



PNB GENERAL INSURER'S CO., INC.

RELATED PARTY TRANSACTIONS (RPTs) POLICY MANUAL

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PNB GENERAL INSURER'S CO., INC.

RELATED PARTY TRANSACTIONS (RPTs) POLICY MANUAL

I. POLICY STATEMENT

The Board of Directors and Management and Staff of PNB General Insurers Company, Inc. commit themselves to adopt and to adhere with the Policy on Related Party Transactions (RPTs) formulated in accordance with the requirements of SEC Revised Code of Corporate Governance; Securities Regulation Code; and BSP Guidelines in Strengthening Corporate Governance Related Party Transactions (RPTs); as well as Guidelines on Related Party Transactions, and other related laws and regulations.

The Company recognizes that transactions between and among related parties create financial, commercial and economic benefits to individual institutions and to the entire PNB Group. Related Party Transactions (RPTs) are generally allowed provided that these are done on an arm's length bases and in accordance with the existing RPT policy guidelines. It is the Company policy that RPTs are conducted at arms-length with any consideration paid or received by the company or any of its related parties. These RPTs shall be in the regular course of business and upon terms not less favorable to the company than those terms and services offered to others or any third party or non-affiliate.

The Board, through the Corporate Governance/Nomination/Remuneration/RPT Committee, exercises appropriate oversight in the implementation of the control systems for managing RPT exposures as these may potentially lead to abuses that are disadvantageous to the company and its depositors, creditors and other stakeholders.

II. OBJECTIVES

The RPT Policy Manual objectives:

- Articulates clear policies on handling of any RPT dealings with other related parties ensuring that there is compliance with existing laws, rules and regulations at all times;
- Articulates acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the institution, or unethical conduct;
- Ensures that the company exercises appropriate oversight and control over its RPTs while promoting transparency and disclosure, objective judgment in decision making process, protects minority shareholders, so as to mitigate the risk of abuses arising from conflict of interest, and that no stakeholder is unduly disadvantaged; and
- Observes good governance in handling RPTs and ensures company's dealing with any of the related parties is in the regular course of business and upon terms not less favorable to the company than those offered to others.

III. DEFINITIONS OF TERMS

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

1. **Related Parties** shall cover any party that the company exerts direct/indirect control over or that exerts direct/indirect control over the company, its 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.
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.
3. **Related Party Transactions** are transactions or dealings with related parties of the Company, including its trust department, regardless of whether there is a consideration. These cover all types of transactions both on-hand off-balance sheet, and regardless of which side of the transaction/deal the company is acting. These shall include, but not limited to the following:
 - a) Credit exposures and claims and write-offs;
 - b) Investments and/or subscriptions for debt/equity issuances;
 - c) Consulting, professional, agency and other service arrangements/contracts;
 - d) Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks, and license agreements);
 - e) Construction arrangements/contracts;
 - f) Lease arrangements/contracts;
 - g) Trading and derivative transactions;
 - h) Borrowing, commitments, fund transfers and guarantees;
 - i) Sale, purchase or supply of any goods or materials; and
 - j) Establishment of joint venture entities.

RPTs include outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

4. **Directors**

- a) named in the articles of incorporation;
- b) duly elected by stockholders; and
- c) 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.

5. **Officers**

- a) Duties are defined in the by-laws, or are generally known to be the officers of the company;
- b) Directors whose duty includes functions of management; and
- c) 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.

