

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.