

during the OWWA OFW Family Day last December 8, 2016 at the City Coliseum, Tetuan, Zamboanga City.

Protecting Natural Resources

Committed to the cause of environmental preservation, Southern Luzon 3 Branches participated in the Marian Fluvial Procession in Laguna de Bay to show solidarity with the Ministry of Ecology of the Diocese of San Pablo City’s run and relief activity dubbed as *Lakbay-Lawa Kaisa ni Maria*. The activity highlighted the need for the protection of Laguna de Bay. The branches also provided food and drinks to the participants.

Taking Steps Towards Sustainability

PNB introduced bank-wide projects to reduce its carbon footprint, which include:

- Reducing power consumption by using LED lighting for and upgrading equipment at the head office and branches
- Utilizing more ozone-friendly and energy-efficient cooling equipment
- Using high-energy efficient inverter air-conditioning units
- Improving waste management through proper waste segregation
- Holding the annual tree-planting program, usually held during the Bank’s anniversary
- Participating in the annual Earth Hour, a global event where non-essential electric usage is turned off to support strategies in solving climate change

M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

Under the Bank’s Revised Corporate Governance Manual, the Board established an evaluation system, a tool to determine and measure directors and management compliance with the corporate governance standards and principles.

There are **two (2) sets of Evaluation Forms** that will assess the bank’s corporate governance practices, using the five (5) point rating scale, with 5 being the highest rating.

1. Director’s Performance Evaluation Form I

The directors’ self-assessment on director’s Individual Qualitative Performance; the Board and Board Committees shall reflect the collective values, performance and competence of the board of directors on corporate governance standards and principles. On the other hand, the performance of the President/CEO is evaluated by the Board of Directors.

2. Management Component Rating Form II

The directors’ self-assessment on the four (4) management component factors, such as: Governance Landscape; Fitness and propriety of the Board and Management; Risk Governance; Controls and Independent Oversight shall reflect the quality and effective implementation of the Bank’s corporate governance practices.

Members of the Board conduct a self-assessment in order to evaluate the performance for the previous year. After the Directors’ self-evaluation, the results of the assessment are discussed and noted by the Corporate Governance/Nomination/Remuneration Committee before submission to the Board for notation.

N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees.

In case of violation of any of the provisions of the revised Corporate Governance Manual, the following penalties shall be imposed:

Violations	Sanctions
First Violation	Reprimand
Second Violation	Suspension (The duration will depend on the gravity of the violation)
Third Violation	Removal from the office (maximum penalty)

A fine of not more than Pesos: Two Hundred Thousand (P200,000) shall be imposed by the SEC for every year of violation of the Code of Corporate Governance, without prejudice to other sanctions that the Commission may be authorized to imposed under the law.



GUIDE ON HOW TO ACCOMPLISH THE FORMS

I. DIRECTOR'S PERFORMANCE EVALUATION FORM I

1. The director shall go over each question carefully and assign a rating using the five point rating scale of 1 to 5, with 5 being the highest:

5	Strong
4	Satisfactory
3	Less than Satisfactory
2	Deficient
1	Critically Deficient

2. Indicate the OVERALL RATING. It should not be based on the arithmetic average of the assigned ratings. Judgment should be exercised on how much weight should be given to a particular question.
3. No need to fill-up Record of Directors' Attendance in Board Meetings and in Board Committee Meetings as this shall be certified by the Corporate Secretary's Office.
4. On the last page of the form, the director shall affix its signature on the space provided.

II. MANAGEMENT COMPONENT RATING CHECKLIST FORM II

1. The director shall indicate Management Component Rating for each factor using the five point rating scale above (1 to 5).
2. Under the last column, state specific recommendations with issue/s identified, if any.
3. Indicate the OVERALL RATING. It should not be based on the arithmetic average of the assigned ratings. Judgment should be exercised on how much weight should be given to a particular factor taking into account critical issues that may be of highest supervisory concern and synthesizing how these have affected the quality of the bank's corporate governance.
4. On the last page, the director shall affix its signature on the space provided.

The duly accomplished Forms shall be submitted to the Chief Compliance Officer for consolidation and presentation to the Corporate Governance Committee. This shall be evaluated and endorsed to the Board for notation.

