

## MESSAGE FROM THE CORPORATE GOVERNANCE COMMITTEE CHAIRPERSON



**FLORENCIA G. TARRUELA**  
CHAIRPERSON

The Bank, as a publicly listed company, has established a corporate governance framework in accordance with global standards and best practices. Through the years, the bank has sustained measures towards building a stronger corporate governance framework with its principles aligned with the evolving global changes. The Board of Directors believes that corporate governance is a dynamic concept founded on rules, systems and processes.

The Bank's corporate governance framework incorporates the functions, duties and responsibilities of the Board and Management to the stockholders and other stakeholders towards the promotion of a bigger, stronger, and better corporate governance culture. It takes into account the context and recommended practices of the ASEAN Corporate Governance Scorecard (ACGS). The framework strives to raise the Bank's corporate governance standards to a level that is at par with global standards and to make a significant contribution to the development of Philippine capital markets.

The PNB Board of Directors, Management and staff commit themselves to adhere to the highest principles of good corporate governance as embodied in the Bank's Amended Articles of Incorporation, Amended By-Laws, Code of Conduct and the Revised Corporate Governance Manual. The Bank subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business. This is achieved through fair dealings with its clients, investors, stockholders, the communities affected by its activities and various public; professionalism among its

Board of Directors, Executives and Employees in managing the Bank, its subsidiaries and affiliates; and respect for the laws and regulations of the countries affecting its businesses. The Bank also follows a philosophy of rational check and balances as well as a structured approach to its business operations.

The bank has a Corporate Governance Committee that also acts as the Nomination and Remuneration Committee which was created to assist the Board of Directors in fulfilling its corporate governance responsibilities and ensure the Board's effectiveness in discharging its mandate.

The Corporate Governance/Nomination/Remuneration Committee is composed of five (5) members of the Board of Directors, with four (4) Independent Directors and the President. The Chairman of the committee is an Independent Director.

The Committee has the authority to give the Board of Directors a larger role in establishing strategic objective; setting and enforcing clear lines of responsibility; and ensuring that Board members are qualified for their positions. It also ensures that the Board has a clear understanding of their role in corporate governance and is not subject to undue influence from Management or outside concerns; effectively utilizes the work conducted by internal and external auditors.

As the Nomination and Remuneration Committee, it ensures that compensation approaches are consistent with the Bank's ethical values, objectives, strategy and control environment. The Committee pre-screens and shortlists all candidates nominated to become a member of the Board of Directors in accordance with the qualifications and disqualifications. It determines whether the nominees are fit and proper and qualified to be elected as member of the Board. It establishes a formal and transparent procedure for developing a policy on remuneration and for fixing the remuneration package of directors and corporate officers; and provides oversight on remuneration of Senior Management and other key personnel ensuring that compensation is consistent with the Bank's culture, financial capacity, and business strategy and control environment.

The Bank recognizes and believes the benefits of diversity in the Board of Directors on account of age, gender, nationality or race, cultural background, education, professional experience, skills, knowledge, length of service and other regulatory requirements. The Board is represented by a combination of highly qualified business professionals, former bank presidents and senior officials affiliated with regulatory bodies and international organizations with highest level of integrity, decade of experience and technical expertise in banking and finance. Furthermore, it is composed of individuals with distinct finance, marketing, audit, risk and legal competencies as well as business leaders with extensive knowledge and experience in different industries such as real estate, fast moving consumer goods and airline industry. This broad and collective range of expertise provides value in strengthening, sustaining and upholding good corporate governance practices of the Bank.

The Bank's Board of Directors consists of former Bank presidents and well respected finance professionals (Mr. Florido P. Casuela, Mr. Leonilo G. Coronel, Mr. Federico C. Pascual, Mr. Edgar A. Cua and Mr. Reynaldo A. Maclang); experienced regulator who represented the country with the IMF and World Bank (Mr. Felix Enrico R. Alfiler); an esteemed accounting and management consulting guru (Mr. Washington Z. SyCip); a renowned leader in the business community (Mr. Lucio C. Tan); one of the best legal minds in the Philippines (Mr. Estelito P. Mendoza); well-known consumer marketing experts (Mr. Cecilio K. Pedro and Mr. Christopher J. Nelson); and business leaders with extensive knowledge and experience in different

industries such as real estate, fast moving consumer goods, and airline industry (Ms. Carmen K. Tan, Messers Lucio K. Tan, Jr. and Michael G. Tan).