6. **Stockholder** - stockholding in the lending company amounting to one percent (1%) or more of the total subscribed capital stock. This can be computed individually and/or collectively with the stockholdings of: (i) his spouse and 1st degree relative; (ii) a partnership; and (iii) a company where the stockholder, spouse and or/1st degree relatives own more than fifty percent (50%) of the total subscribed capital stock.
7. **Substantial or major shareholder** – a person, whether natural or juridical, owing such number of shares that will allow him to elect at least one (1) member of the board of directors of the 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.
8. **Related interests** – shall refer to any of the following:
 - a) Spouse or relative within the first degree of consanguinity or affinity of a director, officer and stockholder;
 - b) Partnership of which a director, officer and stockholder of his spouse or relative within the 1st degree of consanguinity or affinity is a general partner;
 - c) Co-owner with the director, officer, stockholder or his spouse or relative with the 1st degree of consanguinity or affinity of the property pledged/ assigned to secure loan, except when the mortgage, pledge or assignment covers only co-owner's undivided interest;
 - d) Interlocking directorship/officership, except
 - i. Borrowing corporation is a listed company and shares are traded in the PSE and less than 50% of voting stock is owned by any one (1) person or by group of persons who are relatives within the 1st degree of consanguinity or affinity; or
 - ii. DOS sits as a Company Representative provided that such representative only owns the minimum qualifying shares; or
 - iii. 99% owned by a non-stock corporation and purpose of the loan is for hospital/medical services and fully secured;
 - e) Affiliate or Sister Company – is a company which any or a group of director, officer, stockholder and/or their spouses or relatives hold or own at least twenty percent (20%) of the subscribed capital of the company;
 - f) Subsidiary or Related Company – is a corporation wholly or majority-owned by any related entity or group i.e., partnership, companies with interlocking directorship/officership and affiliates;
 - g) The Grand Father Rule – a company which owns or controls directly or indirectly at least twenty percent (20%) of the capital of a substantial stockholder of the company;
 - h) Company with a management contract or any similar arrangement with the parent of the company. Management contract is an arrangement under which an operational control of an enterprise is vested by contract in a separate entity which performs managerial functions in return of a fee; and

- i) 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.
9. **Parent** – a corporation which has control over another corporation directly or indirectly through one (1) or more intermediaries.
10. **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.
11. **Affiliate** – shall refer to an entity linked directly or indirectly to a company by means of:
- a) Ownership, control or power to vote, of ten percent (10%) or more of the outstanding voting stock of the entity, or vice-versa;
 - b) Interlocking directorship of officership, except in cases involving independent directors as defined under existing regulations;
 - c) Common stockholders owning ten percent (10%) or more of the outstanding voting stock of each financial intermediary and the entity;
 - d) Management contract or any arrangement granting power to the company to direct or cause the direction of management and policies of the entity, or vice-versa; and
 - e) Permanent proxy or voting trusts in favor of the company constituting ten percent (10%) or more of the outstanding voting stock of the entity, or vice-versa.

For purposes of the RPT policy, the above definition of affiliate shall be adopted except where the provision of the regulation expressly state otherwise.

12. **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:
- a) Representation on the board of directors or equivalent governing body of the investee;
 - b) Participation in policy-making processes, including participation in decisions about dividends or other distribution;
 - c) Material transactions between the entity and its investee;
 - d) Interchange of managerial personnel; or
 - e) Provision of essential technical information.
13. **Related Company** – means another company which is: (a) its parent or holding company; (b) its subsidiary or affiliate; or (c) a corporation where a company or its majority stockholder own such number of shares that will allow/enable him to elect at least one (1) member of the board of directors.
14. **Majority stockholder or shareholder** – a person, whether natural or juridical, owning more than fifty percent (50%) of the voting stock of a company.
15. **Significant Transactions** – refer to dealings of significant transaction size or those that could pose potential impact and material risk on the operations of the Company that would require board approval based on the company’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.

16. **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. BOARD AND SENIOR MANAGEMENT OVERSIGHT

In the ordinary course of business, the company has loans, other credit accommodations and guarantees granted to its directors, officers, stockholders, related interest and related parties. These loans and other related party transactions are made substantially on the same term granted to other individuals and businesses of comparable risk. Further, 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 in ensuring that transactions with related parties are handled in a sound and prudent manner with a high degree of integrity; exercise sound and objective judgment; and compliance with applicable laws and regulations to protect the interest of the assureds, creditors and other stakeholders.

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

- 1.1 Observe good governance and approve policies, as well as changes on the handling of RPTs to ensure the adoption of a group-wide RPT policy and effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm’s length basis so that no stakeholder is unduly disadvantaged.
- 1.2 Approve all material RPTs, those that cross 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 monitoring and approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors.
- 1.4 Establish an effective system to determine, identify and monitor related parties and RPTs; continuously review and evaluate existing relations between and among businesses and counterparties; and identify, measure, monitor and control risks arising from RPTs.
- 1.5 Maintain adequate capital against risks associated with exposures to related parties and material risks arising from RPTs shall be considered in the company’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 responsible for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals.