Indicate the Rating for each question using the five point rating scale (1 to 5) with "5" being the highest rating:

PART I - Questions on DIRECTOR's INDIVIDUAL Qualitative Performance	Rating				
	5 Strong	4 Satisfactory	3 Less Than Satisfactory	2 Deficient	1 Critically Deficient
1. Am I fully aware that my duty of loyalty to the bank demands that I always act with honesty, in good faith, and avoid conflicts of interest to the extent that my primary loyalty as a member of the Board is to the bank, as a whole, an institution with several shareholders as well as other stakeholders?					
2. Do I observe confidentiality, engage in responsible disclosures and actively participate in Board meetings and related activities?					
3. Do I take use of training opportunities on corporate governance to enhance my performance as a director?					
4. Am I able to draw the line between Board and Management responsibilities, by not getting involved in management and operational issues, and exercising diligent oversight on operations?					
5. Do I insist on the high quality standards of risk management, corporate governance and compliance in the services rendered by the internal and external auditors as well as pursue strict adherence to the bank's Code of Conduct and the Corporate Governance Manual?					
PART II - Questions to the BOARD					
A. Questions on the collective performance of the Board					
1. Does the Board set the Bank's corporate philosophy and its mission and vision statement and require the periodic update?					
2. Does the Board spend adequate time in overseeing the Implementation of strategic objectives, risk strategies and corporate values?					
3. Does the Board establish business plans taking into account the Bank's long term financial interests and risk capacity; and regularly monitor corporate performance vs. the strategic and business plans, and vs. annual financial objectives and operating plans/targets?					
4. Does the Board appoint competent and qualified management team, monitor its performance and adopt an effective succession planning program and likewise appoint independent directors in committees to carry out various critical responsibilities?					
5. Does the Board establish good governance by setting the Code of Conduct, and other behavioral standards for the board, management and employees; and articulate acceptable and unacceptable activities that could potentially result in conflict of interest or unethical conduct?					
B. Questions for THE CHAIRMAN					
1. Did I perform my duties and responsibilities expected of me as Chairman of the Board in accordance with the requirements in the corporate governance policies?					
2. Did I preside in Board meetings in such a way that will balance the pursuit of corporate strategic objectives and long term operational sustainability of the business?					
3. Did I encourage and give due consideration to independent views on matters being discussed in the Board meetings?					
4. Did I ensure effective functioning of the Board including maintaining a relationship of trust among Board members?					
5. Did I provide leadership in maintaining qualitative and effective lines of communication and timely information between the Board and management?					

