



PNB GENERAL INSURER’S CO., INC

**RELATED PARTY TRANSACTIONS (RPTs) POLICY FRAMEWORK
DECEMBER 2017**

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I. POLICY STATEMENT

The Board of Directors, Management and Staff of PNB General Insurer's Co., Inc. commit themselves to adopt and adhere with the Policy Framework on Related Party Transactions (RPTs). This framework was formulated in accordance with the requirements on Guidelines on Related Party Transactions for Insurance Commission's (IC) Covered Institutions (CIs).

II. OBJECTIVES

The RPT Framework aims to:

1. Articulate guidelines on the handling of any RPT dealings with Directors, Officers, Stockholders and their Related Interests (DOSRI) and other related parties;
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 company;
3. Ensure that the company 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 company's dealings with any of its DOSRI and related parties are conducted in the regular course of business and upon terms not less favorable to the company than those offered to others.

III. DEFINITION OF TERMS

For purposes of this policy framework, the following definitions shall apply:

1. **Related Parties** shall cover the company's subsidiaries as well as affiliates and special purpose entities that the company exerts direct/indirect control over or that exerts significant influence over the company; the directors, officers, stockholders, and related interests and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the company, hence, is identified as a related party.

Other Related Parties are entities linked to the company, 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 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 company 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 company 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** are persons related to the Company's directors, officers, and stockholders (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 Company's directors, officers and stockholders (DOS).
3. **Corresponding persons in affiliated companies** are the DOS of the affiliated companies and their 2nd degree relatives.
4. **Under section 290 of the Insurance Code** as amended by R.A. 10607: Control is presumed to exist if any person directly or indirectly owns, controls or holds with the power to vote forty percent (40%) or more of the voting securities of any other person. Provided, that no person shall be deemed to control another person solely by reason of his being an officer or director of such other person.
5. **Control of an enterprise** exists when there is:
 - 5.1 Under section 4 (i) of the Pre-need Code: Affiliate of, or affiliated with, a specified person refers to a person that directly or indirectly, through one (1) or more intermediaries, controls, or is controlled by, or is under common control with, the person specified, Exercising control over a legal entity solely or together with affiliated persons more than twenty-five percent (25%) of the outstanding capital stock of a legal entity; and (2) being an officer or director of such legal entity.
 - 5.2 Power to govern the financial and operating policies of the enterprise under a statute or an agreement;
 - 5.3 Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
 - 5.4 Power to cast the majority votes at meetings of the board of directors or equivalent governing body;
 - 5.5 Any other arrangement similar to any of the above.

Should the Company choose to disclaim or rebut the presumption, it should provide facts sufficient to show that there is indeed no control. Further, the company shall submit a written commitment that:

 - Shares owned or held are exclusively for investment purposes;
 - Company-Stockholder will not serve on the board of directors and will not nominate any candidate to serve on the board of otherwise seek board representation;
 - Company-Stockholder will have only limited contacts with the management that are customary for interested shareholders;
 - Company-stockholder will engage only in normal and customary transactions with the enterprise
 - Company will not pledge the shares acquired to secure a loan with any institution
6. **Related Party Transactions** are transactions or dealings with related parties of the Company, including its trust department, regardless of whether or not a price is charged. These shall include, but not limited to the following:
 - 6.1 On-and off-balance sheet credit exposure and claims and write-offs
 - 6.2 Investments and/or subscriptions for debt/equity issuances;

- 6.3 Consulting, professional, agency and other service arrangements/contracts;
- 6.4 Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks, and license agreements);
- 6.5 Construction arrangements/contracts;
- 6.6 Lease arrangements/contracts;
- 6.7 Trading and derivative transactions;
- 6.8 Borrowing, commitments, fund transfers and guarantees;
- 6.9 Sale, purchase or supply of any goods or materials; and
- 6.10 Establishment of joint venture entities.

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also include outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

7. **Insurance Group** refers to a group structure which contains two or more insurers.

8. **Directors**

- 8.1 Named in the articles of incorporation;
- 8.2 Duly elected by stockholder; and
- 8.3 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.

9. **Officers**

- 9.1 Whose duties are defined in the by-laws, or are generally known to be the officers of the company
- 9.2 Directors whose duty includes functions of management; and
- 9.3 Group or committee members, whose duties include functions of management such as those ordinarily performed by regular officers, and are not purely recommendatory or advisory.

10. **Stockholder** – those with stockholdings in the lending company, individual and/or collectively with the stockholdings of: (1) his spouse and/or relative within the first 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 fifty percent (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 company.

11. **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 company or who is directly or indirectly the registered or beneficial owner of more than ten percent (10%) of any class of its equity security.