The Board and Management believe that corporate governance is a critical component of sound strategic business management and will, therefore, undertake every effort necessary to create awareness within the organization to ensure that the principles of fairness, accountability and transparency are indispensable in conducting the day-to-day business of the Bank, its subsidiaries and affiliates. Through the Corporate Governance Committee, the PNB Board and the respective Board of its subsidiaries and affiliates continue to strengthen the corporate governance policies and practices by adopting consistency in the corporate governance framework across PNB Group.

The Bank's operations are managed through properly established organizational structure and adequate policies and procedures embodied in the manuals approved by the Management Committees, Board Committees and the Board. These manuals are subject to periodic reviews and updated regularly with new laws and regulations; and generally conform to evolving international standards and best practices. The Corporate Governance Manual describes the role and responsibilities as well as the scope of activities of the principal parties that directly or indirectly influence the corporate governance practices of the Bank, primarily the Members of the Board, the Chief Compliance Officer, the Chief Risk Officer, the Corporate Secretary, and, Internal and External Auditors. There are also independent Board Committees namely the Board Audit & Compliance Committee, Board Risk Oversight Committee, Corporate Governance/Nomination/Remuneration Committee and the Board Oversight Related Party Transaction (RPT) Committee with the Independent Directors, as Chairman of said committees. These independent Committees are held responsible for the monitoring and controlling of the business risks.

To sustain good corporate governance, the Board of Directors appointed the Chief Compliance Officer as the Corporate Governance Executive tasked to assist the Corporate Governance/ Nomination/Remuneration Committee and the Board in the discharge of their corporate governance oversight functions.

There are eight (8) Board Committees that have been instrumental in setting the tone for the corporate governance practices of the Bank, its subsidiaries and affiliates. These committees include the Board Executive Committee, the Corporate Governance/Nomination/Remuneration Committee, Board Oversight RPT Committee; Board Audit and Compliance Committee; Risk Oversight Committee; Board Trust Committee; Board Oversight Committee - Domestic and Foreign Offices/Subsidiaries; and Board IT Governance Committee.

In 2015, the Philippine Stock Exchange recognized PNB as one of the Top Ten Bell Awardees among the publicly listed companies. The award commends listed companies and trading participants that practice the highest standards of corporate governance in the country. The Bank was a recipient of the Silver Award for good corporate governance from the Institute of Corporate Directors (ICD) for two consecutive years (2011-2012). This is in recognition of the institution's existing organization composed of dedicated corporate directors and senior management committed to the professional corporate directorship in line with global principles of modern corporate governance.

In 2016, with the objective that the Bank's corporate governance ensures sustainability with the global standards and best practices, the Bank engaged the services of the Institute Corporate Directors, to evaluate the strengths and weaknesses of PNB Group vs. the ASEAN Corporate

Governance Scorecard (ACGS) standards. The engagement helped the Bank in the formulation of new policies towards improving both corporate governance and management practices.

The Bank continues to fervently pursue Corporate Social Responsibility (CSR) initiatives by giving back to the community and creating value for all stakeholders. PNB Group, as member of the Lucio Tan Group of Companies, believes its corporate social responsibility is a commitment that begins with the exercise of sound and fair corporate practices. This ensures that its entire business is conducted in accordance with rigorous professional, ethical, regulatory and legal standards. As such the PNB Group has sustained that corporate social responsibility is a commitment that is shared by everyone in the group.

PNB undertook initiatives to promote sustainability as part of being a responsible corporate citizen through a three-pronged CSR framework:

1. Philanthropic Activities: PNB shall undertake various community/social and philanthropic activities to uplift the lives of the Filipino people by giving donations to selected charities, communities, schools, etc., for various projects on infrastructure improvement and social development including critical assistance in times of calamities and disasters;
2. Education: Empowering the youth and other identified sectors of Philippine society through education and other relevant development programs such as financial literacy is a key component of the Bank's CSR goals and programs. The Bank strongly believes in investing in the future through the provision of educational opportunities to deserving youth as well as propagating thrift, self-sufficiency and economic empowerment through financial literacy program; and
3. Environment: PNB is deeply committed to the cause of environmental protection as it is an issue that affects all mankind. The Bank sees its active involvement in protecting the environment as crucial contributions towards attaining the wider goal of sustainable development.