C.4. Board Audit and Compliance Committee (BACC) - Member	5	4	3	2	1
4. Does the Committee regularly review and monitor the external auditor's competence, independence and objectivity to ensure overall effectiveness of the external audit process and approve the audit program of the external auditors prior to audit undertakings?					
5. Does the Committee review and approve the adequacy of the scope of work being performed by the Internal Audit Group and Global Compliance Group?					
C.5. Board Oversight RPT Committee (BORC) - Member	5	4	3	2	1
1. Is the committee being chaired by Independent Director (ID) and is composed mostly of IDs?					
2. Does the Committee monitor and evaluate the adequacy & effectiveness of the Bank's internal control system, including financial reporting control & information technology security; and provide oversight on the functions of internal & external auditors & compliance officers?					
3. Does the Committee review the financial statements prior to submission to the Board with due care & attention, asking for actionable points that demand consideration & decisions by the Board?					
4. Does the Committee regularly review and monitor the external auditor's competence, independence and objectivity to ensure overall effectiveness of the external audit process and approve the audit program of the external auditors prior to audit undertakings?					
5. Does the Committee review and approve the adequacy of the scope of work being performed by the Internal Audit Group and Global Compliance Group?					
C.6. Trust Committee (TRUST) - Member	5	4	3	2	1
1. Does the Committee oversee trust and other fiduciary activities within the sphere of authority as provided in the by-laws and/or delegated by the Board of Directors?					
2. Does the Committee ensure that fiduciary activities are conducted in accordance with applicable laws, regulations and prudent practices?					
3. Does the Committee oversee the implementation of the risk management framework and internal controls are in place relative to the fiduciary activities?					
4. Does the Committee submit regularly reports to the Board on matters arising from fiduciary activities?					
5. Does the Committee review and approve the organizational structure and operating budget to enable Trust Banking Group to effectively carry out its functions?					
C.7. Board Oversight Committee - Domestic & Foreign Offices/Subsidiaries -Member	5	4	3	2	1
1. Does the Committee effectively oversee the strategic/business plans, marketing & product programs to ensure profitable operations and long-term viability of the entities consistent with the bank's strategic goals?					
2. Does the Committee effectively oversee the risk management, internal controls, overall operations and regulatory compliance of the domestic entities and overseas offices?					
3. Does the Committee review thoroughly the financial performance and the reports on management profitability reviews of the domestic and foreign entities?					
4. Does the Committee review and evaluate key officers recommended to be hired and/or appointed for the foreign offices as well as nominated to positions requiring the appointment of the respective members of the Board?					
5. Does the Committee review and evaluate the business models/licenses, operations policies and procedures manuals, IT systems and developments, major marketing tie-ups of the entities?					
C.8. Board IT Governance Committee (BITGC) - Member	5	4	3	2	1
1. Does the Committee effectively oversee the development of the short-term and long-term IT strategic plans and endorses approval of the annual IT Strategic Plan to the Board?					
2. Does the Committee review and approve IT Project proposals that are consistent with the overall IT Strategic Plan?					
3. Does the Committee ensure the effective implementation of the IT framework enterprise wide and monitor actions taken by management to strengthen the compliance with regulatory requirements?					
4. Does the Committee evaluate and approve the IT organizational structure/functions and the corresponding budget requirements?					
5. Does the Committee conduct on a regular basis IT risk assessment for Parent Bank and across all entities of the PNB Group?					

Record of Actual Attendance of Board Committee Meetings: (To be provided/certified by the Corporate Secretary's Office)	5	4	3	2	1
For the year 2016, (Name of Director) participated in the following committees:					
1. CGC : ___ out of the total ___ meetings 2. EXCOM : ___ out of the total ___ meetings 3. ROC : ___ out of the total ___ meetings 4. BACC : ___ out of the total ___ meetings 5. BORC : ___ out of the total ___ meetings 6. TRUST : ___ out of the total ___ meetings 7. BOC-DFOS : ___ out of the total ___ meetings 8. BITGC : ___ out of the total ___ meetings					
OVERALL RATING	5	4	3	2	1
<i>(Note: It should not be based on the arithmetic average of the assigned ratings. Judgment should be exercised on how much weight should be given to a particular question)</i>					

(NAME OF DIRECTOR)
Signature Over Printed Name

Date

The five point rating scale is described as follows:

5 – Strong	The quality of corporate governance practices EXCEEDS what is prescribed under the existing regulations. Deficiencies/weaknesses are considered to be minor and insignificant.
4 - Satisfactory	The quality of corporate governance practices MEETS what is prescribed under the existing regulations. Deficiencies/weaknesses may exist but these do not affect the overall quality of governance in a bank.
3 - Less than Satisfactory	The quality of corporate governance practices DOES NOT MEET what is prescribed under the existing regulations. The Board and Management are committed to correct the situation in a timely manner.
2 – Deficient	The quality of corporate governance practices is DEFICIENT in a material way, to meet what is prescribed under the existing regulations. The ability of the Board and Management to correct the situation in a timely manner is doubtful.
1 – Critically Deficient	The quality of corporate governance practices is CRITICALLY DEFICIENT to meet what is prescribed under the existing regulations. The deficiencies/weaknesses pose an imminent threat to the safety and soundness of the bank.

