees granted to its DOSRI, subsidiaries/affiliates, and related parties. These loans and other related party transactions are made substantially on the same terms granted to other individuals and businesses of comparable risk. Further, the bank may enter into business relationships with related parties based on terms in the agreements that are same as those entered into with unrelated parties and terms that are considered not less favorable to the interest of the bank.

1. Board of Directors

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.

The Board of Directors shall carry out the following duties and responsibilities:

- 1.1. Observe good governance and approve policies and procedures, as well as changes on the handling of RPTs to ensure that the adoption of a group-wide RPT policy and effective compliance with existing laws, rules and regulations at all times would result to RPTs that are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged.
- 1.2. Approve all material RPTs, particularly those that exceed the materiality threshold; renewal or material changes in the terms and conditions of RPTs; and write-off of material exposures to related parties.
- 1.3. Delegate to appropriate management/board committee, the approval and monitoring of RPTs that are below the materiality threshold. This shall be subject to confirmation by the board of directors, except DOSRI transactions, which are required to be approved by the Board.
- 1.4. Establish an effective system for identifying and monitoring 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.
- 1.5. Maintenance of adequate capital against risks associated with exposures to related parties and consideration of risks from material RPTs in the Bank's capital planning process;
- 1.6. Oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing; ensure that senior management addresses legitimate issues on RPT that are raised; and guarantee protection of staff that raise concerns; and
- 1.7. Constitute a RPT Committee, provide adequate resources to it, including the authority to procure the assistance of independent experts, if necessary, to assess the fairness of RPTs. The Committee shall be composed of at least three (3) Non-Executive Directors (NEDs), two (2) of whom shall be Independent Directors (IDs), including the Chairperson.

2. Board Oversight RPT Committee (BORC)

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 shareholders, board members, management, and other stakeholders of PNB Group. The Committee shall be composed of at least three (3) Non-Executive Directors (NEDs), two (2) of whom shall be IDs, including the Chairperson. The Committee shall at all times be entirely composed of IDs and Non-Executive Directors (NEDs), with IDs comprising majority of the members. In case a member has conflict of interest in a particular RPT, he/she should refrain from evaluating that particular transaction.

The Chief Compliance Officer or Chief Audit Executive should sit as Non-Voting Members in the committee. The BORC oversees the evaluation of RPT 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/notation.

The duties and responsibilities of the BORC include:

- 2.1. Review and approval of policy guidelines and implementing procedures for handling relevant RPTs by ensuring effective compliance with existing laws, rules and regulations, 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.

- 2.2. Evaluation 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. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the board of directors and regulators/supervisors.
- 2.3. Evaluation of all material RPTs to ensure that these are conducted in the regular course of business (fair process); not undertaken on more favorable economic terms (e.g., price, commission, interest rates, fees, terms, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances (fair terms), and that no corporate or business resources of the bank are misappropriated or misapplied; and determination of any potential reputational risk issues that may arise as a result of or in connection with these 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.
- 2.4. 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;
- 2.5. Endorsement to the Board of material RPTs that are subject of thresholds;
- 2.6. Reporting to the Board of Directors 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.
- 2.7. Oversight of 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.
- 2.8. Oversight of system implementation for identifying, monitoring, measuring, controlling and reporting RPTs, including the periodic review of RPT policies and procedures.

3. Senior Management

The duties and responsibilities of the Senior Management are as follows:

- 3.1. Implementation of appropriate controls to effectively manage and monitor RPTs on per transaction and aggregate basis. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with the Board approved Bank's policy, as well as regulatory requirements.
- 3.2. Periodic review and update of the inventory of related parties covered by RPT policy to capture organizational and structural changes in the bank and its related parties.
- 3.3. Adoption and proper implementation of RPT policies and procedures and compliance with regulatory reporting requirements.
- 3.4. Ensuring that dealings of related party transactions are conducted on arm's length basis at all times;
- 3.5. 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).
- 3.6. 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.

V. COVERAGE OF RPT POLICY GUIDELINES AND LIMITS

The RPT policy guidelines cover and capture a broader spectrum of transactions not only those that give rise to credit and/or counterparty risks but also those that could pose material risk or potential abuse to the bank, and its stakeholders. It should capture transactions of the bank where RPT can arise given its business lines. It also covers transactions with unrelated parties that subsequently become related parties.