2. Corporate Governance/Nomination/Remuneration/RPT Committee

The CorGov/Nomination/Remuneration/RPT Committee governed by a Charter to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest of shareholders, board members, management, and other stakeholders of PNB Group.

The CorGov/Nomination/Remuneration/RPT Committee's authority is to oversee the evaluation of RPT that present the risk of potential abuse; processes and approvals are conducted at arm's length bases; exercise sound and objective judgment for the best interest of the company; and review/endorse RPT to the board for approval/notation.

The duties and responsibilities of the CorGov/Nomination/Remuneration/RPT Committee

- 2.1 Review and approve policy guidelines and implementing procedures in handling of relevant RPTs by ensuring an effective compliance with existing laws, rules and regulations, accounting and global standards and best practices.
- 2.2 Evaluate 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.
- 2.3 Evaluate all material RPTs to ensure that these are not undertaken no more favorable economic terms (e.g., price, commission, interest rates) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions.
- 2.4 Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the company's RPT exposures, and policies on conflicts or potential conflicts of interest.
- 2.5 RPTs that are subject of thresholds and considered material based on company's internal policies shall be endorsed by the CorGov/Nomination/Remuneration/RPT Committee to the Board for approval/notation.
- 2.6 Report 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 Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.
- 2.8 Oversee the implementation of the system 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 Implementing 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 Company's policy, as well as regulatory requirements.

- 3.2 Periodically review and update the inventory of related parties covered by RPT policy to capture organizational and structural changes in the company and its related parties.
- 3.3 Ensure dealings of related party transactions are conducted on arm's length basis at all times; should be in the regular course of business and upon terms not less favorable to the company than those offered to others.

V. COVERAGE OF RPT POLICY GUIDELINES AND LIMITS

The RPT 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 company and its stakeholders. It should capture transactions of the company where RPT can arise given its business lines. It also covers transaction with an unrelated party that subsequently becomes related party.

1. Identification of Related Parties
 - 1.1. Directors, Officers, Stockholders and Related Interest (DOSRI); (RI limited to 1st degree relatives). For officer, it is limited to the rank of at least Vice President.
 - 1.2. Close family members of DOS (2nd degree relatives, legitimate or common law);
 - 1.3. Company's subsidiaries and affiliates;
 - 1.4. Any party that the company exerts direct/indirect control over (downstream relationship); or that exerts direct/indirect control over the company (Upstream relationship).
 - 1.5. DOS and their 2nd degree relatives of the affiliated companies:
 - 1.6. Any person/juridical entity that have interest may pose potential conflict with interest of the company. These are parties which do not fall among those enumerated but transactions with the company also pose conflict of interest situations i.e. economic dependence.
2. The Company 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 CorGov/Nomination/Remuneration/RPT Committee.
3. Materiality threshold of RPTs where the omission or misstatement of the transaction could pose significant risk to the company and could influence economic decision of the board requires approval/notation and endorsement by CorGov/Nomination/Remuneration/RPT Committee to the Board.
 - 3.1. ***At least P2 Billion for Loan/Credit Account transaction where omission or misstatement of the transaction could pose significant risk or material impact to the operations of the company and could influence the economic decisions of the board of directors. This is based on the ICAAP materiality threshold level where 50 bps or 50% lower CAR will result to a loss of 2Billion in qualifying capital.***
 - 3.2. ***For practical considerations, at least P1 Million for All RPT dealings that have material impact to the company operations and regulatory compliance, the basis of which is a 2-year historical data of RPTs.***
 - 3.3. ***RPTs of at least P2 Million shall be considered as significant or material for regulatory reporting and disclosures requirements.***
4. Conflict of Interest arising from RPTs

Any query about a Director or a company employee's actual or potential conflict of interest arising from RPTs with the company should be brought promptly to the attention of the BACC/RPT Committee which 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 or potential conflict of interest shall disassociate from participating in any decision related thereto.

5. Whistle blowing mechanism.

Dealings with related parties cover the whistle blowing mechanism where the company employees encourage 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 existing board approved Whistleblower Policy.

6. Exemption from the materiality threshold and regulatory requirements.

Transactions concerning deposit operations; regular trade transactions involving purchases and sales of debt securities traded in an active market; and those granted through approved fringe benefit programs.