As part of the CG-related area, the PNB Board approved the Revised Corporate Governance Manual in August 2016, aligned with SEC Code of Corporate Governance and the Philippine Corporate Governance Blueprint 2015 - "Building a Stronger Corporate Governance Framework". PNB will adopt the new SEC Code of Corporate Governance for Publicly Listed Companies this 2017.

The Corporate Governance Framework Awareness Program, including monitoring and formulation of new policy guidelines has been effectively implemented in PNB Group. There has been sustained awareness among bank employees on corporate governance policy guidelines. The same corporate standards have been adopted across the PNB subsidiaries and affiliates.

**FLORENCIA G. TARRUELA**  
Corporate Governance Committee Chairperson

## CORPORATE GOVERNANCE

The Bank acknowledges that corporate governance is a dynamic concept and is a framework of rules, systems and processes in the organization. It has established a corporate governance framework in accordance with global standards and best practices. It has sustained building a stronger corporate governance framework as its principles constantly evolves globally. The Bank's corporate governance framework incorporates the functions, duties and responsibilities of the Board and Management to the stockholders and other stakeholders. It provides direction towards the promotion of a bigger, stronger, and better corporate governance culture, while recognizing the current best practices. It takes also into account the context and principles prescribed under the ASEAN Corporate Governance Scorecard (ACGS). The framework also strives to raise corporate governance standards to a level that is at par with global standards and provide sustainable contribution to the development of Philippine capital markets.

The Bank adheres and strives to the highest principles of good corporate governance as embodied in the Bank's Amended Articles of Incorporation, Amended By-Laws, Code of Conduct and this Revised Corporate Governance Manual; and at the same time PNB believes that Corporate Social Responsibility is a commitment that is shared by everyone in the Bank. It subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business; dealing fairly with its clients, investors, stockholders, the communities affected by the Bank's activities and various public. The Bank espouses professionalism among its Board of Directors, Executives and Employees, Subsidiaries and Affiliates, and respect for laws and regulations. The Bank continues to fervently pursue Corporate Social Responsibility (CSR) initiatives by giving back to the community and creating value for all stakeholders as it is a commitment that begins with the exercise of sound and fair corporate practices. PNB believes that Corporate Social Responsibility is a commitment that is shared by everyone in the Bank.

The Bank's operations is managed through an established organizational structure and adequate policies and procedures embodied in the manuals approved by management, board committees and the Board. These manuals are subjected to periodic review and are updated regularly with new laws and regulations and conform to the evolving global and regional standards and best practices. The Bank has adopted the 2016 Revised Corporate Governance Manual to align its internal policies with recently issued regulatory guidelines and new reportorial disclosures for significant transactions for related parties.

The Bank was a recipient of the Silver Award for good corporate governance from the Institute of Corporate Directors (ICD) for two consecutive years, in 2011 and 2012. This is in recognition of the Bank's existing organization composed of dedicated corporate directors and senior management committed to the professional corporate directorship in line with global principles of modern corporate governance. In 2015, PNB was recognized among all publicly listed companies in the country by the PSE as one of the Top Ten Bell Awardees. The awards commend publicly listed companies and trading participants that practice the highest standards of corporate governance in the Philippines.

In 2016, with the objective that the Bank's corporate governance ensures sustainability with the global standards and best practices, the Bank engaged the health check services of the Institute of Corporate Directors (ICD), to identify the strengths and weakness of its corporate governance practices vs. the ASEAN Corporate Governance Scorecard (ACGS) standards.

### BOARD OF DIRECTORS

Bank compliance with the highest standards in corporate governance principally starts and led by the Board of Directors, composed of fifteen (15) members including five (5) independent directors and Chairperson. The members of the Board are selected from a broad pool of competent and qualified candidates. The nominated Board members are elected annually by the stockholders. The Board is mandated to take final responsibility for exercising oversight function over management, while taking a long-term view in securing the Bank's sustainability through due observance of fairness, transparency, and accountability under a corporate regime underpinned by ethics and social responsibility. Further, the Board has the primary responsibility for approving and overseeing the implementation of the Bank's strategic objectives, risk management strategy, corporate governance and corporate values, to foster the long-term success of the Bank, its subsidiaries and affiliates; and secure its sustained competitiveness and profitability in a manner aligned with its corporate objectives and the best interests of its shareholders and other stakeholders.