1. Covered Related Parties:

- 1.1 Directors, Officers, Stockholders and Related Interests (DOSRI), (RI limited to 1st degree relatives). For Covered Officers of the Bank and its related parties, it is limited to the rank of at least Senior Vice President;
- 1.2 Close family members of Bank's DOS (up to 2nd degree relatives);
- 1.3 Bank's subsidiaries and affiliates;
- 1.4 Other related parties/entities linked directly or indirectly to the bank;
- 1.5 Any party that the Bank exerts direct/indirect control over (downstream relationship); or that exerts direct/indirect control over the bank (Upstream relationship).
- 1.6 Subsidiaries, affiliates and SPEs of 1.5;
- 1.7 Corresponding persons in affiliated companies (DOS and their 2nd degree relatives of the affiliated companies (Nos. 1.3, 1.5, 1.6 above, and corporate related interests) or as follows:

Affiliated companies are:

- (i) Bank's Subsidiaries and Affiliates;
 - (ii) Any party that bank exerts direct/indirect control over; or that exerts direct/indirect control over the bank;
 - (iii) Subsidiaries, affiliates and SPEs of 1.5; and
 - (iv) Corporate related interests (RIs); and
- 1.8 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. Internal limits/ceilings for individual and aggregate exposures to related parties:

2.1. 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.

	Related Party Classification	Internal Ceilings/Limits	
		Individual	Aggregate
1	DOSRI	Limited to amount equivalent to their respective unencumbered deposits & book value of their paid-in-capital contribution in the bank; provided that unsecured loans to each DOSRI shall not exceed 30% of their respective total loans.	Up to 15% of total loan portfolio or 100% of Bank's net worth whichever is lower.
2	Subsidiaries and Affiliates	Up to 10% of Bank's Net Worth; or 25% if a priority program & project under the PDP/PIP; provided that unsecured loans to each entity shall not exceed 5% of bank's net worth or 12.5% if a priority program & project under the PDP/PIP.	Up to 20% of the Bank's net worth, excluding priority programs/projects under PDP/PIP which shall be subject to the aggregate limits for RPT.

2.2. 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 BORC.

For Credit Related Transactions

	Related Party Classification	Internal Ceilings/Limits	
		Individual	Aggregate
1	Other Related Parties	Up to Single Borrower's Limit (SBL) which at no time exceeds 25% of the Bank's Net Worth	Maximum of 3X Net Worth less DOSRI, Subsidiaries & Affiliates
2	RPs with Economic Interdependencies		

For Non-Credit Related Transactions

	Related Party Classification	Internal Ceilings/Limits	
		Individual	Aggregate
1	Non-Credit Transactions	Up to 25% of prior year's Net Income.	Within 100% of prior year's Net Income

2.3. 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.

3. Materiality threshold of RPTs is determined based on whether the omission or misstatement of the transaction could pose significant risk to the bank and could influence economic decision of the board. This requires approval/notation and endorsement by BORC to the Board.

On the other hand, for Bank's subsidiaries and affiliates, materiality thresholds will be based on their evaluation and the nature of their business. Such material threshold is incorporated in their respective RPT policy framework/manual.

4. Exemption from the materiality threshold and regulatory reporting requirements.

Transactions concerning deposit operations; regular trade transactions involving purchases and sales of debt securities traded in an active market; those granted under BSP-approved fringe benefit programs; and credit card availments are excluded from the materiality threshold and regulatory reporting requirements.

5. Conflict of Interest arising from RPTs

5.1 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;

5.2 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.

5.3 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.

5.4 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.

5.5 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.

5.6 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 & 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.

6. Whistle blowing mechanism.

Dealings with related parties cover the whistle blowing mechanism where the 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. The bank existing policy shall apply for the restitution of losses and other remedies for abusive RPTs.

VI. GENERAL POLICIES AND PROCEDURES

1. As dealings of the bank on RPTs 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. 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).
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 process and abstain in the discussion, approval and management of such transaction or matters affecting the bank. The BORC may inform the Corporate Governance/Nomination/Remuneration Committee of the directors/officers' actual/potential conflicts of interest with the Bank, as necessary.
4. Heads of Office/Business Units should annually update the Related Party Transaction (RPT) Policy of their respective Operating Manuals and align the same with the established RPT Framework of the Bank.

In order to provide guidance on the procedures for determination of the appropriate price, terms and conditions, which warrant the fairness and reasonableness of RPTs, the following should be incorporated in the RPT Policy Section of the Business Units' Operations Manual:

- 4.1. Parameters for the selection of comparable accounts and process on price discovery mechanism for types of transactions, (i.e., outsourcing/insourcing of services, disposal of acquired properties, leasing of bank properties, among others) which will serve as inputs for vetting RPTs;
- 4.2. Internal limits for individual and aggregate exposures to related parties based on reasonable basis/assumptions (for Subsidiaries/Affiliates); and
- 4.3. Responsibilities of personnel/business units for ensuring that RPTs below or exempted from materiality threshold for Board Oversight RPT Committee's review and regulatory reporting requirements are done in arm's length basis. These transactions are (i) transactions concerning deposit operations; (ii) regular trade transactions involving purchases and sales of debt securities traded in an active market; (iii) those granted under BSP-approved fringe benefit program; and (iv) credit card availments.