VI. GENERAL RULES AND PROCEDURES

1. As dealings of the company 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) to such related parties than similar transactions with non-related parties under similar circumstances. Head of Office shall ensure their existing policy manuals have a specific section on Related Party Transactions (RPTs) and/or dealings with the related parties. The revised manuals should be approved by the Board.
2. 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. 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 matter affecting the company.
3. In order to prevent abuses arising from exposures to related parties on the covered transactions; and to address conflict of interest, the Company has a policy in place that its exposures to related parties/companies and individuals must on 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:

3.1 On arm's length basis

Dealings of Company with any of its DOSRI and related parties should be in the regular course of business and upon terms not less favorable to the company than those terms and services offered to others, (i.e. price, commissions, interest rates). 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).

3.2 Exposures effectively monitored

Business Units of the company are required to document all lending and credit accommodations to DOSRI and related parties; and record keeping must be in place. The company submits periodic reports on DOSRI/RPT exposures and compliance with the ceilings/limits. The mandatory periodic regulatory reporting requirement, as well as regular

reporting to the board of the RPT exposures of related parties will form part of the monitoring system of the company should be put in place.

- 3.3 Appropriate steps are taken to control or mitigate the risks

Relevant DOSRI/RPT policies and procedures are considered as steps for the company to control or mitigate risk exposures from DOSRI/RPT lending and credit accommodations. Policy that addresses the requirements DOSRI loan limits/ceilings and definition, procedural requirements, covered transactions, loans to subsidiaries and affiliates, and policy covering approved fringe benefit plan.

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

Write-offs are allowed pursuant to existing policy and only after securing prior approvals from the company's board of directors.

4. 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 and full disclosures and reporting requirements of the company's RPT dealings based on Board approved policies. They are also responsible to obtain appropriate approval/endorsement of the RPTs from the respective Management/Board Committees with delegated authorities and submit same RPT proposals to the CorGov/Nomination/Remuneration/RPT Committee, to be submitted five (5) days before a scheduled CorGov/Nomination/Remuneration/RPT Committee meeting.
2. In evaluating RPTs, the following factors shall be considered:
 - 2.1 Related party's relationship to the company and interest in the transaction;
 - 2.2 Material facts of the proposed RPT, including the proposed aggregate value of such transaction;
 - 2.3 Benefits to the Company of the proposed RPT;
 - 2.4 Availability of other sources of comparable products or services; and
 - 2.5 An assessment that the terms of the RPT are comparable to that generally available to that generally available to similarly-situated non-related parties.
3. The CorGov/Nomination/Remuneration/RPT Committee shall review, approve and endorse to the Board for final approval RPT dealings on:
 - 3.1 ***Loan/credit account transactions involving P2 Billion and above; and***
 - 3.2 ***All RPT dealings with policy deviations of at least P1 Million***
4. For CorGov/Nomination/Remuneration/RPT Committee notations are RPT dealings on:
 - 3.1 ***Loan/credit account transactions below P2 Billion granted in the normal course of business without policy deviation.***
 - 3.2 ***All RPT dealings without policy deviation of at least P1Million; and***

5. The CorGov/Nomination/Remuneration/RPT Committee may also review and/or approve RPTs directly endorsed by management, regardless of financial consideration, if the transaction shall have significant impact on company operations or regulatory compliance.
6. The CorGov/Nomination/Remuneration/RPT Committee Minutes of the Meeting consisting of CorGov/Nomination/Remuneration/RPT Committee approvals and/or notation of RPTs require the confirmation of the Board of Directors.
7. RPT not approved under this policy. In the event the company 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, including criteria for approving for RPT as stated in Section IV, 2.5 above, and shall evaluate all options available to the company, including ratification, revision or termination of the RPT. Such 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. Such RPTs will be for the BACC/RPT Committee.

VIII. TRAINING PROGRAM

The RPT policy guidelines are included in the Compliance Awareness Training Programs regularly conducted by the Compliance Office to all employees.

IX. ASSESSMENT AND MONITORING

Assessment and monitoring of reporting and internal controls on transparency of RPTs shall be conducted by independent groups comprised of the Internal Audit, Risk Management and Compliance Division, who directly report to the Board through the Board Committees.