12. **Majority Stockholder** – a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a company.

13. **Related Company** – shall refer to another company which is:

- 13.1 Its parent or holding company;
- 13.2 Its subsidiary or affiliate; or

13.3 A corporation where a company 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.

14. **Related Interest** – shall refer to any of the following:

- 14.1 Spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of a director, officer or stockholder of the company;
- 14.2 Partnership of which a director, officer or stockholder of the company or his spouse or relative within the 1st degree of consanguinity or affinity, or relative by legal adoption, is a general partner;
- 14.3 Co-owner with the director, officer, stockholder 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;
- 14.4 Corporation, association or firm of which any or a group of directors, officers, stockholders of the lending company and/or their spouses or relatives within the first 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;
- 14.5 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;
- 14.6 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 company or which controls majority interest of the company;
- 14.7 Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the company; and
- 14.8 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 companies.

15. **Parent** - a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries.

16. **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.

17. **Affiliate** – an entity linked directly or indirectly to a company by means of:

- 17.1 Ownership, control, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice-versa;
- 17.2 Interlocking directorship or officership, where the concerned director or officer owns, controls, or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;
- 20.3 Common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the company and at least twenty percent (20%) of the outstanding voting stock of the borrowing entity;
- 17.4 Management contract or any arrangement granting power to the company to direct or cause the direction of management and policies of the borrowing entity; or
- 17.5 Permanent proxy or voting trusts in favor of the company constituting at least twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

In cases where the borrowing entity is linked to the lending company both as DOSRI and as a subsidiary or affiliate, the DOSRI rules shall apply.

18. **Financial Allied Undertakings** – shall refer to enterprises or firms with homogeneous or similar activities/business/function with the financial intermediary, such as but not limited to, leasing companies, banks, investment houses, financing companies, credit card operations, FIs addressed/catering to small and medium scale industries.
19. **Conflict of Interest** - is a breach of an obligation to the company 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 company.

IV. COVERED RELATED PARTIES

1. Directors, Officers, Stockholders and Related Interests (DOSRI), (RI limited to 1st degree relatives). For officers of the company, it is limited to the rank of at least Manager;
2. Close family members of company's DOS (up to 2nd degree relatives);
3. Bank's subsidiaries and affiliates;
4. Other related parties/entities linked directly or indirectly to the company;
5. Any party that the company exerts direct/indirect control over (downstream relationship); or that exerts direct/indirect control over the company (Upstream relationship);
6. Subsidiaries, affiliates and SPEs of "5";
7. DOS and their 2nd degree relatives of the affiliated companies (Nos. 3, 5, 6 above, and corporate related interests); and
8. Any person/juridical entity that has interest which may pose potential conflict with the interest of the company. This pertains to Board-identified related parties which do not fall among those enumerated but whose transactions with the company also pose conflict of interest situations, such as exposures with significant economic dependence.

V. BOARD AND SENIOR MANAGEMENT OVERSIGHT

The company 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 company.

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 the policy holders, claimants, creditors and stakeholders of the company.

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

- 1.1 Set the tone of good governance; approve policies and procedures, as well as changes on the handling of RPTs to ensure that adoption of RPT policy and effective compliance with existing laws, rules and regulations would result to RPTs that are conducted on an arm's length basis; and that no stakeholder is unduly disadvantaged.

- 1.2 Approve material RPTs and all DOSRI, particularly those that exceed regulatory statutory limit; renewal or material changes in the terms and conditions of RPTs; policy deviations; and write-off of material exposures to related parties. On the other hand, approval and monitoring of RPTs that are below the materiality threshold shall be delegated to appropriate management/board committee, which are required to be approved by the Board.
- 1.3 Establish an effective monitoring system to determine, identify related parties and its transactions; continuously review and evaluate existing relationships between and among businesses and counterparties; identify, measure, monitor and control risk arising from RPTs.
- 1.4 Maintenance of adequate capital against risks associated with exposures to related parties and consideration of risks from material RPTs in the company's capital planning process.
- 1.5 Oversee the integrity, independence and effectiveness of the policies and procedures for whistleblowing.
- 1.6 Oversee periodic independent review or audit of transactions with related parties, including write-off of exposures.
- 1.7 Delegate RPT Committee to assist the Board in performing its oversight functions for avoiding potential conflicts of interest of shareholders, board members, management, and other stakeholders of the company. Its duties and responsibilities include the following:
 - 1.7.1 Evaluate on an ongoing basis existing relations between and among businesses and counterparties of the company to ensure that all related parties are continuously identified, RPTs are monitored and relationship from non-related to related and vice versa are captured.
 - 1.7.2 Evaluate all material RPTs and ensure that processes and approvals are conducted at arm's length basis where the price, commissions, interest rates, fees, tenor, collaterals requirement and other terms and conditions are comparable to the terms generally available to an unrelated or third party clients under similar circumstances; and that no business resources of the company are misappropriated or misapplied.
 - 1.7.3 Endorse to the board for approval/notation all RPTs that are reviewed/approved by the committee.
 - 1.7.4 Establish materiality threshold for RPTs requiring board approval through BACC; and individual and aggregate limits for exposures to related parties.
 - 1.7.5 Ensure submission of board approved RPTs on a quarterly basis to the parent bank through PNB Controllership Group for incorporation in the consolidated report to be submitted to BSP.
 - 1.7.6 Report to the board 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.
 - 1.7.7 Ensure that transactions with related parties, including write-off of exposures are subject to periodic independent review or audit process.
 - 1.7.8 Oversee the implementation of the system for identifying, monitoring, measuring, controlling and reporting RPTs, including the periodic review of RPT policies and procedures.