Likewise, Business Units' Compliance Officer Designates shall certify (to be formed part of the Regulatory Compliance Certification), that the RPT Policy Section of their respective manuals had been updated, and that an independent testing as well as compliance self-assessment are conducted.

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/companies and individuals must be an 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:

5.1 On arm's length basis

Dealings of a 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.

5.2 Exposures effectively monitored

Business Units of the bank are required to document all lending and credit accommodations to DOSRI and related parties; and record keeping must be in place. 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.

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.

5.4 Write-offs are made according to existing standard policies and processes.

Write-offs are allowed pursuant to Bank existing policy and only after securing prior approvals from the bank's board of directors and from the Monetary Board

6. Ensures that individual and aggregate exposures to related parties are within prudent levels consistent with the existing prudential limits and internal limits.

VII. GUIDELINES COVERING THE APPROVAL PROCESS OF RPTs

1. Identification of RPTs. The business units are directly responsible for the determination, full disclosure and reporting of the Bank's RPT dealings based on Board approved policies incorporated in the business/product manuals. They are also responsible to obtain appropriate approvals/endorsement of the RPTs from the respective Management/Board Committees with delegated authorities and submit same proposals to the BORC using the prescribed memo template, to be submitted five (5) days before a scheduled BORC meeting.
2. The following factors shall be considered in evaluating RPTs and shall be indicated in the RPT proposals

	Grant of Loans to Related Party (RP)	Sale of Assets to Related Party (RP)
1.	Name of RP borrower & relationship with Bank	➤ Name of RP buyer & relationship with bank
2.	Risk rating of borrower	➤ Selling Price
3.	Amount of loan, actual interest rate, repayment period, collateral	➤ Interest rate, repayment period, collateral (if sale by installment)
4.	Prevailing market rates for similar loans	➤ Price discovery mechanism employed, including appraised values, i.e. public/private bidding
5.	If collateral is deposit, interest rate on deposit	➤ Background and description of the asset
6.	Other material terms and conditions, including deviations from policy, if any	➤ Other material terms and conditions, including deviations from policy, if any
7.	Total exposure to borrower/related borrowers	➤ Terms general granted on similar transactions to similarly-situated buyers
8.	Terms generally granted to similarly-situated borrowers	

3. The BORC shall review, approve and endorse to the Board for final approval "All RPTs involving P500 Million and above".
4. For BORC notations are "All RPTs of at least P10 Million to less than P500 Million".

The Secretariat of EXCOM shall provide copy of agenda to verify whether there are RPTs requiring BORC review/approval/notation.

As such, RPTs should be processed and approved as part of the regular operating procedures to ensure that the transactions are conducted at arm's length.

5. The BORC may also review, approve and/or endorse to the Board RPTs directly endorsed by management, regardless of financial consideration, if the transaction is likely to have a significant impact on bank operations or regulatory compliance.
6. All 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 board and stockholders' meetings.
7. RPT not approved under this policy. In the event the bank becomes aware of a RPT with a Related Party that has not been approved under the RPT Policy prior to its consummation, the matter shall be reviewed by the appropriate Committee. Such Committee shall consider all of the relevant facts and circumstances regarding the RPT, and shall evaluate all options available to the bank, including ratification, revision or termination of the RPT. The appropriate Committee shall also examine the facts and circumstances pertaining to the failure of reporting such RPT to the Committee, and shall take any such action it deems appropriate. These RPTs will be for the BORC notation and endorsement to the board for confirmation.

VIII. RELATED PARTY TRANSACTIONS REPORTING

The Board, through the BORC, exercises appropriate oversight in the implementation of the control system for managing RPT exposures. It ensures that RPTs are handled in sound and prudent manner with integrity and conducted at arm's length basis in compliance with board approved RPT Policy Manual.