Reference: BSP Memorandum No. M-2013-002 dated January 11, 2013

PHILIPPINE NATIONAL BANK

ASSESSMENT OF THE QUALITY OF THE BANK'S CORPORATE GOVERNANCE

MANAGEMENT COMPONENT RATING CHECKLIST

For the Year 2016

Indicate the Management Rating for each factor using the five point rating scale (1 to 5) – 5 being the highest rating

MANAGEMENT RATING FACTOR	Rating Scale					Action Recommendations w/Issues Identified
	5	4	3	2	1	
I. GOVERNANCE LANDSCAPE						
a) Corporate Structure						
➤ Board-approved organizational structure						
➤ Clearly defines reporting lines and scope of accountability						
➤ Reflects the independence of control function						
➤ Indicates the actual operating framework						
➤ Involves periodic update and review						
b) Attitude Towards Regulators						
➤ Maintaining a constructive working relationship with regulatory/supervisory agencies						
➤ Espousing a cooperative stance toward the regulator						
c) Responsiveness to Complaints/Concerns						
➤ Establishing a system and maintaining database for complaints/concerns received						
➤ Reporting of "serious cases" to the Board						
d) Risk Consciousness of Employees						
➤ Results from an effective cascade of the overall objectives and strategies of the organization						
➤ Reflects the level of employees' awareness of the impact of their special function in achieving the overall goal of the bank and the extent to which they are aware of the specific risks arising from the processes they are involved in						
e) Ethical Culture						
➤ Develops out of the bearing of the Board to implement the policies, which is reflected in its performance and decisions						
➤ Involves evaluation on how management attends to instances of whistle-blowing						
f) Transparency Practices						
➤ Reflect Board and Management's recognition of their accountability to the different stakeholders						
➤ Quality of public disclosures may be assessed through amount and accuracy reflected in: <ul style="list-style-type: none"> • Audited Financial Statements • Annual Reports • Bank's Websites 						
II. RISK GOVERNANCE						
➤ Effectiveness and extent of Board oversight over the bank risk management from strategic goal setting to addressing the weaknesses/deficiencies noted						
➤ Reflects the extent to which board approval is required for policies, methodologies and limits for managing risk exposures						
➤ Covers the assessment of the adequacy of resources and performance of the risk management unit/function						

MANAGEMENT RATING FACTOR	Rating Scale (5 being the highest)					Action Recommendations w/Issues Identified
	5	4	3	2	1	
III. FITNESS AND PROPRIETY OF BOARD AND MANAGEMENT						
1. Characteristics and propriety of the composition of the Board and Management. The Board should						
➤ have a comprehensive appreciation of the risk exposure of the Bank						
➤ assess its performance as a collective body and performance of its committees						
➤ approve and regularly review the compensation policies of the bank						
➤ select CEO and members of the management team						
IV. CONTROLS AND INDEPENDENT OVERSIGHT						
1. Effectiveness of the oversight of Board of Directors over internal controls and independent oversight bodies. The Board should:						
➤ Appoint heads of internal audit, compliance and risk management units and select the external auditor						
➤ Regularly review the independence and effectiveness of control functions						
OVERALL COMPONENT RATING FOR MANAGEMENT*						

** It should not be based on the arithmetic average of the ratings assigned to the 4 factors. Judgment should be exercised on how much weight should be given to a particular factor.*

The five point rating scale for the Management Component Rating is described as follows:

5 - Strong	The four factors that characterize the quality of governance EXCEED what is prescribed under the existing regulations considering the size, risk profile and complexity of bank operations. Deficiencies/weaknesses are considered to be minor and insignificant.
4 - Satisfactory	The four factors that characterize the quality of governance MEET what is prescribed under the existing regulations considering the size, risk profile and complexity of bank operations. Deficiencies/weaknesses may exist but these do not affect the overall quality of governance in a bank.
3 - Less than Satisfactory	The four factors that characterize the quality of governance DO NOT MEET what is prescribed under the existing regulations considering the size, risk profile and complexity of bank operations. The Board and Management are committed to correct the situation in a timely manner.
2 - Deficient	The four factors that characterize the quality of governance are DEFICIENT in a material way, to meet what is prescribed under the existing regulations considering the size, risk profile and complexity of bank operations. The ability of the Board and Management to correct the situation in a timely manner is doubtful.
1 – Critically Deficient	The four factors that characterize the quality of governance are CRITICALLY DEFICIENT to meet what is prescribed under the existing regulations considering the size, risk profile and complexity of bank operations. The deficiencies/weaknesses pose an imminent threat to the safety and soundness of the bank.

Signature Over Printed Name

Date