The Bank observes diversity in the Board as there is no restriction on the membership of the Board on account of age, gender, nationality or race. The Board is represented by a combination of highly qualified business professionals, former bank presidents and senior officials affiliated with regulatory bodies and international

organizations. The members of the Board believe in the highest level of integrity and possess broad and collective range of expertise that provides value in sustaining and upholding good corporate governance practices in the Bank.

The Board of Directors, the key officers of the Bank and its subsidiaries undergo continuous and sustainability training program in corporate governance. In August 2016, the Board and the entire Senior Management participated in the Securities and Exchange Commission (SEC) Corporate Governance Forum. PNB Group has four (4) directors inducted as "fellows". Three (3) directors were confirmed by the Philippine Institute of Corporate Directors and one director certified as "fellow" by the Australian Institute of Corporate Directors. This is attributed to their distinguished reputation and commitment to the highest standards of corporate governance principles, ethics and social responsibility.

### INDEPENDENT DIRECTORS

In carrying out their duties and responsibilities, the directors must act in a prudent manner and exercise independent judgment while encouraging transparency and accountability. The Bank has five (5) independent directors, representing 33% of the Board beyond the SEC 20% requirement. The appointment of the 5 independent directors includes the Board Chairperson Florencia G. Tarruela, and Board members Felix Enrico R. Alfiler, Edgar A. Cua, Federico C. Pascual, and Cecilio K. Pedro, were approved and confirmed by the appropriate regulatory bodies.

The independent directors act as Chairman of the Board, Corporate Governance/Nomination/ Remuneration Committee, Board Audit and Compliance Committee, Board Oversight RPT Committee, Board Risk Oversight Committee and Board Trust Committee.

### CHAIRPERSON OF THE BOARD

The Board Chairperson is Ms. Florencia G. Tarruela, a position she holds since 2005. Chairperson Tarruela has extensive experience in the banking industry and is an active member of numerous banking and non-profit institutions. She is currently a Life Sustaining Member of Bankers Institute of the Philippines (BAIPHIL) and a director of Financial Executive of the Philippines (FINEX). She is also a Board Trustee of TSP Development Corporation since 2003. She was

a former Undersecretary of Finance; a former Alternate Board Member of the Monetary Board of Bangko Sentral ng Pilipinas; was Alternate Board Member of Land Bank and PDIC; and was a Managing Partner & the First Filipina Vice President of Citibank N.A., Philippines. As an Independent Director, Chairperson Florencia G. Tarruela sits as Chairman of Corporate Governance/Nomination/Remuneration Committee and member of the two (2) Board Committees namely: Board Audit and Compliance Committee, and Board IT Governance Committee. She also sits as a Non-Voting Member in the Executive Committee.

The Board Chairperson works closely with the President and Chief Executive Officer. This complementary relationship provides appropriate balance of power, increased accountability, and independent decision making by the Board while management having the responsibility to execute strategic plans of the Bank.

### BOARD COMMITTEES

The following eight (8) Board Committees have been instrumental in setting the tone for the corporate governance practices of the Bank, its subsidiaries and affiliates: Board Executive Committee; Corporate Governance/Nomination/Remuneration Committee; Board Audit and Compliance Committee; Board Risk Oversight Committee; Board Trust Committee; Board Oversight RPT Committee; Board Oversight Committee- Domestic and Foreign Offices/Subsidiaries; and Board IT Governance Committee.

The authority, duties and responsibilities, as well as the frequency of the board committee meetings are stated in their respective charters. Meetings are generally held on a monthly basis which may include special board committee meetings when necessary. The board committee secretariats are responsible for ensuring that the regular agenda of the meetings and resource persons are informed and provided with committee materials prior to meetings. The committee secretariat prepares the minutes of the committee meetings for endorsement and confirmation of the PNB Board and records the attendance of the committee members.

The Independent Directors are appointed Chairman of the oversight control committees namely: the Board Corporate Governance/Nomination/Remuneration Committee, Board Audit and Compliance Committee; Board Risk Oversight Committee; and Board Oversight RPT Committee.