MATERIAL RPT**1. For RPTs from P10 Million and Above**

- Submit to the BORC for review, approval/notation and endorsement to the Board for approval
 - ✓ Refer to **Annex A** (Approval Sheet, BORC Evaluation Template & Guidelines in Accomplishing the Template)
- Report Material RPTs to Financial Accounting Division (FAD) quarterly
- FAD will consolidate and submit quarterly report to BSP on Material Related Party Transactions
- FAD shall disclose material RPTs to Bank's Annual Report

NON-MATERIAL RPT**2. For RPTs below P 10 Million**

- Endorse to respective Management Committees for review and approval/notation and ensure that such transactions are in the regular course of business and conducted in an arm's length basis.
- Subject to the authorized signatories under the Bank's existing Manual on Signing Authority (MSA).
- Document RPT review & approval process in the Management Committee Minutes of Meeting.
- Submit monthly (every 5th banking day after reference month) the Report on Non-material RPTs (below P10 Million materiality threshold) to Global Compliance Group - Corporate Governance Monitoring Division in soft copy approved by Head of Office.
- Global Compliance Group shall report monthly to BORC the consolidated Report on Non-material RPTs.
 - ✓ Refer to **Annex B** for the Report Format,
 - ✓ **Annex C** contains the List of Management Committees involved in the review and approval of RPTs.

IX. ACCESS TO RELATED PARTY DATABASE

The Bank's Related Party Database is available for access on PNBulletin: Cybermag, I-comply. The database can be used by business units & branches as a source of identifying Related Parties notwithstanding, other public documents available for the same purpose.

The Database which is periodically updated by Global Compliance Group comprises the following Related Party Lists:

- Conglomerate Map
- Ownership Structure
- List of PCD Nominee Corporation
- Directors
- Officers
- Subsidiaries and Affiliates
- LT Group of Companies
- Other Related Parties
- Other Related Parties with Economic Interdependencies

Updating of RPT database can only be done by the Global Compliance Group - Corporate Governance Monitoring Division using data publicly disclosed information from authorized sources

- All Units are required to report to Global Compliance Group – Corporate Governance Monitoring Division updates/identified related parties (addition/deletion) upon knowledge with supporting documents (GIS, Corporate Papers, Legal Docs, etc.) approved by Head of Office.
- Seek legal opinion, if necessary, to fully establish relationship.

- Annual Review of database shall be conducted by Global Compliance Group or Internal Audit Group

X. TRAINING PROGRAM

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.

XI. ASSESSMENT AND MONITORING

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

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); and
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.

XII. DISCLOSURES/REPORTS

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:

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 (Annex A - BSP Cir. No. 895).
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 (Annex B - BSP Cir. No. 895). 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 shall be reported once, upon approval of said transaction by the board of directors.

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.

XIII. SUPERVISORY ENFORCEMENT ACTION

The BSP may, among others, issue directives or sanctions on the bank and responsible persons which may include restrictions or prohibitions from certain authorities/activities; and warning, reprimand, suspension, removal and disqualification of concerned bank directors, officers and employees.

XIV. REFERENCES:

Reference/Source	Subject
<i>BSP Cir. No. 969/08-22-17</i>	<i>Enhanced Corporate Governance Guidelines for BSFIs</i>
<i>SEC MC No. 19/11-22-16</i>	<i>Code of Corporate Governance for PLCs</i>
<i>Compliance Bulletins</i>	<i>Compliance Bulletins updates issued by GCG concerning Related Party Transactions (RPTs)</i>
<i>BSP Cir. No. 914/06-23-16</i>	<i>Amendments to Prudential Policy on Loans, Other Credit Accommodations, and Guarantees granted to DOSRI, Subsidiaries & Affiliates</i>
<i>BSP Cir. No. 895/12-14-15</i>	<i>Guidelines on Related Party Transactions (RPTs)</i>
<i>SEC Memo Cir.#6 S2009 & #9 S2014</i>	<i>Revised Code of Corporate Governance</i>
<i>2015 SRC IRR</i>	<i>Securities Regulation Code</i>
<i>2015 BSP MORB</i>	<i>BSP Manual of Regulations for Banks as of October 31, 2015</i>
<i>BSP Circular No. 423/3-15-04</i>	<i>General Policy on Dealings of a Bank with its DOSRI</i>
<i>BSP Circular No. 560/1-31-07</i>	<i>Ceilings on loans, other credit accommodations and guarantees granted to Subsidiaries and Affiliates</i>
<i>BSP Circular No. 737/09-19-11</i>	<i>Real Estate and Chattel Transactions with DOSRI/Employees</i>
<i>BSP Circular Nos.749/2-27-12 & 757/5-8-12</i>	<i>Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions</i>
<i>BSP Memo No. M-2012-032</i>	<i>Frequently Asked Questions on Circular No. 749</i>
<i>RA No. 8791 (Sec. 36)</i>	<i>General Banking Law of 2000 (Restriction on Bank Exposure to DOSRI)</i>
<i>Basel Core Principles for Effective Banking Supervision No. 20</i>	<i>Transactions with Related Parties</i>