2. Senior Management

Senior Management implements appropriate controls to effectively manage and monitor RPTs on a per transaction and aggregate basis; periodic review and update of covered related parties; adoption and proper implementation of RPT policies and procedures and compliance with the reporting requirements; ensure that RPT dealings are conducted on arm's length basis.

The Internal Auditor shall conduct a periodic formal review of the effectiveness of the company’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 through the Board Audit and Compliance Committee.

On the other hand, the Compliance Officer shall ensure that the company complies with RPT relevant rules and regulations. It shall aid in the review of the company’s transactions and identify any potential RPT that would require review and/or approval by the Committee/Board. It shall ensure that the RPT policy is kept updated and is properly implemented throughout the Bank.

VI. GENERAL GUIDELINES

1. Related Party Transactions (RPTs) are generally allowed provided that these are above board and conducted on an arm’s length basis; monitors such transactions; take appropriate steps to control or mitigate the risks; and write off of exposures to related parties are in accordance with standard policies and processes.
2. The RPT Framework covers and captures 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 company, and its stakeholders.
3. All transactions entered by the company to covered related parties should be conducted in the regular course of business (fair process), within terms and conditions that are comparable to the terms generally available to an unrelated or 3rd party under similar circumstances.
4. 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 company.
5. 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 company.
6. Whistleblowing mechanism shall be consistent with the corporate values and codes of conduct set by company’s board of directors.
7. In evaluating RPTs to ensure that these are conducted arm’s length, the committee shall take into account the following:
 - Related party’s relationship to the company and interest in the transaction;
 - Material facts of the proposed RPT, i.e. significant terms and conditions and relevant circumstances; including the proposed aggregate value of such transaction;
 - Benefits to the company 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.
 - Sample of the minimum contents of the RPT proposals:

Sale of Assets to Related Party (RP)
<ul style="list-style-type: none"> • Name RP buyer (relationship with the company) • Selling Price • Interest Rate, repayment period, collateral (if sale by installment) • Price discovery mechanism employed (including appraised values), i.e., public bidding • Background and description of the asset • Other material terms and conditions (including deviations from policy) • Terms generally granted on similar transactions to similarly situated buyers.

8. Materiality threshold of P 1 Million for Property, Engineering and Aviation and P 250,000.00 for other lines requiring board approval through RPT Committee is determined based on whether the omission or misstatement of the transaction could pose significant risk to the company and could influence economic decision of the board.
9. Limits for individual and aggregate exposures to Other Related Parties shall be P 500,000.00 consistent with the company's risk profile/appetite and capital strength.
10. Exemption from the materiality threshold and regulatory reporting requirements are 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 availment.

VII. REPORTING, ASSESSMENT AND MONITORING

1. The company shall report its material RPTs to the parent bank through the Controllership Group within 10 calendar days after the end of each reference quarter which in turn shall submit the same to the BSP in a consolidated report.
2. The Internal Auditor shall conduct a periodic review of the effectiveness of the company's internal controls governing RPTs to assess consistency with the board-approved policies and procedures.
3. The Compliance Unit shall ensure that the company complies with relevant RPT rules and regulations. It shall aid in the review of the company's transactions and identify any potential RPT that would require review by the RPT Committee/Board. It shall ensure that RPT policy is kept updated and is properly implemented throughout the company.
4. Exemption from the materiality threshold and regulatory reporting requirements are subject to regular monitoring and assessment.

VIII. TRAINING

Employees' training on RPT policy, as well as changes in the relevant RPT rules and regulations shall be included in the Compliance Awareness Training Program to be conducted by the company's Compliance Officer.